SOUTH EAST ENGLAND COUNCILS
ANNUAL GENERAL MEETING & ALL-MEMBER MEETING

Date: 30 June 2016

Subject: **Member debate: South East requirements for business rate reform**

Report of: Heather Bolton, SEEC Director

Recommendations:

i) Note work by the LGA and CLG to inform proposals for business rate reform.

ii) Through round table debates provide input to questions on business rate reform to ensure South East views feed into national influencing work to shape the new system.

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1. Introduction

1.1 Changes to business rates are a critical issue for local authorities. Proposals to move to 100% retention are welcome following work by SEEC and other organisations over a number of years calling for greater local control of the income stream.

1.2 As announced in the Queen's Speech, business rate proposals will be included in the Local Jobs and Growth Bill. Treasury expects 100% retention to be fiscally neutral so local authorities will be expected to take on extra responsibilities in return for extra business rate income. Government's initial suggestions for extra responsibilities include aspects of care costs, while many in local government would prefer areas that councils can directly influence and services that support local economic growth. There are also concerns that the value of business rate retention is reduced by Government changes that erode the tax base – eg changing reliefs for some businesses.

1.3 Formal consultation is expected later in the year. In the meantime the LGA is working with CLG through a joint steering group and technical groups to help shape proposals for consultation.

1.4 We welcome Nicola Morton, LGA Head of Local Government Finance, who will provide a brief update on progress and emerging questions to set the scene for member round table debates. The SEEC team will collate input at the end of the session and feed back formally to the LGA to inform national discussions.

2. Key questions for member debate

2.1 There are a number of core questions emerging on how to design a system that ensures fair funding for all local authorities but also ensures there is an incentive for delivering local economic growth. Questions for members to debate are set out below.

2.2 Members are asked to discuss the questions on their tables and feedback key points at the end of the discussion, verbally and using the sheets on each table. SEEC officers will collect and collate the points to input to the LGA/ CLG steering group.

2.3 We welcome member views on:

a) Assessing each council's need for business rate income. The new system will be based on a new assessment of councils' need for funding.

- What are the most important services to take into account in assessing spending need? For example social care/ waste collection?
- What other factors should be considered in assessing councils' spending needs?

b) Incentivising business rate growth in the South East. Business rateable values in the South East are £8.5bn pa (second only to London) with real terms growth at 1.7% a year but the new funding baseline is likely to mean South East councils keep less than this.

- What is needed to make sure the new baseline does not remove incentives for growth in the South East?
- Baselines will be reset in future. How often should this happen and how should it be done?

c) **Redistributing income.** The new system will include a mechanism to redistribute some income from councils with a strong business rate base and low needs to authorities with a weaker income stream and higher needs. London has suggested 100% retention using 'local' redistribution within the capital rather than nation-wide.

- What are the pros and cons of redistributing funding nationally or just within the South East boundaries?

d) **New responsibilities.** In return for business rate retention councils will take on new responsibilities. Government suggestions include attendance allowances and public health but many councils would prefer to support economic growth, eg via skills or infrastructure.

- What should councils fund through the extra income?
- What factors should determine the new responsibilities? For example the level of flexibility councils have to deliver a service or their ability to manage demand?

e) **Risk.** 100% retention will increase financial risks for local authorities. For example, business rate appeals and major business closures have potential to significantly reduce a council's income.

- What is needed to help councils manage risk from appeals or fluctuations in business rate income?

f) **Reliefs, discounts and increases.** All councils will be able to reduce business rates but only elected mayors will be able to increase them. Government is expected to keep control of reliefs, for example small businesses exemptions.

- What is the case for all councils having the ability to increase or decrease business rates?