South East requirements for Business Rates reform

Summary of key points from SEEC AGM table discussions 30 June 2016

1. Context

1.1 Changes to business rates are a critical issue for local authorities. Proposals to move to 100% retention of business rate growth 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% growth 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 Consultation and a call for evidence on redistribution were launched on 5 July 2016. On behalf of councils nationally, the LGA is working with CLG through a joint steering group and technical groups to help shape the new system. At SEEC's AGM members discussed 6 questions 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 in buoyant areas of the South East and elsewhere.

1.4 **Members' views are recorded below. Any further comments/suggestions to inform SEEC input to the LGA and/ or a consultation response should be sent to HeatherBolton@secouncils.gov.uk by 12 September 2016.**

2. Members' input from table discussions

A] Assessing each council's need for business rate income: What factors to consider?

A1. Councils' need should be based on the total cost of funding their current - and any future additional - statutory duties. The first call on retained income should be to make sure local government is adequately funded for existing and expected need. Only once this has been addressed should new responsibilities be added.

A2. Particular cost factors to take into consideration for the South East include high numbers of residents with service needs. The South East's **actual** numbers in need are often higher than in areas with a high **percentage** of need. For example:

- The large ageing population – the South East's population of over 75s is expected to nearly double to 1.5m in the next 20 years. This is by far the highest in the UK and impacts on social care needs.
- Deprivation levels and health differentials, including pockets of deprivation – the South East has 909,000 people living in income deprivation, the 4th highest in England.
- The increasing need for temporary accommodation.
- The need to ensure sufficient funding for all-tiers of councils' services
- The South East has larger than average areas of green space/statutory protected landscapes, which need management.

B] Incentivising business rate growth in the South East: What is needed to deliver incentives for growth?

B1. It is important that the new baseline provides a realistic funding position, based on a fair review of need for all authorities. Additional income from growth only appears to apply between system resets. How can the new system allow a portion of growth to be retained locally and not lost at each reset? If this cannot be achieved, the shorter the reset period, the less incentive there is to drive growth.

B2. All councils need the flexibility to vary business rates – both up and down – in order to incentivise businesses to relocate, remain in their area or to deliver large scale infrastructure improvements. If a business outgrows its current premises or needs to trade with the EU the ability to cut rates could be the only way to incentivise them to stay in the local area.

B3. Growth is too focused on attracting new businesses – planning flexibility is also needed to enable existing businesses to expand their premises as they grow.

B4. Relief for new businesses must be tapered at councils' discretion – councils cannot subsidise them indefinitely.

B5. There is a need for assurances that all tiers of council will see the benefits of business rate growth. For example, a focus on funding social care needs via business rates should not mean that districts receive less business rate income than at present.

B6. How can business rates boost local authorities' limited ability to invest in infrastructure, which they see as essential to attract businesses to the area? Councils need more scope to decide what would work across a sub-regional level for infrastructure.

B7. Government's approach to any new system must be more transparent than the current system.

B8. The principle of all councils receiving incentives for growth is fundamental to the success of the new system.

C] Redistributing income: Pros and cons of redistributing within the South East instead of nationally?

C1. Regional redistribution would give a relatively larger pool within which to redistribute funds to disadvantaged areas. Pockets within the South East would benefit form regional redistribution – For example Hastings BC knows it does not receive sufficient to address its deprivation needs under the current national redistribution system.

C2. There was a view that the premise of national redistribution is unlikely to change as it would need a <u>very</u> compelling argument to change this. A national system is more likely to deliver a redistribution that treats <u>**all**</u> English local authorities in an equitable way, as some regions may not raise sufficient funds to meet needs within that area. Some also felt that national redistribution should continue in order to help ensure growth across the country as a whole and avoid exacerbating the pressure on growth in the South East.

D] New responsibilities: What should councils fund through the extra income?

D1. A primary requirement in the South East is to increase investment in infrastructure – the Government must accept there are national benefits to investing in growth here. For example at £80bn between 2002-03 & 2011-12, we make the highest net contribution to Treasury, £6bn more than London.

D2. Business rates are subject to fluctuations and at the mercy of the economic cycle. They are therefore unsuitable for funding demand-led services such as attendance allowances. Retained business rate funding should be used for low risk spending (eg not linked to unmanageable demands) that is fundamentally linked to driving economic growth. Examples of this could be skills and/ or infrastructure.

D3. All money spent on new responsibilities should have an obvious tangible return for local residents so they can see the benefits of investing in growth.

D4. There were some reservations about creating a postcode lottery for services if councils chose to spend their retained income in very different ways in different areas.

E] Risk: What is needed to help councils manage risk from appeals or fluctuations in business rate income?

E1. There needs to be enough money in the system to mitigate for appeals. Councils have over time identified resources for this and any new system must also have sufficient provision.

E2. There isn't a safety net at present in case a large company moves or buys another and transfers its rates base – this can significantly change the business rates total for a council. Currently local authorities are only 50% exposed to this – in future they will be 100% exposed. The system must also be able to cope with temporary changes to business rate income eg during major town-centre regeneration/demolition etc when income may fall in the short term.

E3. The process for resolving business rate appeals needs to be quicker to provide greater certainty for councils and business on rates due. Is there potential for income from the central business rates list to be held centrally to help fund the cost of appeals?

F] Reliefs, discounts and increases: Should <u>all</u> councils be able to increase or decrease business rates? Why?

F1. All councils need the ability to increase and decrease business rates to enable them to deliver their growth and fund their infrastructure. This is important as business rates will be both the primary funding source for local government and a major lever to assist with economic growth. Every council should therefore have the ability to set business rates at a level that fits local circumstances. For example, some areas may wish to increase business rates to fund particular major infrastructure projects that will support economic growth and others may wish to reduce rates to attract new companies.

F2. There is no justification for forcing Mayors on areas or limiting the power to raise rates to elected Mayors.

F3. The ability to raise rates should not be limited to local authorities that are able to secure the agreement of LEPs – some LEPs may not be in favour of increases.