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South East England Councils' response – 100% Business Rates Retention: Further consultation on design of the reformed system

1. Introduction

1.1 We respond on behalf of South East England Councils (SEEC). SEEC is the cross-tier voice of local authorities in the South East, representing some 9.1 million residents. We are a voluntary membership body, bringing together county, unitary and district councils to promote the views and interests of all tiers of local government across the South East, an area comprising 74 local authorities.

1.2 We welcome DCLG's ongoing consultation with local authorities on reform of business rates. Our members would also welcome clarity as soon as possible after the June 2017 General Election on two key issues:

- whether the new Government still intends to pursue reform as currently proposed
- whether the target implementation date will remain April 2019.

1.3 Several aspects of the emerging proposals have support from SEEC members, although on a number of issues they urge Ministers to ensure incentives are available to all councils in all areas of the country. South East local authorities should have the same access to growth incentives and local retention of income as areas with combined authorities and elected mayors.

1.4 Access to stable and predictable income streams that can be used to help invest in future economic growth are just as important for the South East as they are for cities. The South East has a proven economic track record and acts as the engine room of the UK economy. In 2015 the South East economy generated £249bn in Gross Value Added – a sum larger than the combined total of £169bn from England's 8 Core Cities and larger than the combined total of £183bn from Scotland and Wales. The South East offers an excellent return on public investment, contributing a net profit of £80bn over the 10 years 2002-12 – the largest in the UK and higher than London's net contribution. However investment in infrastructure is required to maintain the South East's economic success and therefore its ability to help fund Government spending nationwide. By extending proposed mayoral business rate freedoms to South East local authorities – for example infrastructure levies – the Government could help our councils contribute to the local infrastructure investment needed to support economic growth. Alongside strategic, nationally-funded investments, this would support growth in all areas of the UK, not just in cities, and would give all councils greater ability to invest in local needs.

1.5 SEEC members have welcomed:

- planned trials of 100% retention in two tier areas but they are disappointed that these are not scheduled until 2018 as they will be important to help iron out any potential problems and help councils plan for change in good time if the target date for full implementation remains 2019.
- the decision to exclude attendance allowances from the list of additional responsibilities that councils should fund through retained business rates. A focus on services/ investments that councils can manage to help facilitate economic growth has greater South East support.

1.6 As much future council funding would be tied to retained business rates, SEEC members also want the next stages of system development to include a commitment to full consultation with local government over any Ministerial proposals that would:

- increase the council responsibilities to be funded by retained business rates – for example any changes in statutory responsibilities
- reduce council funding by changing the range and application of reliefs and discounts available to business rate payers.

2. Consultation questions

- **Q1: What are your views on the proposed approach to partial resets?**
- **Q2: What are your views on how we should measure growth in business rates income over a reset period?**

2.1 SEEC members strongly support the aim of rewarding councils for local economic growth through retention of increased business rate income generated in their area. Local financial benefits are critical to ensure a new system does not disincentivise growth by redistributing a large proportion of local growth proceeds to other areas. South East growth is vital to UK plc. Ensuring the South East retains the rewards of growth will pay double dividends – it will provide local funding to invest in further economic growth, while also generating excellent returns for the Treasury nationally.

2.2 SEEC members therefore support the principle of partial resets that allow councils to keep some of the financial benefits of growth locally, even after a system reset. The aim should be to ensure that areas see long term financial benefits from delivering economic growth.

2.3 There is broad support for a fixed reset cycle as providing stability for a reasonable period of time and balancing rewards for areas showing economic growth with the needs of areas that need redistributed income. However, some fear a 5-year cycle could create difficulties by resetting the system part way through the life of a rating list – for example creating uncertainty about how to handle outstanding appeals. Therefore, some argue that it would be helpful for resets to coincide with business rate revaluations. Current proposals suggest a 3-year revaluation cycle and, if this goes ahead, it may be better for resets to take place in multiples of three years – for example every six years. However, there is also a tension in setting a short cycle as 6-year certainty is insufficient for councils who wish to borrow against their income to invest in long term infrastructure projects.

2.4 The proposal that all business rates growth above a baseline should be kept locally for a set period is welcome. There is also strong support for the principle that councils can retain a proportion of that local growth, even after a system reset. The percentage to be retained locally will be critical to gain council and resident support for the proposals and avoid creating disincentives for growth. It will also be important to avoid disincentives in the final year of a cycle where councils could see only short term benefit from growth achieved close to the end of a reset period.

2.5 Securing detailed support for next stage proposals will depend on how baseline needs are assessed and calculated. SEEC members believe a new, more transparent approach to baseline need is required – for example including a clear focus on per capita allocations and moving away from funding based on historic spending patterns or outdated weightings for particular issues. Other factors to reflect in need assessments include:

- Whether existing council responsibilities are adequately funded by business rate income before councils are asked to cover the cost of additional duties.
- Cost of living – some areas, particularly in parts of the South East, operate in high cost areas and so assessments will need to take account of increased costs for premises and salaries.
- Commercialisation – how to avoid penalising entrepreneurial councils who have developed local income streams to supplement or replace current grants. These councils should have the same access to financial rewards from local growth as all other councils.

2.6 Given the importance of the relative needs baseline in fair operation of 100% business rate retention, SEEC members are concerned that consultation on this aspect of the system is not scheduled until summer 2018. If the new system is still due to begin in April 2019, this is too late to consult on such a critical element of the scheme.

2.7 Transition will be important to help councils adapt to new levels of funding but transition periods should be shorter than reset periods, otherwise they will undermine the credibility and transparency of a new system.

2.8 Individual SEEC member councils will respond in more detail on how the approach to partial resets could best work in their areas and with views on the most appropriate ways to measure growth at reset periods.

- **Q3. What are your views on the Government's plan for pooling and local growth zones under the 100% Business Rates Retention system?**

2.9 Business rate pooling can be a useful tool for councils who wish to work together across local authority boundaries. SEEC members believe that pooling should remain voluntary and should not be imposed on local authorities against their wishes by a Secretary of State. This approach would undermine the role of local councillors who are democratically elected to represent the interests of their areas and are fully accountable to local residents at the ballot box.

2.10 While additional incentives such as local growth zones and greater local retention of income would be welcome in many parts of the South East, there is not support for enforced pooling. In some areas there are concerns that mandatory pooling could be a first step towards local government reorganisation – this must be avoided as it remains a controversial and divisive topic in the South East as a mainly two-tier area.

2.11 SEEC members would like to see the opportunity to create local growth zones opened to councils who choose to work together voluntarily.

2.12 Some members have also questioned two aspects of the assumptions behind compulsory pooling, arguing that:

- pooling does not help manage risk, it simply moves the risk around. A better solution would be to remove risk via system design changes – for example via arrangements for appeals.
- the reason councils are excluded from pools is more related to levies than to high risk factors. As the main incentive for pooling is to reduce levy payments, any exclusions are likely to be due to the levy rather than risk. 100% retention will no longer have the levy, thus removing this issue.

- **Q4. How can we best approach moving to a centrally managed appeals risk system?**

2.13 Proposals for loss payments are welcome to provide direct support to local authorities that have seen falls in income due to business rate valuation errors. The move towards a central system has potential to reduce the need for local management of income risk and volatility around business rate appeals. SEEC members look forward to more detailed proposals on how loss payments could be calculated and made.

2.14 Ways to help mitigate councils' financial risk are welcome, but many SEEC members believe that reform of the Valuation Office Agency is also required to improve the speed and consistency of their assessments of companies' business rate liabilities.

- **Q5. What should be our approach to tier splits?**

2.15 As an all-tier organisation, SEEC has members with differing views on how business rate income should be divided between county and district councils. It will be vital that all tiers see local financial reward from local economic growth.

2.16 Our members broadly support the aim of consulting on options for tier splits co-designed by the District Councils Network and County Councils Network. Some of our members are also keen that options should include an approach that applies the principle of precepts to business rates, with each tier setting out clearly how much of the business rate bill will be allocated to which tier of council. Given the system of business rate tariffs and top-ups, this would not be the simple calculation that applies to council tax. However, the principle would have the benefit of making it clear to companies where their business rate payments are being allocated – both locally between tiers and further afield.

2.17 This section of the consultation once again draws attention to the importance of setting baselines accurately. Our high level views on factors to be considered in setting fair and transparent baselines are covered in para 2.5.

- **Q6. What are your views on proposals for a future safety net under the 100% Business Rates Retention system?**

2.18 SEEC members support the ongoing need for a safety net to assist those local authorities affected by unexpected changes in the local business rates tax base, such as closure of a major local employer.

2.19 The upgrading of the safety net threshold to 97% for piloting 100% business rate retention is welcome, recognising that a greater proportion of council income would be derived from business rates in future. SEEC members would welcome a review of whether this level of support is adequate before national introduction of the system.

- **Q7. What are your views on our proposals for the central list**

2.20 SEEC members welcome the review of the central business rates list and proposals for a policy statement that sets out clear and consistent guidance on what should be listed centrally. This will provide greater certainty for local authorities about their expected income and clarity about whether any local sites should be added to the central list or removed. SEEC members would welcome an approach that aims to minimise the size of the central list.