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DCLG CONSULTATION

Self-Sufficient Local Government: 100% Business Rates Retention

August 2016

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1. INTRODUCTION

At last year’s Conservative Party Conference, the former Chancellor, George Osborne, announced a major shake-up to the way business rates income is distributed with all revenue to be retained by local government by 2020. This summer, the Department for Communities and Local Government (DCLG) has published an outline of how this will work and is seeking feedback from Association of Town & City Management (ATCM) , and others, on how to take these proposals forward. ATCM is formally opening the consultation process with its members to develop a policy position. Bournemouth Coastal BID (CBID) is a member of ATCM and sharing this consultation with their BID levy payers for their feedback before CBID will submit a policy position to ATCM.

Changes to the way business rates income is redistributed within the public sector has implications for all our members. As our members come from different sectors, all sharing an interest in promoting a vibrant economy, we expect ATCM to have an important role in shaping this debate because of the objectivity we can bring.

To respond to this consultation, please complete this document and return it to your Bournemouth Coastal BID (contact details below), by the 10th September 2016. To read and respond directly to the full consultation, visit

[www.gov.uk/government/uploads/system/uploads/attachment\_data/file/535022/Business\_Rates\_Retention\_Consultation\_5\_July\_2016.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535022/Business_Rates_Retention_Consultation_5_July_2016.pdf).

2. BACKGROUND

By 2020, local government in England will retain 100% of all business rates income. This means an additional £12.5 billion a year. This will be fiscally neutral meaning that local government will also take on responsibility for funding additional services and will see its grants from central government phased out.

The idea is that this reform delivers independence from Westminster, providing councils with the incentive to reform public service delivery and grow their own business rates base. However, the consultation makes clear that this is a complicated process, full of technical detail that needs to be considered. The purpose of this ATCM consultation is to provide a simple overview of the proposal, translate what that means for those working in town and city management, and outline an initial policy position that members are free to comment on.

3. EXPLAINING HOW THE NEW SYSTEM WILL WORK

**How does the system work now?**

The current business rates system allows councils to keep 50% of business rates revenue. This was only introduced in April 2013 and is still bedding in.

The 50% retained by local government is redistributed amongst councils depending on the needs of each area. The 50% not retained by local government is handed back to central government who redistribute this in the form of revenue support grants and other grants.

If a council is successful in increasing its business rates intake, 50% of this growth will be retained and added to its budget. The rest is pooled to create a safety net system for those councils who see a decline in their rates income.

**How will the system change?**

Local government, as a whole, will keep all business rates income. However, this proposal does not mean each individual local authority will keep everything they earn. With the inequalities that exist across authorities in terms of need and economic activity it has been decided that this is not feasible. Therefore, councils will redistribute this income to different areas and different tiers of local government. In other words, central government will be cut out of the loop, but the principle of redistribution will continue.

**What powers and responsibilities will be devolved to local government in return for keeping business rates income?**

The retention of business rates income is intended to be revenue neutral. In return for the expected £12.5 billion annual boost to finances, local government will be expected to take on an additional £12.5 billion of spending responsibilities. The powers and responsibilities that will be devolved could be very different for each council depending on the governance structures in place.

It seems likely that those areas with combined authority mayors will be given greater flexibility than those without. Investment funds, the Local Growth Fund, Transport Capital Grants and adult education budgets are all mentioned as being levers that combined authority mayors will have at their disposal. It has already been announced that the GLA Transport Grant will be devolved and funded through retained business rates.

The list of funds being considered for devolution include:

* Revenue Grant Support
* Rural Services Delivery Grant
* Public Health Grant
* Improved Better Care Fund
* Independent Living Fund
* Early Years
* Youth Justice
* Local Council Tax Support Administration Subsidy and Housing Benefit Pensioner
* Attendance Allowance

**How will levels of redistribution be decided?**

The amount each local authority will receive broadly depends on:

* the level of income from council tax;
* the level of income from business rates; and
* the level of need (i.e. pressure on public services).

In relative terms, those local authorities that have the highest needs and lowest income are most likely to benefit under redistribution. How need is measured will be decided by the Fair Funding Review that is currently on-going which will assess demographic factors such as population growth and population ageing. Alongside this consultation, the Government also issued a call for evidence on needs and redistribution (see

[www.gov.uk/government/uploads/system/uploads/attachment\_data/file/534956/Discussion\_document\_-\_Needs\_and\_Redistribution.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/534956/Discussion_document_-_Needs_and_Redistribution.pdf)).

**If money is still redistributed then how will local authorities be incentivised to grow their business rates?**

DCLG will set a baseline that identifies what it expects each council will make every year in rates. This will be based on current performance. Each council will be able to keep 100% of anything it makes above this baseline.

This baseline is highly likely to be reset periodically to balance out major geographical changes in economic activity. For example, if a town builds a new shopping centre which boosts rates income by £500,000 annually, this money is counted as growth for the local authority who will benefit from the surplus until the next reset adjusts the baseline to take to wipe out this surplus. The same will happen in reverse where councils will bear the cost of lost income until a reset redresses the balance.

Whether this reset will definitely happen, how frequently it would happen and whether future rates revaluations will be taken into account when setting a new baseline are all issues that are up for grabs. There is a clear balancing act here between incentivising growth and redistribution to protect less affluent towns and cities.

**What does this mean for the amount businesses pay and the BID levy?**

The proposal of 100% retention is about how business rates income is circulated within the public sector to incentivise growth and create independence. These proposals, with the exception of the infrastructure levy (see below), do not impact the way rates is calculated so there will be no immediate impact for businesses or BIDs.

The things that will have a significant impact on the amount businesses pay and the subsequent BID levy are:

* The April 2017 revaluation;
* A move from RPI to CPI to calculate inflation (to be introduced from April 2020); and
* Increasing thresholds for small business rates relief.

The impact of these changes on business rates and BID levies will depend on the specific location.

**Will 100% rates retention allow councils grow their business rates income by increasing rates bills?**

No! There are no new powers in this proposal that allow a local authority to increase rates. Local authorities can, at their own cost, reduce business rates for specific properties or for everyone, but they will not be permitted to increase rates.

However, ATCM members must be aware that local authorities do already have the power to increase rates under the Business Rates Supplement Act 2009. This must be for investment in economic development and be ratified by a majority of all ratepayers with properties in excess of £50,000 in rateable value through a vote.

Combined authority mayors will be given the power to increase rates through an infrastructure levy. Importantly, this does not require the agreement of the entire business community. See below for more information.

**What is the infrastructure levy?**

It is proposed that combined authority mayors be given the power to increase business rates, capped at 2p in the pound. A majority of businesses that sit on the LEP board have to agree for this to be given the green light.

It has been proposed that, similar to the Business Rates Supplement Act 2009, a provision is made for BID levypayers to receive a discount. There are no details on how much this discount will be or whether it is discretionary. The Government insists that those areas without a combined authority mayor will not be given the power to introduce an infrastructure levy.

**If councils get to keep growth in rates income, what will happen if rates income goes down?**

In principle, it appears that local authorities will bear the cost of a drop in rates income in the short to medium-term. However, the ‘reset’ of the system that will eventually wipe out the surpluses of those who grow their rates, will at the same time cover the losses of those that see a decline. The reset effectively acts to rebalance the system.

In a scenario where the drop in rates income is significant, for example, where a major employer relocates or closes down, the Government has identified a need to support these councils to ensure they are able to continue to maintain statutory services until a reset takes place. There is a question about how to achieve this. DCLG has invited views on the best way to develop a safety net and whether this safety net should be regionally based or nationally based (see question 6). DCLG also asks whether high-risk properties that could close or relocate (take, for example, the uncertainty around steel plants) should be discounted from baselines to insulate local authorities from volatility. It means councils would not benefit if these high-risk properties grow, but would not be financially impacted if these ceased trading.

**What tiers of local government will actually collect, keep and spend business rates?**

Currently, there is no clear answer to this. The existence of town, parish, district, metropolitan borough, unitary and county councils mean a complicated governance landscape. Funding pressures are driving a move towards combined authorities while a desire for an accountable figurehead is driving a move to a mayoral system. In the short-term this only increases the complexities of the governance system.

Although the consultation does not mention any change to local billing authorities indicating that the process of rates collection may remain the same, it does state that the Government may continue to dictate the ‘tier-splits’ in non-mayoral areas. Mayors may get this responsibility in combined authority areas. How income is split between the various tiers of local government is a topic that is open to debate in the consultation (see question 8).

4. PROPOSED RECOMMENDATIONS

The proposal to create a system of 100% business rates retention is full of technical detail, much of which may not actually be relevant to ATCM and its members. There are however, some issues raised by the consultation that are a key concern. Furthermore, there are issues not directly raised by the consultation that need to be addressed. Below are the points we have identified as being relevant to the town and city management industry. Although this represents an initial policy position we request feedback to refine and improve this position. If there are any issues not covered below that you think should be raised then please let us know.

**1. Local Government Must Protect Revenue For Public Services Through Advanced Business Support Provided By Town and City Management and BIDs**

100% business rates retention is a system that is dependent on the ability of local government to engage in decision-making that supports business growth to achieve incremental, and sustainable increases in income. There is a fear that the growth pursued in some areas may provide substantial short-term boosts to the business rates base but at the same time, fundamentally undermine the local economy in the long-term.

Research by Geofutures identifies the risk to rates income from town centres when new, out-of-town stores open in close proximity. We have also seen reductions in support for council-led town and city management, trends that have to be reversed to ensure good business engagement and support is possible.

100% business rates retention means that local government must:

* Recognise the role of small businesses as the foundation of a healthy local economy and by lowering barriers to entry and helping them to grow and flourish.
* Recognise the town centre as the primary commercial district that can support a successful business eco-system.
* Create the environment and support mechanisms to thrive through council-led town and city management/economic development and by treating BIDs as partners in regeneration.

**Question 1: Should we recommend that local government must make the most of this system by focussing on sustainable business growth, using town and city management and BIDs as the primary vehicle for business support?**

* Yes [ ]
* No [ ]
* Not sure [ ]

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| Comments:  |

**2. Rethink Business Engagement Around the Infrastructure Levy**

LEPs are still in their infancy and are achieving mixed results. While some have developed close ties with the business industry that allow them to reflect the needs of the private sector within their regions, others have not. Currently, the governance surrounding LEPs and their business engagement is not universally strong enough for ATCM’s members to have confidence that they can speak on behalf of businesses when it comes to ratifying an infrastructure levy. We believe that this must be addressed to achieve the success of the infrastructure levy in bringing inclusive growth.

Firstly, it is only through a representative voice for business that good projects get the green light while others can be rejected. A lack of engagement could result in projects that have little or no benefit for the majority of levypayers going forward. This is not just about preventing poor proposals from being implemented but is also about improving proposals with potential.

Secondly, it is through good business engagement that the mayor, planners, engineers and anyone else involved in bringing a project forward can gain local intelligence about issues that may impact upon the implementation of new infrastructure. Developing a stakeholder network that can help identify problems surrounding land ownership, existing infrastructure, CPOs, road closures and business disruption to achieve success as quickly and as cost effectively as possible is essential.

Our members inform us that, despite town and city centres being places where there is a significant amount of economic activity, too many LEPs have not been active in these areas. There is also concern that business leaders on BID boards are appointed, not elected by the business community. We suggest that democratically elected and truly representative bodies, like BIDs, must be given a formal role in shaping the infrastructure levy to ensure it gets the confidence of the business industry.

**Question 2: Should ATCM recommend better democratic oversight for businesses within the infrastructure levy as already exists within the Business Rates Supplement Act 2009 and BIDs?**

* Yes [ ]
* No [ ]
* Not sure [ ]

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**3. Business-led Town Centre Partnerships To Help Shape How the Local Growth Fund is Used**

In the devolution of powers and responsibilities, business involvement in the issues that help to drive local economic development is essential. We believe that this consultation opens up the possibility of dialogue around BIDs and other town centre partnerships being able to identify and shape priorities for the use of Local Growth Fund. BIDs, in particular, are elected by businesses that want to work in partnership for the benefit of their entire location. It means inclusive growth has to be at the core of their business plan. This makes them excellent partners in making the most of the opportunities provided by the Local Growth Fund. We suggest that some mechanism is introduced that allows them and other business-led town centre partnerships to be more involved in this aspect.

**Question 3: Should we recommend that business-led town centre partnerships have some influence over the use of the Local Growth Fund? Any ideas on how this can be formalised are welcome.**

* Yes [ ]
* No [ ]
* Not sure [ ]

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**4. The Repeal of Office to Housing Permitted Development Rights in Favour of Greater Business Involvement in Local Planning**

Incentivising local authorities to support their business community is an important step forward. However, we are concerned about the contradictory and counter-productive existence of permitted development rights that allow employment space to be converted to residential with little recourse from the local planning authority. It means, while the financial incentives are there for local authorities to support businesses, one of the key tools by which they might protect revenue generating employment space is being taken away.

Article 4 Directions do not provide adequate protection. ATCM members have complained that they are costly and difficult to construct with no guarantee that the Secretary of State will accept them.

The displacement of office space is also damaging, even if this office space is replaced elsewhere. The ability to be able to plan, to create and maintain a thriving enterprise eco-system with the co-location of businesses, and to ensure business networks are well placed geographically to benefit from infrastructure and connectivity are vital for productivity. Boosting housing supply is important but this should not come at the cost of viable employment space.

There is an opportunity to create a more responsive planning system in commercial districts building on the progress made through neighbourhood planning for the business community. In town centres where there is a close working relationship between the council and the BID, local planning authorities should be permitted to delegate responsibility for change-of-use to BIDs within their geographic boundaries. BIDs could be very effective at identifying property that would be suitable for converting to residential, or other uses, without undermining the local business network.

**Question 4a: Should ATCM recommend that permitted development rights, allowing offices to be converted to homes by landlords, are scrapped with powers returned to local planning authorities?**

* Yes [ ]
* No [ ]
* Not sure [ ]

**Question 4b: Should ATCM recommend that BIDs could get delegated powers over change-of-use within their boundaries where the local planning authority agrees that the BID has the capacity to make the best decisions on behalf of the local community?**

* Yes [ ]
* No [ ]
* Not sure [ ]

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**5. Ensure Ratepayers on the Central List are Contributing to BIDs**

Despite the benefits they receive from BIDs, businesses on the central list that pay rates directly to central government do not contribute to the BID levy. They appear on the central list because their assets tend to be part of a cross-border national network such as telecoms infrastructure and railway lines. However, arrangements have been made for central government to ensure local billing authorities receive rates income in proportion to the rateable value of these networked assets, but BIDs are currently excluded. Should this change?

**Question 5: Should ATCM recommend that nationally networked properties on the central list make a contribution to BIDs where they benefit from BID services in any particular area?**

* Yes [ ]
* No [ ]
* Not sure [ ]

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**6. Managing Risk on a Regional Level**

By managing risk at a regional level we hope to encourage local government to focus on real growth instead of favouring the type of projects that might undermine the economies of neighbouring authorities.

Regionally managing risk means that the economic decisions of councils that have an impact on surrounding areas can be reflected through the redistribution of rates. If some local authorities push forward with new, out-of-town retail destinations that undermine surrounding local economies, displacing trade as opposed to encouraging long-term growth, then windfall gains could be redistributed to neighbouring towns where business rates subsequently become depressed. It opens up opportunities for better regional coordination that can be the basis of a more inclusive growth. Managing risk nationally creates too large a geography that breaks this link and is a disincentive to regional coordination.

**Question 6: Should ATCM recommend that risk is managed at a regional level to curb displacement of trade and boost regional cooperation?**

* Yes [ ]
* No [ ]
* Not sure [ ]

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**7. Permit BIDs to Benefit from a Discount from the Infrastructure Levy**

It is clear that BIDs should be able to obtain a discount from the infrastructure levy as its businesses have already elected to pay additional funds to support their location. A double charge could mean businesses cease their support for BIDs that are already leveraging millions of pounds in private sector investment through a genuinely democratic process.

**Question 7: Should ATCM recommend that BIDs can gain a discount from the infrastructure levy? Comments on the nature of the discount (for example, size of discount and whether it is mandatory or discretionary) are welcome.**

* Yes [ ]
* No [ ]
* Not sure [ ]

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**8. Local Councils Must be Included in Tier-Splits**

Parish and town councils are growing increasingly professional and pro-active in the arena of town centre management. Many are providing sustained support for local businesses and are successfully achieving local growth. It is only right that they are considered in the issue of tier-splits to ensure they can be rewarded for their efforts in creating commercially successful communities, and furthermore, giving them the resource to extend this support.

With the National Association of British Market Authorities and the National Association of Local Councils, we recommend that local councils are able to retain 5% of business rates in their area.

**Question 8: Should ATCM recommend that local councils retain 5% of business rates in their area to reward them for local growth and provide them with the resource to extend this support?**

* Yes [ ]
* No [ ]
* Not sure [ ]

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**9. Need for Structural Reform**

Neither the move to 100% business rates retention or the structural review of the business rates system, has dealt with the critical tax collection problem – the emergence of the digital economy. With the digital economy changing the way retail, public services, office-based businesses, education, manufacturing and the way many other sectors operate, the fact is commercial property is not a necessity anymore. However, rather than consider the modernisation of the system by exploring how revenue from digital commerce can be captured, the government is persisting with keeping business rates a revenue neutral system – an unsustainable practice in the long-term as its risks the collapse of the commercial property market.

One thing the move to 100% business rates retention will successfully achieve is the transfer of risk from central government to local government. The issue of real reform to bring this tax back in line with genuine economic performance remains critical. Without it, there remains a significant risk to how we fund public services.

**Question 9: Should ATCM make reference to this in the consultation despite the fact that this consultation explicitly states it is not considering this kind of reform?**

* Yes [ ]
* No [ ]
* Not sure [ ]

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| Comments:  |

**Question 10: Are there any other recommendations that ATCM should consider?**

* Yes [ ]
* No [ ]

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**Question 11: What is your name and the name of the organisation you are responding on behalf of?**

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| Name of individual: Name/address of business / organisation:  |

*Please return this document to Bournemouth Coastal BID Ltd,* *info@coastalbid.co.uk* *or by mail: Bournemouth Coastal BID, 1floor Burlington House, Burlington Arcade, St Peter’s Road, Bournemouth BH1 2HZ before or on 10th September 2016.*

*Based on your feedback your Bournemouth Coastal BID will advocate your voice on national level to ATCM (Association of Town and City Management) and other organisations (e.g. British Chamber of Commerce, Federation of Small Businesses).*