apse membership resources

Briefing 15–50 October 2015

Changes to Business Rate Retention

Key issues
- On the 5 October the Chancellor announced changes to the way on which councils receive income from business rates
- These changes apply to English authorities only
- The Chancellor also announced what this change in business rates will mean to core grant (revenue support grant) which is to be phased out.

1. Introduction

On the 5 October 2015 the Chancellor announced major changes to business rates. Under the current system local councils collect business rates which are returned to the Treasury and then using some complex calculations are returned to local authorities. From 2013 local authorities are able to retain around 50% of their business rates but the Chancellor has announced his intention to allow local authorities to retain 100% of the business rates which they collect.

2. What do these changes mean in practice?

The Chancellor has stated that by the end of the Parliament (assumed to be 2020) local government will be able to retain 100 per cent of local taxes, which includes the current £26 billion of revenue achieved from business rates. All of this money would be available to spend on local government services. The Chancellor has also said that the Government will also abolish the Uniform Business Rate; this measure would therefore allow local authorities to reduce local business rates. Areas with elected mayors would also be given the power to increase business rates, for infrastructure projects, but it is likely that any increases would firstly be capped at a rate expected to be around 2 pence in every £1 and only then if the majority of local business rate payers agree to these changes (likely to be through the LEP).

3. What is the policy thinking behind these changes?

The Chancellor has argued that by allowing local authorities to cut business rates this will encourage enterprise and economic activity in local areas; the idea being that if councils are able to benefit from increased business rate revenue then this will encourage them to attract businesses into their areas. It is also posed that by being allowed to cut business rates councils could also add additional incentives to businesses to set up in their local area.

This proposed change to business rates (details of which would need to be included within the Spending Review) would also see the phased removal of core grant. It is also intrinsically linked to the devolution agenda and the transfer of new responsibilities to Combined Authorities and local government, taking on new responsibilities.

However it is clear from the Chancellor's statement that the perceived new flexibilities in the business rates system will only be available to those areas that choose to have a city-wide mayor. The Chancellor's statement was silent on what the position would be for those areas that do not choose to have a city-wide mayor.

4. APSE commentary

The planned reforms are not entirely unexpected as within local government, and more specifically since the onset of austerity budgeting, a number of APSE member authorities have been openly vying for a position of financial independence from central government. These authorities are firmly of the view that they know best how to support their local areas if they had the financial freedoms and flexibilities to do so in a meaningful way. Many councils have also felt that efforts to generate local economic activity have been often fruitless, from a financial point of view, given the Treasury has taken a chunk out of the additional business rates raised. Many have also been unhappy by the distribution of business rate income between Counties and Districts.

However these changes are not universally welcome and they raise a number of questions. First of all the pledge from the Chancellor is that these changes must be 'fiscally neutral'. This means that there must be a consequential reduction in central Government expenditure on local government, which in theory would be off-set by the ability of local councils to raise its' own income in substitution from that 'handed out' from central Government. Nevertheless there will be a need to recognise that there could be both transitional costs associated with the new arrangements and also the potential for a time-lag in terms of new income from business rates, raised and kept locally, and the withdrawal of central support. Accordingly it will be important for central Government to work with local councils to ensure a smooth and well-developed transitional arrangement to avoid local government having to cope with avoidable gaps in funding, including those created through appeals and non-payments.

A further concern is that of redistribution. Under the current system and pre-2013, the logic of collecting and then re-distributing business rate income was to ensure that those areas without sufficient business rate income could be supported to deliver local services. Whilst many areas will welcome the changes, for some areas less able to attract businesses, they could potentially see a significant drop in funding. Whilst the policy arguments for this move, towards 100% retention at a local level of business rate income, is designed to encourage councils to attract new businesses, there are many reasons why councils may be unable to succeed despite their best endeavours; for example out-of-town developments that can impact on smaller high street areas, poor infrastructure or transport links often beyond the control of the local area or, indeed, which may be subject to sluggish national infrastructure schemes.

There has been some tacit acknowledgement that some element of support for high need areas will be put in place but more detail is needed on how such support would work in practice. APSE would argue that this needs to be carefully considered against the current outcomes provided through top-ups and tariffs. Moreover where there is a propensity in more prosperous areas to reduce business rates, in order to attract new businesses, this could create a race to the bottom in areas that can ill-afford a rate reduction but may feel that the locally created [competitive] market necessitates somewhat unaffordable reductions for fear of losing out to neighbouring areas.

In addition APSE would reiterate CIPFA's concerns being that clarity is needed on which services such as police, public health and special education needs local government will be expected to fund from business rates.

Similarly, and reflecting the concerns of the LGA, if local government is to take on full responsibility for business rate refunds then the system of appeals would need to be reconsidered urgently to avoid additional cost burdens falling on to local councils.

APSE would also question the democratic deficit created by a perceived decentralising move but which is subject nevertheless to the strong arm of Whitehall; in promising greater financial freedoms the Chancellor is insisting this is coupled to Whitehall's preferred vision of local governance through elected City Mayors – when many areas following a democratic process have rejected this model of governance. APSE would contend that local authorities and their communities are perfectly able to decide whether a mayoral model or not is in the interests of their local area. We would also ask 'what is the plan B?' for local funding and full business rate retention should local areas reject City Mayors. There will undoubtable also be concerns as to whether LEPS are best placed to speak on behalf of all local businesses on infrastructure and growth schemes.

APSE would welcome views of our member authorities on both the positives of this move and any potential issues for areas that could suffer net losses should any top-up support not be made available. Please send your comments to Mo Baines on mbaines@apse.org.uk

APSE is also in the process of commencing research on the future sustainability of local government finance and is conducting a series of roundtable events. If you are interested in being involved in this new research please contact Mo Baines on mbaines@apse.org.uk

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