



West London Economic Prosperity Board

21 March 2017

Title	Business Rates Retention
Report of	John Hooton, Chief Executive (LB Barnet)
Status	Public
Urgent	No
Enclosures	Appendix 1: Briefing note on Business Rate retention
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Summary

The West London Economic Prosperity Board (WLEPB) has instructed officers to consider what the sub-region's response to the devolution and retention of business rates should be. It is understood that any West London approach should broadly align with the pan-London discussions that have been taking place to date through the London Leaders Committee.

There are a number of issues relevant to West London in relation to changes to the Business Rates system that are set out below in more detail, including the importance of maintaining local government's incentive to support economic growth, the new responsibilities that will be devolved along with retained business rates, and the potential role of "Growth Zones" in West London where local business rates could be retained to invest in areas or infrastructure that is of importance to the whole sub-region. The content of this report has been developed with input from S151 officers and growth directors.

The Government recently launched a consultation on specific aspects of its proposals, including relating to new responsibilities, resets and re-distribution mechanisms, and "Growth Zones". The Consultation closes on 3 May 2017. The consultation questions are contained in section 1.7 of the report as well as within Appendix One.

Recommendations

The Board are requested to:

- 1. Agree those aspects of business rates retention where there may be common cause across boroughs, as identified by officers in section two of this report.**
- 2. Agree that the issues identified in section three of this report are more appropriately left at the individual borough or pan-London levels.**
- 3. Identify any other areas of shared interest not already included in section two.**

4. Agree that a West London response is developed to the current consultation as set out in this paper and its accompanying appendix.

1. BACKGROUND

- 1.1 Government announced in 2013 its intention to devolve business rates to local government. The primary reason for doing so was to re-establish the link between local economic growth and local government finances. Such an arrangement was something that the sector had been arguing for for some time, for instance via the London Finance Commission's report of 2013.
- 1.2 A national consultation on Business Rates closed in September 2016, to which leaders responded through the London Councils Leaders Committee, as well as individually at borough level. A theme in the consultation was the desire to see responsibility for skills and employment devolved along with Business Rates.
- 1.3 The Autumn Statement didn't set out any new detail about Business Rates devolution, however it did reaffirm the continued intention to devolve to London, something repeated again in the Government's draft Industrial Strategy published in January.
- 1.4 On 13 January 2017 The [Local Government Finance Bill](#)¹ was published. It is enabling legislation that is intended to set the foundations for any detailed future proposals for Business Rates Retention.
- 1.5 The original intention was that Business Rates devolution would be implemented nationally by 2020 at the latest. The most current timeline states that some pilots will commence in April 2017 with more to follow in April 2018 and full implementation before the end of the Parliament in April 2019.

¹ http://www.publications.parliament.uk/pa/bills/cbill/2016-2017/0122/cbill_2016-20170122_en_1.htm

January 2017	Introduction of Local Government Finance Bill, which will put in place the legislative framework for the reforms.
February 2017	Publication of further consultations on design of the 100% Business Rates Retention system and on Fair Funding Review.
April 2017	Piloting of the approach to 100% Business Rates Retention begins in Cornwall and the combined authority areas of Greater Manchester, Liverpool City Region, West Midlands, and West of England. In addition, GLA will take on responsibility for TfL capital funding and so will begin to receive a higher share of business rates.
Autumn 2017	Planned publication of further detail on secondary legislation including draft regulations where possible.
April 2018	Further piloting of the approach to 100% Business Rates Retention begins in areas not covered by devolution deals, including two tier areas.
Spring 2018	Aim to decide on package of responsibilities to be devolved for the commencement of new 100% Business Rates Retention system.
Summer 2018	Planned consultation on new relative needs baseline for new system.
April 2019	Expected implementation of 100% Business Rates Retention cross local government.

- 1.6 The chancellor's Spring budget on 8 March confirmed a number of the Government's intentions in relation to Business Rates, including announcing a £300m fund for local authorities to use as discretionary relief for local businesses hit hard by the revaluation, a commitment that businesses which will lose the small business rate relief will not see their business rates bill increase by more than £50 per month next year, and support for local pubs.

1.7 Current Consultation – Closing 3 May 2017

- 1.8 On 17 February, Government launched a second round of more detailed consultation looking into some aspects of the proposed system in more detail e.g. how often would the system need to be "reset", pooling of business rates across local areas, managing the growing number of appeals, and the business rates safety net. The consultation contains the following questions:

- 1: *What are your views on the proposed approach to partial resets?*
- 2: *What are your views on how we should measure growth in business rates income over a reset period?*
- 3: *What are your views on the Government's plans for pooling and local growth zones under the 100% Business Rates Retention system?*
- 4: *How can we best approach moving to a centrally managed appeals risk system?*
- 5: *What should our approach be to tier splits?*

6: What are your views on proposals for a future safety net under the 100% Business Rates Retention system?

7: What are your views on our proposals for the central list?

- 1.9 The consultation closes on 3 May 2017 and the discussion by the EPB will inform the content of a West London response. **The consultation questions and a link to the consultation document itself is contained within Appendix One of this report.**

2 Issues of shared interest to West London

- 2.1 Following a number of discussions over February and March 2017, West London S151 Officers and Growth Directors have identified a number of aspects of the government proposals that WLA boroughs may have an interest in coordinating our strategic response to:

1. **Maintaining the incentive to support economic growth.** There is currently a risk that the redistribution and “reset” mechanism that the government settles on will significantly erode this incentive e.g. redistribution will take precedence over retaining local growth. The WLEPB may want to take a firm view that the incentive given by retained business rates to encourage growth should be stronger than the mechanism to reset and redistribute this growth to other areas.
2. There is an opportunity to **devolve a range of responsibilities with retained business rates.** WLEPB members previously worked with London Councils to identify what these responsibilities should be and identified the following:
 - Skills - 16-19 funding
 - Adult Education Budgets
 - Work and health programme (funding already secured via government)
 - Capital funding for Affordable Housing; and
 - Early Years funding.

The table below has been developed by London Councils and sets out the various grants and responsibilities that the sector is exploring being devolved in a bit more detail. They are grouped by whether they are a new responsibility or an existing grant. The estimated values for London in 2019-20 are set out in the fourth column. It shows that the value of retained rates would allow all of these additional responsibilities to be funded across London, with significant “headroom” remaining in addition to this:

Table 1 – Existing grants & new responsibilities - Suitable candidates for transfer in Addition to TfL Capital Grant

	Existing grant or responsibility	Estimated London value in 2019-20 (£bn)
Adult Education Budgets	New responsibility	0.227
Skills - 16-19 funding	New responsibility	0.449
Careers Service	New responsibility	0.009
Work and health programme	New responsibility	0.014
Youth Justice	New responsibility	0.054
Valuation Office Agency	New responsibility	0.05
Affordable Housing capital funding	Grant	0.417
Transport capital (outside London)	Grant	n/a
Revenue Support Grant	Grant	0.538
Public Health Grant	Grant	0.628
Early Years Block of DSG	Grant	0.748
Improved Better Care Fund	Grant	0.247
Independent Living Fund	Grant	0.019
Housing Benefit Admin Subsidy	Grant	0.033
Council Tax Support Admin	Grant	0.015
Rural services Delivery Grant	Grant	n/a
Total grants & responsibilities		3.448
Total “headroom” in 2019-20		3.975
Remaining capacity		0.527

3. The **central list** has been identified as a potential source of funding for future safety net arrangements. Where responsibility for such arrangements is devolved it would be appropriate to maximise local access to the rates derived from properties currently held on the central list. **Unless there is a clear case for an asset to be on the central list, it should sit on a local list.** This would also increase opportunities and incentives to maximise the value and use of such assets where possible. For example, the central list currently includes a large proportion of Transport for London’s network and rail infrastructure, including the London Underground, DLR and TfL station car parks, which could be transferred to either borough local lists or a regional London list.
4. **The uncertainty caused by business rates appeals is the biggest issue** government must resolve with the current retention scheme according to London Councils. It disproportionately affects London boroughs, which receive more appeals, and where appeals are generally of higher value and take longer to clear than elsewhere. The aggregate provision for appeals across all 33 London billing authorities as at 31 March 2016 exceeds £925 million. The Local Government Finance Bill makes provision for “Loss Payments” which would help to protect authorities from the impact of large numbers of successful appeals. This wouldn’t however reduce the actual number of appeals nor address the structural shortcomings of that part of the system.

5. It may be possible to agree in principle that we should have **growth zones** in a West London however and detailed proposals would be inherently linked to discussion of business rates pools (see issues out of scope, below) which would only be created if approved by the Secretary of State.

3. Issues currently out of scope for West London

- 3.1 Officers have also identified the following areas that, subject to the views of leaders, would most appropriately be left to borough-level discretion:
 - **funding baselines** - these are subject to a separate consultation process at the moment, and different boroughs will have different issues and requirement, so it is proposed that funding baselines be out of scope of any sub-regional activity
 - **West London business rates pool** - Currently there are discussions ongoing about a possible London pool, and these will conclude in autumn 2017. Depending on whether boroughs agree to this, we would at that stage be able to have more detailed discussions across west London. Business rates retention issues associated with Heathrow Airport and other “growth Zones” would at this stage fit within this category too and hence any detailed work on pooling is currently out of scope, although the Board may want to state its view in principle in order to inform any discussions that follow on this area.

4. NEXT STEPS

1. S151 Officers and Growth Directors will continue to engage with business rates retention as it progresses.
2. Any issues identified by the WLEPB will be incorporated into the sub-regional response to business rates retention
3. Officers will coordinate a West London response to the current consultation to be shared with and approved by West London leaders prior to submission by the deadline on 3 May 2017.

5. REASONS FOR RECOMMENDATIONS

- 5.1 The retention of business rates to local government represents a significant strategic opportunity to create a strong link between the strength of the local economy and the financial sustainability of local government.

6. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 6.1 It is important for local government, including sub-regions to work with government and London to ensure that the final arrangements for retained business rates deliver the best possible outcome for the local economy, residents, service users and businesses.

7. POST DECISION IMPLEMENTATION

- 7.1 Following discussion by the WLEB officers will take forward the agreed recommendations, including coordinating a response to the government's current consultation before the deadline on 3 May 2017.

8. IMPLICATIONS OF DECISION

8.1 Corporate Priorities and Performance

- 8.1.1 The West London Vision for Growth highlights securing the best arrangements from the devolution of business rates as a priority for the sub-region.

8.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 8.2.1 The aim of this report is to achieve, as far as possible, an optimum position in respect of Business Rates, for West London, in the context of an overall London agreement. The recommendations themselves have no specific financial implications, they will inform strategy moving forward.

8.3 Social Value

- 8.3.1 The proposal set out here support improved health and wellbeing outcomes for people and businesses in West London by giving local government a stronger incentive to encourage economic growth and job creation.

8.4 Legal and Constitutional References

- 8.4.1 This work falls within the following sections of the WLEPB's Functions and Procedure Rules:

- Representing the participating local authorities in discussions and negotiations with regional bodies, national bodies and central government on matters relating to economic prosperity for the benefit of the local government areas of the participating authorities.
- Representing the participating authorities in connection with the Greater London Authority, London Councils and the London Enterprise Panel, for the benefit of the local government areas of the participating authorities, in matters relating to the economic prosperity agenda
- Representing the participating local authorities in discussions and negotiations in relation to pan-London matters relating to economic prosperity.
- The Joint Committee's role and purpose on behalf of the Participating Boroughs relates to ensuring appropriate, effective and formal

governance is in place for the purposes of delivering the West London Vision for Growth and advancing Participating Boroughs' aspirations for greater economic prosperity in West London, including promoting "the Economic Prosperity Agenda", in partnership with employers, representatives from regional and central government, and education and skills providers. The purpose of the Joint Committee will be collaboration and mutual co-operation and the fact that some functions will be discharged jointly by way of the Joint Committee does not prohibit any of the Participating Boroughs from promoting economic wellbeing in their own areas independently from the Joint Committee. The Joint Committee is not a self-standing legal entity but is part of its constituent authorities.

8.5 Risk Management

8.5.1 The risk of not taking early action to improve joined up, high quality across West London is that growth across West London boroughs is lower than might otherwise have been the case, resulting in fewer jobs and a smaller tax base in the longer-term than would otherwise be the case.

8.6 Equalities and Diversity

8.6.1 None – this work does not currently have any impact on resident or service users.

8.7 Consultation and Engagement

8.7.1 This work does not currently affect the public. The proposals incorporate comments from Growth Directors and Chief Executives within WLA boroughs, as well as London Councils. This engagement will continue following the WLEPB.

9. BACKGROUND INFORMATION

9.1 Business Rates Retention – Further consultation on the design of a reformed system:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/592368/100_Business_Rates_Retention_-_Further_Consultation.pdf