Resources & Public Realm Scrutiny Committee

Devolution of Business Rates Task Group Report

November 2016

Cllr Joel Davidson (Chair)
Cllr Tom Miller
Cllr Bernard Collier
Cllr John Duffy
Cllr Neil Nerva
Cllr Helen Carr
Cllr Michael Maurice

Contents

1. THE CHAIR'S FOREWORD

As a Brent Councillor, I represent many hard-working local businesses in the borough. I have seen at first hand the virtuous circle that exists between good quality local shops and commerce, good housing, and a flourishing local economy.

The business rates system plays a crucial role in sustaining a thriving local economy. The Government's recent announcement that it will be devolving business rates to Local Authorities marks a radical change to the system. By the end of this Parliament, Councils will be allowed to retain 100 per cent of business rate revenue, changing the way in which local government is funded for decades to come.

Brent Council needs to be prepared for this change to ensure that opportunities for local growth are optimised. This task group was established to bring local representatives from different political parties and with a range of knowledge and expertise together to examine the impact of this policy change and develop a framework to help the Council prepare.

As a Chartered Accountant and audit committee member, I have a keen interest in supporting local business activity as a means of boosting local economic growth to help overcome our budgetary challenges. It was an honour to be asked by Cllr Kelcher to chair this very important task group.

The Business Rates devolution policy will allow Local Authorities to take full responsibility for the appropriation and collection of business rates within their borough. Councils can now seize this opportunity to develop a proactive and localised strategy to attract and retain a diverse mix of business activity. This will in turn deliver a sustainable local tax base to fund good quality public services. There will undoubtedly be challenges in the implementation of the policy in London boroughs such as Brent which have high service needs, as the Revenue Support Grant is phased out and replaced by borough-specific business rates funding. This means that it is particularly important for the council to look at options around local tax flexibility, and rewarding growth in business activity. This has been a focus of the group and we have provided some recommendations to address key challenges both during and post policy transition.

Over the past two months, I and my fellow Brent councillors have met with a broad array of stakeholders involved in the policy change to further understand how it will work and ensure that our recommendations are practical and deliverable. This has included working with Government Ministers, MPs, London Assembly Members, Councillors in other London Boroughs, the Department of Communities and Local Government, the Local Government Association, London Councils, business organisations and regional economic development agencies.

Particular thanks go to Bob Blackman MP, Clive Betts MP, Andrew Boff AM, and Caroline Pidgeon AM for their time and the valuable counsel they provided.

I believe that the recommendations we have made should provide valuable guidance for the Council however, we firmly believe that this policy is of major significance, and that the Council must regularly review and address policy developments in relation to this as it became clear from our work on this group that there are still grey areas around how it will work in practice.

I pay tribute to the Task Group Members: Cllr Miller, Cllr Collier, Cllr Carr, Cllr Maurice, Cllr Duffy and Cllr Nerva. The insights and support of the team has produced some strong recommendations and I look forward to carrying on our work together in the future.

Finally, I must also place on record my appreciation for the thorough professionalism of Kisi Smith-Charlemagne, ably assisted by Jon Cartwright, who has been integral in compiling the report.

The task group is united in its desire to create the right environment for a prosperous economic future for Brent. Our report sets out a cross-party approach to embrace this opportunity to grow business activity and make the most from the new changes to the rate system. Our recommendations should help the council ensure a bright future for residents and businesses across the borough.

Cllr Joel Davidson, Brondesbury Park Ward
November 2016

2. TASK GROUP MEMBERSHIP

Cllr Helen Carr

Cllr Bernard Collier

Cllr John Duffy

Cllr Tom Miller

Cllr Michael Maurice

Cllr Neil Nerva

3. EXECUTIVE SUMMARY

On the 5th October 2015 the then chancellor George Osborne announced that local government as a whole would be able to keep 100 per cent of business rates by 2020. Using Office for Budget Responsibility (OBR) forecasts, the Government has estimated that the additional business rates kept by councils could be as much as £13 billion in 2020/21. Brent set up this task group to explore the risk and opportunities that this change may generate.

The task group has made recommendations which will boost local growth, help attract businesses and create jobs in Brent.

This Government's aim is to phase out Revenue Support Grant and potentially some other specific grants, and transfer new responsibilities to local government at the same time. Up to now, councils haven't been able to keep the full amount of business rates collected in their area. There will continue to be a system of redistribution across the whole of local government to make sure that councils which have higher needs or have less capacity to raise business rates do not suffer. However, individual councils will be able to keep subsequent growth in their business rates income.

The reform will mean local government retaining all revenue from business rates for the first time since 1990. These new powers will come with new responsibilities, as well as the phasing out the main grant from Whitehall, to ensure the reforms are fiscally neutral. Local government will of course also need to contribute to fiscal consolidation over this Parliament, and the government is due to set out further details in the Spending Review.

Whilst the task group encountered strong support for the principle of the move to devolution of business rates, there remain uncertainties regarding implementation.

Brent and London regional government must have a significant and substantial role to drive economic development, local employment and skills training in Brent. We highlight other devolved powers that have worked well, and we are excited by the opportunities presented by devolution in England via the creation of city region deals. The task group therefore supports fully devolving powers to Brent in the areas of employment and skills training.

Up to now business rates has been seen as a national tax, with little connection to the local authority. Going forward, the relationship between the local authority, local business and the local community will be more transparent, more obvious, and more direct. The task group believes that the devolution of business rates can trigger a cultural change in the relationship between public authorities and local businesses.

The task group considers that the impact of these changes could be far reaching. It is vital therefore that the authority puts in place organisational arrangements that enable Brent to take advantage of the opportunities from the outset.

The task group has made eleven individual recommendations, spread across the four key questions outlined in its Terms of Reference. The recommendations have been grouped into one of five discovery themes which the task group believes should form the basis of Brent Council's future devolution and business rates growth policies.

1. **Future Business Rates Strategies**
   In response to the Government's business rates policy proposal, the task group recommends the development of a robust business rates growth strategy, which considers the wider skills, enterprise and infrastructure needs of the borough.

2. **Skills and Enterprise (what new responsibilities should be devolved)**
   To mitigate any financial risks the devolution of business rates may impose on Brent, our strategies should have a keen focus on skills and enterprise.

3. **Preparation for 100% Devolution of Business Rates**
   To reduce the possibility of any negative impacts of business rates devolution on Brent, the council should be making preparations to ensure that we have a healthy local economy and that we are in the best position to implement the change with minimal disruption to services.

4. **Working in partnership**
   To ensure we make the most of the opportunities that devolution of business rates can provide to grow income, the task group proposes working in partnership where possible with London and sub-regional councils.

5. **General and Best Practice**
   To be a model for best practice by developing ground breaking strategies for the implementation of business rates devolution within local government.

4. RECOMMENDATIONS

Future Business Rates Strategies

In response to the Government's business rates policy proposal, the task group recommends the development of a robust business rates growth strategy, which considers the wider skills, enterprise and infrastructure needs of the borough.

1. Brent Council must develop a strategy to attract and retain businesses that pay good wages to Brent residents. We must encourage further growth in our already successful businesses and attract incoming investment into the borough which will benefit from and harness a skilled multicultural workforce. The strategy should be a central function within the council, embedded in the council's income generation and civic enterprise strategies going forward as Brent will rely on this income to fund services to residents and business development for decades to come.

2. Brent Council must be innovative, designing schemes like Local Enterprise Partnerships, Business Improvement Districts, and must also build on current policies such as the London Living Wage business rate reduction programme. The council should explore how existing powers such as, varying the business rate could:

    - Enable Town centre development e.g. Business Improvement Districts in Willesden High Road, Ealing Road and Chamberlayne Road
    - Offer incentives to businesses to provide supported employment opportunities and increase public convenience provision
    - Encourage businesses to share knowledge and skills such as improving local supply chains.

3. Brent Council will need to establish arrangements to ensure that decision making on whether to increase or decrease the business rate tax is evidence-based. This decision should be made in consideration with the wider strategy and will require debate in Cabinet and at Full Council.

Skills and Enterprise

To mitigate any financial risks the devolution of business rates may impose on Brent, our strategies should have a keen focus on skills and enterprise.

4. Brent Council must support its businesses throughout the borough with the cultural shift that will be needed to implement this change. The council should have a role in supporting the businesses in that shift by encouraging the employment of local workers wherever possible and (developing skills and apprenticeships for Brent's workforce.)

5. As a result of successfully growing the business rates base, Brent Council should be given greater powers for employment such as working more closely with Job Centre Plus so that the Council can ensure that skills and employment are aligned with the Council's wider economic growth objectives.

6. Given the extremely low interest rates at present, Brent Council should, individually and in partnership with neighbouring boroughs and the Mayor of London create businesses cases for borrowing money to improve infrastructure. Mixed housing and business units for example will support economic growth in the borough.

Preparation for 100% Devolution of Business Rates

To reduce the possibility of any negative impacts of business rates devolution on Brent, the council should be making preparations to ensure that we have a healthy local economy and that we are in the best position to implement the change with minimal disruption to services.

7. Brent Council must do more to show that the borough is open for business. All of the borough has a responsibility to do this, so officers, Councillors and partners must work together to look at what is unique to the borough such as, Wembley Stadium and the fact that Brent is one of the most diverse places in the UK and actively promote these to attract new business.

8. Brent Council must consider the impact the devolution of business rates will have on policy development and financial planning. It is vital senior officers and Councillors keep abreast of the latest developments and continue to feed into consultations ensuring that Brent's interests are heard. Regular bi-annual updates should be brought to the Resources and Public Realm Scrutiny committee. In addition given the significance of this policy change we would urge a Full Council debate on this matter.

Working in partnership

To ensure we make the most of the opportunities that devolution of business rates can provide to grow income, the task group proposes working in partnership where possible with London and sub-regional councils.

9. Brent Council must build on the West London Alliance and the work of the Economic Prosperity Board, as sub-regional alliances' with neighbouring boroughs of similar economic profile will be essential in developing a business strategy. The work of these boards should be expanded with input from backbenchers, and regular reporting back to Scrutiny Committee and Full Council.

10. Brent Council must continue to work with the Mayor of London to lobby for opportunities for Brent that may emerge from Mayoral initiatives such as Old Oak Common.

General and Best Practice

To be a model for best practice by developing ground breaking strategies for the implementation of business rates devolution within local government.

11. The extensive meetings with all relevant stakeholders held by this task group has confirmed that the policy remains nebulous in many aspects, so work on the Devolution of Business Rates will still require regular reviewing, with regular updates

to Scrutiny Committee and Full Council. Brent Council must remain closely connected to the work the of the Department for Communities & Local Government (DCLG) and Local Government Association (LGA), London Councils, the Parliamentary Select Committee and the London Assembly/Mayor of London's office.

5. INTRODUCTION – SCOPE OF THE TASK GROUP

Background

Devolution of Business Rates (DBR)
On the 5th October 2015 the then Chancellor George Osborne set out plans for local government to gain new powers and retain local taxes. The Chancellor set out major plans to devolve new powers from Whitehall to local areas to promote growth and prosperity. The Chancellor announced that local government as a whole would be able to keep 100 per cent of business rates by 2020.

Using Office for Budget Responsibility (OBR) forecasts, the Government has estimated that the additional business rates kept by councils could be as much as £13 billion in 2020/21. The Government feels that changing the current system of financing local government will boost local growth, help attract business and create jobs.

The Government's aim is to phase out revenue support grant and potentially some other specific grants, and transfer new responsibilities to local government at the same time as it receives additional income from business rates. This is so that the reform does not result in previously unplanned spending by the public sector as a whole and local government does not benefit financially at the point of transfer. An example is the consideration of whether other grants, such as the public health grant, should in the future be funded from retained business rates.

As in previous years, individual councils would not keep the full amount of business rates collected in their area. There will continue to be a system of redistribution across the whole of local government to make sure that councils which have higher needs or have less capacity to raise business rates do not suffer. However, individual councils will now be able to keep subsequent growth in their business rates income. Whilst we don't currently know exactly what the system will look like, the LGA is working with government and engaging with local authorities to consider how this could work.

Those areas which choose to have city-wide elected mayors will get even greater flexibilities. They will also be given the power to increase rates for spending on local infrastructure projects, as long as they win the support of local business.

The reform will mean local government retaining all revenue from business rates for the first time since 1990. These new powers will come with new responsibilities, as well as the phasing out the main grant from Whitehall, to ensure the reforms are fiscally neutral. Local government will of course also need to contribute to fiscal consolidation over this Parliament, and the government is due to set out further details in the Spending Review.

Impact on local government finances
Local government is currently financed by a combination of centrally-administered funding (Revenue Support Grant (RSG) and locally-administered charges and taxes.

Since 1990, local business rates have been set by central government at a uniform national rate. Rates are collected locally, but then transferred to central government to be distributed back to local areas in the form of grant. Since 2013, local councils have been enabled to retain 50 per cent of the proceeds of rates, to ensure that when local areas take steps to boost business growth in their area, they should see the benefit.

The reforms go much further, moving to 100 per cent retention of the full stock of business rates by 2020. It will mean that all income from local taxes will go on funding local services.

Local authorities will be able to cut business rates as much as they like. Directly elected mayors – once they have support of local business leaders through a majority vote of the business members of the Local Enterprise Partnership – will be able to add a premium to business rates to pay for new infrastructure. This power will be limited by a cap, likely to be set at 2p on the rate.

<u>Impact on current systems</u>
Currently business rates are paid by occupiers and owners of commercial and industrial property to the local authority, but at a rate set by central Government. The Government sets the rate in order to prevent wide disparities in charges stemming from widely differing rate bases between local authorities.

The multiplier - also known as the Uniform Business Rate (UBR) - is then used by the local authority to calculate what percentage of the rateable value of a property has to be paid as business rates. The multiplier is set annually by the Government.

A small business rate relief scheme has been in operation in England since April 2005 and there are other reductions available, for example if the premises are empty.

The impact on the current system will be significant and the Government is expected to publish further details as to how the new devolved system will operate in broad terms following the Comprehensive Spending Review on 25 November. Negotiations will presumably then start in earnest with local government to develop the local and national frameworks for the system within the funding envelopes set in the CSR. The new system is likely to require primary legislation and the changes are unlikely to be introduced in full before 2018-19 at the earliest.

<u>Questions</u>

The review considered the following questions in five key areas:

Central Government Policy

What is the current status? What has been proposed to date?
What will the pilot schemes look like?
How can the Council engage in the current work?

Financial Risk

What is the biggest risk to the Council's planned finances?
What safety net mechanisms are in place?
Will we still want to be part of a Business Rates Pool?

Possible impact to Brent

What will be in impact on current arrangements?
Will Brent be better or worse off?
How do we prepare for the devolution of business rates?

Growth in Business rate income

How do we grow our business rates locally?
How do we encourage local economic growth?
How do we improve collection rates?

Aims

The aims of the review set out at the start of the investigation were as follows:

- There is transparency and understanding of the local and national policies and processes regarding the devolution of business rates.
- Clarify how that policy is going to be implemented in Brent and make recommendations to support the best possible implementation outcome for the council and its residents.
- Through the recommendations of the review the council is able to further stabilise its financial position and has clear strategic direction.
- There is a link between council expenditure and business growth.
- The council develops links for engaging with local businesses that generate discussion on how to grow our local business rates and economy.
- The council is in an informed position to make good financial choices.

6. METHODOLGY

As part of this review the task group invited relevant partners to contribute through discussion groups, meetings and visits. Primarily, the task group started by collecting information about the proposed devolution of business rates policy changes. This included meetings with many Government officers and Members of Parliament.

The task group then met with Council officers to discuss the financial risks and how the policy as they understood it would impact Brent.

The task group decided to hold one themed discussion meetings which reflected a key area of the review (Growth in Business rate income) and met with the West London Business Consortium and Small Business Federation. Local business groups were invited to attend along with officers and partners. As part of the discussion group other local councils attended and added their knowledge which enriched the quality of the discussions held. Given the focus on identifying good practice elsewhere, the group consulted with the LB Ealing, LB Camden, LB Westminster, LB Harrow and LB Barnet.

Partners: Group 1

- Relevant Council Departments
- Brent Partners
- Local Residents Groups
- Local Business Groups

Partners: Group 2

- Department for Communities and Local Government (DCLG)
- Local Government Association (LGA)
- London Councils
- London Assembly
- Parliament Select Committee
- Best Practice Local Authorities

*A full list of participants of the task group's work can be found in section 10 of this report

7. POLICY CONTEXT

7.1. Brent

Local Context – Brent
There are currently, four (principal) sources of local government (revenue) finance, plus two others:

1. Revenue Support Grant
    - Based on central government assessment of need
    - In 2014/15 provided 30% of funding
    - Will be 10% by 2018/19 and falling to nil after 2020
2. Council Tax
    - Locally determined with significant restrictions
    - Six year freeze strongly encouraged by central government
    - Now can increase by 4% each year
        - Of this, half ring-fenced for adult social care
        - For planning purposes, 1% raises approximately £1m
        - Current technical financial model doesn't assume any increases
3. Business rates
    - Retain 30% of business rates paid in Brent
    - 20% paid to GLA and 50% paid to Treasury
    - Rate (multiplier) and exemptions set centrally
    - Amount raised capable of being influenced locally
4. Top up grant
    - Required to make any system fair (Westminster effect)
    - Amount set on transition to new system (2011/12)
    - Then inflated annually at CPI
5. Fees and charges
    - Discretion varies significantly
        - E.g. Parking, PCNs set regionally, P&D set locally
    - Usually some restrictions on ability to create surpluses
    - Can be for services to residents or businesses
    - Traditional (swimming pool); creative (filming)
    - Can link to policy goals; civic enterprise in more detail
6. Specific grants
    - Government makes specific grants to achieve policy goals
    - Nice to have, but can't choose what to spend on

Table 1 shows that in 2014/15 RSG still provided nearly 30% of our funding; more than council tax (26%) and more than business rates (24%).

Table 1

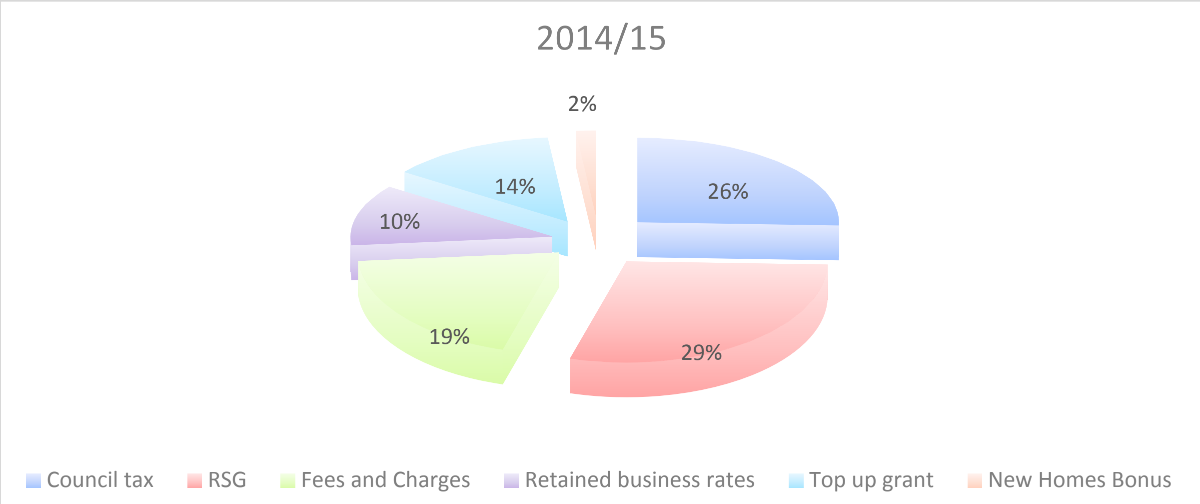
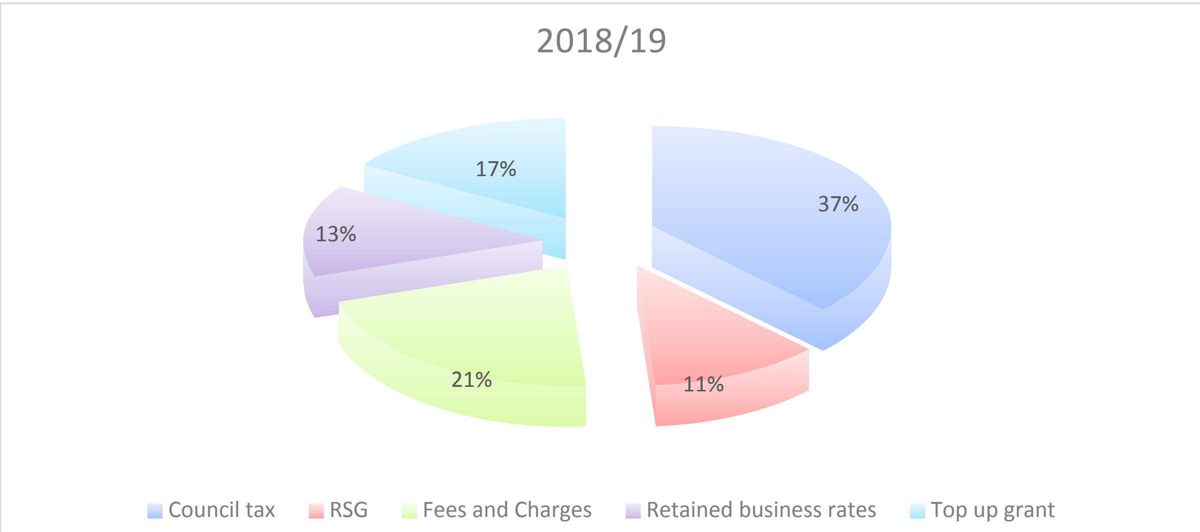


Table 2 shows that by 2018/19 RSG will barely provide 10% of our funding, less than half the amount we raise through fees and charges and a fraction of the amounts from local taxes.

Table 2



7.2. National

Business rates were introduced in 1990, along with the community charge or 'poll tax' (now Council Tax) as a replacement for the old system of domestic and non-domestic rates. The Valuation Office Agency, an executive agency of HM Revenue & Customs, has a statutory duty to prepare local rating lists containing rateable values for all non-domestic properties in England and Wales every five years.

On 1 April 2013 a new system of business rates retention began in England. Before April 2013 all business rate income collected by councils formed a single, national pot, which was then distributed by government in the form of formula grant. Through the Local Government Finance Act 2012, and regulations that followed, the Government gave local authorities the power to keep up to half of business rate growth in their area by splitting business rate revenue into the 'local share' and the 'central share'. The central share is redistributed to councils in the form of revenue support grant in the same way as formula grant. Local share tax base growth is retained within local government.

However, this was done in a way that was consistent with the Government's deficit reduction plans. The change gave financial incentives to councils to grow their local economies. At the same time, it has resulted in more risk and uncertainty. By far and away the primary challenge was the level of financial risk that councils face due to appeals and business rate avoidance.

Councils keep up to 50 per cent of growth in their business rate receipts arising from tax base growth, which may arise from new or expanding businesses. Local authorities which were deemed to have a 'disproportionate potential to grow' by the Government (for example most councils in Central London) pay a growth levy of up to half of this retained growth. This is then used to partly fund the 'safety net' system to protect those councils which see their year-on-year business rate income fall by more than 7.5 per cent.

The introduction of business rate retention meant that from April 2013 a significant part of a council's budget became dependent on the amount of business rates collected from its area.

The business rate retention reform created a need for councils to receive new, previously uncollected, information to enable sufficiently robust financial planning, such as data about upcoming appeal decisions, the value of business rate income at stake and the impact of business rate avoidance. Most of this information had previously been collected by the Valuation Office Agency (VOA) and provided to central government, as councils had no direct stake in business rate collection.

Business rate retention resulted in the need for a major cultural change at the VOA as its importance as information provider has increased. This transition is still ongoing. The VOA has been working hard to provide information, for instance on the appeals and proposals sent to billing authorities in autumn 2013. However, 61 per cent of all respondent councils are not satisfied with the level and quality of data provided by the VOA to help financial planning.

Overall, respondents tend to agree that the retention scheme created a strong incentive to grow the business rate tax base. More than two thirds agreed, and 58 per cent said that this was the single best outcome of the reform. In last year's survey, 29 per cent of respondents said the reform provided sufficient incentives.

The LGA has been working with the councils and the Department for Communities and Local Government (DCLG) to ensure that local government is vocal in shaping the way that this new system will work (appendix 1). A technical steering group and a number of sub-groups have been established to provide information and expert advice to support the LGA and DCLG in advising Ministers on the setting up and implementation of this new system. The Steering Group will meet regularly and papers are available on the LGA website.

8. KEY FINDINGS

8.1 Central Government Policy

The task group accessed several levels of central government to gather its evidence on the devolution of business rates policy change. The policy was announced in October 2015, but the details have yet to be agreed and consultations are still being conducted.

One of the task group's main objectives for this piece of work was to gain a much better understanding of the devolution of business rates policy. Essentially the task group understands that this is a major fiscal change to the way that local government is financed and as such started gathering evidence from central government ministers who had agreed the policy. The task group found that total business rate yields are exceeding the amount given to local authorities as grants. The decision was made that profits should go to local authorities, however some local authorities with larger business rates bases would receive huge gains, while those local authorities with lower business rate yields would suffer huge losses.

This policy could pose a significant risk to local authorities across the country. Therefore, financial protection would need to be in place for losses of income. It was also agreed that this policy offers significant opportunities for local governments to have more control over finance and shaping local economies. The current timetable for implementation will remain, it is suggested that the policy may be phased in.

In the 2016 Budget the Government committed to piloting approaches to 100% Business Rates Retention in London, Manchester and Liverpool from as early as 1st April 2017. Pilot negotiations are now in the final stages. Pilots are bespoke to reflect the diverse needs of different areas and therefore contain different elements. In London the GLA will take over responsibility for funding Transport for London (TfL) Investment grant from Department for Transport (DfT). In return, the GLA will be allowed to keep a commensurately higher percentage of the business rates income collected in London. The GLA will also fund its share of RSG through business rates from 2017 (appendix 2).

In response to the policy, it was felt that the following areas highlighted raised more questions and needed further analysis in the context of local government actions.

- London region - should we be looking at this from a London regional perspective via London Councils?
- Financial risk - being able to predict appeals, how might this work?
- Valuation - who will administer this? Will there be a new department?
- Additional responsibilities – what might these be and will they be related to economic growth?
- Growth in business rate income - How do we want to be seen as a borough? How should LA's act to incentivise business growth?
- Employment – local employment, what kind of business do we want to attract as employers? What skills will be required?
- Council policies – how do we ensure that our business rates policies are aligned with employment and Income generation policies?
- Political accountability - the leadership of the council should take accountability for growing business rate tax base.

<u>London Region</u>

London Councils has recently finalised its consultation responses from the London boroughs which will feed into the DCLG/LGA consultation (appendix 3). There are two parts: the direct consultation on the business rates proposals, how the tax should work, what it should fund and what the responsibilities transferred should be. Separate to the consultation is a call for evidence on the needs assessment process, which also needs to be reviewed in order to underpin the way the finance system will work in the future.

It is possible that the end result could continue to be a relationship between individual councils and the national system. London boroughs and the Mayor's Office have stated that they are very interested in managing that as a collective system for London. London Councils is proposing two options 'what they would like to see for London' and 'how a national system should work'.

London Councils argument is that London is a large, complicated metropolis. It is argued London is a massive contributor in international terms because of the amount raised for its own use and controls, therefore there should be substantial devolution in order to raise taxes to pay for services in the capital. If this were a role of central government, accountability would improve, providing incentives for people to manage those taxes more effectively than the government does for London.

<u>Financial Risk - Appeals</u>

If a business disagrees with the Valuation Office Agency (VOA) assessment of a property's rateable value, they can propose changes to the VOA. They can also appeal the valuation which will be considered by an independent Valuation Tribunal. There are currently 300,000 outstanding appeals.

The number and scale of appeals are a concern for many councils. Currently, many local authorities pool their resources to tackle with appeals so that no Local Authority is disadvantaged disproportionately.

The uncertainty created by appeals means that instead of spending money on local services, they have to withhold a portion to ensure they can pay half of the costs of successful challenges in the future or backdated appeals. The Government is implementing a new system for appeals from 2017 which will require business ratepayers to state their case at an earlier stage and they could be fined for incorrect or misleading information.

London Councils believe that if London is permitted to manage its own system, this could reduce the rates to London as a whole, with a view to increased rates in the future, such as Canary Wharf. London boroughs would work on a more collective basis and would need a quota based on deprivation and London priorities. The challenge is to balance such a structure.

<u>Additional Responsibilities</u>

The Government intends the reform of business rates to be 'cost neutral'. This means that the level of public spending after the reform should remain the same as planned before the reform through phasing out revenue support grant, other specific grants and the transferring of new responsibilities to match the remaining additional business rates.

The Government has stated that it wants to consult with the sector on what specific funding and responsibilities will be funded from the retention of business rates. So far, the only confirmed decisions are the phasing out of revenue support grant and the additional Transport for London Capital Grant. This leaves a significant sum yet to be decided upon.

What are these additional responsibilities that will come to local government as a result of 100 per cent devolution of business rates? Will these be linked to inflation? These questions are the current points of the negotiations to be confirmed. It is thought these additional responsibilities should be related to financial drivers and be broadly business related, such as:

- Skills
- Employment
- Infrastructural spending
- Transport

This is a tax and not a payment for services and local government should be careful not to overspend; the relationship between councils and businesses is critical. Accountability and responsibility needs to be obviously and clearly defined.

Before the transfer of additional responsibilities, the LGA/DCLG want to consider how existing services can be funded.

The draft response to the LGA/DCLG consultation contains the following emerging themes:

1) Simple is good, but not at the expense of what works best in terms of distribution formula.

2) Which new resources should transfer - expected £7-11billion by 2020. TfL grant of £1biliion already agreed, £3.5billion public health expected already, new responsibilities should be services that support economic growth such as skills, infrastructure and transport, the very things that are in devolution deals.

3) There is strong agreement that the Attendance Allowance would not be welcome as it is not linked to business growth.

<u>Political accountability</u>
What are the definitions of success and failure? The task group were curious to know how this policy will be held to account. Could, would or should senior officers have their positons terminated and what are the legal implications etc? Could, would or should by elections be held if councilors are deemed to fail? It will be extremely difficult for some boroughs to grow their business rates base and central government may introduce additional measures to support these boroughs. A definition of fail might be if London boroughs are unable to grow their business rates and not meet targets.

Central government announced that all councils will have the flexibility to reduce the business rates multiplier in their area and combined authorities with directly elected mayors will also having the power to increase the multiplier by up to two pence in the pound. Such an increase must be agreed by the Local Enterprise Partnership (LEP) and if used, must be spent on infrastructure.

The task group firmly believes that there is still time to ensure the needs and aspirations of Brent council are incorporated into the final policy. Therefore, now is the time to ensure we have a firm vision for Brent's future, the tools required to achieve this vision, and sustainability measures. The council will need to be brave and ambitious regarding applying the multiplier and ensuring its application is fair and equitable. Flexibility around this area will be key. The task group feels central government should provide a toolkit for local government to use when considering whether to reduce or increase rates.

Council Policy

The task group wanted to understand what tools could be used at a local level to both enhance growth and reduce any negative impacts of the policy. What incentives and rewards would be available to local government. Since local government will be expected to take on new responsibilities, it is important to know what services that can be devolved will most benefit our residents. This issue is undecided because of the current status of the consultation. However, the tendency is for these details should be decided at a local level, with local governments' contributing significant to the consultation and models piloted.

The task group wondered if a 'race to the bottom' in terms of reducing rates might be an unintended consequence of the policy. However, historically few local authorities have used these types of powers when they have been available. Business rates remains a national tax and a stronger relationship between local governments and valuation office agency will help develop better insights.

Recommendations

Future Business Rates Strategies

In response to the Government's business rates policy proposal, the task group recommends the development of a robust business rates growth strategy, which considers the wider skills, enterprise and infrastructure needs of the borough.

1. Brent Council must develop a strategy to attract and retain businesses that pay good wages to Brent residents. We must encourage further growth in our already successful businesses and attract incoming investment into the borough which will benefit from and harness a skilled multicultural workforce. The strategy should be a central function within the council, embedded in the council's income generation and civic enterprise strategies going forward as Brent will rely on this income to fund services to residents and business development for decades to come.

2. Brent Council must be innovative, designing schemes like Local Enterprise Partnerships, Business Improvement Districts, and must also build on current policies such as the London Living Wage business rate reduction programme. The council should explore how existing powers such as, varying the business rate could:

    - Enable Town centre development e.g. Business Improvement Districts in Willesden High Road, Ealing Road and Chamberlayne Road
    - Offer incentives to businesses to provide supported employment opportunities and increase public convenience provision
    - Encourage businesses to share knowledge and skills such as improving local supply chains.

3. Brent Council will need to establish arrangements to ensure that decision making on whether to increase or decrease the business rate tax is evidence-based. This decision should be made in consideration with the wider strategy and will require debate in Cabinet and at Full Council.

8.2 Financial Risk

The financial risk that the change in policy could pose to Brent is uncertain. There are some major concerns, such as appeals, the valuation office and new additional responsibilities as outlined in 8.1 of the group's findings. The task group found that the other major concern is what a formula might be. The balance between incentive and need is essential, if business rates grow overall across the country there will be more money for everyone. The LGA is leaning towards a partial reset every five years, reassessing the business rates base against the needs requirement. Real-time needs data could be used to update the formula.

The impact of the policy change may be softened if the full list of devolution powers (excluding the Attendance Allowance) (appendix 4) were made available to all areas of local government. Brent Council should be lobbying for more devolved powers from Central Government.

Local government have a good track record of managing risk, as well as predicting and pre-empting changes. Business rates will be used for example to fund childcare and, back to work schemes. There will be some challenges shifting funds from one area to another. However the real issue will be reducing and/or removing any additional bureaucracy created related to the use of business rates funds.

Distribution of grant/funding

When introducing the system of 50 per cent business rate retention, the government put in place a system that ensures councils with relatively higher needs (but with relatively lower income from business rates) receive a 'top-up'. Equally, a Council with a relative income deemed greater than relative need, pays a 'tariff' to government.

These top-ups and tariffs balance each other nationally and rise in line with inflation between revaluations. In 2016, the Secretary of State for Communities and Local Government announced a full review of needs and redistribution. This will be used as the starting point for the new system when it comes into force.

When the task group enquired about a due date, it was stated that this would depend on "the call for evidence", but will be decided by the end of the Parliament. DCLG/LGA are optimistic and ambitious for reforms and are therefore keen to ensure that this policy is implemented at an efficient pace.

Revaluation

Revaluation is to be implemented 2017. Central Government has said it will re-examine the approach to valuations (perhaps becoming more frequent). It is at this stage, the perception of changes will shift to be understood as a 'local' tax. The GLA/DCLG believe that business rates are 'taxes' not necessarily requiring a culture change, but that a stronger working role between Valuation Office Agency and local government is more desirable.

The task group believes there will be a cultural shift, at least to the majority of Brent businesses, and that it is vital for Local Authorities to support its local economies though this transition.

Social Care

For most local authorities, the increase in income from business rates will not meet the increased spend requirements of care - largely due to demographics and aging population. LAs will need another source of funding – hence the issue of grants reemerging. Current proposals require local authorities to fund social care through council tax and business rates. It is anticipated that the Better Care Fund will end in 2020 when business rates are retained.

Employment
It was the unanimous view of all those consulted that employment, skills and enterprise is the most effective way to grow our economy, thus increasing our business rate tax base and our income to fund services. As previously stated, more devolved employment powers would allow the council the opportunity to redesign the way employment is tackled and work directly with residents.

The task group asked "what do we want a local employment market to look like" and 'what kind of business do we want to attract?' These questions should be managed not just elected members and council officers, but residents would need to be engaged in this work. The task group feel that the council should consider:

- What do our residents/public want?
- What types of businesses will improve and develop the borough?
- What types of businesses will improve the quality of employment in the borough?

The task group welcomes any opportunities for Brent residents to have priority over local jobs. However, it is not possible for the council to impose any such clauses on employers in accordance with discrimination and equal opportunity employment law. We can, however, strive to provide Brent residents with the skills needed to be competitive and be recruited to these jobs, thus making living in the borough attractive. Brent needs to become a borough people choose to live and work in.

Strategy for Business Improvement and enterprise
The task group explored the strategies already employed by Business Improvement whilst there were examples of best practice, a joint strategic approach has not yet been achieved. The task group are keen for the council to utilize these successes, and carry out needs analyses. Business intelligence gathered on the regeneration of Willesden might act as a pilot to establish if and how income has increased. Research is required to flesh out what the positive impact of business improvement districts are. The council is considering utilising Town Centre Managers to support this work.

If we are to be ambitious in growing our business rates income, then the council requires the technical expertise and resources in our council departments to help us understand the business sector not just in Brent and the WLA, but across the world.

Recommendations

Skills and Enterprise

To mitigate any financial risks the devolution of business rates may impose on Brent, our strategies should have a keen focus on skills and enterprise.

4. Brent Council must support its businesses throughout the borough with the cultural shift that will be needed to implement this change. The council should have a role in supporting the businesses in that shift by encouraging the

employment of local workers wherever possible and (developing skills and apprenticeships for Brent's workforce.)

5. As a result of successfully growing the business rates base, Brent Council should be given greater powers for employment such as working more closely with Job Centre Plus so that the Council can ensure that skills and employment are aligned with the Council's wider economic growth objectives.

6. Given the extremely low interest rates at present, Brent Council should, individually and in partnership with neighbouring boroughs and the Mayor of London create businesses cases for borrowing money to improve infrastructure. Mixed housing and business units for example will support economic growth in the borough.

8.3 Possible impact to Brent

Predicting and pre-empting unintended and unwelcome outcomes is essential and we must prepare for a potential loss in income to fund services.

Brent is a borough rich in culture and history. Home to Wembley Stadium and Wembley Arena, Brent has healthy manufacturing trade and good transport links throughout the borough. The task group understand that responsibility to promote Brent as a place for business should be shared by elected representatives and council officials.

Brent is unique and we should be utilising these features and benefits to attract and retain business and skills in the borough. The task group believe that there are examples and case studies (Manchester) that the council should visit as a place to learn. Any additional responsibilities should be linked to improving employment and supporting business growth

There should be a focus on:

- A skilled workforce
- Housing
- Good transport links
- Uniqueness of Brent
- International trade

A priority is to ensure the council also has the appropriate skills and resources made available immediately to undertake this change. The task group is specifically concerned with the extra pressure the policy may place on Brent councils finance team, especially the current capacity of the business rates team.

Recommendations

Preparation for 100% Devolution of Business Rates

To reduce the possibility of any negative impacts of business rates devolution on Brent, the council should be making preparations to ensure that we have a healthy local economy and that we are in the best position to implement the change with minimal disruption to services.

7. Brent Council must do more to show that the borough is open for business. All of the borough has a responsibility to do this, so officers, Councillors and partners must work together to look at what is unique to the borough such as, Wembley Stadium and the fact that Brent is one of the most diverse places in the UK and actively promote these to attract new business.

8. Brent Council must consider the impact the devolution of business rates will have on policy development and financial planning. It is vital senior officers and Councillors keep abreast of the latest developments and continue to feed into consultations ensuring that Brent's interests are heard. Regular bi-annual updates should be brought to the Resources and Public Realm Scrutiny committee. In addition given the significance of this policy change we would urge a Full Council debate on this matter.

8.4 Growth in business rate income

The task group was most concerned with this area of its work since growth in the business rates income will be vital for funding future council services. As such, central government and representatives from the local and west London business sectors were part of the consultation process.

The task group was keen to consider what incentives and rewards would be available to local authorities who successfully grow their business rates income. Unfortunately, at present it looks unlikely that there will be any incentives. The task group was told that being able to provide additional services from its own income should be reward enough.

Growth in Business Rate Income

The first question the task group wanted to know, was how we want to be seen as a borough. Councillors and officers responded by referring to ambitions in the borough plan and its 2020 vision

Well-connected by public transport within one of the great world cities and home to one of the world's most iconic sporting stadiums, Brent is attracting new investment, new business, new visitors and new residents every year. This makes the borough an exciting, dynamic and vibrant place to live and work, and it brings both opportunities and challenges.

The task group asked; 'what kinds of business packages can we offer to incentivise?' 'How flexible should we be?' And ultimately, 'what attractive business rates can we offer? 'However, in order for Brent to compete, the full package should include infrastructure, transport and Broadband fibre.

Further questions for consultation were:

- Can we offer systems where we can temporarily reduce the business rate?
- Will this be a reduction for all or certain types of businesses?
- If we are independent or in a pool with other boroughs, how might they respond if we decide to reduces rates and encourage business to Brent?

Some consideration should be given to the future of high streets. Given modern business is not dependent on location, with many businesses working from home – the questions will arise about whether these business be liable for business rates? We need to consider borough boundary areas and business areas shared with other boroughs such as Cricklewood and Kilburn. Discussions need to be initiated with neighboring boroughs. It is clear that further investigation is required as to how we incorporate Park Royal and how we incorporate Old Oak and Park Royal Development Cooperation (OPDC) into our strategies and wider objectives for business development.

Regional Working

Senior Officers stated there will be a regional and sub regional economic need for a combined approach, sighting the West London Alliance (WLA) as body supporting such an approach. The agreement to work as part of the WLA Economic Prosperity Board was passed by Cabinet earlier this year.

The task group wanted to know the WLA priorities and objectives, officers stated the purpose of the WLA Board is to work together, but they are not a formal/legal body (and not permitted to be). Mayor of London and individual local authorities are legal bodies (as is the Manchester arrangement) but partnerships between boroughs are partnerships, not legally binding entities.

The WLA is a vehicle to promote digital skills. A long term strategy is to partner with the University of Westminster and College of NW London to develop a digital economy. All WLA members have delegated some powers to the WLA and this has been agreed by Cabinet. The task group understand that insufficient Councillors are aware of the work of the WLA, and therefore this should be addressed with updates to Full Council. The task group recommends that WLA needs to raise its profile across the board.

Reliefs

Brent is comprised of different categories and sizes of businesses (appendix 5), with some properties eligible to apply for a discount on their business rates. The council needs to be very familiar with its tax base and be clear on its strategic approach. Questions should include how we grow small businesses and if we support small business reliefs when it is necessary to raise income.

In addition to smaller scale reliefs, the following types of businesses are eligible:

- small businesses – in the 2016 Budget the Government announced that businesses with a rateable value up to £51,000 would pay lower business rates and that those below £12,000 would get 100 per cent relief
- businesses in rural areas
- charities – eligible for 80 per cent mandatory relief
- Businesses in enterprise zones – designated areas across England that provide tax breaks and government support to help an area in need of growth or regeneration.

Brent council will strive to work with other local authorities where possible. It is mindful that not all local authorities will be at the same point in their business development plans, Brent is keen to move forward with pace and therefore any additional partnership working must fit within its parameters.

Recommendations

Working in partnership

To ensure we make the most of the opportunities that devolution of business rates can provide to grow income, the task group proposes working in partnership where possible with London and sub-regional councils.

9. Brent Council must build on the West London Alliance and the work of the Economic Prosperity Board, as sub-regional alliances' with neighbouring boroughs of similar economic profile will be essential in developing a business strategy. The work of these boards should be expanded with input from backbenchers, and regular reporting back to Scrutiny Committee and Full Council.

10. Brent Council must continue to work with the Mayor of London to lobby for opportunities for Brent that may emerge from Mayoral initiatives such as Old Oak Common.

General and Best Practice

To be a model for best practice by developing ground breaking strategies for the implementation of business rates devolution within local government.

11. The extensive meetings with all relevant stakeholders held by this task group has confirmed that the policy remains nebulous in many aspects, so work on the Devolution of Business Rates will still require regular reviewing, with regular updates to Scrutiny Committee and Full Council. Brent Council must remain closely connected to the work the of the Department for Communities & Local Government (DCLG) and Local Government Association (LGA), London Councils, the Parliamentary Select Committee and the London Assembly/Mayor of London's office.

9. CONCLUSION

The devolution of business rates policy change offers the council real opportunities for businesses rates growth. This report has set out some key mechanisms by which this can be achieved as well as flagging potential pitfalls and issues that the Council need to be mindful of and this policy is implemented.

Firstly, it has identified how vital it is to the council to understand and engage with our local businesses.

Secondly, it has identified that a robust business growth strategy is needed and should be used to promote the borough; attracting appropriate businesses to the borough. The more appropriate businesses that are attracted to the borough the greater the opportunities the Council will have to increase revenue.

Thirdly, it has shown how crucial skills and enterprise is to growing our business base.

Fourthly, it has emphasised the importance of making our voice heard via the ongoing consultations on this policy. Working in partnership at a, London and sub-regional level, allows local government to have a louder voice which should be used to lobby for more devolved powers.

The task group believes that this report provides a range of important recommendations which, when implemented, will lead to improved outcomes for the borough.

We look forward to seeing these changes in action.

10. PARTICIPANTS, REFERENCES AND APPENDICES

Participants

London Borough of Brent:	The Leader of the Council
	Chief Executive Officer
	Strategic Director of Resources
	Chief Finance Officer
	Employment & Enterprise Team
Government Agencies	Department for Communities and Local Government (DCLG)
	Local Government Association (LGA)
	London Councils
Ministers of Parliament (MP's)	Bob Blackman
	Clive Betts
	Andrew Boff
	Caroline Pidgeon
Non-Government Organisations	West London Alliance
	Federation of Small Businesses
Brent Partners	Quintain
	OPDC
Business Groups	Wembley High Road Business Association
	Ealing Road Traders Association
	Neasden Business Association
Other Local Authorities	LB Ealing
	LB Harrow
	LB Camden
	LB Barnet
	LB Westminster

References:

The task group referred to a number of reports in the course of its work. Key documents include:

1. Local Government Association, Don't Be Left in the Dark, July 2016
2. Department for Communities and Local Government , 100% Business Rates Retention, August 2016
3. London Assembly, A New Agreement for London., September 2016
4. London Finance Commission Interim Report, October 2016

Table of Appendix

	Appendices
1	DCLG Business Rates Retention Consultation
2	Pilot update for DCLG steering group
3	London Council's Joint London Government Response
4	Devolution to local government England
5A	Brent NNDR Collectable Debit
5B	Brent Rateable Value by Cater gory
5C	Brent Council Tax vs NNDR
*	Brent NNDR Properties October 2016 – Large document and can be emailed on request