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Self-sufficient local government: 100% business rates retention

The British Retail Consortium (BRC) supports any authority reducing the burden of business rates and encourages central government to devolve further fiscal tools to enable local government to do reduce the high burden. Reform to the business rates system must address the need to reduce the burden of a tax that discourages investment in jobs and growth. The national business rates multiplier needs to be frozen, and then reduced to encourage growth.

We have serious concerns the proposed infrastructure levy could be approved by a Local Enterprise Partnership (LEP) board given many combined authority boundaries take little account of LEP boundaries and LEPs do not effectively represent the diverse range of private sector views. For example, only 6 of the 39 LEPs have retail representation on their boards despite the retail industry being the largest private-sector employer and largest contributor to business rates. Furthermore, LEPs lack accountability, transparency and are not required to adhere to the Freedom of Information Act or Code of Practice on Consultation.

The BRC is hopeful that given the appropriate measures devolution can help incentivise investment that will generate jobs and growth. However, we fear what has been proposed will do little to assist the high street including small and large retailers. Local authorities simply do not have the budgetary resources to reduce the burden. Further fiscal powers for local government should be considered to enable local authorities to sufficiently reduce the burden of business rates.

In relation to 100 per cent retention the BRC supports:

- Minimum 10-year retention reset period to adequately encourage local growth by providing adequate incentives to authorities
- Mechanism to encourage authorities to proceed with sustainable development in the final years before a reset by guaranteeing a minimum of five years' growth retention
- All authorities whether unitary, district, county or combined should have the ability to reduce the multiplier – county or combined authorities could decide whether to cover the full costs or not given the representative nature of those authorities
- Business ballots similar to those successfully used to fund more than 250 Business Improvement Districts (BIDs) across the UK should be used to approve a proposed infrastructure levy

The 2016 Budget reforms though welcomed do not go far enough and are taking too long to implement with detrimental impacts to our high streets. Next year it is expected the national multiplier will exceed 50 per cent of annual rental value. By 2020, the business rates burden will be £550m higher for retail than in 2017.

It is imperative Government:

- Switch to CPI in 2017, remove indexation in 2020
- Implement fair and predictable transitional arrangements
- Implement more frequent revaluations from 2020
- Ensure a fair appeals system taking account of a property's Rateable Value (RV)

In England, the retail industry currently contributes £7.3 billion of business rates annually – nearly one-quarter of all receipts – far more than any other industry. We look forward to continuing to work with government to achieve a long-term sustainable system.

Responses to specific questions in consultation document:

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Please see response to question 2.

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Businesses' impressions of the business rates system could be improved by directing business rates revenues to local government services and activities supportive of local growth initiatives. If for instance, business rates revenues were used to make investment in the public realm or business services that may assist local government explain how business rates are helping to ensure a healthy and vibrant local economy. Therefore, of those grants identified within the consultation paper we would have a preference for the Revenue Support Grant to be funded by retention. However, ultimately this is a choice for government and the retail industry ultimately asks that additional burdens on business be taken into account i.e. infrastructure levies should require a business ballot which we expand upon further later in our submission.

Question 6: Do you agree that we should fix reset periods for the system?

Fixed reset periods need to be a sufficient length of time. i.e. a minimum of 10 years is required to have any meaningful impact in encouraging local growth. At all times sustainable development should be incentivised through 100 per cent growth retention. Longer reset periods to determine retention would also make tax increment financing more viable.

A mechanism to prevent local planning authorities from delaying proposed schemes in the final years of a 10 year reset period should be considered. For example, if a development were to move forward in the final year ahead of the reset perhaps the local authority should be able to retain additional business rates revenue in relation to that development for the final year before the reset and for an additional five years.

It may also be possible to consider an area's need more often than the reset period to determine retention. For instance, need could be determined every five years and growth retention could be decided every 10 years.

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Enterprise Zones need more benefits to make them worthwhile. Benefits could potentially include simplified Compulsory Purchase Orders (CPO) procedures, more favourable business rates policies and more streamlined planning. Once there are more benefits they could be trialled in town and city centres more widely than presently.

As stated in relation to question 6 a mechanism to incentivise growth in the final years before the reset should be established. For instance, if there was a 10 year reset period and a development moved forward in the final year before the reset the local authority should be able to retain the growth in business rates for the final year and an additional five years. Otherwise, local government is not sufficiently incentivised to proceed with growth in the final years before the reset.

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

We support all authorities having new powers beyond discretionary rate relief to lower the business rates multiplier across the local authority. However, they already have the ability to lower as part of discretionary rates relief targeting small businesses, high street retailers, charities, etc. which is rarely used. The likelihood of authorities being able to reduce the business rates multiplier is unlikely unless they are given further powers to raise revenue or borrow against future revenue.

UK commercial property taxes are higher than anywhere else in Europe and the OECD. All fiscal tools such as stamp duty retention and council tax banding should be on the table. To make local authorities 'more self-sufficient and better able to drive local growth' as the government states will require more than devolving business rates powers.

When a combined authority decides to reduce the burden it seems appropriate for the combined authority to decide that the costs be shared between the relevant authorities in line with existing tier splits. The governance of combined authorities ensures local authorities are properly represented (the same would apply to county and district councils). However, it also seems appropriate for a combined authority or county council to decide to cover all the costs if it so chooses. Flexibility as to how combined authorities manage the costs of business rates reductions is needed. Though if a local/district authority within a combined/county authority decides to reduce the burden of business rates it seems appropriate for that particular local/district authority to cover the costs.

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

We support local authorities continuing to have the power to target local discounts at their discretion and to take on the new ability to reduce the overall multiplier. Discretionary discounts have been rarely used and by reducing the multiplier across the board could lead to more immediate growth as it would send a strong signal that a particular area was open for business.

Question 23: What are your views on increasing the multiplier after a reduction?

Certainty is needed to encourage investment and growth. Year-to-year renewal of a lower multiplier does little to encourage growth. Therefore, we recommend once an authority has reduced the multiplier it then be linked to inflation. It should not automatically adjust to the national multiplier and in fact if an authority were to move forward with a reduction there is a strong case it should maintain that lowered multiplier for a minimum of three years to encourage investment and/or an adequately long notice period if it were to move away from the reduced multiplier.

An authority could decide to increase their local multiplier to the national multiplier at the stage of revaluation (currently every five years) though this would be discouraged. Transitional arrangements would need to be in place to manage large increases in rates liability whether due to reverting to the national multiplier or the revaluation itself.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

We support all authorities whether unitary, district, county or combined to have the ability to reduce the business rates multiplier. We expect elected mayors across combined authorities competing in a global economy will recognise the economic benefits of reducing the burden closer to that found in other international cities and destinations throughout Europe and the OECD.

We also support authorities or a group of authorities reducing the multiplier to encourage business in the area. It is incredibly difficult to accurately measure any potential displacement given the transformation underway in the retail industry including online, delivery, etc. However, combined authorities or groups of authorities are in a strong position to avoid any potential displacement by reducing the multiplier across an entire region.

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

We do not support levies being set in the proposed manner, and instead propose a ballot for those businesses responsible for paying the levy similar to that used to fund BIDs. To enable LEPs to make tax-raising decisions without accountability, transparency and representation raises a number of serious questions.

We instead propose elected mayors across a combined authority adhere to the existing £12k RV threshold used to determine 100 per cent Small Business Rates Relief (SBRR) to ensure fairness and consistency.

If an elected mayor were to propose a threshold other than that used for SBRR in addition to robust business consultation, we would expect an elected mayor to take account of clear criteria such as:

- Threshold should apply to all properties individually regardless of whether independent, multiple, etc.
- Ensure level playing field for all businesses and sectors i.e. specific businesses or sectors should not be unfairly targeted
- Consider impact of existing levies i.e. Business Rate Supplement (BRS) and BIDs on businesses' viability

We strongly favour a business ballot similar to that successfully used to fund more than 250 BIDs across the UK. LEPs are not an appropriate mechanism to decide infrastructure levies. BIDs today propose a threshold after extensive consultation with businesses before businesses are balloted which should be the same approach required for an infrastructure levy.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

A combined authority should be prevented from simultaneously conducting an infrastructure levy and BRS. The result of both levies is the same therefore the method in which they are decided should be equally fair and robust. What distinguishes them is the way in which they are decided. The existing BRS requires a business ballot, whereas, the infrastructure levy as currently proposed does not. Any method to increase business rates whether a levy or supplement should require a vote of those businesses affected. Business rates are already the highest in the UK compared to anywhere in Europe or the OECD.

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

LEP boards are not designed to approve levies. It has been proposed that elected mayors could propose an infrastructure levy to be approved by private-sector LEP board members up to 2 per cent of a non-domestic property's RV.

However, many combined authority boundaries take little account of LEP boundaries and LEPs do not effectively represent the diverse range of private sector views. It is essential businesses impacted the most have a say when it comes to any potential supplements for infrastructure which should require a vote of businesses affected especially given the retail industry is only represented on 6 out of the 39 LEP boards. The dispersed nature of retail is perhaps partially why retailers are underrepresented on LEP boards despite being an integral part of communities across England. The retail industry is the largest private sector employer and contributor of business rates and as a result would be the largest contributor of infrastructure levies.

Consequences of LEP boards determining additional levy:

- Leads to questions of accountability and transparency given LEPs are not required to adhere to Freedom of Information Act or Code of Practice on Consultation
- Discourages business involvement on LEP boards as business leaders will not want to be in the position of making these decisions because either they lack expertise on the benefits of infrastructure supplements or are leery of interfering
- Elected mayors could deflect criticism arising from levies claiming they have been approved by the 'business community' despite LEPs not being representative of broad business interests
- Private-sector LEP board members are selected in an inconsistent manner including in some cases by personal invitation by the chair or by ex-officio board members leading to further questions of transparency
- Raises questions of potential conflicts of interest if for instance a particular individual or business were to benefit from a proposed infrastructure levy

Business ballots provide a solution to the levy question. A more robust method of determining a supplement across combined authorities would be to use a business ballot allowing impacted businesses a vote. This is similar to what is used to successfully fund more than 250 BIDs across the UK and given the requirement for a straight majority support of all businesses participating in the ballot and the majority of RV it is seen as a fair and appropriate approach.

Benefits of business ballot determining additional levy:

- Proven to work – More than 250 BIDs are funded in this manner when the value is clearly demonstrated to businesses
- Effective partnership – Involves the public and private sectors in achieving growth
- Fair representation – Ensures those businesses responsible for the levy have a voice

Question 28: What are your views on arrangements for the duration and review of levies?

BIDs have a lifespan of five years before requiring a new business ballot. However, we are indifferent on the matter of length of an infrastructure levy assuming a business ballot is required. If ratepayers are told the length of the levy and the benefits of supporting which is then supported by the majority of businesses participating and the majority of RV we do not have strong concerns. However, if the government incorrectly decides to move forward without a business ballot there would need to be a strict end point no longer than five years which would inhibit large-scale infrastructure projects.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Assuming all businesses responsible for paying the levy are given a say as part of a business ballot we support a clearly defined definition of physical infrastructure which ensures key economic development benefits similar to guidance set out for the BRS. Projects should also be of a sufficiently large scale and beneficial to the at-large area to secure business support. It would not be acceptable to have a constant levy to fund on-going small-scale infrastructure projects.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

It is difficult to foresee the benefit of charging multiple levies. Infrastructure projects should be at large scale to benefit the entirety of the local economy, but if businesses were to be balloted we suppose elected mayors could make the case for multiple levies. However, a business ballot outlining each of the levies and their purposes or separate ballots for each levy is required. Given the fact commercial property taxes in the form of business rates are highest in the UK compared to anywhere else across Europe and the OECD an infrastructure levy on top of a BID or BRS levy could affect viability. Viability must be a serious consideration when elected mayors propose a levy, and LEPs are not well-positioned to decide whether a levy moves forward or not underscoring the importance of a business ballot.

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

Given the high burden of business rates it is sensible to allow the provision of a discount to BIDs within a levy area similar to that in place for BRS. Such an effort would be welcomed by the business community and likely help with securing support during a business ballot.

The consultation incorrectly states LEPs "would act as representatives of local business communities". This is not and cannot be the case under existing legislation and practice. LEP board members are not elected by the business community in any manner and are not representative of broad business interests. LEPs lack accountability and transparency, and are not required to adhere to Freedom of Information Act or Code of Practice on Consultation. It is doubtful business members of LEP boards would want these new powers as it puts them in a very difficult position of making decisions outside the scope of their particular expertise. They may also be nervous of interfering in such a consequential decision – given the controversial nature of business rates. Private-sector LEP board members are selected in an inconsistent manner including in some cases by personal invitation by the chair or by ex-officio board members leading to further questions of transparency which also raises questions of potential conflicts of interest if for instance a particular individual or business were to benefit from a proposed levy.

Conclusion

The BRC supports enabling local government to reduce the burden of business rates and encourages central government to devolve further fiscal tools to assist. Reform to the business rates system must address head on the need to reduce the burden of a tax that discourages investment in jobs and growth. Any effort to increase rates through an infrastructure levy without a business ballot is unacceptable. We propose a business ballot which is used to successfully fund BIDs across the country which could be replicated for proposed infrastructure levies.

About the BRC

Retail is an exciting, diverse and dynamic industry undergoing transformational change. The BRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture.

The BRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3Cs.

More information

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