Learning lessons from 100% Business Rates Retention pilots – interim summary note

This note covers some of the interim findings from a piece of qualitative work undertaken between June and September 2017 with 2017/18 100% BRR pilot authorities. Please note that analysis of the interviews is still ongoing and a more detailed report will be prepared in due course.

Methodology

This was a qualitative study comprising on hour long discussions with the person within the Local Authority who felt they were best placed to discuss the pilot. In most cases this was the Finance Director with some authorities nominating their Treasurer. All Local Authorities and Combined Authorities participating in the pilot scheme (30 in total) were invited to take part. Interviews were conducted with 16 different authorities. A full list of participants is given below:

- Liverpool City
- St Helens
- Sefton
- Knowsley
- Halton
- Manchester City
- Oldham
- Rochdale
- Trafford
- Greater Manchester Combined Authority
- Birmingham City
- Coventry
- Solihull
- Bath and North East Somerset
- West of England Combined Authority
- Cornwall

Most interviews were conducted face to face, with two conducted over the telephone. Interviews last approximately one hour.

Summary of findings

Being a pilot

- For most authorities, the key driver for becoming a pilot was to help shape the development of the future 100% BRR programme. All pilots were signed up before the General Election in May 2017 when the Local Government Finance Bill was in the process of putting through legislation for the wider roll out of the 100% BRR programme.

- Having an opportunity to shape the scheme in the early stages meant different things to different authorities. Some were keen to be involved in actively helping decisions about the implementation of the scheme. For others it was more about a 'safe space' with the no detriment clause to see how the changes would impact on their authority.

- There was appetite among most of the pilots for the scheme to push a little further. There was dissatisfaction with the way in which grants had been rolled in from many authorities, who felt that they had little to no additional flexibility over how the grants would be used. Authorities indicated that they did not want to divert funding away from the specific grant funding streams i.e. Public Health grant money would still be spend on public health activities, but they did feel that greater devolution of funding responsibility would mean more ambitious scope for how that money could be used and better linkages between services i.e. those delivered by the council and NHS teams.

- On the whole pilots were appreciative of the prospect of additional funding through potential growth over the pilot period, but this was not a key driver for being part of the pilot. Only one authority had built any prediction of growth into the budget set for 2017/18, with the majority treating additional growth funding as a 'bonus' at the end of the year.

- Authorities with a larger income from BR were more likely to say that they would be reinvesting the money into regeneration and development opportunities, however almost all authorities were also intending to use at least part of the growth funding to plug gaps in spending for core service delivery.

Business development

- Attitudes towards BR in the context of business development varied hugely depending on the current situation within the authority.

- Authorities with larger or substantially increasing BR bases welcomed the opportunity to retain more of the growth in the area, however they also highlighted the substantial risk that was inherent in the system. While aware they would be covered by the no detriment clause in the current arrangement there was a feeling that they would in many cases find it significantly difficult to resist larger shocks to the BR system under 100% BRR. Some authorities expressed concern that they were now much more susceptible to general economic trends rather than cuts within the system, which could lead to systemic failures across authorities in case of a change in the wider economic conditions.

- Of those authorities who receive less of their funding through BR or who are not projecting to grow most had aspirations to grow their BR base and some had very concrete plans for doing so. However all emphasised that this was a long term prospect with little in the way of very short term rewards and therefore would be unlikely to be realised within the scope of the pilot.

- Those areas with large student populations mentioned this as detrimental to their ability to grow their tax base. In many cases university buildings dominated city centre properties, along with HMOs for students. The purchasing power of the universities and the level of return on HMOs meant that some areas felt they were fighting against the universities to try and ensure ongoing opportunities for graduates.

- While increased retention of BR was considered to be a nice ‘bonus’ in terms of attempts to stimulate economic growth in areas, authorities recognised it was the wider benefits of economic growth that were the key stimulants. One authority said they would be happy to forego BR from large BR generators in order to move towards attracting the right sort of businesses to the area – offering high tech, skilled employment and helping to retain graduates within the area on a long-term basis post-university.

- There was a mixed picture as to how interactions with other growth incentives, such as EZs, were perceived. Authorities who had no EZs within their areas, but were in close proximity to EZs had concerns that they acted as a focal point for businesses that drew them away from neighbouring authorities.

- Some authorities had overall sustainability concerns about BR growth. Particularly within very urban authorities with small geographical reach there were concerns that growth in BR would have to stop at some point in the future as there are not limited opportunities for development, particularly as the type of jobs that many authorities are keen to generate are not necessarily those which would generate the maximum business rates.

Appeals

- There was general agreement that the current appeals system adds an unacceptable level of risk into 100% BRR for authorities operating in a real world situation. This is because of the lack of information about appeals and the time taken for processing.

- Authorities with small BR turnover generally calculate appeals on a cases by case basis based on their larger hereditaments. Larger authorities use information from the VOA combined with their own information on the likelihood of success of different appeals. A small number of authorities use an outside contractor to forecast appeals provision on their behalf as this allows the contractor access to national data not available from the VOA.

- There are concerns among authorities about the level of risk in appeals moving towards a 100% BRR scenario. Smaller authorities appreciate that there is greater risk to their viability, however larger authorities discussed this issue with a greater level of concern as they were more likely to see volatility of income without triggering safety net payments. For this reason authorities found it hard to see past additional growth as a ‘bonus payment’ as they could not rely on this as funding to be used in budgeting for core service delivery or planned projects.