THE DEVOLUTION OF BUSINESS RATES

A briefing paper from the Industrial Communities Alliance

The government proposals

The *Spending Review* in November confirmed that the government intends to allow local authorities in England to keep the rates they collect from business. It also intends to give local authorities the power to vary business rates, but with constraints on the scale of increases.

The *Spending Review* added that "the system of top-up and tariffs which redistributes revenues between local authorities will be retained".

The government also announced that it would "consult shortly on changes in the local government finance system to pave the way for the implementation of 100% business rate retention by the end of the Parliament".

This briefing note is based on research by the Alliance Secretariat using CLG data.

Strategic concerns

Whilst the devolution of business rates is in principle welcome to most local authorities, it comes with major risks and worries. These centre on the government's promise to retain a system of 'top-ups and tariffs' to redistribute revenues between authorities.

Reforms to local authority finance raise a host of complex issues. However, in the light of the government's intention to phase out the Revenue Support Grant, the system of top-up and tariffs takes on paramount importance. As so often the case, the devil is in the detail. If the system of top-ups and tariffs is not set up properly, the risk is that a grave injustice will be done to many local authorities that would result in the wholesale destruction of services.

More specifically, <u>if the system of top-up and tariffs is not structured appropriately it will seriously and systematically disadvantage local authorities in England's older industrial areas</u>.

The uneven business rate base

It doesn't require a degree in economics to recognise that the full retention of business rates, without any redistribution via central government, would run major risks for areas where the business rate base is weak. Most of England's older industrial areas, where there have been substantial job losses over many years, fall into this category. Conversely, full retention of business rates offers a potential bonanza for parts of central London and to a lesser extent for the big provincial cities, where businesses and high-value properties are concentrated.

CLG's own statistics confirm that in terms of business rates per head (in 2015-16) older industrial areas are well behind the England average:

	Business rates per head (£)
London	803
Core cities	450
Older industrial England[1]	345
Older industrial England (ex. core cities)	312
England average	428

Source: Alliance calculations based on CLG data

On average, in older industrial areas outside the core cities the business rate revenue per head is only around three-quarters of the England average, and only just over one-third of the level in London.

Excluding the core cities, England's older industrial areas as defined here have a population of rather more than 11 million. In the local authorities covering these areas, raising the business rate revenue per head to the national average (from £312 to £428) would therefore require a central government grant, under the 'top-up and tariffs system' of around **£1.3bn a year**.

These stark figures illustrate the scale of the top-up and tariffs that are needed to treat older industrial areas fairly once the present system of redistribution through the Revenue Support Grant comes to an end.

[1] Defined here as comprising 67 of England's district and unitary authorities, spread across seven regions. For the full list see Industrial Communities Alliance (2015) *Whose Recovery?: How the upturn in economic growth is leaving older industrial Britain* behind, ICA, Barnsley

The shortfall facing individual authorities

To illustrate the scale of the potential shortfall affecting individual local authorities, the first of the attached tables shows the business rates per head for the district and unitary authorities in England that are currently members of the Alliance. There are two columns. The first shows the raw figures for each authority. The second adjusts for local pooling.

At present, local authorities can retain 50 per cent of the *growth* in business rates and some neighbouring authorities have entered into agreements to pool this revenue. There can be no presumption that these pooling arrangements will automatically apply when *all* business rate revenue is retained, but this second column shows what will happen if this is the case.

Only four of the 31 individual local authorities listed in the table have business rates per head above the national average, and only one (Copeland, which has chosen not to join the pool covering the rest of Cumbria) after pooling. This illustrates the inherently weak business rate base of so much of older industrial England.

The second of the attached tables takes this analysis a step further and asks how much business rate revenue would need to be redistributed, and received in government grant under the 'top-up and tariffs' system, to bring each of these authorities up to the England average. Again, there are two columns, before and after pooling.

The figures for some individual authorities, even after pooling, are strikingly large. For example:

Barnsley	£ 50.9m
Doncaster	£ 36.2m
Durham County	£109.3m
Knowsley	£ 21.6m
Northumberland	£ 58.3m
Rotherham	£ 37.0m
Sheffield	£ 25.7m
South Tyneside	£ 30.5m
Sunderland	£ 30.5m

Even for some shire districts the figure is large – for example £18.2m in Ashfield and £15.7m in Mansfield.

All these figures are the **annual grant** that each authority would require to bring its business rate revenue up to the England average

Conclusions and implications

The analysis presented above illustrates a key point. If a system of 'top-up and tariffs' is to be retained, as the government intends when business rates become fully devolved, the scale of financial redistribution required across the country is not modest or marginal. A few tens of millions redistributed here and there will not suffice.

If local authorities in older industrial England are to be able to deliver services that are in any way comparable to those in the rest of the country, the scale of the financial redistribution will need to be measured in terms of hundreds of millions of pounds a year, and probably in billions.

As the figures illustrate only too well, the devolution of business rates without compensating, large-scale financial transfers would systematically discriminate against some parts of the country. Older industrial areas, still struggling to rebuild their economies after years of job loss, would be one of the biggest losers.

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The Industrial Communities Alliance is the all-party association representing some 60 local authorities in the industrial areas of England, Scotland and Wales.

The aim of the Alliance is to promote the economic, social and environmental renewal of the areas covered by its member authorities.

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Business rate revenue per head, 2015-16, £

By individual authority			Adjusted for local pooling	
North Warwickshire	690		Copeland	521
Warrington	546		**England**	**428**
Corby	532		Hartlepool UA	425
Copeland	521		St Helens	419
England	**428**		Warrington UA	419
Hartlepool	425		North Warwickshire	411
Sheffield	383		Bolton	388
Wakefield	366		Wigan	388
Barrow-in-Furness	360		Sheffield	383
Redcar & Cleveland	352		Wakefield	370
Sunderland	318		Corby	366
Bolton	313		Barrow-in-Furness	365
Bolsover	312		Allerdale	365
Dover	310		Redcar & Cleveland UA	352
Doncaster	309		Forest of Dean	349
Rotherham	286		Dover	329
Ashfield	282		Sunderland	318
Knowsley	281		Doncaster	309
Allerdale	281		Rotherham	286
Mansfield	275		Newcastle-under-Lyme	286
St Helens	272		Staffordshire Moorlands	286
Newcastle-under-Lyme	262		Knowsley	281
Wigan	254		Ashfield	280
Northumberland UA	244		Mansfield	280
Durham UA	217		Gedling	280
Barnsley	214		Bolsover	275
South Tyneside	208		North East Derbyshire	275
Staffordshire Moorlands	188		Northumberland UA	244
Gedling	187		Durham UA	217
North East Derbyshire	163		Barnsley	214
Forest of Dean	150		South Tyneside	208

Central government grant required to raise business rate revenue to England average, £m a year

	By individual authority	Adjusted for local pooling
Allerdale	14.2	6.1
Ashfield	17.9	18.2
Barnsley	50.9	50.9
Barrow-in-Furness	4.6	4.3
Bolsover	9.0	11.8
Bolton	32.3	11.2
Copeland	-6.5	-6.5
Corby	-6.8	4.1
Doncaster	36.2	36.2
Dover	13.4	11.2
Durham	109.3	109.3
Forest of Dean	23.3	6.6
Gedling	27.8	17.2
Hartlepool	0.3	0.3
Knowsley	21.6	21.6
Mansfield	16.2	15.7
Newcastle-under-Lyme	21.0	18.0
North East Derbyshire	26.4	15.2
North Warwickshire	-16.4	1.1
Northumberland	58.3	58.3
Redcar & Cleveland	10.3	10.3
Rotherham	37.0	37.0
Sheffield	25.7	25.7
South Tyneside	32.7	32.7
St Helens	27.8	1.7
Staffordshire Moorlands	23.5	13.9
Sunderland	30.5	30.5
Wakefield	20.7	19.4
Warrington	-24.4	1.9
Wigan	55.8	12.8