House of Commons

Communities and Local Government Committee

Local Government Finance—Supplementary Business Rate: Government Response to the Committee's Third Report of Session 2007-08

Third Special Report of Session 2007–08

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Communities and Local Government Committee

The Communities and Local Government Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Communities and Local Government and its associated bodies.

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/clgcom

Committee staff

The current staff of the Committee are Huw Yardley (Clerk of the Committee), Andrew Griffiths (Second Clerk), Sara Turnbull (Inquiry Manager), Josephine Willows (Inquiry Manager), Clare Genis (Senior Committee Assistant), Nicola McCoy (Committee Assistant), Gabrielle Henderson (Committee Support Assistant) and Laura Kibby (Select Committee Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Communities and Local Government Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1353; the Committee's email address is clgcom@parliament.uk

Third Special Report

1. The Committee published its Seventh Report of Session 2006–07, *Local Government Finance: Supplementary Business Rate*, on 7 August 2007.[1] The Government published *Business rate supplements: a White Paper* in October that year,[2] supplementing it as a response to the Committee's report with a brief memorandum containing "an explanation of why the Government decided to deviate from some of [the Committee's] recommendations".[3]

2. The Committee published a further report, on the Government's response, on 21 January 2008, as its Third Report of Session 2007–08.[4] The Government's response to this further report was received on 7 November 2008, and is set out as an Appendix to this Report.

Government Response

The Department for Communities and Local Government's response to the Communities and Local Government Committee's Report publishing the Government's response to its first report on Supplementary Business Rates.

1. This memorandum provides the Government's response to the Committee's publication of our written response to its first report on the business rates supplement. The Committee's second report makes no formal, additional recommendations to the first report, but makes a commentary on our response both directly to the Committee (November 2007) and through the White Paper: *Business Rate Supplements* (October 2007).

2. Whilst welcoming the Committee's continued interest in business rate supplements, we disagree with the Committee's view that Government's approach to supplements is overly cautious and that it will fail to deliver significant autonomy to local authorities. Our approach will promote certainty for business and provide additional flexibility for local authorities in meeting local economic development needs. It will:

- Promote long-term economic growth and productivity by empowering top-tier local authorities;
- Provide safeguards for business, including national upper limit of 2p per pound of rateable value;
- Provide an exemption for properties with a rateable value up to £50,000;

[1] HC 719

[2] Cm 7230

[3] HC 210, para 6 and Appendix.

[4] *Local Government Finance—Supplementary Business Rate: the Government's Response*, HC 210.

- Ensure statutory consultation with local businesses and other stakeholders in all cases; and
- Give businesses a vote where the supplement will raise more than a third of total cost of project

Ballots

3. The Committee recommends that there should be no requirement for a ballot on proposals within the affected business community, but rather that there should be a free ballot "when local, specific circumstances warrant".

4. The Government's twin-track approach, requiring consultation and ballots depending on the circumstances, is designed to protect business and ensure a fair deal. It best suits the real circumstances in which business rate supplements are to be used, while maintaining the principle of strong accountability.

5. The Government made clear its view in both the White Paper and our follow up memorandum in which circumstances accountability to business and transparency should be based on a consultation and when it should be based on a ballot.

6. Statutory consultation provides transparency and accountability. But where most of the cost of a project will be met by business, there is a risk that authorities will be less inclined to ensure value for money and effective targeting of spend. A ballot will provide a focus for authorities to ensure that projects reflect productive and effective expenditure. By contrast, giving business a vote in cases where supplement revenue will form only a small part of the total cost of a project could make it difficult to reach agreement, and opens up the possibility of businesses voting against, in the belief that the project would go ahead anyway.

7. Therefore, a requirement to hold a ballot of businesses where the contribution supported by the supplement exceeds a third of the total cost of the project provides a final level of protection to local businesses.

8. This position was made clear in the White Paper (paragraphs 2.56-2.59) and in our response to recommendation 3 of the Committee's first report.

Level of authority empowered to levy a supplement

9. The Committee recommended that:

- Upper-tier authorities should be empowered to propose a supplement in co-operation with second-tier authorities in their area;
- Second-tier authorities should have power to propose a supplement, either individually or jointly with neighbouring districts; and
- The Greater London Authority should have power to initiate a London-wide supplement which could be blocked by a two-thirds majority of London local authorities; but that

- Individual London boroughs and the Corporation of London should also be able to initiate a supplement.

10. We share the view that all local authorities have a role in promoting economic development. District councils and London boroughs, as billing authorities, already have a key role to play through the Business Improvement Districts scheme (BIDs). This scheme has no upper cap and allows a levy to be added to business rates in order to fund local improvements.

11. Districts also have a role in developing policies to improve economic well-being. As we have already said, shire councils will be required to consult their districts on any new supplement proposals. However, as Lyons pointed out, there would be additional complexity created in allowing district councils to level supplements in two-tier areas, which would in turn have an impact on business.

12. The Government believes that applying supplements on a larger geographic scale will help to even out some of the variation in tax bases and lessen the risk of disadvantaged areas with weaker property markets failing to attract resources need for investment in economic improvement projects with wider long term benefits.

13. The Government carefully considered the Select Committee's report in developing its Business Rate Supplements policy, but concluded that it would not be reasonable for business to be expected to pay more than one supplement simply because it was in a two-tier area.

14. The case for the Greater London Authority (GLA) setting a single supplement for businesses in London is also clear. The GLA is a democratic city-wide authority whose role is to take strategic decisions on economic development issues. Therefore, we do not believe there is a case for London boroughs have powers to block a decision to set a supplement.

15. The Government has set out its position in respect of this issue in the White Paper (paragraphs 2.65-2.70 and 2.75-2.76) and in response to recommendations 5 and 6 of the Committee's first report.

The maximum level of the supplement

16. The Committee has recommended that there should be no cap on the supplement rate determined by local authorities. In its commentary on our response to its first report, it argues that setting a cap on the level of supplement reflects a failure to trust local authorities to take effective decisions and demonstrates a lack of vision. We do not agree with this view.

17. As stated previously, we believe that, far from reflecting a lack of trust in local authorities as the Committee suggests, a national upper limit on the level of supplements will provide important security for business and protect rate payers from the impact of cost overruns.

18. The White Paper reflects this view and sets our view that a maximum limit will also ensure an appropriate level of protection of national economic and fiscal interests given the

increased ability of local authorities to borrow for capital purposes that will result from the supplement.

19. This view was set out in the White Paper (paragraph 2.32-2.42) and in our response to recommendation 7 of the Committee's first report.

20. We do not agree with the Committee's view that such a cap will limit local authorities ability to "make a meaningful contribution to the economic development" of an area.

Exemptions and discounts

21. The Committee has recommended that any decisions on exemptions or discounts should be determined at a local level.

22. We believe that it is appropriate for a national standard exemption to be applied to give businesses—and particularly small businesses—certainty. We have stated the view that a standard exemption across England for hereditaments with a rateable value of £50,000 or less will provide consistency for businesses and protection for smaller businesses which the economic evidence suggests can be disproportionately affected by changes in business rates. The legislation we will be introducing will also enable authorities to provide more generous safeguards for local businesses, including whether to introduce a taper above the £50,000 threshold.

23. We provided our views on this in the White Paper (paragraphs 2.51-2.54) and in our response to recommendation 9 of the Committee's report.

The degree to which authorities will benefit and further financial devolution

24. The Committee considers that the Government's proposals are likely to be of significant benefit only to a relatively small number of authorities.

25. The White Paper explained that the decision to place the power to raise supplements with only the highest tier authority avoided businesses in two-tier areas potentially paying two supplements, avoided complexity and fitted best with economic entities.

26. The Committee's latest report repeats their view that restricting the supplement levying power to upper-tier authorities is unnecessary in London or elsewhere across the country.

27. The White Paper recognises that local areas will clearly have different investment priorities based on different local economic needs. Although circumstances and decisions will vary from area to area, supplements will provide the opportunity to finance investment in economic development that would not otherwise have taken place. It will enable decisions about investment and management of spending to be brought closer to the local communities affected, with resources being locally owned and controlled.

28. The Government's decision to restrict the supplement-levying power to upper-tier authorities has prompted the Committee to reiterate their view that Ministers should

consider and bring forward alternative measures alongside a supplementary business rate to allow local authorities and local business communities seeking additional funds for local investment to choose a means which is suitable for their specific local circumstances. They comment that there is no sign of any such measures and that the Government has not seen fit to make any formal response on this recommendation. The Committee also consider there is little sign of the Government looking beyond the supplement to any "next steps" in financial devolution to local authorities.

29. However, as the White Paper made clear, the Government's review of sub-national economic development and regeneration identified other means to strengthen local authorities' role that are being taken forward in parallel to business rate supplements.

30. These include:

- The creation of a focused statutory economic development duty for local authorities;
- Reforms to the LABGI scheme;
- An expectation by Government that RDAs will delegate responsibility for spending to local authorities or sub-regions wherever possible; and
- The development of options to lever in additional finance to invest in regeneration and growth.

31. In addition, more than £5 billion of grants will be mainstreamed over the Comprehensive Spending Review period, removing ring-fencing and other controls, to provide additional flexibility to respond to local priorities. This reflects the Government's commitment to giving local authorities the power to make local decisions.