



Communities and Local Government Committee

Oral evidence: Business Rates, HC 665

Monday 7 March 2016

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Members present: Mr Clive Betts (Chair); Bob Blackman; Helen Hayes; Kevin Hollinrake; Liz Kendall; Julian Knight; David Mackintosh; Mr Mark Prisk; Mary Robinson; Alison Thewliss.

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Evidence from witnesses:

Questions 49 – 120

Witnesses: **Andy Hall**, Business Rates Assurance Manager, Boston Borough Council, **Councillor David Finch**, Leader, Essex County Council, and **Dennis Napier**, Assistant Head of Financial Resources, Sunderland City Council, gave evidence.

Q49 Chair: Good afternoon and welcome. Thank you for coming to give evidence to us in our inquiry into the Government's business rate reforms. Before I come over to you, I will just ask individual members of the Committee to put on record any particular interests that relate to this inquiry. I am a vice-president of the Local Government Association.

David Mackintosh: I am a Northamptonshire county councillor.

Helen Hayes: I am councillor in the London Borough of Southwark and I employ a councillor in my staff team.

Julian Knight: I employ a councillor in my staff team—soon to be two, actually.

Chair: Thank you for putting that on the record. Coming to our witnesses then, just go down the table and state the organisation that you are representing.

Dennis Napier: I am Dennis Napier and I represent Sunderland City Council.

Cllr Finch: I am David Finch, leader of Essex County Council.

Andy Hall: Good afternoon. My name is Andy Hall and I am from Boston Borough Council.

Q50 Chair: Thank you very much for coming. You are obviously au fait with the current system where councils get to keep 50% of the growth in business rates, so what was your reaction when it was announced that the Government were going to extend the 50% to 100%? Was it dancing in the streets in your local authority for all the extra money, or concerns about extra problems you were going to have as a result?

Cllr Finch: Chair, there are five points I want to make in response to that question. First, when the Government deliver the reform to business rates, they should not implement it top-down, but actually involve local government at all levels in the restructuring of that particular facility or service. Secondly, they should make sure that, when they look at devolving functions that go along with any business rate reallocation, they recognise that those devolved functions should be sufficiently and properly funded as well. Thirdly, any calculation of local resources should take into consideration the issue of need or social care, in terms of the growing problem with social care within upper-tier authorities as well. Fourthly, local authorities should have the ability to shape business rates to reflect local needs as well. Fifthly, efforts to foster faster local growth should not be hamstrung by lack of resources.

Q51 Chair: I am sure we will come on to those points in specific detail with the rest of the questions, but I will ask your two colleagues if they will respond as well about the general concerns or welcome that they had to the initial proposal.

Dennis Napier: In Sunderland, we are a top-up authority, and, because we cannot generate enough business rates ourselves, the idea of a 100% business rate retention system is a major concern of the authority for its long-term funding of services, because we are not quite sure where that top-up grant mechanism sits in the new regime. One of the asks we have is to ensure that there is fairness in distribution of business rates and that they take into account need to spend, because those with a low tax base, like Sunderland, would suffer disproportionately, and we have already suffered disproportionately in the current funding system, which cannot be separated from the business rates system itself. There are a few issues we would like to cover, probably as the meeting goes on, but we have the wider context of the overall funding system for local government, which cannot be disentangled from business rates.

Andy Hall: My reaction is that it sounds more attractive than, in reality, it is. In Boston, we have put quite a lot of effort into identifying business growth with the 50% retention arrangement. In theory, with 100%, we should be ahead of the game, but experience has shown us so far that any growth we find is being eradicated by appeals. We would need to see some assurances from the new system to remove that element from the equation, if we are really going to be rewarded for any growth we might find.

Q52 Chair: Are all three of you saying that the concern you have is that the problems that currently exist within the system as it operates now will simply be doubled in size? Are there any particular concerns that you want to raise that are not really there in the current system?

Andy Hall: Potentially, what you are saying is correct: that, without some reforms, alterations, adjustments and refinements, in light of the experience we have had so far, we are not going to achieve what we think we are going to achieve. It is fair to say that there is not enough detail known about the proposals either, at this stage. We are a little guarded about expressing an opinion as to whether it is going to be good for Boston or not. We have not seen any of that detail yet.

Cllr Finch: Chair, if I may, from the perspective of Essex, we collect in total £449 million in business rates. Government keep 50% of those business rates. 40% goes to our district councils, 9% to us and 1% to the fire authority. That translates into £179 million for the districts, £40 million for us and £4 million for the fire authority. The issue we are facing is one of how we use business rates to grow the economy and increase the business rates themselves; and how we take care of the growing population issue I mentioned earlier, which in Essex is a significant issue. 22% of the population is over the age of 65. The number of 85 year-olds is set to double in the next five years. It is a problem that I am facing, in terms of a funding deficit of over £50 million now, which going forward will increase, because of the Care Act. The national living wage will be an additional pressure for me as well.

Chair: That problem is there anyway, irrespective of this change.

Cllr Finch: I take that point, Chair. The issue I am making is that the incentive for me and for Essex must be such that we retain as much of the growth in business rates as we possibly can, so that we can fund those additional services in support of the older population, where the need exists. That is what I am saying.

Q53 Chair: Some of the evidence we have is that we know business rates can go down as well as up. There can be major factory closures, which can affect authorities, but is the reality not that annual

grant settlements are not exactly predictable and certainly have not been over the last few years? Some of the evidence is that, in a recession, business rate income can go down, but in a recession government grants have gone down, so is there any less certainty? Are there any more worries about volatility than there are in the current system?

Cllr Finch: I think the issue of the four-year settlement was a positive. The disincentive was the reduction in RSG, the revenue support grant, which for Essex resulted in an additional £20 million saving needed, within a five-week period. The move towards self-sustainability by using both the business rates and the better care fund will put us on a platform that does not ignore the risks you have just mentioned, but at least part of the solution and the incentive is for us to drive the growth in business.

Andy Hall: We also have to say that business rates are volatile on a daily basis, unlike the RSG. When you get your settlement, you know what you are getting. We could have a new assessment come in one day, which could bring us enough income to wipe out our council tax requirement, just from one single assessment. Obviously, we would know that was coming, if it was something of that significance.

Also, I do not think that local authorities are in a position to drive the growth in the way that you might think from how the announcement has been framed. If we are going to get the growth, we are going to get it. Some areas will not be able to attract that growth. They do not have the infrastructure in place. Perhaps regionally there will be growth, but there will be pockets of deprivation. In moving away from a funding regime such as RSG, which is arguably based on need, to a funding regime based on business growth, there is not going to be any correlation between the money coming in from business growth and the demand for our services that we have to fund.

Q54 Mr Prisk: I am getting from the replies that you would rather have the devil you know. Is that fair? Perhaps I will start with Mr Hall.

Andy Hall: What do you mean by the devil we know? Do you mean the 50% arrangement and the RSG?

Mr Prisk: You would rather have the grant devil you know than the business rates regime you are not sure about. Some people would say, and evidence from some councillors would suggest, that having strings-free business rates gives you the flexibility to plan in a more holistic fashion than being doled out money by different Ministers on annual plans. Which do you prefer?

Andy Hall: There is a presupposition that we can influence the business rate growth in the way that you might describe, and I am not

sure that we can. The potential is definitely there, but how much we can control and influence it I am not sure about.

There are also issues around sustainability. It is really an uncertain time for us. The business sector in the Boston borough area is predominantly agriculture and horticulture. The vast majority of that is exempt from business rates, so it does not matter how successful that economy is—and, let us face it, we are feeding the nation—because we are not going to get any more money from business rates, however much that prospers. Our capacity to grow and achieve extra income from business rates to support our council tax payers, who otherwise would pick up the bill, is far less. We need some confidence from equalisation arrangements across the country that those kinds of issues are going to be addressed.

We also have special issues, such as internal drainage board levies. The amount that we have to pay for those we have no control over. It equates to 60% of our council tax income. Arguably, those levies are met through contributions with RSG. If RSG goes, again, we have a disconnect there. We would be looking for something from the 100% business rate retention arrangements to help cushion that impact for our council tax payers and ensure that businesses contribute to that as well as householders.

Dennis Napier: In the north-east, we have a heavy manufacturing portfolio of business, and we have found that the system is skewed slightly away from the manufacturing rateable values that are used. We have found, for instance, as we have put in our submission, that a 11,000 square metre supermarket would generate in the region of £1.2 million of business rates, yet a similar sized manufacturing warehouse unit would generate only £200,000. Where we can grow the business—and I might add that the growth of manufacturing businesses is in line with Government policy—we are not seeing the benefit of that growth in our area, because of the makeup of our business rate structure.

Cllr Finch: Just to come back on that, it is inevitable in the redesign of the system that you are going to have floors and ceilings. That is inevitable. You need to recognise that there will be some areas that can generate very little in business rates but have quite a significant cost in terms of social care needs. We are going to have to deal with the floors and ceilings issue.

The other point I would make is that we are seeing a rapid pace of change anyway, in terms of internet transactions, business being conducted online, online banking, ordering your goods from John Lewis or Iceland and having them delivered the next day. We are seeing a shift away from hard buildings where business is being conducted. The

opportunity being offered of 100% business rate reallocation to local government, with, I would argue, a shift in the proportion for upper-tier authorities, is a step in the right direction.

It enables us to recognise that, in the example of Essex, 98% of our businesses are quite small businesses, but also we have two or three very large businesses: e2v, a manufacturing company; Ford, which is high tech; and Raytheon. We have some very large plants, and we have many hundreds of small businesses. Having control of business rates at least gives us the opportunity to flex up or down, should we choose to do so, to encourage business growth within our areas. That is a nettle that we should be offered and that, quite frankly, we should grasp.

Q55 Kevin Hollinrake: Looking at the 50% business rate retention so far, one of the people giving evidence last week, Simon Parker from the New Local Government Network, said it has not been that much of a big deal for local authorities. If that has not been, why should 100% be such a big deal?

Andy Hall: I watched Simon say that, but I thought perhaps, if he had been to Boston, he might not have said that.

Chair: It is an invitation he cannot refuse.

Andy Hall: Exactly. That is Boston, Lincolnshire, not Massachusetts. Our view was that we wanted to invest in the retention scheme that was coming in in April 2013, so we created a business rates assurance function, specifically to identify growth. I have to say that we have been quite successful. We have found £1.5 million. We are a very small council. We collect something like £19 million a year, which is small fry for business rates in this country, but, of that £19 million, we found £1.5 million of additional income in the first 15 months. However, we have lost more than that in successful backdated appeals, which we will come on to. What I am trying to say is that I do think the incentives are there, but without some adjustments and refinements, which I referred to at the start and which we may come on to, it is not going to give us what you would think it would give us.

Dennis Napier: From Sunderland's perspective, we have a lot of enterprise zones and, although we may grow our enterprise zones, the local authorities do not exactly get the benefits of that growth. Although we are complying with Government policy, we do not see real benefits from that incentive, unfortunately.

Q56 Mary Robinson: Clearly, the challenges and the opportunities vary from council to council. Looking forward into the future, which is

what we are looking at now, the risks and the opportunities may differ too. For each of you, do you think your future funding needs can be met through retaining 100% of business rates?

Dennis Napier: From a Sunderland perspective, I think that they cannot. We are already a top-up authority and we receive £36.4 million worth of top-up grant. The notion that we can make good that gap in the short term is not realistic. The 100% retention would help, but I would suggest there has to be some form of top-up tariff arrangement to make the system acknowledge that resource equalisation across the country is a major issue.

There is growth in some areas, as has been pointed out, but no matter what you try there is limited growth in other areas. In a deprived area like Sunderland, it is much more difficult to generate the additional business growth, and I have mentioned before the disproportionate level of business rates raised from manufacturing. Regionally, as well, we have to compete with Newcastle, which has a massive commercial and retail centre and is the region's admin centre. We also have the Metrocentre in Gateshead, which is a much smaller authority but can generate a lot more business rates, because retail is one area that generates a lot of business growth.

I will give you our business rates per head, so you have some context. Sunderland can raise £90 million in business rates. The amount per head of population is £324.72. Newcastle can generate £153 million worth of business rates. That is £531 per head, which is the third highest in the country. Gateshead, which has a much lower population than Sunderland, can generate £95 million worth of income, at £476.11 per head. There are not only regional variations; there are also local variations within that system. That is what makes things so difficult with the new system.

Clr Finch: If I have understood the question correctly, I am certainly in support of 100% business rate retention by upper-tier authorities, but there is a balance in terms of recognising that there are certain areas that will not generate the same amount of business rate growth to offset their needs base. Therefore, the point I made earlier about the floors and ceilings is something that still needs to operate. But I take it as an incentive for us to grow our economy and grow our businesses by having the opportunity to retain the business rates. I see this as an opportunity that should not be missed. Government should let go of the controls they have on upper-tier authorities. They should devolve more responsibility, with appropriate funding, to let us get on and do the job that we know we can do.

Andy Hall: As a direct answer to your question, it is possible that it could meet our future funding needs, but, with the detail that we have,

it is impossible for us to say right now, and I would even go so far as to say it is unlikely.

One issue that we cannot separate out is the 100% retention going hand-in-hand with devolution of responsibilities. It is impossible to identify how much of the additional retained money we will get is wrapped up with delivering services and responsibilities that are being devolved to us. It is not going to be a clear picture. I do not know whether I am making that very clear myself, but do you see where I am coming from? Basically, we are not going to be able to tell. There is only so much money on the table, and it is just a case of how it is going to be sliced and diced and shared out. I have already mentioned the difficulty we have with agriculture and horticulture not being rated. Again, for us, it comes back to equalisation measures and what they provide for.

Q57 Mary Robinson: There are differences across the authorities, and it is also clear that there are differences between single-tier and two-tier authorities in the way that it is collected and distributed, and perhaps a difference of perspective. From your point of view, Councillor Finch, how should the distribution of the rates revenues between district and county councils be treated under 100% retention? I know you were talking about £449 million this year.

Cllr Finch: Trying to give you a very direct answer, the pressures for upper-tier authorities are very clear in the social care arena. I spend £414 million a year on taking care of the elderly, mental health, dementia, domiciliary care and residential care—significant amounts of money. I said early on that I get 9% of the total business rates collected—9% of the 50% that is left—so I get £40 million towards economic growth, which I spend on economic growth. I have to find other ways of raising money in order to deal with those social care pressures that I have.

To answer the question about how I would reallocate the money—I will probably upset a lot of district councils in Essex—but I would say there needs to be an adjustment of that model to recognise the social care pressures within large, upper-tier authorities, and the model should be adjusted accordingly.

Q58 Mary Robinson: Do you feel that, with 100% retention, these are the conversations you are going to be having with the districts?

Cllr Finch: It is only a matter of time before we have those conversations, yes.

Andy Hall: May I come back on that? I know you did not ask me the question, but I represent a district council, so I think it is only fair that I have my say. Perhaps Dennis should have sat between us. It depends whether we are talking about the whole of business rates or whether we are talking about the growth. We would argue that the methodology for the split should be fiscally neutral for the individual councils concerned. We also take the view that a single percentage split across the country would not work. It would vary from authority to authority, according to the very specific needs of those authorities. There is some work to be done around how that should be divvied up; how that cake should be sliced, if you like.

If we are talking about the growth in business rates and how that should be split up, from Boston, our starting point is that 100% should be retained by the district council. After all, the district council expenditure is much more likely to be closely linked geographically to the businesses that are contributing to that increased rate yield. If businesses in Boston are paying us extra rates, we are going to spend that money in Boston. That would be our starting point, but we would negotiate.

Cllr Finch: I would just love to come back on that. My very clear answer would be that the upper-tier authorities are the ones that build schools, the ones that put in place the infrastructure, the ones that are able to set up the business parks, and have the size and scale to be able to deliver the increase in business rates, quite frankly. I just do not accept my colleague's view on the matter, as much as he may believe it?

Dennis Napier: Could I just add something to support the view that there needs to be some form of needs-based assessment when we distribute business rates? I do not dispute that the full business rate retention system might encourage growth, but it is subject to economic conditions, and people have to be aware that business rates go up as well as down. As far as we are concerned, the safety net provisions are set so low that the council would have to incur quite a significant drop in business rates before the Government stepped in with their safety net provision, which I presume will be a feature of the new system.

Like one of my colleagues said, there are gaps in the information about the new system, because we do not know what new responsibilities we will be required to take over. There is an issue that public health may be funded from the business rate retention system. That is £3.4 billion nationally, so that is a consideration.

Q59 Mr Prisk: To move on from which tier gets what to how the redistribution system actually works, I think I am right in saying that, of the three of you, Boston is the only tariff authority and the other two are top-up authorities. Is that right, on a point of fact?

Dennis Napier: That is right, yes.

Q60 Mr Prisk: Thank you. Perhaps I will start with Councillor Hall, if I may. What is your view about the existing way in which redistribution operates? Do you feel that this needs to be changed and, if so, in what form? Some have argued that the way in which the threshold kicks in should be adjusted. Parking, for the moment, which tier gets what and looking at the other issues, how would you improve the way in which the redistribution mechanism operates for a 100% system?

Andy Hall: We do not really have enough experience of the present mechanism to say with confidence. I am sorry that it sounds like I am repeating myself, but the detail just is not there. I think those systems are working and could perhaps work better with some refinements. The present business rate baselines are, as I understand it, set on the old formula grant mechanism, the four-block model. I am not a finance person. I am not a councillor either; I am an officer.

Mr Prisk: I am sorry.

Andy Hall: That is fine. I have not quite reached those heights yet. One of the difficulties we have, as demonstrated by an organisation called SPARSE, a collection of rural authorities, is that, per head of population, rural areas are getting less than urban areas, which suggests that the starting point for the baselines is flawed. There are a number of other issues around that. To sort all those things out and have effective equalisation, yes, there is always going to be a place for tariffs, top-ups, safety nets and the like. Boston is also part of a pool within Lincolnshire, so we are able to retain a little more of the growth than we otherwise would. That is at the risk of any authorities falling into the safety net; we would have to fund that through the pool.

Q61 Mr Prisk: Would you want to see that kind of local pool retained?

Andy Hall: Yes, I think we definitely would.

Cllr Finch: We operate the pool within Essex, across a number of councils, and in doing so we have reduced the variability and saved ourselves £1 million. Pooling is something we would consider, even into the future, not just within districts and upper-tier authorities, but also within regions, perhaps.

Mr Prisk: Although it depends on how you define the region.

Cllr Finch: Of course.

Q62 Mr Prisk: Councillor Napier?

Dennis Napier: I am not a councillor either.

Mr Prisk: I am sorry.

Cllr Finch: I think I am the only councillor.

Dennis Napier: The councillor is in the middle of the officers. I do not want to sound like a broken record, but we feel that resource equalisation is key to fairness of any funding system, whether it be 50% or 100%. The top-up and tariff mechanism, to me, looks as though it is the only feasible option, unless you change the mechanism entirely and introduce a floor or ceiling, or something of that ilk. Some mechanism still needs to be built into any new system, to recognise the ability to grow business rates and the actual physical needs of an area. The more deprived areas need more resources, yet they are the ones with the least ability to raise those resources. That is the economic fact, and this system has to help address that and be fair in its distribution of resources.

Q63 Mr Prisk: Do you pool in the same way that your colleagues do?

Dennis Napier: No, we do not. We do not have pooling.

Mr Prisk: There is no pooling with any of your immediate neighbours?

Dennis Napier: No, there is not.

Andy Hall: Some authorities are not ideal pool partners. They have specific issues that mean they are not attractive to pool with. I am not suggesting that that is your situation.

Dennis Napier: We are all top-up authorities.

Andy Hall: So the system there is flawed straightaway. People are left out in the cold. One of the difficulties with the present system is that it works on net growth, and the real growth in business rates income is being masked by—I hate to say it—things like appeals. For the system to be more successful, appeal losses need to be taken out of the equation altogether and dealt with and funded separately, so that you can see the success that authorities are having in terms of the growth they are identifying. That system would work far, far better and would remove some of the volatility we are seeing.

There are ways that the appeals could be funded outside the retention arrangements. There is a large amount of rating income held from central list properties—telecommunications, transport and electricity type assessments—up and down the country that go into a central pot. Perhaps that pot could be used to fund appeals and to protect the authorities from the impacts of that, because, let us face it, the authorities have no control over it. They are not the ones that assessed the properties wrongly, but they are the ones that are carrying the can. We have recently had medical centres reduced by as much as 70% in rateable value, down to 30%, backdated for 10 years. Eight years of that is prior to the current 50% retention arrangements, and we are having to fund that. Nobody saw that coming.

Q64 Mr Prisk: Part of the problem is that the gap and then the long delay between revaluations have meant that many of the owners, or indeed tenants in some cases, are more willing to go for appeals, and therefore we have seen a surge in the number of appeals. You spoke earlier about the volatility on an individual hereditament basis. Is there not the danger here that, if you were to move to a more regular revaluation, every two years, you would have an even higher level of the volatility you are trying to avoid?

Andy Hall: That is an interesting point, but some things are coming out in the wash. The medical centres were 2005 list appeals that have been settled, so they have now been dealt with correctly in the 2010 list, and I would like to think that they will come into the 2017 list properly, with the right values. As time goes on, the scope for that kind of volatility as a result of those sorts of appeals should get less and less. If the revaluations are more frequent, then perhaps again there will be a spreading out of that impact. We could talk about appeals all day. I appreciate we do not have time.

Q65 David Mackintosh: Do you think local government will be able to devise and implement its own distribution arrangements, and how do you think that could work in practice?

Cllr Finch: The short answer is, given the incentive, yes, they could, and how I imagine it would work in practice is a detail that I have not yet worked through. It is the art of the possible.

Dennis Napier: I would concur with that, yes.

Andy Hall: Nothing is impossible, and local government does tend to rise to the challenge, but I am not really sure about that.

Q66 Kevin Hollinrake: Looking at incentives and resets, we talked a lot about growth in business rates. Is the current system driving the right kind of economic development behaviour within local authorities?

Andy Hall: I alluded to it earlier when I said I was not sure there is quite the connection between local authorities being able to influence the development and the economic growth in its area and sitting that alongside the retention arrangements. No, I do not think we are able to influence it to the degree that you might think and that the proposals envisage.

Q67 Kevin Hollinrake: Even if you took somebody on specifically to drive that within your authority?

Andy Hall: Yes. For example, the impact on our business rate income is not a relevant material consideration when determining a planning application. It is not something that we can properly take into account, as I understand it. Again, I am not a planner. It is an attractive side of the argument, but, by the same token, we have a large number of former industrial sites that have been left empty, from which we have been getting a lot of empty rating, and they are now being demolished to make way, potentially, for new housing developments. We stand to lose a lot of rate income, but as an authority we cannot block that application and say, "No, you cannot demolish that".

We cannot control it in the way that you might think. We might prefer to have the business rate income on that site. There are now going to be a few years where we have no income on it. Potentially, we might get council tax income. In a two-tier area, we get only 10% or 11% of the council tax at the district level. Then of course there is the new homes bonus opportunity, but that is being revisited as well, so it is a little uncertain as to what it will bring us.

Dennis Napier: From a Sunderland perspective, like I say, it is more difficult in our area to generate business growth, but we do have two successful enterprise zones, where we hope to increase the manufacturing offer within the area and create up to 5,000 jobs. That is one aspect. The other is that the council has an ambitious capital programme, and it has concentrated on trying to increase investment in infrastructure. We have a £120 million capital programme over the next three years, to try to generate and kick-start that particular issue.

The other thing is that we have a joint venture agreement, where we are trying to make the best of the assets that we do hold, so we are doing our best to try to maximise the business rate there.

Q68 Kevin Hollinrake: Is that being driven by these incentives?

Dennis Napier: The capital programme is, because we see economic regeneration as one aspect. The other is to develop the city centre and the retail offer it has there. As I have said before, we have difficult competition on our doorstep, but Sunderland is trying to do something about generating the growth required. It is just that there is possibly limited capability.

Q69 Kevin Hollinrake: Councillor Finch, you might address for me something in terms of the resets, because you have the incentives in the current system. In 10 years' time, after the reset period, all those incentives are effectively washed away. How do you feel about that?

Cllr Finch: Clearly, the reset period has risks with it, and it needs to be considered very carefully in terms of unintended consequences of resets in very short periods of time. Equally, while the balance of the 10 years, which is currently what is in play, may be slightly too long, we need to think very carefully about how we adjust and do the reset period. We first of all have to understand the implications of any changes to the new system of business rates allocation, and then determine whether or not it is in need of adjustment over a period of time.

One of the questions you asked was around the incentives to promote growth. I would say that the ability of local authorities to adjust the multiplier is one of the areas where I would say it is a calculated risk if I choose to reduce the multiplier. The reason I would reduce the multiplier is because I may want to encourage a business park, or I may want to encourage investment in high-tech industries in a given area. There are a number of other tools that can be used as well, but, in terms of the reset period, we need to be cautious, in this instance, about what the reset period could be and that it is not a knee-jerk reaction.

Andy Hall: It is possible that the reset period could drive some quite strange behaviours. I know I have just said that I am not sure how much we can influence developments, but, if we were able to influence them and something big was coming along close to a reset period, we would not necessarily want to see that go through. As to what I would like to see, as I have already mentioned, we should isolate growth and separate it out from the effects being masked by appeals, but perhaps have some kind of rolling reset period, whereby growth is guaranteed to the authority for 10 years, whether it was in year 1, 2, 8 or 9. There could be a methodology for tracking that growth, so that something that came along in year 9 was not lost after the reset period in year 10, so we got it for another eight or nine years.

Q70 Julian Knight: I am wondering what you think the reset period should be. If you think that 10 years is too long, Councillor Finch, how many years do you think it should be?

Cllr Finch: At the moment, I would say that I am not qualified to answer that question, quite frankly. When I see the proof of the results of the business rate adjustment from Government and the proposal that is on the table, I can comment better.

Andy Hall: It depends whether you are gaining or losing, does it not? If you are losing, you will want the reset period to be a lot shorter. If you look at the theory of what is proposed, 10 years does not seem an unreasonable period of time to benefit from gain, because this is meant to be about benefiting from gain. This is not meant to be about being punished for those losses that we are not really in a position to control. I think, in theory, 10 years would be right, if we could equalise it out in the way I suggested earlier.

Dennis Napier: I personally think 10 years is too long, but I acknowledge that there is this false economy that, if you have something in year 9, you might delay that as a tactical issue, which needs to be addressed. It might be of value if you could reset when you revalue, because nobody has mentioned revaluation yet, and the impact of that across the regions is vast. The idea that you could reset or have some kind of mini reset at that point in time would seem timely, but I agree it would impact on incentives as well, because I acknowledge that 10 years gives authorities longer to benefit from the growth.

The other thing is that resource equalisation is an issue as well, and needs are not being reset at the same time. The actual needs element in the formula through the top-up grant is not being revisited until 10 years later either, so there is an anomaly there between the two.

Q71 Helen Hayes: I would be really grateful if each of you could say a little bit about what makes up your business rates base, the types of businesses you have in each of your respective authorities and the way in which that influences your ability to grow income from business rates.

Andy Hall: In Boston, we are predominantly agriculture and horticulture, which is outside of business rates, so I just have to put that on the table for the last time, probably. Then the majority of our rating list is commercial retail. That is the biggest majority, followed by industrial. What was the second part of your question?

Q72 Helen Hayes: To what extent does your current base influence your ability to grow business rates income into the future? What do you think are the prospects for growth in your area, given the base that you have at the moment?

Andy Hall: I do not see that there is much prospect.

Cllr Finch: Essex is 98% small businesses. That is across the piece: small retail, small manufacturing and small beauty salons, though not that many beauty salons, I have to say. We have three very large manufacturing bases: Ford in the south of the county; Raytheon also in the south of the county; and e2v in Chelmsford. There is also quite a large proportion of businesses in the insurance, accounting and estate agents business as well, so we have quite a mixture of businesses.

The business rates seem to be fairly stable, but we have been making significant investments in terms of both enterprise zones and encouraging infrastructure investment to facilitate ease of transport within the county, lobbying for improvements to the A120, the A12 and the M11, for example. We have put £5 million in to design the extension of the A120 as well. We are a county that is trying to put money in where we think we need to support growth and development.

Dennis Napier: In Sunderland, 20% is manufacturing, 20% is what I would term government-related activity—police, fire, government buildings, etc.—and the rest is small retail, commercial office space, and things like that, predominantly in the city centre of Sunderland. As I have mentioned before, we have an ambitious capital programme to try to grow. It is the type of growth that we are finding difficult. The city centre is being redeveloped, and that hopefully will generate more business rate income, but we have this issue about the amount that manufacturing benefits the authority compared to the benefit to the Government, through increased NI, corporation tax and income tax receipts, etc. We would ask that some kind of factor is built into the business rates system to try to acknowledge that particular issue.

Q73 Helen Hayes: Each of you have already, in this discussion, said a little bit about how you are planning for growth and some of the things you are doing to stimulate additional growth in business rates. Are you proactively working on this in preparation for the reform, as a discrete area of work, and is there anything more that would be helpful to you as local authorities in planning for this future change and increased dependency on business rates income?

Andy Hall: We are certainly working towards it. More detail about the arrangements and the opportunity to work through those and see what the impacts could be would be a great help, as you can imagine. We have as our top corporate priority revitalising and promoting our town

and rural borough. We are developing a local plan with our neighbouring authority at South Holland, identifying sites over the larger combined area that are right for development and suitable for economic growth. We have a recruitment plan in place for a new head of service for economic development and growth specifically, which is an ambitious move for a small borough council to be making. We have invested in the business rates assurance function, because one thing is certain about these retention arrangements, which is that they create a much greater incentive for diligence on the part of local authorities in looking to ensure equity and fairness in the business rate community. They are the main things we are doing, and of course cracking down on rates avoidance and rate relief fraud.

Cllr Finch: I hope I have understood the question correctly, but what we are doing is investing in economic growth, in that we have teams working with industry and commerce within the county. We have invested £1 million in a skills function within Essex County Council, which is run by business, to facilitate and develop skills within the county. We have worked on and are working on an apprenticeship scheme within the county as well, with businesses. We have invested heavily into education and are working with the universities, both Essex and the second university, which has totally gone out of my head at the moment. We have also invested quite heavily in broadband across the county. We are aiming for 95% to 98% coverage in both urban and rural areas.

Dennis Napier: I have sort of answered the question previously. We are developing the city centre. We have a new bridge, with Government support, to help design a new transport corridor to the port of Sunderland, to help grow the port and to basically regenerate the city and develop commercial and retail activity, and business rate activity, if we can.

Q74 Julian Knight: Councillor Finch touched before on the multiplier. I wanted to ask the panel how you think you are going to use any power to lower the multiplier, and what do you think of the efficacy of, as suggested by the LGA and the CCN, a flexible multiplier?

Andy Hall: I do not think we would see the power to set a lower multiplier being useful on its own. We are much more likely to opt for discretionally rate relief and local discount schemes, and target support that way to business, if we want to lower their rate bills. If the power to set a lower multiplier is to be given, it should go hand in hand with the power to set a higher multiplier, even if that has to be limited by some form of capping regime, akin to what you have in council tax.

In terms of differential multipliers for different sectors, in my personal view, that should not be necessary. That should be taken care of through the valuation assessments and the basis of valuation in the rating list. That should reflect the different values of property.

Cllr Finch: To try to answer the question, flexibility with the multiplier, whether it is to go up or down, is one we would need to consider carefully, on the basis of what we think is the evidence that it would benefit us in terms of overall business growth within the area. We would need to work through the models to see whether, by doing this reduction in business rates, the gain that we were going to get outweighed the loss that we were giving up.

Dennis Napier: I think they have covered the main points. It is the scope of the ability to reduce business rates that we would have a concern about. In some areas, it is easier to drop the rate, and there is a knock-on effect that businesses might be tempted to move to the low business rate. With the location we have, being near the border with Scotland, we have to recognise the fact that there is competition from north of the border as well. Like I say, it is the scope of each local authority to be able to drop the rates.

Q75 Julian Knight: You would fear competition between authorities in that regard.

Dennis Napier: Yes. If Scotland incentivised and gave grants to companies, they might move out of the area, and that would have a knock-on impact on our growth.

Q76 Julian Knight: I was just wondering what other tools you think would enable you to encourage growth.

Cllr Finch: In terms of encouraging growth, it is clearly the infrastructure that is there: housing, in terms of the right quality of housing across the area; access to good educational standards and schools in locations; access to, in some respects, leisure facilities; as well as having access to high-speed broadband. That is an enabler as well. There are multiple attributes that would get people to say, "This is a place to go to, because it has all the conditions I need and want for myself, my children and my prospects as well."

Indeed, I can quote the example that one of our districts losing out by not having a reasonably sized business transfer into its locality. The business did not transfer because there was not adequate professional housing in that particular area. There are multiple reasons for, and multiple benefits of, delivering growth.

Q77 Julian Knight: Therefore, the follow up question is: does the existing system of reliefs help or hinder this creation of growth?

Cllr Finch: I would answer that differently, if I may. I would just say: give us the flexibilities and the freedoms within the business rates system, and let us in local government work that system to the benefit of economic growth within the county and within the upper-tier authorities, and use it to offset the growing problem in terms of need.

Andy Hall: I think the existing schemes do promote growth. If you are talking about business rates as an income stream overall, it is a little contradictory, because any reliefs we give, of course, reduce the amount that we collect. But, if we look at it in terms of promoting new business and encouraging new business into the area, then yes, definitely. Something like the small business rate relief scheme could be used more cleverly, perhaps, to make permanent the current arrangements that have been extended year after year, whereby it has gone up from 50% to 100% relief. That should be clarified.

In a discussion with our strategic director a couple of days ago, one of the ideas that emerged was that perhaps we should help small businesses in the early years—year 1 and year 2—and then, rather than give them unlimited small business rate relief, start bringing them into the fold in terms of contributing to business rates. If they grow and move into bigger premises, we should perhaps retrospectively award something in lieu of the rate relief that they otherwise might have had, almost as a reward for having grown, for proving that they have done it and made a success of their business.

Dennis Napier: Setting reliefs and lowering the multiplier are similar issues. It is the scope you have to be able to do that, if you are reliant on that income initially. We are all in different places. What I am saying is that the ability of some is greater than others. I agree that the small business multiplier is a big help to businesses and a lot of that is funded from central Government. That is a welcome scheme that enhances the system at the moment. It should be considered to be made permanent.

Andy Hall: I would also like to see the relief system amended and some of the qualifying organisations removed that were perhaps arguably never intended to benefit. We have situations now where what might have been seen as public sector services qualify for reliefs. NHS trusts are the latest to jump on the bandwagon, and academy schools. There has been a shift, and that is again eroding our business rates income. I am not sure that was intentional. That could benefit from being looked at and clarified.

Dennis Napier: I would support that.

Cllr Finch: And me.

Q78 Kevin Hollinrake: Councillor Finch, you have mentioned infrastructure as being a key driver of local growth. Within the proposals, there is an infrastructure premium, a 2p levy on business rates. Would that work well for you, in your area?

Cllr Finch: It is hard to give you a very specific and clear answer on that, but, in terms of the opportunity, the theme that I have tried to demonstrate within this session is: give us the flexibility to implement change, and we will take it and use it to improve the economic growth and deal with the other issues around need as well. In terms of the proposal, could I have an infrastructure levy, a premium? I would have to see the evidence of whether I was going to use that, in order to demonstrate that there was a benefit in using that.

Andy Hall: From my point of view, I would want to have a greater understanding of whether that is proposed for a two-tier local authority area or not. It was not clear from reading the proposals whether that was the case. I would presume, for a two-tier area like Lincolnshire, that it would go hand in hand with creating a combined authority that would have a directly elected mayor.

Kevin Hollinrake: It does go hand in hand with combined authorities and elected mayors, I understand.

Dennis Napier: From a Sunderland point of view, we would not wish to see the 2p levy jeopardise any Government funding for infrastructure, because we see Government infrastructure in the more deprived areas as critical to kick-starting the local economy. Another issue that we have is, with a levy at a 2p rate, what you do you say to the business improvement districts that are already paying a supplement to regenerate the surrounding area? You could have this triple system of taxation, which I do not think would go down particularly well.

We have to be mindful of what mechanisms are already in place and whether this is a substitute for Government infrastructure investment or a supplement. Where it can be done, obviously with the agreement of local politicians and businesses, it would be helpful, but, where it cannot, we should recognise there may be Government investment to target those areas.

Q79 Kevin Hollinrake: You mentioned BIDs, because it is a similar concept, looking over a much wider region. BIDs tend to have a

high level of democratic accountability, because they have to get a referendum. The accountability here is LEPs having the say over whether this is the right infrastructure investment, but those LEPs might not be geographically representative of the infrastructure itself. How does that go down? How does that feel?

Dennis Napier: It does not feel right.

Cllr Finch: Essex, Kent and East Sussex have probably the largest LEP in the country, and to sit around a table with 25 other people debating economic growth and bidding for funding makes life difficult. The needs of south Essex, north Essex and middle Essex versus east Sussex stretches the mind and your creativity at times.

Andy Hall: For my part, I know when I am not qualified to comment on something.

Dennis Napier: Our LEP covers the north-east combined authority. Because the LEP is part of that, agreement might be easier. It is just the ability to impose the 2p levy.

Q80 Bob Blackman: By the time the new system is introduced, although there is dispute about figures, there will be a surplus of business rates compared to the existing responsibilities. Which responsibilities do you think should be devolved to your local authorities in order to soak up the extra money you will all be collecting?

Cllr Finch: It has been a long-term ambition of Essex County Council, and a regular bid that we have made, for skills funding, for example, to be devolved. We see the difference between the north and the south of Essex in terms of skills needs, and we can hardly understand why the Government still insist on having a centralised skills system, quite frankly. That is one. The encouragement of individuals to retrain and the help to get workless back into work is another area that could benefit from being localised with us.

As I said at the very beginning of the discussion, whatever the Government ask us to take on—be it attendance allowance or other social care issues—they have to make sure that it is properly funded and that the assumptions around business rates are well grounded in terms of any surplus. My experience is that Governments, of all persuasions, always give more responsibility and less money.

Q81 Bob Blackman: Have you done any calculations yet as to whether, if you had those responsibilities, your income from business rates would meet that mark?

Cllr Finch: I do not personally have that information with me, but I can provide it to you.

Bob Blackman: I was just wondering if your authority had done that calculation.

Cllr Finch: I believe it has done that calculation, but I do not have that information with me. I can provide it.

Bob Blackman: Thank you.

Andy Hall: Within Lincolnshire, we would say that the amount of money available from business rates in totality would not cover the cost of the present services that we provide, without RSG. We would want to see some guiding principles in the context of devolving responsibilities to us. We would want clear and transparent cost referencing, to match those responsibilities that were being devolved. We would want to see the finance flow to the appropriate responsible authority in a two-tier area. In terms of how those responsibilities are allocated, there needs to be some kind of synergy between what that two-tier authority is presently doing, if it is to take on more.

Boston, together with all the other authorities in Lincolnshire, is presently pursuing a devolution deal for the Greater Lincolnshire combined authority, and the sorts of areas that we are looking to have devolved—in direct answer to your first question—are business support and innovation; skills, education and employment; transport responsibilities; housing; public protection; and water management.

Q82 Bob Blackman: When you say “transport”, can you be clear what you mean by that?

Andy Hall: The detail is in the devolution deal. It is not something I have to hand. That is being worked up at the moment.

Q83 Bob Blackman: Has the combined authority done an assessment of whether, if all those responsibilities were devolved to Lincolnshire, the business rate income would match over the whole area, including Boston?

Andy Hall: I am almost certain that the business rate income will not cover it.

Q84 Bob Blackman: Right. To be clear, then, the suggestion is that you would want the devolution, but you would want someone else to provide the money for that devolution.

Andy Hall: Absolutely. It needs to be appropriately funded. I slightly disagree with David that Government do not always provide the money

to cover these things. Perhaps at the start, yes, but, as we have found with the retention arrangements so far, it started off great and then all these appeals came in from leftfield, and now it is not quite so great. It has to be sustainable; that is what I want to say.

Q85 Bob Blackman: I am not saying that this is what the Government would do, but suppose there was a situation whereby appeals against valuations were included in some sort of mechanism to compensate you. Presumably you would be quite content with those arrangements.

Andy Hall: Yes, that would help. I suggested earlier potentially taking them outside and funding them from something like central rating list income. Hopefully there would be money left over from that. Another issue I would ask the Committee to consider is whether the central rating list income could be apportioned out to the local authorities according to the rateable value in their respective areas, which should not be too difficult to do. At the moment, the Government retain that money and it does not get shared out.

Q86 Bob Blackman: With the appeals you have experienced, have you done any assessment across the country as to whether your area was particularly exceptional?

Andy Hall: I have not done that assessment, no. I do not think we are on our own. Certainly, outside of this room, appeals are a hot topic of conversation. I think it is pretty universal across the country. I am sure we all have our own examples. For us, it is essentially things like medical centres, which have had massive reductions, and I cannot imagine that is a local phenomenon.

Q87 Bob Blackman: Personally, I would be interested to know what appeals you have experienced and whether that is something that is happening generally, if you could let us know.

Dennis Napier: On the appeals situation, we in Sunderland have roughly 1,429 appeals still outstanding. We have settled 295 and 183 came in this year. The value of these appeals, if successful, is over £11.3 million. That just gives you an idea of the context and the scale of things that are beyond the local authority's control. Out of that £11 million, we have about £3 million ongoing. If you take the backdated figures out, that would be another cost of £3 million moving forward.

One suggestion would be, as one of my colleagues said, to try and address the appeals situation. I am not saying that all of these will be successful, because some will not, but our experience to date is that the appeals we were expecting of £1.7 million have come in at £2.6

million, so they are coming in higher than we budgeted for. Like I say, it would be very helpful if the appeals could be kept to one side and dealt with separately. That would be something we would be very keen to see happen with any additional funding that was offered.

Q88 Bob Blackman: What particular responsibilities would you like to see devolved to Sunderland?

Dennis Napier: Skills. The funding of skills is essential. We promote manufacturing within the area, and we need to make sure that our young people are fully trained and able to take advantage of that particular set of skills. It is the skills issue, definitely, and investment in infrastructure.

Chair: Thank you all very much for coming and giving evidence this afternoon. That is very much appreciated. There has been some very good material there, which I am sure we will be taking into account when we produce our final report. Thank you very much indeed.

Examination of Witnesses

Witnesses: **Councillor Tim Mitchell**, Cabinet Member for Finance and Corporate Services, Westminster City Council, **Paul Dransfield**, Strategic Director, Major Programmes, Birmingham City Council, **Sharon Gregory**, LGSS Group Accountant, Cambridgeshire and Northamptonshire County Councils, and **Councillor Claire Kober**, Chair, LGA Resources Panel, Local Government Association, gave evidence.

Q89 Chair: Good afternoon. Thank you for coming and being the second panel for our evidence session this afternoon. Just so we have it all on the record, could you go down the table and say who you are and the organisation you represent?

Cllr Mitchell: I am Tim Mitchell, Westminster city councillor for finance and corporate services.

Paul Dransfield: I am Paul Dransfield. I am a strategic director of Birmingham City Council.

Sharon Gregory: I am Sharon Gregory. I am group accountant within the LGSS. I look after local government funding, in particular the business rates retention scheme. I am here today particularly on behalf of Northamptonshire and Cambridgeshire County Councils.

Cllr Kober: I am Claire Kober. I lead on resources for the Local Government Association. I am also leader of Haringey Council.

Q90 Chair: Thank you all for coming. Some of you may have heard the questions we have already asked the first panel. You are probably going to get something fairly similar, so you have had a chance to prepare for them. To begin with, what was your initial reaction when the Government said, "We have had a 50% scheme. It is now going to be 100% retention"? What are your views on that?

Cllr Mitchell: My initial reaction was that the devil will be in the detail. The Chancellor used the words "fiscally neutral", so I realised that, in Westminster City Council's case, we were not going to be keeping £1.8 billion, which we currently collect.

Paul Dransfield: The Birmingham position, right from the outset of business rates, has been to support the general direction of travel towards full devolution, as part of a wider movement for localisation of taxation resources. The key thing for us to express is wanting to be involved in the design of that scheme from local government, rather than it being designed upon us.

Sharon Gregory: We have broadly welcomed the move to 100% retention, and in Cambridgeshire we are currently running the 100% retention business rates pilot. One of the prime considerations in my authorities, and certainly in the billing authorities within our two counties, is that we are now moving to a conflicting role for local authorities, in that, on the one hand, we are there to support businesses; on the other hand, we also need to maximise our income to support front-line services. As we move to 100% retention, that impact is doubled, so that is something we are bearing in mind.

Cllr Kober: From an LGA perspective, obviously it incentivises councils to grow, which fits really nicely with the focus on place that most councils have nowadays: the idea that councils are a shaper of place and a convenor of the public sector, rather than simply a deliverer of services. I guess that the experience—thinking about individual authorities, as you have seen in the previous session—has been mixed, which has been partly dependent on the authorities' ability to grow their business rates, versus the growth in service demand that they have experienced over the previous years.

We need to bear in mind that the 50% system has been introduced at a time when council budgets have been shrinking, and therefore the benefits that people might otherwise have seen have been somewhat limited, given the reduction in budgets. The biggest issue, which again came out in the previous session, has been the uncertainty generated by the appeals.

Q91 Chair: Are there any additional risks in going to 100%, except the fact that it is twice as much as the current system? One thing that has been said to us is that it means authorities are more reliant on tax, which could be very volatile as the economy goes up or down. Are you more content to rely on that, rather than on the whims of Government changing their mind?

Cllr Mitchell: From Westminster City Council's point of view, we take that point, but in our view the present system, because of the appeals, would not be a sustainable form of funding, from the point of view of being able to plan adequately for our budgets for the coming years. The appeals system makes it very, very difficult.

Paul Dransfield: I would echo that sentiment. The key thing with the 50% retention approach is that the top-up tariffs and appeals management are shared across that central/local dynamic. Pushing that all into the 100% component, for local government to control, transfers those risks as well. It is about having the right systems, checks and balances, like all forms of funding in government, to protect those who are most vulnerable to that.

My ideal sentiment is to try to get local government to work together to agree how to compensate for those things. When we launched the 50% thing, to be honest, Westminster, Birmingham and Manchester all worked together to co-design that initial system. I would hope that we can do a similar exercise again. You cannot just do it; it needs that period of 12 to 24 months to seriously look at some of the detailed design and risk management issues that a new system will throw up, and to make sure we have solutions for them.

Sharon Gregory: As the previous panel have said, the devil is really in the detail. We would obviously be supportive of any system or scheme where we become masters of our own destiny. It really depends on how much risk and reward is in the system and whether that risk is proportionate. It depends on the view of the individual authority as to how truly risky their business rates base is. In some areas within the counties I represent, we have some very big businesses that represent a large proportion of the business rates base, and there are significant risks around those businesses leaving or failing. If those buildings are demolished, then very quickly you see a big reduction in your business rates.

The other problem that we are experiencing, which goes back to my previous comment about the conflicting roles of a local authority, is that we have a role to make sure that our local needs are met. For instance, in both of the counties I represent we are seeing our big business units being redeveloped, in many cases into student accommodation. The area needs that student accommodation, but we

lose business rates on that building and we still do not get council tax, because students are exempt from council tax. Those are some of the risks that we are thinking about, but generally we would support being masters of our own destiny.

Cllr Kober: I would just add that, obviously, the stakes are much higher in moving from a grant-based system to one that relies on tax retention and 100% retention of business rates. It just signals that fundamental shift in risk. As came out in the previous session, there is the issue that not all authorities have equal capacity to generate business rates—that is the bottom line—and there is no direct correlation between effort put in and outcome delivered. That is why getting to some of the detail around the determination of need, but also thinking through how we deal with equalisation and distribution within a new system, will be absolutely critical.

We can all think of recent examples where a big player has left a local area and the local authority has absolutely no power to do anything about it. This afternoon, I immediately thought of Redcar and steel as a recent example. Thinking about what the safeguards are in the system to mitigate the risk of cliff-edge funding differences will be really important.

The other higher level issue for me is that, with these changes, essentially we will be using business rates to fund demand-led personal care services. If you look at the business of a local authority being the services that they provide and where they spend their money, my own council spends almost £6 in every £10 on adult or children's social care. That raises some quite challenging questions, particularly when you come to questions around additional responsibilities that might be tipped in and how we think about those. The appeals issue, again, is relevant here in terms of risks.

The other thing that Westminster did not mention was the permitted development rights for turning office accommodation into residential. I know Westminster have huge examples of the impact that is having. That is having an impact in various parts of the country.

Q92 Chair: Finally from me, are you getting signals from the Department that it wants to engage generally with local councils to make sure this is designed in a way that actually works?

Cllr Kober: Yes, absolutely. From an LGA perspective, the Department is very keen to work together with the LGA. The thing we have to be honest about is that the LGA represents councils across the country, and, as you will see, there are winners and losers depending on how you configure any new system. Therefore, speaking personally, I would want to ensure that the LGA did take a position on distribution, but that may prove just too difficult when it comes to it. We have to try.

Q93 Kevin Hollinrake: Just very quickly for clarification, I may have misunderstood this, but, Mr Dransfield, I think you said that, with the current system, successful appeals were blended out through the system of top-ups and tariffs. That is not the case, as I understand it.

Paul Dransfield: No, what I meant was that 50% of the risks are shared, so at least it is a shared national and local risk, rather than 100% falling on the local system.

Q94 Mary Robinson: On the subject of risks, given the correlation between demographic trends, population flows and business rates, can your future funding needs be met through retaining 100% of business rates in that situation, looking into the future at those different correlating factors?

Cllr Mitchell: The dilemma, from Westminster's point of view, is that the present system has a needs formula, but it does not work for us at present. Any new system, we would advocate, needs to fix some of those problems. Take, for example, population density. Westminster loses out on the population density formula, where the denser your population the greater the allocation you receive, because we have Royal Parks. Just down the road here, we have very large swathes where, apart from the odd park manager, we have no one living at all. Then the rest of the city is very densely populated.

Paul Dransfield: This is a really tricky issue to deal with. At the end of the day, we have been in a situation for the last five years where the resource base of local government has been declining overall, unless you are a really buoyant, council tax-geared authority. The sense that we have been managing risks that are worse than potentially having control over your own business rates and council tax going forward is a moot point, perhaps. It is again the same thing: we need to understand more about our projections at a local level for population shift and be a bit more intelligent amongst ourselves as to how we can manage the thing.

There are two real reasons why business rate devolution is on the cards. One is to take off the reliance on the revenue support grant funding, but the other one is to promote business growth. Evidence suggests that promoting business growth and growth in your economy potentially has an impact on some of the demographic demands on services. We need to think about that relationship more carefully. In terms of geographic area, I can talk from a Birmingham perspective and think about that holistically, but this is where we have to think more widely than individual authorities, at a regional and sub-regional level, about how we work together to tackle some of these issues. If

we get all of that economic and social forecasting better aligned, we can perhaps manage some of the risks and be more proactive.

One thing I wanted to pick up about this whole thing, linked to the opportunities to create economic growth, is that it is not a today and tomorrow thing. Devolution will devolve what we have today. There is incentivisation for growth, but sometimes that growth takes quite a long period. To move the industrial and economic base of an area takes quite a lot of infrastructure investment and movement. You can project that forward, but realising it and aligning that to the social impact it creates again takes time, so that is something we have to think about. This signals a need for local and regional government to move into more strategic economic and regional planning, so that we all know where we are going more sensibly.

Sharon Gregory: From Cambridgeshire and Northamptonshire's position, this is our biggest concern. We are two of the fastest growing counties in the country, and we know that the current system does not keep up with the growth that you achieve. We can talk about that more when we talk about distribution, but the relative needs formula, as it stands at the moment, which is the fundamental basis for the business rates system, does not keep pace with growth of local authorities. It is also difficult to perceive an environment where business rate growth is going to exceed growth in demography, so it is just going to exacerbate it.

We have big concerns about demography, obviously, but also about the impact of the national living wage; that is going to come as a big hit. We welcome the move to the improved better care fund, but we would have liked to see that transition much faster, to get much faster support for the social care authorities. I guess the question of whether future funding needs can be met through 100% retention will depend very much on the level of protections available, what is happening with the safety net and the mechanics of the system. Until we know in more detail how the system is going to work, it is quite hard to say categorically whether or not that will happen.

Cllr Kober: By the point of transition to the new system, along with the fact that it will be fiscally neutral, we will have experienced 10 years of funding reduction. The idea that, at that point in time, with 100% rates retention, there will be sufficient funding in the system is very optimistic, if I can put it that way. The challenge is going to be the extent to which business rate growth can be generated into the future. Whether you can see at a future point in time that it might be possible, depending on the extent to which you can change the demographic outcomes of a place, is a much longer term view. The idea that this is going to assist with the very real and pressing funding

pressures that councils up and down the country are facing is, perhaps, too optimistic.

Q95 Mary Robinson: I have one last question for Sharon Gregory, if I may. Given your overarching responsibilities for various local authorities—and we heard from the previous panel that there are sometimes interesting dynamics between two-tier authorities—in your view, how should the distribution of rates revenue between district and county councils be treated under 100% retention?

Sharon Gregory: With my Northamptonshire and Cambridgeshire County Councils hat on, we would say that, fundamentally, the split in two-tier areas is not appropriate and does not reflect the distribution of responsibility for authorities in two-tier areas. County councils pay a vital role in delivering growth. The growth could not happen without the infrastructure that we provide. We also incur the vast majority of the ongoing costs of that growth, particularly social care. We would like to see that addressed as a matter of urgency, to have a better split within the two-tier areas to represent where the true costs lie within each tier.

Q96 Mary Robinson: What do you think the best way forward is, to do that?

Sharon Gregory: It is about assessing costs and need, in particular, and generally looking at the role that authorities play. At the moment, the idea is to incentivise planning authorities, but there is no recognition of the role that county councils play in the planning process. Again, the growth could not happen without the role we play there. I would ask that we look at a more appropriate split, based on the responsibilities that we have.

Q97 Mr Prisk: Coming again to the question of the redistribution mechanism, I think I am right in saying that, looking at the four authorities present, Westminster is the only tariff authority and the other three are top-up. One or two of you have touched on this issue of the way that the existing redistribution mechanism works, although, clearly, it is operating at the moment for a 50% retained system. If we now move fully to 100% retention, what would you change to improve the mechanism? What do you feel would actually make things work, given that we are moving from 50% to 100% retention, and what would the impact on your budgets be? Perhaps I will start with Westminster, as the tariff authority, and then move across from there.

Cllr Mitchell: We keep only £83 million out of the £1.8 billion that we collect in business rates at the moment, so we are definitely a tariff authority. Our main ask on this concerns growth. The new

arrangements give an incentive for floor space growth, but self-evidently in a city centre environment there is very limited floor space growth. We argue that there should be an incentive for rateable value growth, which we as a council would partially benefit from. There would be, yes, as I mentioned earlier, a formula-share of some of the extra funding that we would receive. Also, there are the wider macro-economic points, in terms of the Treasury benefiting from corporation tax, income tax and the like. The present system does not incentivise us for growth.

Paul Dransfield: There is a bit of a juxtaposition here, but this was debated when the 50% system was put in place. Just to set the scene for Birmingham, we collect about £420 million of business rates. We are a top-up authority and our top-up is currently £127 million per annum. An issue I would like to see not change but reinforced is the ability for that top-up to relate more to need, if there was a way of assessing that top-up against some form of need to be supported, as opposed to just being a figure that is calculated. Obviously the whole needs-based assessment has fallen away in its applicability. If that could be strengthened in some way, and I am happy for it to be simplified, that would help. That would help authorities deal with deprivation issues.

The second bit, the bit I am keenly interested in, is how growth is dealt with going forward. At the moment, for authorities such as Westminster, the growth that they get is in relation to the amount of the business rate share that they keep, and the growth on the tariff that they incur is handed back into the central share. There is an opportunity there for that growth to be used wisely, to help with mitigating some of the risks we all face, if we handle that carefully. There will be a lobby for more authorities to keep 100% of their growth, but I just do not think that is possible, given the distortions you get in the system. That was rehearsed when the 50% system was debated, and indeed Westminster was very mature in its approach. I suspect that maturity might continue, if that is seen as part of helping to balance both the risks and the needs of varying local authority areas.

Sharon Gregory: Looking at the existing distribution mechanism, we feel there should be a fundamental redesign of the distribution mechanism, but we have to be practical. With any local government funding system, there are going to be winners and losers. It is more a case of finding a least-worst-case scenario for people.

From the 2013-14 implementation of the business rate retention scheme, we have the formula grant, which underpins our determination of need in the scheme. Looking at the relative-needs formula for the education and social care authorities, there are 114 indicators, 52 of which include estimates of population or subsets of population, which

come from the ONS. That uses historical trend data. If you are quite a new county, for instance, that suddenly blossoms and grows, the system does not account for or keep up with that. Of those 114 indicators, 33 calculate population by extrapolating data from the 2001 census, and 45 include an element of ministerial judgment. That makes it very difficult for authorities to really understand or calculate.

We also have some elements in there looking at historical spend. Essentially, you are rewarding authorities; the more money you spend, the more money you receive. I do not really feel that is appropriate. There are some very big cliff edges within the system, and we need to look at ways in which we can smooth those out, particularly for, for instance, Northamptonshire County Council, which gets massively hit through the area cost adjustment. We are on a big cliff edge there, where our near neighbours do much better than we do out of the process.

To summarise, we would like to see more relevant and timely data used within any distribution mechanism, with less ministerial judgment and more empirical data, and smoothing of cliff edges. We would like to see a less complicated and more transparent system. I remember I had been in the job for two days, and I had to explain to one of my councillors why the most landlocked county in the country had lost funding because of a change to coastal funding.

Chair: Did you succeed?

Sharon Gregory: Hopefully. Two days into the job, I was trying to get to grips with the four-block model.

One of the other things we need to address is the issue of the safety net. We need to ensure that no authority is better off as a result of no growth compared to a small amount of growth. Do you grow a little bit and risk not jumping into the safety net? That is something we could look at within the distribution system as well.

Cllr Kober: From an LGA perspective, I know that we would support the comments made previously on the need for much more real-time data and data that are more current. Certainly, we place a lot of importance on the needs assessment and getting that right. In our view, that needs to be absolutely fundamental and wide-ranging, starting from the basis of: "What is local government for? What is its function?", and then thinking about distribution starting from that point of time, so really going back to first principles.

Q98 Mr Prisk: Presumably, therefore, if you want it to be more timely information, you are looking for more frequent revaluations—every two or three years, not five or longer.

Cllr Kober: This is the point at which the LGA says there are different views. They are often dependent. If you are a place that struggles

with really challenging demographic pressures, then you are going to want your revaluations as quickly as possible. Those places that have a much greater ability to grow are likely to want to see the benefits of growth for a longer period of time before having that revaluation. The LGA would tactically sit on the fence on this one.

Q99 Bob Blackman: Tim, on the Westminster position, at the moment you keep a very small proportion of the business rates compared to that which comes in. Given that this is now going to be potentially an incentive for you to convert office space into residential accommodation, because you would keep the council tax but not keep the business rates, why is Westminster City Council not saying, "Let us provide more residential accommodation, rather than business accommodation"?

Cllr Mitchell: Picking up on Claire's earlier point, we have lost over 1 million square feet of office space already. We recognise that, if Westminster is to continue to thrive, there needs to be office space. Dealing with the particular point in terms of planning for the central activity zone, which is this area, roughly—the West End—we have put in a policy revision to be able to stop that happening. That is something we have been very keen on, because we have been responding to our local communities, which have been very concerned to see the loss of small office space at the expense of premium residential. Anecdotally, from the point of view of residents—although it has not been backed up by evidence that this is the case—the premium residential has been unoccupied.

Q100 Bob Blackman: Given that a lot of the office accommodation in Westminster was originally residential and converted to business premises, some of this is reverting back, is it not?

Cllr Mitchell: Since the war, we have had a presumption that, if you are an existing office, we will grant conversion to residential. That had been working very nicely, but then the system was broken by the changes. The ability to change without permission meant, as I said, that we lost a million square feet in about a three-year period, a very rapid change, as opposed to the organic change that had been happening since 1945.

Q101 David Mackintosh: The question is probably best to the LGA, but I would be interested in views from everyone else as well, on whether local government is able to devise and implement its own redistribution arrangements and how you think this could work in practice.

Cllr Kober: This is the \$64 million question. On an optimistic day, I would like to think that local government is sufficiently mature to do

this, and the answer you have just had from Westminster demonstrates the maturity of local government. Westminster recognises that it operates not just within the confines of an administrative boundary, but within a much larger functional economic geography, and that is true of local authorities up and down the country.

I would like to think that the maturity of local government and the desire for the LGA to be the convenor of local government would mean that we can get to the bottom of this and do it, but we have to recognise that, however complex a system and however hard we work at it, there are going to be winners and losers. Therefore, designing a system that is going to result in winners and losers, when you are the representative of all local authorities in this country, is not to be underestimated as a task. It is still a question that remains unanswered, but we would like to get there.

Cllr Mitchell: Could I come in here, please, just to add to the point made by Sharon Gregory in respect of Northamptonshire and Cambridgeshire in terms of population? Population count is key, because, as a council, we have had problems in the past with the population count. The 2001 census was a particularly bad example. We have to be collectively a lot cleverer about counting our population, because so much, as we have heard in terms of adult social care and children and young people, is driven by the population count.

Q102 Chair: It would be great if local government could sort this out itself, but some of the witnesses last time said that they thought that one tax—i.e. business rates—was being asked to do two things that were contradictory: both to provide the necessary incentives to grow local economies, and also to be the basis for redistribution. There was a feeling from one of our witnesses last time that you almost had to separate those out, and you might still need an element of Government grant to do the redistribution if business rates were really going to be a proper incentive. Are there any views on that?

Cllr Mitchell: I would argue that we need to separate out the needs-based element from the growth-based element. As I said, from Westminster's point of view, we do not aspire to keep every single pound of growth. We think it is important that there is a funding mechanism in place for that growth, but perhaps that would be separate for the baseline.

Q103 Chair: Does the LGA have a view?

Cllr Kober: Just thinking it through, really, we would take the position that there is certainly a tension there. I broadly agree with what my colleague from Westminster has said.

Q104 Chair: Do you want to have a further think about it and come back to us?

Cllr Kober: Yes, definitely. I am sure we will, and we will write to you.

Q105 Kevin Hollinrake: I think Councillor Mitchell has already answered this. I am going to ask the other three whether they disagree with him. Under the current system for increasing your business rates, do the incentives actually work? Do people feel they do or they do not?

Paul Dransfield: For increasing growth?

Q106 Kevin Hollinrake: The incentives through increasing business rates, yes.

Paul Dransfield: If I kick off around enterprise zones initially, I think they are a key part of the learning that we have been doing already. By way of illustration, we have a single small geography of an enterprise zone in Birmingham. We have an economic plan associated with delivering growth in that enterprise zone. That is forecast by 2023 to deliver £48 million per annum in additional business rates, and the plan is underway. The issue, though, is that, to achieve that £48 million, we have to use about £27 million annually in terms of servicing capital expenditure to create the infrastructure, road changes, without recourse at all to central Government funds.

Nevertheless, that still leaves £21 million of growth purely for decision making about where that goes against the service pressures we are going to face or to create further growth in the economy. Taking the enterprise zone sense of how that works, because theoretically under a 100% devolution model enterprise zones do not have to exist on a national basis, because they can work more locally, we have to take account of how in local government we bring about the environment for creating that up-front expenditure to support that longer term growth. That is the key bit we have to grapple with.

Q107 Kevin Hollinrake: Touching on that point, then, what about the resets? You have invested all this money and created all this business rate revenue, and yet there is a reset after 10 years and you effectively lose a significant proportion of that revenue.

Paul Dransfield: I do not think that the reset can be a pure growth reset so you start from scratch again. It has to take account of existing investments people have made, and indeed in the existing system, the enterprise zones that are already approved, and some of the devolution deals that have been agreed for combined authorities and elected mayors, have some integral agreements about the use of business rates for growth. They need to be taken account of at the initial outset

of the system, because it will disadvantage people who have already made that start, but, in that system, the way in which we do the resets needs to consider all of those components. It is not a full reset; it is an intelligent reset, as I would call it, that takes account of leaving people with that incentive to grow.

Sharon Gregory: The fundamental question is: "How do you determine what growth would have happened without the business rates retention scheme?" I do not think it is possible to do that. For the county councils, we would generally say we are not incentivised to create growth, because we get so little of the rewards of growth.

Cllr Kober: To the point about how you can differentiate between the growth that would have happened anyway and the growth that you have incentivised through particular action, of course you cannot tell that. To turn the question on its head, if you look at the use of the new homes bonus, we can all see that councils have taken more challenging decisions with half an eye on the additional revenue that could have been provided through the new homes bonus. There is definitely something there. The key issue will be revaluation, and the challenge will be how to ensure that the reset, as the colleague from Birmingham said, does not mean an authority starts from scratch again; that, at the same time, you do not create windfall gains and losses; and, from the other perspective, that you do not dilute the incentive to grow to such an extent that politicians are no longer willing to take difficult decisions because there is only a very short period of time in which positive financial growth will be felt.

Q108 Kevin Hollinrake: Looking at the current system of resets, how do you feel that works? In terms of the longer term planning, if the reset is in year 10 and you are in year 9, there is not a lot of incentive to drive economic developments.

Cllr Kober: I heard this in the last session. I am sure there is some impact around the margins, but most of us work in much longer planning cycles. The ability to deliver or land something big in your area often takes a period of time. It is not a certain or straightforward path, so it is very difficult to say, "Something is going to come in at nine years and six months, and therefore we will hold it over." As I say, I am sure that you could pick out an individual example or two where an authority would be able to decide, "We will shift that decision by a few days, and therefore take the benefit after the reset", but I think it is really marginal as an issue.

Q109 Kevin Hollinrake: Excuse my ignorance, but is the current system of resets an intelligent reset, or is it simply a blanket reset taking no account of the things you were talking about, Mr Dransfield?

Paul Dransfield: The current system?

Kevin Hollinrake: Yes.

Paul Dransfield: The reset system has not really had any material effect so far, but, effectively, the reality is that, on the base—other than in enterprise zones—the growth in business rates has been relatively modest overall, because it has been compensated by these other factors colleagues mentioned earlier, around the appeals system, etc. There has been very little growth, having been through a difficult economic cycle anyway. It is how we plan for that future.

Into the future, what does business rate growth look like nationally? It is not going to be big, double-digit numbers flying through for everybody. Some individual areas and authorities will get that, but it should create some steady state growth that allows us to keep local services sustained and work to growth before. The way I would see it is not against 10-year resets, but something every three or four years that keeps looking at how it is all operating in the bigger picture and what refinements are needed. All these systems change fairly regularly, but, if you are more in control of that change yourselves, then you can deal with the circumstances put before you.

Sharon Gregory: I think there is a case for a 10-year reset system, as long as it is underpinned by a fair distribution mechanism and more frequent revaluations.

Cllr Mitchell: And a fairer appeals system. Perhaps we will come to that in more detail but, from our point of view, the present system does not work on appeals.

Q110 Helen Hayes: Following on from those answers, given the makeup of businesses that you have within your local authority areas—you might like to just describe, broadly speaking, what that looks like—how does that affect your ability to grow your revenue base from business rates and what is your strategy for doing that? Perhaps from the LGA perspective, Claire, you might just comment on the range of possibilities that there are across local authorities in the country and what you have identified to be some of the challenges.

Cllr Mitchell: Could I briefly start from Westminster's point of view? We have a very diverse business rate economy, and, though many people will see the West End and the retail and entertainment sides, there is a significant office side, hence my response earlier to

Mr Blackman about how we regretted the loss of office space. On growth, I have already pinpointed our problem, in that floor space growth in Westminster is going to be limited, but growth in the value of the business space is something that we do not share in at the moment. If I just touch on the appeals issue, which shows the growth/appeals conundrum that we have, to date, under the present system, since 2013-14 we have lost £220 million on appeals, but we have only gained £100 million in terms of growth.

Q111 Bob Blackman: Is that per annum or in total?

Cllr Mitchell: In total. That is not taking into account the safety net, which we do have. We are safety netted to a loss of £6 million per year.

Paul Dransfield: It is interesting in Birmingham. We class it as industrial and commercial. The commercial sector of our business rates, which is effectively the retail and office core, is around 75% of our rateable value. Only 9% is industrial, which, in a place like Birmingham, is quite surprising when you think of it in that way. Similar percentages flow through for education and training: 6.5%. It gets to quite small figures. The rateable values are effectively all driven by office, largely retail, both small and large in scale. That is where the incentivisation to growth is naturally going to be, because effectively they create the biggest multipliers in rates.

We have had similar figures to Westminster on appeals. Going forward, we have to provide forty-something million pounds' worth of dampening down per annum to provide for successful appeals. If we are going to redesign this system, that has to be one of the No. 1 points. In conversations I have already had with DCLG officials, they are recognising that they have to help us come up with ideas on how to deal with and stabilise the appeals system before we can launch a new model. That is a shared interest across everyone.

Sharon Gregory: Across Cambridgeshire and Northamptonshire we have a mixture of businesses. We are fundamentally rural, but we have Cambridge city, Northampton and some big county towns as well. We have a lot of science, bio-medical and obviously agriculture, which, as you know, is not part of the business rates retention scheme. Automotive engineering is a big part, particularly in Northamptonshire.

The one thing that I am not sure has been brought up by anyone else is the central list and the argument for bringing properties from the central list and reverting them back to local authority control. Both of the authorities I represent have made significant investment in the development of their local train stations, bringing much-needed growth

to the area, granted, but we see no benefit at all from the additional growth in business rates resulting from the improvements to those train stations. I wanted to make that point.

Given our mixture of businesses and our geographical make-up, some of our areas are quite restricted in growth, particularly in the big cities. It is more about expanding and developing the businesses that we already have, I guess, and trying to add value through that. We have also been enormously successful, in both counties, in rolling out superfast broadband, which is wonderful, but that means that we have more internet-based companies. The effect of that is to have more smaller companies, which tend to be eligible for small business rate relief, hence the reduction in our business rate income. Many of them are home-based, and they may not be subject to any kind of business rate levy at all. Particularly in the Cambridgeshire area, we have a lot of growth in businesses, but they are not high-value businesses. They add a lot of GVA to UK plc, but they tend to be more niche, such as biomedical companies, with a very low floor space. Clearly, that is quite an issue for us.

Cllr Kober: Just to add a couple of points from an LGA perspective, there are obviously issues of geography, which are fairly clear; issues around infrastructure, not only heavy infrastructure but also things like superfast broadband; and the skills of a particular area. You then look at things like the changing dynamics in retail, manufacturing, the service industries etc., thinking about the way that business rates are calculated and the extent to which they adequately reflect the nature of the business being done. There are quite a number of issues, from an LGA perspective.

Q112 Chair: We are a little time-constrained now, so I am going to try and focus on the issues. First of all, the Government are suggesting that there will be the power to lower the multiplier. Will that really give you any more power than you currently have with the system of reliefs that you can use? Are you likely, as a council, to use it?

Cllr Kober: That is the big question mark, really: does a system that allows us only to take down, rather than the flexibility to push up, really provide anything beyond the discretionary rate relief that is already in place? Our argument would be no, from an LGA perspective. If you are saying that flexibility should be enhanced for directly elected metro-mayors, why should it not be enhanced for all local authorities?

Paul Dransfield: I agree. I can see some circumstances where reliefs that are currently in play to incentivise new companies and new start-ups could play a role, although, in the previous session, people were worried that some would take decisions on a geographic basis, as part of an incentivisation for people to move from one area to another. That

might be quite a dangerous dynamic. We have tended to use the reliefs that are currently in play, and they have been quite useful. Unfortunately, that has tended to be in two components: first, in a recessionary dynamic, hardship relief has been well in play over recent years; and secondly, another relief that is really useful is where you are trying to create the growth by investing in infrastructure—metro schemes and everything else—to provide some temporary support to businesses affected by those. I would expect there to be a continuation of reliefs but careful consideration of what further reliefs are available going forward, particularly around geography.

Cllr Mitchell: From Westminster's point of view, we have not really used the reliefs system at present as a policy tool, because of the appeal and revaluation issues I have already highlighted. On the assumption that we would have to bear the cost of any lowering of the multiplier, I do not see that we would be interested, unless those issues were dealt with.

Sharon Gregory: We would like to see full local decision making on reliefs, and, from a county council perspective, we would certainly like to see more input into the decision-making process around local reliefs. We noticed that the recent paper that was submitted alongside the business rates review consultation talked about the system in Northern Ireland, where they have a two-step multiplier. We have mooted looking into, in two-tier areas, a two-step approach to calculating the multiplier, with maybe a regional, county multiplier and the districts setting the local multiplier.

Q113 Chair: In terms of the infrastructure premium, that is only going to be allowed where there is an elected mayor, and you have to get the approval of the LEP. Are those conditions the right ones to allow the premium to be put into place?

Paul Dransfield: From a Birmingham perspective, it is very much an anchor of the west midlands working together, so an infrastructure levy would be based on a broader geography. We have already done some calculations. Obviously, it is a matter for an incoming mayor to decide whether they would like to have and campaign for a supplementary business rate, but, for the west midlands, something like a 2% precept generates about £35 million a year of revenue. You can invest nearly £1 billion there, so you could design quite a significant infrastructure scheme to benefit the region for that scale of money. It is worth considering, but obviously it will be up to the politicians of the future to determine whether they want to do it.

Having these tools, though, is key. Whether you use them is everybody's choice, but the more tools we have to be able to do things, the more things we can solve.

Cllr Mitchell: It is not clear to us whether the existing business rate supplement system, which is a 2% levy on big businesses on London and which goes to fund Crossrail, would have on top of it a further 2% levy. I suspect businesses would not be too keen if they were to see a further 2%. DCLG, to date, has not been able to clarify whether, under the 100% scheme, there would be both two-percents.

Cllr Kober: We would simply add that, if you want to maximise the incentives for growth, then you need to maximise the flexibility in the system and allow local determination.

Sharon Gregory: We need to consider the implications in two-tier areas of the 2p increase in rates. The county council, under the current mechanism, would get very little benefit or a much reduced benefit from that. That is just one point. I would reiterate what Claire said earlier, in that we would like to see that flexibility to increase the infrastructure premium extended to areas without elected mayors. We believe that some areas can get to that point at a much faster rate than others.

Q114 Chair: With the LEP having a veto? Are you comfortable with that?

Sharon Gregory: We have a particular issue in Northamptonshire, for instance, where we have two LEPs. Cambridgeshire is currently in the early stages of moving to a devolution solution. Cambridgeshire currently has a unified LEP, but if the devolution moves with Suffolk and Norfolk, what happens then?

Chair: You have raised some interesting questions. Somebody else may have to answer them.

Q115 Bob Blackman: Finally, the amount may be disputed, but the view is that, by the time we get to the stage of the introduction of the 100% retention of business rates, there will be a gap between the funding provided and the responsibilities. What extra responsibilities would you wish to have devolved to you and why?

Cllr Mitchell: Many of the points that were raised by the leader of Essex County Council we would concur with. It is twofold. One is skills and employability, so skills and training funding, and then—

Q116 Bob Blackman: Were that to happen, that would be likely to go to the Mayor of London, rather than Westminster City Council. Is that not true?

Cllr Mitchell: Potentially, but therefore the discussion is about how devolution is shared. The role of the London council leaders is key to that, and we had some suggestions for that, which have been welcomed by Boris Johnson but not formalised at this stage. There was co-decision making, and I think that will be key, because we would argue that, as local authorities, we are closer to the issues than a regional authority, which the Mayor of London is.

The other issue where there is room for devolution is on infrastructure, but there are two types of infrastructure: there is the transport-related infrastructure, which of course is a regional responsibility in London, and there is local infrastructure. For example, we have the West End Partnership, which is Westminster and Camden working together on West End issues, based around Oxford Street and more widely, where we have a bid in the Treasury at the moment that could well be dealt with by this mechanism.

Paul Dransfield: I do not think there is a lot to add, on this theme, to the previous ones: skills, business support and some transport areas that are currently not devolved to local government. They are all in most people's devolution deals anyway, so there is the sense that, if the timing is right, some of those things could be aligned, were there an imbalance in the funding. I would concentrate more on what we should not do. I would be very nervous of devolving areas that we cannot control. One of my fears is around the benefits bill. In effect, if local control over the benefits bill was part of it, that would be a difficult challenge.

Q117 Bob Blackman: Is it not the administration of benefits?

Paul Dransfield: Well, we administer benefits—

Q118 Bob Blackman: Yes, but are they not proposing more control over the administration, rather than the actual sum of the benefits themselves?

Paul Dransfield: Yes, but they still need to be careful about that. It is administering a national scheme and the variability in how much the administration costs depends on the demands of the benefits system. I am trying to just point out that things that we are probably able to better move forward at a local level, such as skills, are better devolved, leaving some things that are designed nationally to be retained at a national level.

Q119 Bob Blackman: Have you any concern about the current series of area reviews going on in, for example, further education, which could lead to either amalgamation or slimming down of the sector, at the same time as you gain responsibility? Does that not give you cause for concern?

Paul Dransfield: We are conscious of all those reviews going on. It is not helping our agenda for delivering real improvement in skills. That is the objective we all have, and we need the tools to be able to do that. That is the general drift. The reviews that are going on nationally are disturbing the ability to find out how much and what functions it is possible to devolve, but that is something Government need to overcome with local areas. It is universal across the country. Everybody is interested in having better control over skills.

Sharon Gregory: I do not think I have an awful lot more to add. With regards to the devolved responsibilities, our prime concern is that the responsibilities are fully funded when they come in.

Bob Blackman: They will be fully funded out of the business rates you collect.

Sharon Gregory: I think we have argued the case, really, for whether the business rates system can sustain responsibilities for local government going forward.

Cllr Kober: There is a point of principle here, is there not? There is a possibility that business rate taxpayers see little connection between what they are paying and what services it is going to fund. As I said previously, my council spends almost £6 in every £10 on social care in one form or another. That is not an outlier; that is about right. For me, in terms of rolling in additional responsibilities, surely we would want to be thinking about responsibilities like skills and transport, where there would at least be a greater connection between the business rates that you pay and the funding of things that drive forward the local economy, generate growth and ultimately benefit us.

Q120 Bob Blackman: Similarly, we are talking about the Mayor of London as opposed to the local authority necessarily having a role in transport, because TfL is clearly the transport authority across London. You would not see any of that; the Mayor and TfL would.

Cllr Kober: Except that, as my colleague from Westminster said, in the way it has developed over the last eight years or so, the relationship between the boroughs and the GLA is a partnership of equals, recognising the GLA's strategic role and the boroughs' fundamental role in terms of understanding areas, people and delivery.

Chair: Thank you all very much for coming and giving evidence this afternoon. That has been very helpful to our deliberations. Thank you.