DECISION

RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 12

meeting date: 27 SEPTEMBER 2011
title: LOCAL GOVERNMENT RESOURCE REVIEW – PROPOSALS FOR BUSINESS RATES RETENTION
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

1.1 To consider the consultation paper *Local Government Resource Review: Proposals for Business Rates Retention* and to determine the Council's response.

2 BACKGROUND

2.1 Under existing arrangements, non-domestic rates (or business rates) revenue collected by local authorities is pooled for redistribution to local authorities in England.

2.2 On 18 July, the Department for Communities and Local Government published a consultation paper regarding the retention of Business Rates. A full copy can be found in the members' room or viewed on the DCLG website at:

http://www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates

2.3 The paper set out proposals for a rates retention scheme to replace the current local government finance system, under which business rates are distributed as part of the Council's formula grant. A plain English guide to the proposals was published alongside the consultation paper and this is attached at Annex 1.

2.4 A series of eight technical papers have also been published on 19 August which examine in detail the various elements of the proposals.

2.5 The Government have stated that in order to deliver a fiscally sustainable system and avoid putting their deficit reduction programme at risk, they will manage the business rates retention scheme **within the expenditure control to**tals for 2013-14 and 2014-15 which were set out in the Spending Review 2010.

3 KEY AREAS

3.1 Under the proposals, from 2013/14 local authorities will retain a share of business rates growth by either:

- Retaining their Business Rates income, if that income **is less than a baseline figure** reflecting the current level of Formula grant, **and in addition** receiving a **top-up amount**

- Retaining their Business Rates income **less a tariff**, if the Business Rate income **is more than a baseline figure** reflecting the current level of Formula grant.

3.2 Funding for the scheme will be managed within the Control Totals announced in the Spending Review for 2013/14 and 2014/15. These are £24.2bn for 2013/14 and £22.9bn for 2014/15 plus £0.5bn each year to cover repayments to local authorities arising from errors in forecasting Business Rates yield.

3.3 The Government expect that total business rates collected in both years will be greater than these control totals. They will 'set aside' the difference to fund other grants to local government. It is not clear what expectation of future growth will be built into the government's forecast.

3.4 For individual local authorities the amount they have to pay over to the government i.e. their set aside, will be determined as a fixed proportion of their forecast business rates income. This is likely to be the authority's business rates collected as a percentage of the total national business rates collected.

3.5 Critical is the calculation of individual authority's baseline figure, as this will determine the level of future business rates to be retained. The broad approach proposed to calculating this will be:

- ***2012-13 Formula Grant (after damping)***
- ***Then calculate 2013/14 formula grant equivalent based on 2012/13 numbers***
- ***Then calculate the 2014/15 baseline figure using 2013/14 grant equivalents***

3.6 The Government will establish the forecast national business rates using:

- ***Actual multiplier for 2013/14***
- ***Estimated multiplier for 2014/15***
- ***Mid year estimate of the rateable value on local authority rating lists for 2013/14 and 2014/15***

3.7 This resulting 'yield' will be the national business rates baseline. Each individual local authority's baseline will be a proportionate share of the national total.

3.8 Once set the 'proportionate shares' would be fixed unless a reset of the business rates retention system was undertaken.

3.9 An individual authority's 'proportionate share' will be its individual business rates income expressed as a percentage of the aggregate of all billing authorities' rates income. In two tier areas there will be a further apportionment between billing authorities and county councils.

3.10 There are two proposed options for calculating individual authorities proportionate shares of business rates;

- ***Option 1 – a spot assessment on a particular day of authorities' estimates of their 2012/13 business rates yield.***
- ***Option 2 – an average of an authority's rates income over two or three years.***

3.11 A number of 'allowable deductions' are proposed to be factored into the calculation of an individual authority's business rates:-

- ***Charges on property***
- ***Costs of collection***
- ***Interest payments***
- ***Losses in collection***

3.12 *Technical Paper 5: Tariff, Top up and Levy Options* discusses how the benefit an authority sees from growing its business rates would be affected by its *gearing* (i.e. the relationship between its *individual authority business rates baseline* and *baseline funding* level). It seeks views on options for index-linking *tariffs* and *top ups* to the retail prices index or fixing them in cash terms, and considers how these options would affect different authorities depending upon their *gearing*.

3.13 Local authorities will be responsible for managing a certain degree of natural volatility in business rates income, and may choose to pool with other authorities to smooth the impact. Authorities that experience significant negative volatility in their business rates income - or that are less able to respond to the growth incentive – would benefit from support from the *safety net* proposed in the main consultation paper.

3.14 The Government have published an *interactive calculator* to illustrate the interactions between the different *tariff*, *top up* and *levy* options, and the effects that different combinations could have on authorities, depending on their gearing. The *interactive calculator* **does not** predict the outcome of the scheme on local finances. This will depend on local circumstances, such as individual authorities' baseline business rates, baseline funding levels and future business rates growth; on national circumstances, including future growth in the retail prices index and, consequently, in the centrally set tax rate; and on the final design of the rates retention scheme following consultation.

4 REVALUATION AND TRANSITION

4.1 Business properties are re-valued every five years to reflect changes in the property market. The Government adjusts the national non-domestic multiplier rate to ensure that overall, the tax burden on business does not increase as a result of revaluation. This means that - whilst businesses in particular sectors or locations that have seen above average rental growth may see their contribution to the overall business rates yield increase - revaluations do not generate any additional revenue at national level. They simply adjust the contribution each business makes to the overall rates yield to reflect changes in the rental value of its property relative to that of others.

4.2 Because central government ensures revaluations do not generate any additional revenue, allowing the impact of revaluation to feed through would introduce significant turbulence in local budgets. Areas could see the value of business property in their area increase, yet still experience significant drops in income at revaluation - only those seeing above average growth in rental values would see their business rates increase. At the 2010 revaluation, over 200 authorities saw reductions in the amount of business rates collected locally. *Technical Paper 7: Revaluation and Transition* discusses proposals to adjust *tariffs* and *top ups* at revaluation to ensure, as far as possible, that business rates income at local level is unaffected.

5 SHARING BUSINESS RATES INCOME WITH NON BILLING AUTHORITIES

5.1 The Government propose to also give county council's a share of the Business Rates Income in two tier areas based on a fixed percentage in recognition of the role of county councils in encouraging growth.

5.2 Police authorities are considered to have limited levers to influence growth and therefore will receive a fixed sum of forecast national business rates for 2013/14 and 2014/15.

5.3 Fire authorities will be funded in the same way as county councils, via a percentage share of retained business rates.

6 ADMINISTRATION

6.1 It will be important to distinguish if there will be any additional process costs. If there are these should be funded by the Government as a New Burden.

6.2 Payments will be made in 24 fortnightly payments. The Government will notify authorities of their tier split share, their top up or tariff, share of the set aside, levy and safety net payments. Year end reconciliation will be necessary to calculate the provisional transitional adjustment following audit.

7 RESPONDING TO THIS CONSULTATION

7.1 Taken together, the consultation paper and technical papers raise a number of questions about the proposed rates retention scheme, on which the Government is seeking views. The consultation will close on Monday 24 October 2011.

7.2 A Meeting of the Lancashire Chief Financial Officer's Association will be held on Friday 16 September to consider a Lancashire response to the paper. In addition the Budget Working Group will be considering this paper at their meeting on 19 September. I will update Committee of the outcome of these two meetings.

8 RECOMMENDATION

8.1 To delegate the Council's response to myself in consultation with the Budget Working Group.

DIRECTOR OF RESOURCES

PF58-11/JP/AC
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Local Government Resource Review: Proposals for Business Rates Retention

A Plain English Guide

What are we changing and why?

- At the moment, local councils receive their funding from three main sources: grants from central government; council tax; and other locally generated income (such as fees and charges for services). Britain's local government finance system is one of the most centralised in the world and our councils get more than half of their income from central government grant.

- Central government grants can be received as 'specific grants', which can come with restrictions on what they can be spent on, or through 'formula grant', which has no restrictions and can be used by the authority for any purpose. The formula grant funds a wide range of local services, including children's services, adult social services, police, fire, and highways maintenance, and is distributed to all local authorities using a complex formula.

- One of the main components of formula grant is National Non-Domestic Rates, commonly known as business rates. Business rates are collected by local authorities from businesses in their areas like shops, offices, warehouses and factories, but they are currently paid into a central pool to be redistributed as part of formula grant.

- This system means that local authorities do not have any financial incentive to promote business growth in their area, as they will not receive any of the business rates receipts from new development.

- This dependence on central government funding also means there is a greater incentive to design services in order to secure government funding, rather than to respond to local communities' needs or align spending with citizens' service preferences; councils may feel they can generate better results for their area by lobbying government for more resources or demonstrating their need, rather than driving cost efficiencies or investing in local growth.

- The Government wants to change the current system by enabling councils to keep a share of the growth in business rates in their area. This will make councils more financially independent from central government and give them a strong incentive to promote local business growth.

- We are not proposing to make any changes to the way businesses pay tax or the way the tax is set. Rate setting powers will remain under the control of central government.

- Councils can already raise additional revenues from the rating system through a Business Rate Supplement in order to fund a specific project which promotes economic development, or they can encourage Business Improvement Districts to form – where businesses themselves agree to pay an additional amount to fund improvements in the area. In both these examples there are protections for businesses. There must be a referendum of local businesses before a Business Improvement District forms and the Localism Bill is changing the law so that the same applies for any Business Rate Supplement proposal, rather than a ballot of businesses happening only when certain criteria are met. The Localism Bill is also amending the law to allow councils to introduce local business rates discounts, funded by the council.

- There will be no changes to the existing reliefs available to eligible business ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector.

Our proposals for change

- If we allowed all councils to keep all of the business rates generated in their areas, some areas would have a much larger amount than they need to deliver their services whilst some others would have much less than they need.

- So, to ensure a fair starting position for the new system, we will take an amount of business rates away from those with too large an amount in comparison to their current spending (this is referred to as the “tariff” in the consultation document) and top up those authorities with too little, again in comparison to their current spending (this is referred to as the “top up” in the consultation document).

- In future years the amount of business rates that central government gives or takes from each local authority will remain fixed. This means that any growth in business rates an authority achieves will be kept by them. This creates a strong incentive effect to promote growth.

- There would be no fixed limit on the amount of business rates growth an authority can benefit from under the new system. The more any authority grows its business rates base, the better off it will become.

- However, some local authorities with large amounts of business property in their area and may stand to gain disproportionate amounts. Where this happens, we are proposing to take back a share of their growth (this is referred to as the “levy” in the consultation document).

- We are proposing to use the proceeds of this to give financial help to those authorities who experience significant drops in business rates, for example caused by the closure or relocation of a major business. We are also proposing to protect those authorities who are less able to grow. Depending on the amounts raised, the proceeds could also be redistributed to authorities with lower growth, or fund schemes, for example, for regeneration, in areas with high growth potential.

- In the future, the Government may judge that the level of a number of councils' business rates no longer meet changing pressures on local services. In this situation, we could choose to 'reset' the fixed amounts of business rates that were either taken from councils with too high levels of business rates or given to those with too low levels. This would probably involve a new assessment of local authorities' need.

- The whole system could also work for groups of councils working together, for example those in local enterprise partnerships or districts and counties, who want to form voluntary groups, allowing them to collaborate to promote growth and share in the benefits.

What do these proposals mean in practice?

- **Members of the general public** will find their local council's budget is more strongly linked to local business growth. In general terms, the more new business premises are developed in your area, the more funding (outside of council tax, fees and charges) your local council will have to provide local services and investment, as well as having positive impacts on employment and the local economy more widely. The proposals include protections to ensure that local authorities are able to meet local service needs in their area.

- **Business rates payers** see no change in the way in which their business rates bills are calculated. The Government is not proposing to change the way that properties are valued or business rates levels are set. However, it should mean that the rates you pay have more impact on local authority budgets in your local area, and that your local authority has more incentive to work closely with the Valuation Office Agency to ensure that all businesses in your area have their properties valued correctly and are paying the right amount of tax.

- **Developers** will find local authorities have greater incentives to grant planning permissions for appropriately-sited and well-planned non-residential development and go for growth. This is especially true of new renewable energy projects that start paying business rates from year one of the system, as councils would keep all of the business rates paid by such projects. Local authorities would also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure.

- **Billing authorities** (district councils, unitary authorities) still bill and collect business rates, as now. But instead of contributing all business rates into the central pool and receiving formula grant, under these proposals, some of your business rates would be retained locally. Your baseline level of funding would be set so that at the start of the system, your budget is equivalent to what it would have been under the current system. From then on your funding would grow if the business rates base in your area grows, but could fall if your business rate base declines. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

- **County councils** will receive a share of business rates revenues from the districts in your area (and a top up from other areas if relevant), rather than receiving formula grant. Your baseline level of funding would be set so that at the start of the system your budget is equivalent to what it would have been under the current system. From then on, your funding would grow if the business rates base in your area grows, but could fall if your business rates base declines. You will want to consider with your districts, and possibly neighbouring areas/your local enterprise partnership, whether you could form a pool to make decisions about the distribution of funding locally. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

- **The police and fire sectors** will receive the level of funding for 2013-14 and 2014-15 that was agreed as part of the 2010 Spending Review. Your funding will therefore not be affected by fluctuations in business rates in your area. The way in which you are funded will be fully reviewed in time for changes to be made at the next Spending Review, from 2015-16. You might want to respond to this consultation.

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