INFORMATION

RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 16

meeting date: 12 JUNE 2012
title: BUSINESS RATES RETENTION SCHEME
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

1.1 To update members of the outcome of the recent consultation on business rates retention.

2 BACKGROUND

2.1 The Local Government Resource Review encompassed three potential areas of reform to local government finance:

- The local retention of business rates
- The replacement of council tax benefit with local council tax support
- Technical reforms of council tax

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

2.3 On 18 July 2011, the Local Government Resource Review (Phase One) published for consultation its proposals to allow councils to retain their locally-raised business rates.

2.4 On 19 August 2011, the Government published eight technical papers which provide more details of the Government's proposals. The consultation on these documents closed on 24 October 2011.

2.5 On 19 December 2011, the government published its response to this consultation, which sets out how the business rates retention scheme will operate.

2.6 The legislative framework required to introduce the business rates retention scheme is being taken forward within the Local Government Finance Bill.

2.7 The Second phase of the Local Government Resource Review: Terms of Reference was published 29 June 2011.

2.8 On 17 May 2012 the Government published the following five papers:

- The central and local shares of business rates - A Statement of Intent
- The safety net and levy
- Renewable Energy Projects - A Statement of Intent
- Pooling Prospectus
- The economic benefits of local business rates retention

3 THE CENTRAL AND LOCAL SHARES OF BUSINESS RATES

3.1 The statement of intent confirms that the local share will be set at 50 per cent of business rates revenue. The local share will form the baseline for each authority's baseline funding level and tariff and top up amounts. From April 2013, councils will keep all of the growth upon their share, subject to the levy on disproportionate benefit.

3.2 The local share will remain fixed at 50 per cent until a reset of the system when the baseline funding levels for each local authority will be reviewed to take account of changes in relative need and resource. The Government does not intend to reset the system until 2020 at the earliest and in the long-term aspires to a 10-year reset period, although the length of the reset period and scope will not be set in regulation. The statement also confirms that tariffs and top-ups will be adjusted at each five-early revaluation so that an authority's retained rates income is not affected.

3.3 The Government has confirmed that, in addition to locally retained business rates, each authority within the scheme will also receive supplementary Revenue Support Grant (RSG) to impose councils' overall share of the spending review control total in any given year.

3.4 The following grants will be rolled into the rates retention system from 2013-14, although the Government has not stated if these will be paid out of the central or the local share:

- Bus Service Operators Grant – London buses element only
- 2011-12 Council Tax Freeze Grant
- Council Tax Support Grant (excluding the amount that will be paid to Local Policing Bodies directly)
- Early Intervention Grant (excluding funding for free early education for two year olds
- GLA General Grant
- A proportion of GLA Transport grant
- Homelessness Prevention Grant
- A proportion of Lead Local Flood Authorities Grant9
- Department of Health Learning Disability and Health Reform Grant
- A proportion of Sustainable Drainage Systems Maintenance Costs Grant

3.5 Further details on the grants to be brought into the RSG will be set out in a summer consultation on business rates retention. The amount of Revenue Support Grant for 2013-14 and 2014-15 will be set out in the 2013-14 Local Government Finance Report.

3.6 The Government will define in regulations what a billing authority's business rates income is for the purposes of determining the local and central shares. The Government intends that the definition is tied to the business rates payable to the authority, in respect of occupied and empty property, in that year and will take into account the effect of that amount on:

- Mandatory rate reliefs
- Discretionary relief
- Losses on collection
- Hardship relief
- Repayments of refunds in respect of previous years

3.7 The precise definition of income and treatment of related issues will be worked through with the Local Government Finance Group and form part of the summer consultation.

3.8 In conclusion the Government proposes to keep a top slice of 50 per cent of business rates for the Treasury, taking taxes paid by local businesses for local services and using them for local services based on national priorities instead. Some would argue that this is not a localising policy and goes against the Government's stated commitment to localism.

4 THE SAFETY NET AND LEVY

4.1 The statement confirms that there will be a safety net to protect local authorities from significant negative shocks to their income, funded by a levy on authorities that experience disproportionate financial benefit from business rates growth.

4.2 The Government proposes to set a proportionate levy, with a 1:1 ratio, meaning that for every 1 per cent increase in business rates base, an authority would see no more than a corresponding 1 per cent increase in income as measured against its spending baseline.

4.3 The regulations will set out that the funds in the levy account cannot be used for any other purpose than to make safety net payments to local authorities, or in the event that the account is left with a surplus, for that surplus to be returned to local authorities.

4.4 The Government proposes to set the safety net threshold in the range of 7.5 per cent to 10 per cent below spending baseline. The final percentage is yet to be decided, but the following illustrates how the Government intends the safety net to work. A 10 per cent safety net threshold would mean that safety net payments would be made to take the authority's income up to 90 per cent of its spending baseline where income had dropped below that level. The Government will consult on the proposed safety net threshold in summer.

4.5 The regulations will set out the detailed calculations the Secretary of State will make to determine whether an authority is to make a levy payment or receive a safety net payment. The Government proposes to make these calculations after the end of each financial year on the basis of final outturn data.

4.6 The Local Government Association (LGA) in conclusion welcome the use of a proportionate levy as this method avoids creating funding cliff edges and potential perverse incentives. They are pleased that the Government has recognised the benefits of the clearer and simpler incentive scheme. However, they are concerned that the proposed safety net threshold could leave local authorities exposed to levels of volatility in their income that could have an adverse impact on local services and local residents.

4.7 The LGA call again for the Government to work with them to set out a sensible risk management strategy at the outset of the scheme.

5 POOLING PROSPECTUS

5.1 The Government has also released a prospectus that sets out the process for formally designating pools of rate income across a number of councils. Local authorities are invited to come forward with their pooling proposals by 27 July 2012.

5.2 Local authorities in a pool will be treated as a single body, for the purposes of calculating tariffs, top-ups, levy and safety net payments, the prospectus set out illustrations of how a pool might work and how the levy and safety net might be applied to it.

5.3 Pooling arrangements will be voluntary and it would be for pools themselves to decide how to distribute aggregate revenues within the pool. If a pool is dissolved, members of a pool would return to their individual tariff, top-up and levy amounts.

5.4 It will be for local authorities to determine the geographic coverage of a pool, subject to the following requirements:

- There should be a clear rationale for the coverage that is proposed
- Pools should operate on a whole local authority basis, and an authority cannot be a member of more than one pool.
- Authorities will have to nominate one member to act as a lead

5.5 In order to support local authorities develop a pooling proposal, the Government will shortly publish a revised version of the interactive calculator. The interactive calculator will enable users to explore the principal features of the proposed business rates retention scheme by entering their own inputs and varying components.

6 THE ECONOMIC BENEFITS OF LOCAL BUSINESS RATES RETENTION

6.1 The government has carried out a simulation exercise, using empirical results from economic literature, to gauge the likely economic impact of the partial retention of business rates growth.

6.2 Across a range of simulations, the middle-case scenario predicts that, given the 50 per cent local share and seven year reset period, an additional £10.1bn of GDP could be created.

6.3 In the lowest-case scenario £1.7bn of GDP is created over 7 years, and in the best-case scenario £19.9bn of GDP is created.

6.4 The government states that the size of the incentive is affected by the size of the local share of business rates, the levy on disproportionate gain, the length of time until the next reset and the tier-split.

6.5 The basis for these estimates is a calculation of the size of the incentive for each billing authority to expand its commercial floorspace. Authorities are then grouped into behaviour groups and an appropriately increased growth rate for commercial floorspace assumed for each group. A national projection of increased business floorspace is then combined with data on the ratio of commercial floorspace to GDP to arrive at estimates of the increase in GDP from the incentives provided by business rates retention.

6.6 The Government's analysis states that the incentive for councils would be greater if there was no central share. The LGA's view is that the as the Government has opted for a central share we believe this shows the Government has set controlling local authorities' funding above promoting economic growth as an objective.

7 RENEWABLE ENERGY PROJECTS

7.1 The statement confirms the list of qualifying technologies that will be included in the definition of renewable energy projects:

- onshore wind power
- offshore wind power
- hydroelectric power
- biomass
- biomass conversion
- energy from waste combustion
- anaerobic digestions, landfill and sewage gas
- advanced thermal conversion technologies – gasification and pyrolysis
- geothermal heat and power
- photovoltaics

7.2 Billing Authorities will be responsible for determining which properties should qualify as a renewable energy project – e.g. where it is a new build, or has been converted or expanded and meets the renewable energy definition, or where renewable technologies have been installed with a separate identifiable impact on rateable value.

7.3 In two tier areas, all business rates income will be retained by the local planning authority that is the decision maker for the renewable energy project, whether at county or district level (with certain exceptions or allowances for National Park Authorities and London authorities).

7.4 The regulations will provide that business rates income from such renewable energy projects will be retained in full by the Billing Authority and as such the income will be disregarded from calculations in the rates retention scheme on the central/local share, levy, and re-set of tariff and top-up amounts. The total amount of business rates income resulting from a new renewable energy project will be disregarded.

7.5 The Local Government Finance Bill, currently before Parliament, will provide for the Secretary of State to make regulations to designate classes of hereditaments and for business rates income from those hereditaments to be disregarded from levy calculations in the rates retention scheme. This will provide a mechanism for the Secretary of State to define a renewable energy project, in line with the Government's policy intention

7.6 The LGA welcomes full retention in this area but believes communities should keep the additional business rates which development generates. Local circumstances will clearly dictate different approaches to strategic planning for renewable energy deployment.

8 LGA CONCLUSION

8.1 The principle of full business rate localisation would be a powerful move towards localism and a driver of economic growth. The Government's policy is a first step towards this objective but raises a number of concerns.

8.2 The policy papers show that the Government proposes to keep a top slice of 50 per cent of business rates for the Treasury, taking taxes paid by local businesses for local services and using them for local services based on national priorities instead. That is not a localising policy and goes against the Government's stated commitment to localism.

8.3 DCLG's technical economic paper clearly states that the growth incentive from localising rates would be more powerful without the set aside. This means that the Treasury's retention of 50% top slice risks putting centralisation ahead of economic growth.

DIRECTOR OF RESOURCES

PF34-12/JP/AC
1 June 2012

BACKGROUND PAPERS:

CLG – Local Government Finance Bill

http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgfinancebill/

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