Local Government Resource Review: Proposals for Business Rates Retention - Consultation

LGA Briefing

Briefing

Introduction

- The proposed business rates retention scheme will initially work within the expenditure limits set as part of Spending Review 2010.
- Any forecast business rates income above this will be set aside and directed to local government through other grants. Local authorities will benefit from growth in business rates above forecast levels.
- Rate setting powers will remain under the control of central Government. The revaluation process will be unchanged.
- At the next Spending Review, the Government will consider the total spending figures for local government with a view to more closely aligning local authority functions and responsibilities with business rates income from 2015-16.
- Police and fire authorities will, for 2013-14 and 2014-15, receive guaranteed funding at the levels set in Spending Review 2010. The way these authorities are funded will be fully reviewed in time for changes to be made at the next Spending Review.
- The consultation period will run for 14 weeks, closing on 24 October.
- The Government intends to bring forward legislation later in this session with a view to introducing business rates retention from April 2013.

LGA view

- **The LGA supports the principal of the Government carrying out a consultation on proposals for repatriation of business rates.**
- The consultation proposals set out a range of options for moving to a clearer and more straightforward system of local government finance. **The LGA is pleased that the government wants to work with all local authorities, representative groups and political parties to achieve lasting change.**
- **The current system of local government finance is incredibly complex. It has left residents and businesses confused about the relationship between the money they pay and the how much the council has to spend on services.** With local authorities dealing with significant reductions in the money they receive from central government it makes sense to adopt a system that gives them greater freedom and flexibility.
- **Fairness must be at the heart of any new system.** Moves toward the localisation of business rates must be done in a way which recognises the advantage that national infrastructures give some authorities over others and takes into consideration the needs of a local authority. **The aim must be to give councils greater freedom and incentive to encourage growth in local areas** while allowing every community to benefit from national prosperity.
- **All local authorities need to be satisfied that the reforms will deliver a fair deal for their local communities**.
- As the Government makes clear, **this does not significantly change the 2010 Spending Review settlement** (which the LGA characterised as “one of the toughest across the public sector”). **The key change is that councils will have access to any business rates growth above that forecast from 2013**. We will be pressing the government for transparency on this.

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- **We would encourage all member authorities to participate fully in the consultation** and will be actively seeking your views throughout the consultation period as we develop the LGA response
- **We have set up a Community of Practice to facilitate discussion with members.** You can register for the CoP on our website: http://www.communities.idea.gov.uk/login.do
- We are hosting a **web-based seminar** from 2.00 - 3.30pm on the 22nd July to **discuss the proposed business rates retention scheme**. Stephen Jones, Director of Finance for the LG Group, will give an overview of the Government's proposals, followed by views from a range of experts in the sector on what the proposals mean for local authorities. **Further details are available on the main LG Group website.**
- We intend to provide **further briefings and updates** throughout the summer as the technical papers are released.

Proposed scheme for business rates retention

There are seven components to the proposed scheme:

Setting the Baseline

- The Government will set out a baseline position in 2013-14 for each local authority. This will use the 2012-13 formula grant as a baseline, either unadjusted or with some limited technical updates. A separate more detailed consultation paper on this will be published in August.

Setting tariffs and top-ups

- Authorities whose business rates income is higher than their baseline would pay the difference to government as a 'tariff'. Those whose business rates are less than their baseline would receive the balance as a 'top-up'.
- In future years tariffs and top ups could either be uprated by the Retail Prices Index (RPI) to reflect the annual increase in the business rates multiplier or retained at their original year 1 amounts. A technical paper on measuring business rates income will follow in August.

The incentive effect

- The Government says that from 'year one' all local authorities would stand to benefit from retaining increases in business rates. This would provide an incentive for councils to engage with businesses in their area to maximise growth.

A levy to recoup a share of 'disproportionate benefit'

- The Government proposes to collect a levy from those councils with the highest business rates income. This, the consultation document says, can help with moderating the 'gearing effect' between different need to spend and ability to raise business rates.
- There are a number of ways in which this can be calculated:
    - It could be based on the **same rate** for all authorities; this would be simple but would not deal with this gearing effect.
    - It could be based on putting authorities in **different bands**
    - Finally; it could be based on **revenue**; so that if an authority grows its business rates income by 1% it would be allowed 1% growth in its baseline revenue. This percentage could be varied up or down; for example if it was 2% a high number of authorities would keep all their growth; or it was 0.5% there would be more of a levy income

- The proceeds of the levy could be used:
    - To **manage volatility** in authorities' business rates income, due to factors such as appeals and changes to properties or due to sudden changes in economic circumstances.
    - To **support authorities with low growth**, through a 'safety net' mechanism. Access to this could be triggered if business rates fall by more than a certain percentage each year or if they drop by more than a certain percentage below the original baseline business rates. Further details will be in a technical paper to be published in August.
    - If there is sufficient income left there are a variety of **other possible uses**: including providing ongoing support to authorities which have experienced loss, top-up the growth reward for low business rates authorities, support expenditure on targeted projects to encourage growth, or redistribute in proportion to the baseline.

Revaluation

- The tariff and top-up for each authority would be adjusted when business rates are revalued; so that the sum of top-ups and tariffs was the same after as before revaluation.
- The document does not propose any other changes to revaluation; so the multiplier would still fall to reflect any increase in overall taxbase.
- It is proposed that the impact of transitional relief allowed following revaluation is stripped out from the business rates retention scheme.
- Further details are expected in another technical paper to be published in August.

Resetting the system

- The document says there are two possible approaches to resetting the underlying tariffs and top-ups:
    - The Government could decide not to set a fixed period for resets; they say this will allow the incentives to remain in the system for longer.
    - Alternatively there could be a fixed period for resets: the possibility of a ten year period is trailed, which would offer a strong incentive effect; alternatively a shorter reset period would allow a more frequent reassessment of spending needs. In addition resets could relate to the baseline position only or to the whole system, including the incentive growth.

Pooling

- The Government proposes that local authorities could come together voluntarily to form a pool; the pool would be treated as a unit in the system, with a single tariff and top-up and a single levy.
- Pools could decide for themselves how they distribute business rates growth, including any levy proceeds, amongst their members.
- The Government wants to encourage pooling, subject to assurances on workability and governance and what would happen if pools dissolved.
- The Government suggests that in two tier areas it makes sense for districts to align with their counties; it is suggested that, if a district formed a pool outside its county area, it might still be required to pay a fixed proportion of its business rates to its county. Two tier arrangements are to be covered in one of the more detailed technical papers to be issued in August.

Further Information

Police and Fire authorities

- The Government propose that police and fire authorities should, for 2013-14 and 2014-15, be funded without being impacted by the business rates retention scheme.
- Police and fire authorities will therefore continue to receive funding at the levels set in Spending Review 2010 for those years. Beyond that, there will be a full review of future funding arrangements, including the option that the police might receive all funding from the Home Office.

New Burdens

- The New Burdens principle will continue to operate; but additional sums for particular policies may go into grants such as the Local Services Support Grant although the funding could subsequently be mainstreamed into the business rates retention system.

Tax Increment Financing

- The Government is consulting on two options for how Tax Increment Financing (TIF) could operate within a business rates retention system.
- Under 'Option 1', local authorities would have full discretion to determine whether to invest in a TIF scheme. However, any additional business rates growth on top of the tariffs and top ups set in year one would be subject to the "disproportionate growth" levy and growth would also be taken into account in any future reset of tariffs and top ups.
- 'Option 2' proposes that additional business rates growth would not be subject to any levy or be taken into account in any reset of tariffs and top ups. However, schemes would require government control or approval in order to limit the number of schemes coming forward, with a view to ensuring that the levy pot was maintained at a level sufficient to manage volatilities.
- The Government also proposes that all uplift in business rate revenues within an Enterprise Zone would be retained by the Local Enterprise Partnership, and not subject to a levy or reassessment of tariffs or top ups.
- The Government will publish a detailed technical paper on TIF following the close of the consultation on business rates retention.

New Homes Bonus

- The Government proposes to fund the New Homes Bonus from 2013-14 by fixing individual authorities' tariff and top up amounts at a level that would allow a sufficient sum to be top-sliced from the total business rates yield to fund the future cost of the bonus.
- To ensure that the tariffs and top ups can remain fixed; the Government would take out from 'year one' of the retention scheme the total required to fund the New Homes Bonus at its steady state.
- Since a significant amount of this pot may not be needed in the early years of the bonus scheme, the Government would return any surplus to local government each year. One option being considered for returning the surplus is to redistribute the amount to local authorities in proportion to their baselines.

Business rates reliefs

- No changes to the current system of reliefs, including eligibility, are proposed.
- An allowance to cover the central government funding element of discretionary reliefs will be provided.

- As tariff and top up calculations will need to take account of reliefs, a technical paper will be published in August setting out options for how this could work in practice.

Changes to collection and enforcement

- The Government proposes to:
    - allow billing authorities to publish certain statutory information which accompanies business rates online, although they would be required to send out hard copies on request;
    - operate multi-year billing for business rates; and
    - clarify legislation on business rates refunds so that billing authorities can offset outstanding liabilities from previous years before offering refunds.

Technical papers

Further detail on a number of elements of the retention scheme will be released through a series of technical papers expected to come out in August, including the:

- Establishment of the baselines and implications for fixing them for a number of years between resets
- Options for measuring business rates
- Non-billing authorities, specifically the basis for funding police and fire authorities in 2013-14 and 2014-15 and for apportioning rates between authorities
- Implications of the proposed scheme for business rates administration
- Options for the design of tariffs, top ups, the levy and use of levy income
- Options for dealing with volatility
- Revaluation and transition
- Definitions of renewable energy and the treatment of rates from renewable sources

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Further information: For further information on this briefing, please contact Ben Kind, LGA Public Affairs and Campaigns Manager on 020 7664 3216 or ben.kind@lga.gov.uk