Report to: **Cabinet**

Subject: **Local Government Resource Review: Proposals for Business Rates Retention**

Date: **1 September 2011**

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1. PURPOSE OF THE REPORT

1.1 To inform Members of the Government's consultation paper on the proposals for Business Rates Retention which form part of the Local Government Resource Review. The consultation sets out and seeks views on the proposals for how a business rates retention scheme should operate with effect from April 2013 and how it can interact with existing Government Policies and commitments. The consultation closes on 24 October 2011.

1.2 Members views are sought on the basis of a response to Government and it is requested that authority to formulate the full response be delegated to the Head of Corporate Services in consultation with the Portfolio Holder for Finance and Performance.

2. BACKGROUND

2.1 The Government has published proposals to allow the local retention of business rates by councils and to let them borrow against future rate income. Legislation will be set out later this year so changes start as soon as possible, with scheme implementation anticipated in 2013/14.

2.2 The consultation is the outcome of a review into local government funding which sought to repatriate rates; create a financial incentive for councils to promote local growth; reduce dependency on Central Government grants; and maintain protections for business and vulnerable areas.

2.3 Currently, local councils in England collect £19 billion of business rates each year. The rates collected are paid into a national pool which is then redistributed to councils according to a complex formula as part of the Local Government Finance Settlement.

2.4 Under the proposals, instead of contributing all business rates into a central pool (managed by Central Government) and receiving formula grant, some of the business rates would be retained locally. A baseline level of funding would be set at the start of the system and from then on any council that grows its business base would see increased business rates that they would keep. Conversely funding could fall if the business rates base declines.

3. <u>CORE COMPONENTS OF THE PROPOSED RATE RETENTION SCHEME</u>

3.1 The core components of the proposed rate retention scheme are summarised as follows:

- **A baseline level with top ups and tariffs to create a fair starting point for all:** If all Councils were allowed to keep all of their business rates generated in their areas, some areas would have a much larger amount than they need to deliver services, whilst some others would have less than they need. Government proposes to establish a baseline, which could be based on next year's Formula Grant allocations, for each council in the first year of the scheme (2013-14) so no council is worse off at the outset. Councils that collect more than that baseline would pay an individually set tariff to Government, while those below it would get an individually set top up grant from Government.

- **An incentive so all councils can grow:** Tariffs and top up grants would remain fixed during future years meaning councils would retain any business rate growth it generates. Councils such as those in local enterprise partnerships, or districts and counties, will be allowed to voluntarily pool business rates to enable the wider economic area to benefit from growth and reduce any volatility. County Councils will receive a share of business rates revenues from the districts, rather than receiving formula grant.

- **A levy to recoup disproportionate gain:** Government would create a levy to recoup a share of any disproportionate financial gain. It could vary according to each individual council's own circumstances and would be used to manage significant unforeseen falls in a council's business rates income and to ensure stability in the system.

- **A reset button to ensure stability:** Government would have the option of resetting the system if it felt that resources no longer met change service pressures sufficiently within individual local authority areas. This will allow the Government to adjust top ups and tariffs to balance out changes in local circumstances. A longer period between resets, for example 10 years, would create a greater incentive effect, while a shorter one would allow frequent reassessment of budgets. This reset could be fixed or decided by Government.

- **No change for business:** There will be no difference in the way business pays tax or the way the tax is set. Rate setting powers will remain under Central Government control and the revaluation process will stay unchanged. Rate relief to the needy will be unaffected. National discounts and rate relief will continue to be supported, meaning no adverse change to such groups as charities, amateur sports clubs, voluntary groups, those in hardship, and eligible rural or small firms.

- **Tax Increment Financing:** This will allow councils to pay for future infrastructure developments by allowing them to borrow against projected rate growth. Councils are not currently permitted to retain their rates so cannot borrow against them. Rate retention would remove this barrier. The consultation sets out two options. An open structure that lets councils invest and take on the risks alone or one with stronger Government controls that guarantees revenue and disregards the levy or reset processes.

4. INTERACTIONS WITH EXISTING GOVERNMENT POLICIES AND COMMITMENTS

4.1 The New Homes Bonus was introduced by the Government in 2011 and was designed to act as an incentive for local authorities to deliver housing growth in their area. It is based on the additional council tax raised for new homes and properties brought back into use for the following six years to ensure the economic benefits of growth are returned to the local area.

4.2 The Government plans to continue to fund the New Homes Bonus within a business rates retention system.

4.3 The consultation paper proposes to fix the tariff and top up amounts (referred to a paragraph 3.1 above) at a level which leaves a sufficient sum aside to fund the future cost of the New Homes Bonus. To ensure that tariffs and top ups are able to remain fixed, it will be necessary to take out from year one the total required to fund the New Homes Bonus at its steady state. Therefore, particularly in the early years of the New Homes Bonus, a significant amount of the pot will not be needed. The Government will ensure that this is returned in full each year to local government and views on the mechanism of the refund are sought through this consultation, with a suggestion that it is redistributed in proportion to the baseline amounts.

5. WHAT DOES THIS MEAN FOR GEDLING BOROUGH COUNCIL?

5.1 The Non Domestic Rate yield in Gedling is estimated to be £20.302m in 2011/12, of which Gedling will receive £5.312m in redistributed business rates as part of the formula grant settlement from Central Government. The total estimated yield for the county of Nottinghamshire is lower than the amount of redistributed business rates.

This might indicate that Gedling's current level of funding would be protected from the proposed system of top ups. However, until the baselines are set and the impact of funding the New Homes Bonus from the scheme is known, this cannot be predicted with certainty.

5.2 The proposals represent a transfer of risk from central to local government. If the business rates base declines this would result in a reduction of funding, and any shortfall would either have to be passed on to Council Taxpayers or funded from balances in the short term or reduced services if the impact was longer term. Commentators have suggested that Local Authorities will need to maintain increased balances to mitigate against this risk.

5.3 A growth in the business rates base would enable additional investment in Council services or a saving for the Council Taxpayer.

5.4 As a Billing Authority Gedling will still bill and collect business rates.

6. CONCLUSION

6.1 In order to formulate a response to the consultation paper Members views are sought on the following:

- Do Members agree Gedling BC should be supportive of the proposal for business rates retention at a local level?
- Do Members agree that any Council that would lose resources as a result of the scheme should be protected by the top up grants and those that would gain be required to pay a tariff to fund that protection?; or do Members consider that authorities that currently collect more rates than received back through the grant settlement should be allowed to retain the total of the rates collected?
- Do Members support the proposal to fund the New Homes Bonus within the Business Rates Retention scheme by adjusting the level of top ups and tariffs?
- Are Members supportive of other new instruments proposed within the scheme i.e. Tax Increment Financing?

7. RECOMMENDATIONS

7.1 Members are recommended to:

a. Give their views on the questions raised at paragraph 6.1 above for inclusion in the response to the consultation paper.

b. Delegate the authority to formulate the full response to the consultation paper to the Head of Corporate Services in consultation with the Portfolio Holder for Finance and Performance.