WARWICK DISTRICT COUNCIL	**Executive 12 October 2011**	**Agenda Item No.** **11E**

Title	Proposals for business rates retention
For further information about this report please contact	Mike Snow, David Leech
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	
Background Papers	Consultation Papers issued by DCLG

Contrary to the policy framework:	Yes
Contrary to the budgetary framework:	Yes
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality & Sustainability Impact Assessment Undertaken	Yes/No (If No state why below)

Officer/Councillor Approval		
Officer Approval	**Date**	**Name**
Chief Executive/Deputy Chief Executive		Andy Jones
Head of Service		Mike Snow
CMT		Chris Elliott, Andy Jones, Bill Hunt
Section 151 Officer		Mike Snow
Monitoring Officer		Andy Jones
Finance		
Portfolio Holder(s)		Andrew Mobbs
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

1.1 The Department for Communities and Local Government has launched a consultation paper, Local Government Resource Review: Proposals for Business Rates Retention which, if implemented, could have a profound effect on the funding of all lower and upper tier authorities. Police and Fire authorities are excluded.

1.2 The document sets out proposals for a rates retention scheme to replace the current local government finance system, under which business rates are distributed as part of formula grant. The main driver for the new scheme is to provide an incentive on authorities to boost economic growth by enabling Councils to keep a share of the growth in business rates in their area. The Government will also allow Councils to borrow against projected rate growth under a system known as Tax Increment Financing.

1.3 In addition to the consultation document 8 technical papers have been released which contain details of how the scheme could work by detailing various options and seeking views on those options together with other consultation questions. The Department for Communities and Local Government are seeking responses to the document by 24th October.

2. RECOMMENDATION

2.1 That the Executive note the Government consultation on the proposals for business rates retention and the operational and financial issues likely to be involved.

2.2 That a response to the Government consultation on the proposals for business rates retention be delegated to the Head of Finance in consultation with the Finance Portfolio Holder.

2.3 Further analysis of the technical papers be undertaken in conjunction with an interrogation of our business rates database and a further report issued exploring the potential benefits and implications to the Council.

3. REASONS FOR THE RECOMMENDATION

3.1 The proposals represent a major change in the funding of upper and lower tier authority funding. Whilst this can mean a significant increase in resources for some councils where there is business growth there is the potential for reduced resources in areas where growth is not forthcoming.

3.2 The technical papers were only released in August at the height of the holiday season and consequently implications of the proposals are still being assessed by professional bodies, in particular the Institute of Revenues, Rating and Valuation (IRRV). The Institute are planning briefings and a full response to the proposals to assist Councils in understanding the issues and will inform their own responses. Following the receipt of more details from the IRRV, it will be possible to consider the Council's response in more detail. It is hoped that our response to the consultation will be circulated to members before the meeting on the 12th October, with responses due to be submitted by 24th.

3.3 We are currently seeking advice on how we can interrogate the make-up of our business rates database so we can model the impact of the proposed new scheme.

4. **POLICY FRAMEWORK**

4.1 The proposals for the Council to see funding grow as business rates base grows leads to a strong incentive for the Council to grant planning permissions for appropriately sited and well planned business development particularly in the area of renewable energy.

5. **BUDGETARY FRAMEWORK**

5.1 The proposals will impact upon the way the Council is funded from 2013/14. The scheme is intended to be designed so as to incentivise local authorities to encourage development. Whilst this may present opportunities, the converse of this is that it may also present substantial financial risks to local government.

6**. ALTERNATIVE OPTION(S) CONSIDERED**

6.1 None

7. BACKGROUND

7.1 Introduction

Currently local Councils receive funding from three main sources: grants from central government, council tax and other locally generated income (such as fees and charges for services). Grants can be received as 'specific grants' which can come with restrictions or through 'formula grant' (commonly known as Revenue Support Grant) which can be used for any purpose.

7.1.1 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 distributed as part of formula grant.

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

7.1.3 They are not proposing to make any changes to the way businesses pay tax or the way the tax is set and the rate setting powers will remain under the control of central government. There will also be no change to the existing reliefs available to eligible business ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector. However the Localism bill is proposing to amend the law to allow Councils to introduce local business rates discounts, funded by the Council.

7.2 Baseline Position

Across the country, some councils collect business rates in excess of their current formula grant funding whilst others collect an amount below current funding levels. It is therefore not possible simply to allow business rates to be retained where they are paid; there needs to be a degree of re-balancing, or some councils could see very large reductions in their revenue.

7.2.1 Initially it will be necessary to establish a fair starting point (baseline position) for each council at the outset of the system. Once the baseline position has been established the Government proposes a re-balancing of resources by comparing the baseline position with the amount of business rates the council collects. Those authorities with business rates in excess of their baseline level of funding would pay a tariff to the Government; those authorities with business rates yield below their baseline would receive a top-up grant from the Government. The tariffs and top-ups would be self-funding and remain fixed (other than likely RPI increases). This provides the incentive in that a significant proportion of business rates growth in future years would be retained by councils.

7.2.2 In order to set the baseline position and ensure councils have the opportunity to benefit from the growth incentive from day one the Government proposes to start the scheme from the councils 'current 2012-13 formula grant position. In addition they will be taking into account the spending control restrictions for Local Government for 2013-14 and 2014-15 therefore any growth within forecast levels will be retained by the Government as 'set aside' whilst growth above forecast levels will benefit the Council.

7.3 Calculating tariffs and top-ups

In order to calculate tariffs and top-up amounts, it will also be necessary to have an agreed way of measuring each council's business rate income. The Government are seeking views as to how this could be achieved for example it could be based on business rates income at a single point in time or the average over a number of years.

7.3.1 From the first year of introducing business rates retention, all Council's would stand to benefit from increases in their business rates and the Government's belief is that this will provide the incentive for Councils to promote business rates growth. Conversely it should prove a disincentive not to promote business growth as a rate base fall would directly affect their revenues. There will be a strong need for effective billing and collection of business rates.

7.4 Levys

There will be no cap on the amount of business rates growth an authority can benefit from under the rate retention scheme. The more any authority grows its business rates base the better off it will become. However certain L/As with disproportionate business rate tax bases could see disproportionate financial gains therefore it is proposed that the Government will collect a levy from L/As. The document seeks views on how the levy could be calculated for example it could be straight pence in the pound levy or L/As could be assigned different bands with a different levy.

7.4.1 The Government are also seeking views on how to use or redistribute the proceeds from the levy. Generally it is anticipated it will be redistributed to L/As that suffer from the volatility of the business rates system between valuations due to the appeals systems or sudden changes in local economic circumstances e.g. closure or relocation of a major business.

7.5 **Revaluation & Transition**

A revaluation of all business properties occurs every 5 years to reflect changes in the property market across the country. This can mean that business rate yields in an authority can go up or down significantly and completely out of the control of the council. The Government proposes to adjust the council tariff or top-up to negate this affect.

7.5.1 The current transitional relief scheme which protects business ratepayers from large increases will continue however the effects of transitional relief on the Council's finances will be stripped out of the scheme. Views are being sought as to how this can be achieved.

7.6 Non-billing authorities

The paper proposes that the incentive for growth should equally apply to counties and districts in two-tier areas to reflect levers for growth. To achieve this, a fixed percentage of all Business Rates income collected by districts in a two-tier area will be paid to the county. The paper consults on how this percentage should be calculated

7.7 Pooling

Under rates retention system, it is proposed that a group of local authorities could come together voluntarily to form a 'pool'. There would be a single tariff or top-up for the pool which would be the sum of all tariffs or top-ups of the individual authorities. In addition there would be a single levy for the pool which would be calculated on the aggregate income and growth across authorities in the pool rather than levying each authority individually. Pools would be able to decide for themselves how they distribute aggregate revenues, including any levy proceeds.

7.8 Tax Increment Financing

In tandem with the rates retention scheme the Government are proposing to introduce Tax Increment Financing as a way of funding infrastructure investment to unlock economic growth and regeneration. The retention of business rates does not alter the current potential for local authorities to carry out borrowing under the prudential system, underpinned by the Local Government Finance Act 2003.

7.8.1 Local retention of business rates will remove the most important barrier to Tax Increment financing (TIF) schemes, namely that local authorities are currently not permitted to retain any of their business rates and therefore could not borrow against any predicted increase in business rates. Borrowing for TIF schemes would therefore fall under the prudential system, allowing local authorities to borrow for capital projects against future predicted increases in business rates growth, provided that they can afford to service the borrowing costs out of revenue resources.

7.9 Technical Papers

To support the consultation document the Department for Communities and Local Government have issued 8 technical papers. 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.

7.9.1 Technical Paper 1 details how the baseline position for an authority may be calculated and funding managed within the totals set out in the 2010 Spending review. It also proposes how the Government will maintain the right to carry out a partial reset of the scheme if the Government feels a council's resources no longer meet service pressures

7.9.2 Technical paper 2 explains how the Government proposes to calculate forecast national business rates for 2013-14 and 2014-15, given that estimates from billing authorities will not be available in time.

7.9.3 Technical paper 3 considers how non-billing authorities would be funded within the Business Rates retention scheme.

7.9.4 Technical paper 4 considers how payments and information flows to central government and between billing and non billing authorities will be administered and how the information requirements will be provided through the NNDR1, NNDR2 and NNDR3 returns

7.9.5 Technical paper 5 is about the design of the tariff and top-up arrangements. It also covers design option for a supplementary levy that might be applied in cases where an authority could be said to benefit disproportionately from Business Rates retention.

7.9.6 Technical paper 6 considers different ways to compensate councils suffering from negative volatility in the business rates system and sets out the preferred option.

7.9.7 Technical paper 7 sets out the Government's proposals for managing the impacts of revaluation (the next due for 2015), including the transitional relief scheme.

7.9.8 Technical paper 8 confirms the Government's commitment to allowing councils that host 'new' renewable energy projects to keep the additional business rates generated. New projects are defined as those entered onto the rating list from 01 April 2013