

## ROTHERHAM BOROUGH COUNCIL – REPORT TO CABINET

<b>1</b>	<b>Meeting:</b>	<b>CABINET</b>
<b>2</b>	<b>Date:</b>	<b>19<sup>th</sup> October 2011</b>
<b>3</b>	<b>Title:</b>	<b>Draft Response to Government Consultation on the Localisation of Business Rates</b>
<b>4</b>	<b>Directorate:</b>	<b>Financial Services</b>

### **5 Summary**

The report summarises the Government's proposals for the Localisation of Business Rates and their implications for Rotherham. Attached as an appendix are the Council's proposed response to the Consultation papers issued in July and August.

### **6 Recommendations**

**Cabinet is asked to:**

- **Note the contents of this report; and**
- **Approve the draft response to the DCLG Consultation Paper on the Localisation of Business Rates.**

## 7 Proposals and Details

- 7.1 The DCLG published a Consultation Paper outlining Proposals for Business Rates Retention on 18<sup>th</sup> July followed by a series of 8 technical papers on 19<sup>th</sup> August. The Consultation Paper requested responses by 24<sup>th</sup> October and the Council's draft response is attached as an appendix to this report. The response has been considered by the Self Regulation Select Commission (12<sup>th</sup> October) prior to being submitted to the DCLG.
- 7.2 **The Present System** - Business Rates are calculated based on a rateable value using a rates multiplier - currently 43.3p - which is set nationally by the Government and increased annually in line with RPI. Rateable values are re-assessed every 5 years (by the Valuation Agency) - the next review is due in 2015. **The current proposals do not change the way that business rates are calculated. The proposals should not affect businesses paying rates.**
- 7.3 **Proposed Changes** - The Government's stated policy objective is to provide a financial incentive for councils to promote local economic growth over the long term - under the new regime authorities with increases in their rates tax base and revenues should gain from the scheme whilst those with declining business rates income will lose.
- 7.4 Currently, all business rates income collected by billing authorities, like the Council, is pooled nationally and redistributed to authorities as part of the Formula Grant System. **Under this System, the Council receives more from the rates pool than it pays in** - as the table below shows.

Rotherham	2009/10 £m	2010/11 £m	2011/12 £m (est.)
Payment to the National Business Rates Pool	64.9	64.4	64.6
Payment received from the National Business Rates Pool	96.6	107.7	94.1
<b>Difference</b>	<b>-31.7</b>	<b>-43.3</b>	<b>-29.5</b>

- 7.5 Previous, preliminary concerns that the Council could lose out have been allayed by guarantees that authorities will, initially, receive the **same level of funding** as at present. The proposed scheme will take effect from 2013/14 - for the first 2 years the national spending control totals announced in the Comprehensive Spending Review (CSR) 2010 will continue, which planned for reductions in Formula Grant in both 2013/14 and 2014/15.
- 7.6 **The proposed business rates scheme will operate as follows:**

**Funding Baseline** - The scheme will provide authorities with an initial baseline level of funding derived from the 2012/13 Formula Grant allocations. In determining the National Baseline Government will make an adjustment to fund the **New Homes Bonus Scheme** and continue to provide Police Authorities with a Formula Grant allocation which includes a payment from the National Business Rates Pool. Fire Authorities may also be treated this way.

**Tariffs and Top-ups** – a system of tariffs and top-ups will be introduced. Authorities with business rate income greater than their funding baseline will pay a tariff and for those authorities whose income is below the baseline will receive a top-up to bring their income up to the level of their assessed need i.e., the baseline. **Rotherham will fall into the top up category.**

The Consultation Paper sets out options for adjusting tariffs / top ups over time – e.g., indexing them to movements in the RPI (which would broadly benefit top-up authorities) or fixing them in cash terms - which generally benefits tariff authorities.

The actual funding a council will receive will, however, be dependent upon whether the Council collects more or less business rates than that assumed in the baseline.

**Resetting the system** - the baseline figure could (over time) no longer reflect service needs in an area (e.g. as a result of population movements). Having a reset mechanism should help keep resources broadly in line with need (the baseline). The Government is seeking views on how this mechanism should work.

**A safety net** – will be in place to protect authorities from year on year volatility or longer term decline in Business Rates income (for example due to the loss of a major business). This will be funded by **a levy system** on disproportionate growth in rates, which would scale back the amount of resources that can be retained locally. The levy may also be used to fund other grants to authorities. A range of options for both the levy and the safety net are being considered.

**Pooling** - There is also provision for authorities to form pools with each other voluntarily on a regional basis. Pools would be able to decide for themselves how they distribute revenue amongst their members. The potential benefits of pooling include:

- Enabling groups of authorities to collaborate to achieve additional increases in growth by taking advantage of economic efficiencies;
- Minimise the risk of developments being transferred between authorities; and
- Helping authorities manage volatility in income by sharing budget fluctuations across a wider area.

**Other features of the scheme** – there are arrangements for protecting Government Approved Enterprise Zones to retain all business rates growth within the zone, for 25 years, to support the LEP priorities.

**Tax Increment Financing (TIF)** - although there will still be provision for TIF within the system, the current proposals could make it less attractive as resetting the baseline and placing a levy on rates growth to fund the safety net could reduce the longer term income streams available to support TIF schemes.

## 7.7 Initial implications for Rotherham

As authorities' funding levels for 2012/13 were guaranteed in the 2010 Spending Review, **the proposals do not at present affect the Council's 2012/13 budget projections.** With respect to later years (2013/14 onwards), the proposals are complex with many issues and options interacting to give a

wide range of possible funding allocations, which will need to be **fully assessed** and fed into the Council's MTFs once the Scheme details are finalised.

Based on Rotherham being a **top up** authority, it has been possible to date to carry out some initial modeling based on 2 options:

- 1. Indexing the baseline top up by RPI; and**
- 2. Fixing the baseline top up as a cash amount that does not change.**

The Government is seeking views on these options.

Under Option 1, first estimates suggest that the Council over the financial years 2013/14 and 2014/15 could receive up to £12m more than under the current Formula Grant System and up to £4m more under Option 2.

Based on historic business rate growth patterns Rotherham is unlikely to be affected by either the levy on disproportionate growth or the safety net payment mechanism.

## **7.8 Significant Issues and concerns for Rotherham**

**Damping Mechanism** - a key element of the baseline calculation is the level of need within an authority. It is planned to continue to use Formula Grant to assess this. However, the current Formula Grant system operates a system of floors and ceilings to damp year on year grant changes.

Rotherham's grant increase is capped to fund guaranteed minimum increases in funding for other authorities. It is estimated that Rotherham has lost **£2.3m** to the damping mechanism in the current financial year and that it will lose **£2.0m** in 2012/13. The DCLG is currently "not minded" to adjust the business rates localisation to remove the effect of the damping mechanism. **This will lock Rotherham into a reduced needs assessment that means the funding baseline for the Scheme will not fully reflect a fair assessment of need.**

Under the proposals a reset mechanism should ensure resources and need do not move out of alignment. Details of how this mechanism may work are not known.

**Enterprise Zones** - The treatment of Enterprise Zones may also disadvantage Rotherham – the recently announced zone in the borough will be excluded from the new system at a time when it is likely that the majority of the growth in rates income will occur within the zone. Any business rates growth within the zone will be retained by the LEP.

### **Other potential concerns –**

- The timescales for the introduction of the new system are too short and that a major change in local authority funding is being rushed.
- The proposals leave many significant decisions: (for example the timing of resets, the amount of rates income set aside to pay for other grants) to the discretion of ministers.
- An authority's potential to generate rates income does not necessarily relate to its service need. Furthermore the model does not take account of other income sources such as Council Tax, fees and charges and

New Homes Bonus and there is a risk that authorities may be disadvantaged on all counts - in terms of rates growth, Council Tax and New Homes Bonus.

- The current proposals lack provisions to support growth in weaker economies and regions.

## 7.9 Response to Consultation

The initial consultation paper and further 8 technical papers have asked 96 questions of local government - attached as an appendix is the Council's response to the consultation. The Council's response highlights the issues and concerns with the overall operation of the scheme outlined above, rather than addressing technical issues which will be the subject of further discussions as the new system is implemented.

- **The new system should not be based on damped grant** - as this is not a fair assessment of spending need.
- **Assessed Need should be re-assessed and baselines updated on a regular basis** allowing the system to be "reset" and avoiding a divergence between resources and spending requirements. The timing of resets should be agreed and fixed.
- **Tariffs and top-ups should be up-rated in line with RPI increase** in the rates multiplier.
- **The scheme should include measures to assist areas of need and limited potential to generate economic growth.**
- **Police and Fire Authorities should continue to receive Formula Grant allocations for the present.**
- **The Council supports the proposed levy on business rates growth** in order to support the overall system and to assist authorities with restricted capacity to generate rates growth.

## 8. Finance

The financial issues are discussed in section 7 above.

## 9 Risks and Uncertainties

As indicated, the proposals are complex and set out a range of options which interact to generate a spectrum of possible funding levels which will need to be fully assessed once final details of the new scheme are determined by Ministers' following the consultation.

## 10. Policy and Performance Agenda Implications

Redistributed Business Rates from the National Pool currently comprise the largest element of Formula Grant funding received by the Council - changes in their distribution could have significant implications for the Council's future financial position.

## 11. Background Papers and Consultation

- Consultation Paper Localising support for council tax in England DCLG 2<sup>nd</sup> August and Technical Papers
- Briefings from the Local Government Association, SIGOMA and Local Government Futures.

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