

ROTHERHAM BOROUGH COUNCIL – REPORT TO CABINET

1	Meeting:	Cabinet
2	Date:	18th July 2012
3	Title:	The Localisation of Business Rates – Statement of Intent May 2012
4	Directorate:	Resources

5 Summary

The report summarises five papers relating to the proposed Business Rates Retention Scheme published by the Department for Communities and Local Government (DCLG) on 17 May 2012.

6 Recommendations

Cabinet is asked to:

- **Note the contents of this report; and**
- **Approve the recommendation that the Council does not, at this stage, seek to participate in a Business Rates Pool.**

7 Proposals and Details

7.1 **Background** In July 2011 the DCLG published a Consultation Paper outlining Proposals for Business Rates Retention which would take effect from April 2013. This was followed by a series of 8 technical papers on 19th August 2011. Consultation on the proposals lasted until October last year. In December the Government issued its proposed scheme for Business Rates Retention and the legislative framework for the scheme which is part of the Local Government Finance Bill. On 17th May this year, five additional papers on the scheme were published.

7.2 The papers cover:

- Central and local shares of Business Rates;
- The safety net and levy arrangements;
- The treatment of renewable energy projects;
- The pooling prospectus; and
- The economic benefits of local Business Rates Retention.

7.3 **Central and Local Shares of Business Rates.** This is probably the most significant of the papers. It had always been intended that the Business Rates Retention scheme would operate within the spending control totals set out in the 2010 Spending Review (SR 2010). This was to support the Government's policy of deficit reduction. As business rates receipts were forecast to be higher than planned local authority spending, this was to have been achieved by the Government taking back the extra business rates receipts as this was a fixed sum all the risk of lower rates receipts fell on authorities. It is now proposed that a percentage of receipts will be retained centrally. This approach, in effect shares the risk of business rates receipts being lower than forecast, however authorities' reward for generating additional rates growth is reduced.

7.4 The Statement of Intent indicates that the Government's central share will be set at **50%** - and that this will be fixed until the system is reset. DCLG has indicated resets will occur every 10 years.

7.5 This percentage is significantly larger than had been assumed in the Council's original projections – in line with other authorities the assumption had been that it would be in the region of 15%. Setting the central share at 50% would mean that the amount retained by local authorities (the other 50%) would be below the level of local government spending set out for 2013/14 and 2014/15 in SR2010. **This will be addressed by the Government providing the remaining allocation by means of Revenue Support Grant (RSG).**

7.6 Such an approach will allow the DCLG greater flexibility with respect to the resources it provides to local government. It should be noted that the Chancellor's recent budget statement (21/03/2012) indicated a potential 3.8% real terms reduction in Departmental Expenditure Limits across central government. Given Government's announcements on protecting Schools and the NHS, it is likely that local government **will have to shoulder a greater burden** of these real term reductions.

7.7 The treatment of factors such as reliefs (mandatory and discretionary), costs of collection, losses on collection, payments to major precepting authorities (e.g.

Police and Fire) and tariffs and top ups is still being considered and further consultation over the summer is planned.

7.8 In addition a **number of specific grants will be rolled into RSG** – these include the 2011/12 Council Tax Freeze Grant and funding for Council Tax Support (benefits) as well as environmental and health grants, however the methodology for including these specific grants is not set out in the paper. A full list of these specific grants is included at **Appendix 1**.

7.14 RSG allocations for 2013/14 and 2014/15 will be published in the 2013/14 Local Government Finance Report which will be released in late November or early December this year. Allocations will be aligned with the 2012/13 distribution Formulae, updated for new data (e.g. from the 2011 Census) and possible formula changes. As a result, **in spite of the introduction of business rates retention, local authorities will continue to depend on the allocation of grant from central government for a substantial element of their funding.**

7.14 **Safety Net and Levy** – these are linked as the safety net will be funded by the levy.

- The safety net will be triggered if an authority sees its income drop below its baseline funding by more than a set percentage – this will be **7.5% to 10%**. (It is intended to discuss this range in the next few weeks with the threshold being published in the summer). The Council's current allocation from the national business rates pool is £113m and on the basis of 50% of this - the threshold proposals would suggest the loss of £4-6m before the safety net came into operation.
- The levy will be proportional for every 1% increase in business rates an authority's income will increase by 1%. **For top up authorities, like Rotherham, this would mean no levy is payable.**

7.14 **Renewable Energy** - as indicated in the initial proposals all business rates revenue from new (post 01/04/2013) renewable energy projects will be retained in full by authorities. The potential implications for Rotherham are not known at this point.

7.14 **Pooling Prospectus** – the paper sets out the potential opportunities of pooling and the process for formally designating pools. Pooling is whereby local authorities across a geographical area e.g. South Yorkshire, sharing the benefits of economic growth investment across the wider area and managing volatility in business rates income levels. Pooling is voluntary, and:

- The geographic coverage of a pool will be determined by authorities as will pool governance;
- Authorities can belong to only one pool;
- One pool member will act as lead authority;
- There will be no additional financial incentive for pooling (although this may be an option in future)
- The Government may refuse to authorise pools if it is considered that their operation would affect the funding for the safety net.
- The timetable requires that authorities submit expressions of interest in pooling by **27 July 2012**, the DCLG will then will then work with those

authorities to support the development of proposals for consultation in September and designations will be announced in **November this year**.

At present authorities in Yorkshire and Humberside have in general not expressed an interest in pooling. In light of this and given; the tight timescales for rates, localisation, the other changes to local authority funding being brought in from April 2013 and the additional complexity that pooling would introduce to the proposals, officers would recommend that the Council does not at this stage seek to participate in a Business Rates Pool.

7.13 **The Economic Benefits of Local Business rates Retention** – in order to gauge the likely economic impact of business rates retention a simulation exercise has been undertaken. A range of simulations showed that over a 7 year reset period a 50% rates localisation scheme would create an increase in Gross Domestic Product of between £1.7bn and £19.9bn with a middle case scenario of £10.1bn.

7.14 The analysis indicates that the incentive for councils would be larger if there were no central share – **in the LGA's view the Government has opted for control of local authority funding over the promotion of economic growth.**

8. Finance

The financial issues are discussed in section 7 above.

9 Risks and Uncertainties

9.1 The current proposals with respect to the central share of the rates pool are significantly different from the initial assumptions and given that, as yet, there remain some significant elements to be consulted upon and resolved, **the detailed implications of the new scheme for Rotherham (and other local authorities) will not be able to be fully assessed until the 2013/14 and 2014/15 settlements are announced this Winter.**

9.2 In addition to the localisation of business rates income, changes in formula grant calculations and data are also planned, which could generate variations in the allocations to authorities. Once fixed the proposals on resets (para 7.4 above) indicate that the pattern of grant allocations will not be reassessed until 2020.

9.3 In spite of the scale of the changes and the issues yet to be resolved, the timescale for implementing this major change is very tight – for example authorities have until July 27th to submit proposals for pooling.

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 and their localisation is part of the most significant change in the funding of local government since the introduction of the Community Charge in 1990. Along with the transfer of responsibility for the funding of Council Tax Support (formerly Council Tax Benefit) and impact of other major welfare reforms the

resourcing of local government services will be altered radically. **As indicated throughout the report there is considerable uncertainty with respect to the implications of the proposal for local government and the timescales for the change are very tight.**

11. Background Papers and Consultation

- DCLG Papers – including Statement of Intent 17 May 2012
- Briefings from the Local Government Association and SIGOMA

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APPENDIX 1

Specific Grants to be Rolled into Mainstream Funding

- Bus Service Operators Grant – London buses element only
- 2012/12 Council Tax Freeze Grant
- Council Tax Support Grant
- Early Intervention Grant
- GLA General Grant
- A proportion of GLA Transport Grant
- Homelessness Prevention Grant
- A proportion of Lead Local Flood Authority Grant
- Department of Health Learning Disability and Health Reform Grant
- A proportion of Sustainable Drainage Systems Maintenance Costs Grant.