NOTTINGHAMSHIRE
Fire & Rescue Service
Creating Safer Communities

Nottinghamshire and City of Nottingham
Fire and Rescue Authority

GOVERNMENT PROPOSALS FOR BUSINESS RATES RETENTION

Report of the Chief Fire Officer

Agenda Item No:

Date: 16 September 2011

Purpose of Report:

To bring to the attention of Members the Government's proposals for the local retention of Business Rates and the potential effect of those proposals on the Fire and Rescue Authority.

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1. BACKGROUND

1.1 Until the 1980’s Local Government both set and collected Business Rates in their local area but this was changed so that National Non-Domestic Rates (NNDR) as they were renamed were set nationally and redistributed back to local areas in accordance with a formula.

1.2 NNDR was still collected locally but local councils could have no influence over the amount of the rate in the pound or indeed the amount that was subsequently redistributed to them.

1.3 For many years the Local Government Association has campaigned for Business Rates to be returned to local control such that Local Authorities can benefit from economic activity within their areas and thus have some influence over the amount they receive in business rates. It was also hoped that control of rate setting would be returned to local authorities.

1.4 Communities and Local Government have recently published a consultation document setting out their proposals for Business Rates Retention (see Appendix A) and this report sets these out for Members.

2. REPORT

2.1 In July 2011 the Department of Communities and Local Government (CLG) published a consultation document setting out their proposals for the retention of business rates and the introduction of a concept called increment tax financing.

2.2 The Fire Authority receives 74.4% of Aggregate External Funding from Redistributed Business Rates. This amounts to some £17,289,523 for 2011/2012. It therefore forms a vital part of the financing model for the Fire Authority and any changes in distribution will have a significant effect.

2.3 It is perhaps useful to point out early in this report that there are no proposals to alter the way that Fire Authorities receive their grant until after 2014/2015 although what happens after that date is unclear.

2.4 In respect of Police and Fire Authorities the consultation says:

“ The police and fire sectors will receive the level of funding for 2013-14 and 2014-15 that was agreed as part of the 2010 Spending Review. Your funding will therefore not be affected by fluctuations in business rates in your area. The way in which you are funded will be fully reviewed in time for changes to be made at the next Spending Review, from 2015-16. You might want to respond to this consultation”.

2.5 This would perhaps be more useful if the settlement for 2013/2014 or 2014/2015 had already been announced but this will not happen until December 2011 at the earliest. This means in effect that the Fire Authority is being invited to respond to a consultation that will have no effect on Fire until at least 2015/2016 and because of a new funding mechanism may have no effect then either.

2.6 Nevertheless it is considered worthwhile to consider the possible implications for both precepting and non-precepting authorities of the proposed changes.

2.7 Before doing so it is useful to consider two of the issues which will probably give the Local Government Association some cause for concern:

i) There are no proposals to allow Local Authorities to determine their own business rate poundage i.e. the level of the rate.

ii) Central Government have intimated that they have been retaining some of the existing NNDR which is contrary to the position that they have adopted previously thus the current proposals are for allowing Local Authorities to retain “some” of their business rates.

2.8 There are obvious flaws and risks in this approach that emanate from the amount of business rates actually levied within each area.

2.9 To alleviate some of these concerns there is a proposal to allow each authority to receive exactly what they would have received under the current system as a “baseline amount”. This amount would then be varied up or down depending on growth or shrinkage in the local business rate yield.

2.10 In order to achieve the baseline figures a system of Tariffs and Top-Ups is to be introduced where some authorities will receive additional help from CLG whereas others will be required to pay a tariff. It is assumed that this will work in a similar way to floor damping as exists at present.

2.11 The best guide for what might happen in terms of Fire and Police might be what will happen to County Councils who are the largest precepting authorities. Notwithstanding the baseline funding as described above the proposals are that County Councils will share the business rates revenues of each of the District Councils within a County area. This will almost certainly involve differential amounts of business rates being collected in each District Council area and therefore County Council funding becoming less certain. What is not clear is how the County’s share will be derived which leads to increased uncertainty.

2.12 There is no doubt that the real risk from locally retained business rates is that the distribution of the business rate via NNDR redistribution is significantly different from the actual distribution of collected rates. For example Central London will collect huge amounts of business rates compared with rural Norfolk. This issue is dealt with to some extent by the baselining proposals but there must be some concern that as time goes on those Authorities that see themselves raising far more business rate than they are retaining will begin to campaign to retain a “fair share”.

2.13 In conclusion there are no changes expected for Fire Authorities before 2015/2016 but it is clear that there could be fairly radical changes thereafter.

2.14 There are other more minor but important changes in the “small print” of the consultation where for example New Burdens S.31 grant funding is to be continued but funded from central governments’ share of the business rates and also that the New Homes Bonus is to be funded in the same way. Again the impact that this will have on Fire is uncertain.

2.15 Tax increment financing is unimportant in terms of the Fire Authority as this simply allows an Authority to invest in infrastructure projects on the basis that increases in business rates generated as a result will pay for those projects. The Fire Authority is not expected to be involved in such projects.

2.16 In conclusion therefore the changes proposed in the consultation do not directly impact upon the Fire Authority in the short term but give a useful insight into possible future funding arrangements.

2.17 It is not proposed to make a detailed response to this consultation on behalf of the Fire Authority as it raises more questions than answers. It is proposed however to respond to those areas which may affect Fire Authority funding in the longer term to ensure that fair principles are applied in respect of upper tier Authorities.

3. FINANCIAL IMPLICATIONS

There are no immediate financial implications of this report although clearly the amount of external funding which currently comes from business rates make this a real issue for finance going forward.

4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS

There are no human resources or learning and development implications arising from this report.

5. EQUALITY IMPACT ASSESSMENT

There is no requirement for an equalities impact assessment of this report.

6. CRIME AND DISORDER IMPLICATIONS

There are no crime and disorder implications arising from this report.

7. LEGAL IMPLICATIONS

There are no legal implications arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

The risk management implications are set out in full in the report.

9. RECOMMENDATIONS

That Members note the contents of this report

10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)

None.

Frank Swann
CHIEF FIRE OFFICER

Local Government Resource Review: Proposals for Business Rates Retention

Consultation

www.communities.gov.uk

Local Government Resource Review: Proposals for Business Rates Retention

Consultation

July 2011
Department for Communities and Local Government

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Ministerial foreword

Britain's local government finance system is one of the most centralised in the world. The Organisation for Economic Co-operation and Development (OECD) has calculated that local authorities in the USA, Spain, France, Germany, Spain and Japan all have greater autonomy over budgets than do their counterparts here. Our councils derive more than half of their income from central government grant.

If localism is to reach its potential; if councils are to live up fully to their role as powerful, effective leaders, then new legal freedoms - such as the General Power of Competence in the Localism Bill - must be matched by freedom over finance. This is not a new principle. A number of reviews over recent years, from the Layfield Committee in 1976 to the Lyons Inquiry in 2007, have emphasised the importance of local financial control to strengthening local democracy.

In the first phase of our review of local government resourcing, we have focused on local retention of business rates.

Currently, councils in England collect some £19bn of business rates each year. But no sooner has the cash come in than it is gathered up by the national Treasury, and then redistributed to councils according to a complex formula. First, this denies councils control over locally raised resources. Second, it deprives them of the certainty they need to plan their finances for the longer term. Third, it creates a disconnection between the success of local businesses, and the state of their own finances. This distorts the way councils behave.

This Government is determined to repatriate business rates. No more should proud cities be forced to come to national government with a begging bowl. Councils should have greater control over cash, helping them plan for the longer term. And they should see a direct link between the success of local businesses and their own cash flow. Any council that grows its local economy will be better off under the new system. This will create the right incentives for them to work closely with local businesses, helping to create the conditions for growth, and giving local leaders reasons to celebrate their successes, not conceal them.

We are determined that the repatriation of rates should happen in a fair and effective way. Those places with greatest dependency should, and will, continue to receive support, while being allowed to keep the products of enterprise. Those places which raise the greatest sums through business rates should expect to make a contribution. And businesses, which need stability throughout this process, will see no difference in the way they pay tax or the way the tax is set.

This consultation asks a number of specific questions about how we can best design a new system which repatriates business rates. I want to work with all local authorities, representative groups and political parties to achieve lasting change. I would welcome any comments and responses that will help us refine the proposals, and take a major step towards two of the Government’s major priorities: putting power back in the hands of local councils and communities, and creating the conditions for renewed, sustainable economic growth.

The Rt Hon Eric Pickles MP

Scope

Topic of this consultation:	This consultation seeks views on the Government's proposals to change the way local government is funded by introducing retention of business rates. It also seeks views on options for enabling authorities to carry out Tax Increment Financing within the business rates retention system. This follows the commitment in the Coalition's Programme for Government[1] to *"provide incentives for local authorities to deliver sustainable development, including for new homes and businesses"*. The Local Growth white paper[2] stated that business rates retention would be considered as part of a Local Government Resource Review. The Terms of Reference of the Local Government Resource Review were set out in a Written Statement[3] on 17 March 2011. These are attached at Annex A.
Scope of this consultation:	This consultation sets out the Government's proposed core components for a business rates retention system. In addition, the consultation sets out how we propose Tax Increment Financing will operate within the business rates retention system as a way of funding infrastructure investment to unlock economic growth. This consultation also outlines how the proposals interact with wider Government initiatives to promote growth, including the existing New Homes Bonus, and considers how they will work alongside the existing architecture of the business rates system which we are not proposing to change – for example rate reliefs and the national business rate multiplier. Eight technical papers will be published in August which provide further detail on some of the topics in this consultation.
Geographical scope:	This consultation is applicable to England only.
Previous engagement:	We have held regular meetings since March 2011 with local authority representative groups, local authority finance experts and business representatives to work through options and ideas and the mechanics of the proposed model. In addition, the department has held a number of bilateral meetings with partners and experts to share the emerging model design and

[1]http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf
[2] http://www.bis.gov.uk/assets/biscore/economic-development/docs/l/cm7961-local-growth-white-paper.pdf
[3] http://www.communities.gov.uk/statements/corporate/localgovernmentfinance

	consider their views. We have received a number of representations from partners, including local authorities, following the publication of the Terms of Reference for the Local Government Resource Review. All of this correspondence has been logged and will be used to inform the final model design.

Basic information

To:	Local authorities and local authority representative groups Businesses and business representative organisations
Body/Bodies responsible for the consultation:	The Department for Communities and Local Government Local Government Finance Directorate Business Rates and Valuation Division
Duration:	**The consultation will commence on Monday 18 July and end on Monday 24 October 2011** and is published online at: http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/
Enquiries:	ResourceReview@communities.gsi.gov.uk – Joel Winston, Zone 5/D1, DCLG, Eland House, Bressenden Place, SW1E 5DU
How to respond:	Please send responses electronically to: ResourceReview@communities.gsi.gov.uk (with attachments in Microsoft Word only) Hard copy responses can be sent to: Joel Winston, Zone 5/D1, DCLG, Eland House, Bressenden Place, SW1E 5DU
After the consultation:	Following the consultation we will review the responses received and announce the final decisions on the rates retention model.
Compliance with the Code of Practice on consultation:	This consultation document and consultation process have been planned to adhere to the Code of Practice on Consultation issued by the Department for Business, Innovation and Skills and is in line with the seven consultation criteria, which are: 1. Formal consultation should take place at a stage when there is scope to influence the policy outcome. 2. Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible. 3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals. 4. Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

	5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained. 6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation. 7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience. Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004). If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department. The Department for Communities and Local Government will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested. Your opinions are valuable to us. Thank you for taking the time to read this document and respond. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please contact: DCLG Consultation Co-ordinator Department for Communities and Local Government Zone 6/H10 Eland House Bressenden Place London SW1E 5DU or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

Chapter 1: Introduction

1.1. The Coalition Government has made clear that its priorities are to reduce the financial deficit, deliver economic growth, both nationally and locally, and reform public services.

1.2. The Spending Review[4] last year set the path for public spending over the next four years. The Budget 2011[5] set out how we intend to create the right conditions that will help the private sector grow and remove unnecessary barriers that can stifle economic growth. The 'Plan for Growth'[6], published by HM Treasury and the Department for Business, Innovation and Skills alongside the Budget this year, set out the results of the Government's Growth Review and is an urgent call for action to help Britain regain its lost ground in the world economy.

1.3. At the local level, the Government is committed to a *"radical shift of power from the centralised state to local communities"*[7]. Measures in the Localism Bill and the recent Open Public Services white paper[8] are central to this agenda. Decentralisation will create efficiencies by reducing bureaucracy; give power, money and knowledge to those best placed to find the right local solutions; and improve the relationship between government and those being governed.

1.4. Local government finance is key to delivering these objectives. Successive governments have acknowledged the need for change. Over the last 40 years, there have been reports from Lord Layfield[9], the Balance of Funding Review[10] and Sir Michael Lyons[11]. These have resulted in a high quality analysis and exploration of the benefits that could come from reform.

1.5. This Government believes that now is the right time to take action and has made a number of specific public commitments to reform the current system of local government finance to provide strong incentives for local economic growth and change local authority behaviour.

1.6. The Coalition's Programme for Government[12] set out the need for a review of local government finance. It also promised to allow communities that host renewable energy projects to keep the additional business rates they generate. The Local Growth white paper, which followed in October 2010, highlighted the Local Government Resource Review. The Terms of Reference for Phase 1 were published in March 2011, focusing on the retention of business rates and council tax benefit localisation.

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4 http://www.hm-treasury.gov.uk/spend_index.htm
5 http://www.hm-treasury.gov.uk/2011budget.htm
6 http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf
7 http://www.communities.gov.uk/documents/localgovernment/pdf/1793908.pdf
8 http://www.cabinetoffice.gov.uk/resource-library/open-public-services-white-paper
9 Layfield Report (1976): *Local Government Finance: report of the Committee of Inquiry*
10 Balance of Funding Review (2004)- http://webarchive.nationalarchives.gov.uk/20081205143343/http://www.local.communities.gov.uk/finance/balance/report.pdf
11 Lyons Inquiry into Local Government (2007) - http://www.official-documents.gov.uk/document/other/9780119898545/9780119898545.pdf
12 http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf

1.7. This consultation document delivers proposals for retention of business rates and also takes forward the Deputy Prime Minister's announcement last year that the Government will implement Tax Increment Financing. These proposals form part of a programme of incremental reform to local government finance which includes the proposed localisation of council tax benefit. The Local Government Resource Review's Terms of Reference for Phase 2, focusing on Community Budgets, are now published[13].

Local retention of business rates

1.8. Enabling local authorities to retain a significant proportion of the business rates generated in their area will provide a strong financial incentive for them to promote local economic growth. Councils can have a big influence on growth through planning, investment in local infrastructure, managing the local environment and developing a positive relationship with the private sector. Business rates retention will help to incentivise local authorities to take action to promote growth.

1.9. Our proposals focus on the distribution of business rate tax revenues, rather than changes to the system of business rate taxation. Businesses will see no difference in the way they pay tax or the way the tax is set. Rate setting powers will remain under the control of central Government[14] and the revaluation process will be unchanged.

1.10. The Government intends to bring forward legislation later in this session with a view to introducing business rates retention from April 2013.

1.11. This consultation sets out and seeks views on the Government's proposals for how a business rates retention scheme should operate.

Overview of the current system

Under the current system, local government has three main sources of income: grants from central government; council tax; and other locally generated income (such as fees and charges for services).

On average, councils receive 53 per cent of their income from central government grants, of which there are two types. First, 'specific grants', which may be ringfenced for specific purposes, or unringfenced. Second, 'formula grant', which is an unringfenced revenue grant distributed to local authorities through the Local Government Finance Settlement.

[13] http://www.communities.gov.uk/documents/localgovernment/pdf/1933423.pdf
[14] The City of London Corporation can currently (because of its special circumstances, notably its very small resident population) set its business rates multiplier, subject to certain constraints, at a higher level than the rate which applies outside the City of London and retain part of the proceeds to help pay for the services it provides. This will remain unchanged.

Formula grant funds a wide range of local services, including children's services, adult social services, police, fire, highways maintenance, environmental, protective and cultural services. It includes funding from central government, known as 'Revenue Support Grant'; Police Grant from the Home Office; and National Non-Domestic Rates, commonly known as business rates. Business rates are collected by local authorities, paid into a central government pool and redistributed through the Local Government Finance Settlement. Billing authorities (district councils and unitary authorities) collect business rates from the occupiers of non-domestic properties - mainly businesses such as shops, offices, warehouses and factories. There are approximately 1.7 million properties liable for business rates in England. Each property has a rateable value which is assessed by the Valuation Office Agency on the basis of the annual rent that a tenant would be willing to pay for it on the open market. Every five years there is a revaluation to ensure a property's rateable value reflects changes to the property market.

The business rates owed are calculated as a function of the rateable value and a multiplier. The national multiplier currently stands at 43.3p in England. So a property with a rateable value of £100,000 would have an annual bill of £43,300. The multiplier is increased each year by the Retail Prices Index (RPI). The multiplier is also adjusted at each revaluation so that the overall tax yield remains the same in real terms before and after revaluation. There are a number of reliefs (with mandatory and discretionary elements) available to occupants to reduce their liability – for example reliefs for charities, community amateur sports clubs, certain businesses in rural areas and Small Business Rate Relief.

What would these proposals mean for me?

This consultation seeks your views on proposals to change the current system by enabling councils to keep a share of the growth in business rates in their area. This will make councils more financially independent from central government and give them a strong incentive to promote local business growth. These proposals would mean:

Members of the general public will find their local council's budget is more strongly linked to local business growth. In general terms, the more new business premises are developed in your area, the more funding (outside of council tax, fees and charges) your local council will have to provide local services and investment, as well as having positive impacts on employment and the local economy more widely. The proposals include protections to ensure that local authorities are able to meet local service needs in their area.

Business rates payers see no change in the way in which their business rates bills are calculated. The Government is not proposing to change the way that properties are valued or business rates levels are set. However, it should mean that the rates you pay have more impact on local authority budgets in your local area, and that your local authority has more incentive to work closely with the Valuation Office Agency to ensure that all businesses in your area have their properties valued correctly and are paying the right amount of tax.

Developers will find local authorities have greater incentives to grant planning permissions for appropriately-sited and well-planned non-residential development and go for growth. This is especially true of new renewable energy projects that start paying business rates from year one of the system, as councils would keep all of the business rates paid by such projects. Local authorities would also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure.

Billing authorities (district councils, unitary authorities) still bill and collect business rates, as now. But instead of contributing all business rates into the central pool and receiving formula grant, under these proposals, some of your business rates would be retained locally. Your baseline level of funding would be set so that at the start of the system, your budget is equivalent to what it would have been under the current system. From then on your funding would grow if the business rates base in your area grows, but could fall if your business rate base declines. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

County councils will receive a share of business rates revenues from the districts in their area (and a top up from other areas if relevant), rather than receiving formula grant. Your baseline level of funding would be set so that at the start of the system your budget is equivalent to what it would have been under the current system. From then on, your funding would grow if the business rates base in your area grows, but could fall if your business rates base declines. You will want to consider with your districts, and possibly neighbouring areas/your local enterprise partnership, whether you could form a pool to make decisions about the distribution of funding locally. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

The police and fire sectors will receive the level of funding for 2013-14 and 2014-15 that was agreed as part of the 2010 Spending Review. Your funding will therefore not be affected by fluctuations in business rates in your area. The way in which you are funded will be fully reviewed in time for changes to be made at the next Spending Review, from 2015-16. You might want to respond to this consultation.

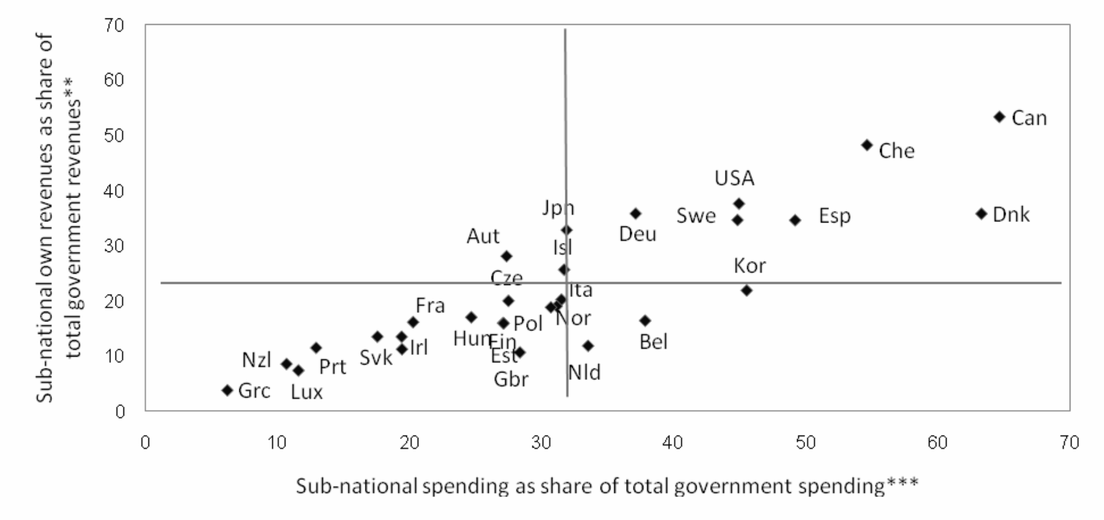
Chapter 2: The case for change

The problem

2.1. The current local government finance system is one of the most centralised in the world with local authorities, on average, raising only 47 per cent of their revenue spending locally (excluding dedicated schools grant and other specific and special grants).

2.2. Indeed, the international comparison at figure 1 below demonstrates that sub-central government in England has considerably less financial autonomy than elsewhere.

Figure 1: Sub-central governments' share in general government revenues and expenditure (2006*)[15]



*Or latest year available;
**Excluding transfers received from other levels of government;
***Excluding transfers paid to other levels of government.

2.3. Business rates, although collected by local authorities, are subsequently pooled centrally by government and redistributed to local authorities (including police and fire authorities) through formula grant. In 2011-12, £19bn of business rates are to be collected and redistributed in this way.

2.4. This dependence on a central distribution of funds means that local authorities do not face a financial incentive to promote business growth in their area, as they will not receive any of the business rates receipts from additional development. Rather, authorities arguably face a financial disincentive given that if they allow development they must provide services to commercial property. This, combined with the fact that communities tend to oppose development due to misaligned costs and benefits (localised costs versus wider, more thinly spread, benefits) has meant that local authorities can be reluctant to allow commercial development and promote economic growth.

[15] OECD,Organisation for Economic Co-operation and Development (2010), *Fiscal policy across levels of government in times of crisis*

2.5. The result is additional costs to the economy. Professor Michael Ball, in a research paper for the National Housing and Planning Advice Unit, estimated the transaction costs alone of delays in the planning application process (residential and non-residential combined) at £3bn per year[16].

2.6. Local authorities' current dependence on central government funding also has a number of further adverse consequences:

- it weakens local accountability. There is a greater incentive to design services in order to secure government funding, rather than to respond to local communities' needs or align spending with citizens' service preferences;

- authorities' ability to respond to local service pressures is determined by central government's ability, through the local government finance system, to accurately assess an authority's spending needs; and

- authorities may feel they can generate better results for their area by lobbying government for more resources or demonstrating their need, rather than driving cost efficiencies or investing in local growth.

Levers for growth

2.7. Local authorities can have a big influence on local growth, not just through the planning system, but also through a strategic approach to service delivery - such as providing local transport infrastructure that meets business needs, and ensuring young people can access education and training which develops the skills needed by local employers. The ways in which local authorities exercise other powers - including advertising consent, licensing, building regulation control and food standards - can also either help or hinder local businesses in their area.

2.8. The case for providing incentives to promote economic growth at local level has been made by a number of experts in the field. Kate Barker, in the interim report of her Review of Land Use Planning (2006)[17], criticised the lack of incentives within the local government finance framework, arguing that *"there is currently little financial incentive for plans and decisions to promote economic development, particularly in the economically stronger regions of England…the local government finance system may provide little incentive to adopt a growth agenda."*

2.9. The New Homes Bonus, local enterprise partnerships and planning reform are beginning to change the way councils plan for growth. But a stronger financial incentive is needed to ensure that local authorities respond to business concerns and actively promote the conditions that would lead to greater economic growth - especially where growth would otherwise lead to increased costs.

[16] http://www.communities.gov.uk/documents/507390/pdf/1436960.pdf
[17] http://webarchive.nationalarchives.gov.uk/20110218140706/webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/d/2/barker2_interim050706.pdf

Principles for reform

2.10. The Government has already announced - in the October 2010 Local Growth white paper and, again, on publication of the Local Government Resource Review's Terms of Reference - its key principles for addressing these problems through the retention of business rates. These principles were:

- to build into the local government finance system **an incentive for local authorities** to promote local growth over the long term;

- **to reduce local authorities' dependency** upon central government, by producing as many self sufficient authorities as possible;

- to maintain a degree of redistribution of resources to ensure that authorities with high need and low taxbases are still **able to meet the needs** of their areas; and

- **protection for businesses** and specifically, no increases in locally-imposed taxation without the agreement of local businesses.

2.11. The proposed business rates retention scheme on which we are consulting meets all of these principles. It will provide every local authority in England with a strong incentive to promote business growth as increases in local authority budgets will be linked to changes in local business rates. Authorities will be keen to engage with business and will actively seek out, and remove barriers to, investment in their local area, driving decisions on planning, business regulation and local business-facing services. Communities will be more willing to accept development due to a better alignment of costs and benefits.

2.12. Academic analysis suggests that such a rates retention model will reduce land supply restrictions. The London School of Economics' assessment[18] of the nationalisation of business rates found that the level of 'planning restrictiveness' increased following the changes leading to less development and subsequently higher costs for business through restricted supply of property. Similarly, The Centre for Cities[19] have found that, after controlling for economic conditions, the annual growth rate of commercial floor space reduced following nationalisation. This provides an indication that business rates retention will help to address the problems of the current system and will result in additional development.

2.13. That is why the Government is consulting on changes to the local government finance system. By allowing local authorities to keep a large share of local business rate income, the proposals set out in this consultation will substantially increase local authorities' financial independence – in doing so, the proposals go further than the Government's original Business Increase Bonus proposals to meet our objectives on localism and decentralisation. They will restore a direct link between local authorities and their business communities. They will help to incentivise business growth by enabling authorities to see financial benefits, as well as costs, from allowing commercial development. They will also allow councils

[18] Cheshire, Paul and Hilber, Christian A.L. (2008)), *Office space supply restrictions in Britain: the political economy of market revenge. Economic journal*, 118 (529).
[19] http://www.centreforcities.org/assets/files/2011%20Research/11-07-11_Room_for_improvement.pdf

the scope to pool resources and work together for the greater benefit of their wider area.

What is already being done?

The changes to the local government finance system on which the Government is consulting should not be considered in isolation of the steps already being taken to radically shift the approach local authorities – and their partners - take to growth in their areas.

Government is promoting a new, decentralised, localist approach to growth, providing greater freedoms and strengthened levers to local government through:

Providing for a new General Power of Competence for local authorities in the Localism Bill, published in December 2010 and going through Parliament. By allowing authorities to do anything which is not specifically prohibited by law, this will provide them with more freedom to work with others in new ways to drive down costs and meet local needs.

Streamlining the planning system, making it more efficient and less cumbersome, ensuring that all planning applications and appeals will be processed in 12 months and major infrastructure projects will be fast-tracked. The Localism Bill will require local authorities to allocate a proportion of Community Infrastructure Levy[20] revenues back to the neighbourhood from which it was raised, ensuring that those most directly affected by development are the ones to benefit from it.

Introducing a new right for communities to draw up a 'neighbourhood development plan' and have a say about where new houses, businesses and shops are sited and what they should look like, making it easier and quicker for development to go ahead.

Introducing a New Homes Bonus to provide a strong financial incentive for local authorities to deliver housing growth. Until now, increased housing in communities has meant increased strain on public services and reduced amenities. The Bonus ensures that the economic benefits of growth are returned to the areas where growth takes place, helping to engender a more positive attitude to growth and create an environment in which new housing is more readily accepted.

Establishing local enterprise partnerships to bring together local business and civic leaders within geographies that properly reflect the natural economic areas of England. These partnerships will provide the clear visions to drive sustainable private sector growth and job creation in their areas.

Establishing the Regional Growth Fund to support the creation of private sector jobs. This will help communities currently dependent on the public sector to make the transition to private sector led growth and prosperity.

[20] The Community Infrastructure Levy was introduced in 2010 as a simple, fair and transparent system for collecting developer contributions towards infrastructure. Planning obligations are being scaled back to deal with local impacts of development.

Removing top-down targets, including abolishing the time-consuming and expensive process of Regional Spatial Strategies which often alienated and antagonised local communities, pitting them against development.

Creating Enterprise Zones to allow areas with real potential to create the new businesses and jobs they need.

Providing a new power in the Localism Bill for local authorities to grant business rate discounts, enabling them to respond to the concerns of local businesses.

Offering greater financial freedoms for local authorities by reducing ringfencing.

Chapter 3: A scheme for business rates retention

3.1. The seven core components of our proposed rates retention scheme are outlined below. They have been developed to:

- ensure a fair starting point for all local authorities;
- deliver a strong growth incentive where all authorities can benefit from increases in their business growth and from hosting renewable energy projects;
- include a check on disproportionate benefits;
- ensure sufficient stability in the system; and
- include an ability to reset in the future to ensure levels of need are met.

3.2. Within each component there are options on which we would welcome views to inform the final detailed design of the scheme and ensure we meet our objective of balancing a strong growth incentive with adequate protections for those authorities which experience significant fluctuations in the level of their business rates or which are less able to respond to the incentive.

3.3. Alongside this consultation, we will shortly be publishing a series of eight technical papers to provide a more detailed discussion of the issues and options. Chapter 6 provides a summary of the issues each of these papers will address.

Spending Review control totals

Spending Review 2010

3.4. Spending Review 2010 set out expenditure control totals for local government over the four-year period from 2011-12 to 2014-15. We expect that business rates collected in England in 2013-14 and 2014-15 will be greater than these expenditure control totals.

3.5. To deliver a fiscally sustainable system and avoid putting at risk the Government's deficit reduction programme, we will ensure that the business rates retention scheme operates within the set expenditure limits for 2013-14 and 2014-15. Forecast business rate revenues above those limits will be set aside and directed to local government through other grants. The amounts set aside in this way will include funding to maintain powerful incentives for housing growth through the New Homes Bonus, as set out in more detail in chapter 4.

3.6. This approach will ensure that local authorities are able to benefit from growth in business rates above forecast levels.

Beyond 2014-15

3.7. The Government will consider, at the next Spending Review, 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.

3.8. The implications for the amount of business rate revenues which is set aside and directed to local government through other grants, and options for dealing with any change, will be discussed in detail in a technical paper to be published in August, in good time to inform consultation responses.

A summary of proposed components of the business rates retention scheme:

A fair starting point…

Component 1: Setting the baseline
To establish a fair starting point for all local authorities and ensure that no-one loses out at the outset of the system we would set a baseline position in 2013-14 for each local authority, within the overall envelope of the expenditure control totals set out in the 2010 Spending Review. As set out at paragraph 3.5, this means that a proportion of business rates revenues will be set aside and directed to local government through other grants. This component is described in more detail at paragraphs 3.9 – 3.15.

Component 2: Setting tariffs and top ups
In order to achieve this fair starting position, government would calculate a tariff or top up amount for each local authority. Those authorities with business rates in excess of their baseline level of funding would pay a tariff to government; those authorities with business rates yield below their baseline would receive a top up grant from government. The tariff and top up grants would be self funding and remain fixed in future years. This component is described in more detail at paragraphs 3.16 – 3.20.

A strong growth incentive…

Component 3: The incentive effect
In future years, local authorities would keep a significant proportion of increases in their business rates. So, authorities whose business rates grew would retain a significant proportion of that growth in revenues, while those whose rates declined or grew at a lower rate would experience lower or negative growth. This component is described in more detail at paragraphs 3.21 – 3.23.

A levy recouping a share of disproportionate growth to ensure sufficient stability in the system…

Component 4: A levy recouping a share of disproportionate benefit
To manage the possibility that some local authorities with high business rate taxbases could see disproportionate financial gains, government would recoup a share of disproportionate benefit through a levy. The proceeds would, in the first instance, be used to manage significant negative volatility in individual authorities' business rates and so ensure stability in the system. Depending on the amounts raised, resources could also be redistributed to, for instance, authorities with lower growth, or for example, to fund regeneration schemes, in areas with high growth potential. This component is described in more detail at paragraphs 3.24 – 3.37.

Component 5: Adjusting for revaluation
The system would be adjusted to take account of changes in the distribution of business rates yield resulting from five yearly revaluations, while ensuring that the incentive to promote physical growth in the business rates base remained in place for all authorities. This component is described in more detail at paragraphs 3.38 – 3.39.

An ability to reset to ensure levels of need are met…

Component 6: Resetting the system
Government would have the option of resetting the system if it was felt that resources no longer met changing service pressures sufficiently within individual local authority areas. The longer the period between resets, the greater the incentive effect and level of certainty for local authorities about the funding system. This component is described in more detail at paragraphs 3.40 – 3.44.

And a mechanism for collaborating.

Component 7: Pooling
Local authorities, for example those in local enterprise partnerships, or districts and counties, could choose to form voluntary pools within the system, allowing them to share the benefits of growth and smooth the impact of volatility over a wider economic area. This component is described in more detail at paragraphs 3.45 – 3.55.

A technical paper ('Tariff, top up and levy options') allowing local authorities to see the effect of the options within the key components upon the balance between maximising the growth incentive and offering sufficient protections, will be available alongside the other technical papers in August, in good time to inform consultation responses. A full list of the technical papers to be issued is set out in chapter 6.

Component 1: Setting the baseline

3.9. We want to establish a fair starting point for all local authorities and ensure that no authority loses out in its ability to meet local service needs at the outset of the system, as a result of their business rates base.

3.10. Across the country, some local authorities 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 authorities would see very large reductions in their revenue, which could adversely affect their ability to deliver core services to their communities.

3.11. The Government therefore **proposes a re-balancing of resources at the outset of the scheme.** This will involve some authorities paying a 'tariff' to government and some receiving a 'top up' from government. In order to determine whether an authority should pay a tariff or receive a top up amount, we will need to establish a 'baseline' sum of money for each authority. This would, in effect, be an assessment of the level of funding against which to compare the amount of business rates the authority collects.

3.12. In deciding how to set the baseline, we have taken as a priority the need to maintain local budget stability and give local authorities the opportunity to benefit from the growth incentive within the new system from day one. We consider that the best and most pragmatic way to achieve this is to start from local authorities' current formula grant position, rather than introduce major change and turbulence into the system, which would result in a long period of transition and weaken the incentive effect. As a result, **we propose to use 2012-13 formula grant as the basis for constructing the baseline in the first year of the new business rates retention system.**

3.13. As explained above, we will also need to take into account the spending control envelope for local government in 2013-14 and 2014-15. This could be done in one of two ways. The first option would be to take individual authorities' actual 2012-13 formula grant allocations as their baseline position but adjust them in proportion to the new control totals with no further changes. This approach provides certainty and stability for the start of the business rates retention scheme.

3.14. Alternatively, we could establish the baseline position for each local authority by applying the process used to determine their 2012-13 formula grant allocations to the local government control totals and at the same time make very limited, technical updates to the formulae.

3.15. Local authorities will of course have a keen interest in precisely how the baseline is set and the options and associated issues will be discussed in more detail in a technical paper to be published in August in good time to inform consultation responses. This will include consideration of any need to change the legislative provisions which require government to pay Revenue Support Grant and a topslice of that grant to any specified body. A full list of the technical papers to be issued is set out in chapter 6.

Q1: What do you think that the Government should consider in setting the baseline?

Q2: Do you agree with the proposal to use 2012-13 formula grant as the basis for constructing the baseline? If so, which of the two options at paragraphs 3.13 and 3.14 do you prefer and why?

Component 2: Setting tariffs or top ups

3.16. To ensure we achieve a fair starting point, **we propose that authorities whose business rates income is higher than their baseline position would pay the difference to central government in the form of a 'tariff'. Those whose business rates are less than their baseline would receive the balance from central government in the form of a 'top up' grant**.

3.17. The tariffs or top up amounts mean that at the outset of the new system, each authority receives an equivalent amount to what it would have received in formula grant according to the approach adopted to establishing the baseline. There could, in theory, be authorities whose business rates exactly match their baseline position and therefore neither pay a tariff nor receive a top up. Since the system balances overall at the outset these adjustments are self-funding: the total tariffs across authorities will equal the total top up amounts.

3.18. To create a strong incentive and reward authorities promoting growth, in future years of the system the tariff and top up amounts would remain fixed so that a significant proportion of business rate growth in future years would be retained by the local authority in which it occurred.

Fixing tariff and top up amounts

3.19. Within this component, there are options for fixing the tariff and top up amounts that - together with other features capable of being flexed within the system, all of which interact – have a bearing on the overall balance achieved between maximising the growth incentive and ensuring adequate protections.

- The first option would be to **uprate the year one tariff and top up amounts by the Retail Prices Index (RPI)** each year to reflect the annual RPI increase in the nationally set business rates multiplier. In a tariff authority, any uplift in the rates used to pay the tariff, resulting from the RPI increase in the multiplier, would be taken out of their budget - it would therefore have to achieve real physical growth in its taxbase to see its spending power rise in real terms. In a top up authority, the RPI uplift in its rates resulting from changes to the multiplier would remain with the authority (subject to any levy on disproportionate benefit), and its top up amounts would also increase by RPI.

- The second option would be to retain the year one cash amounts and **not uprate by RPI**. Authorities paying a tariff and those receiving a top up would both see their collected rates uprated by RPI, as a result of the annual increase in the business rates multiplier. However, authorities in receipt of a top up would face a very strong incentive to grow their taxbase to offset real-terms reductions in their top up amount. This approach therefore creates a strong incentive for growth, but offers less protection to authorities with low taxbases and high needs.

Measuring business rates

3.20. In order to calculate tariffs and top up amounts, it will be necessary not only to establish the baseline, but also to have an agreed way of measuring each authority's business rates income. There is a range of different options for carrying out an assessment of business rate income. It could, for instance, be based on business rates income at a single point in time, or the average over a number of years. It could include or exclude elements which can cause rates income at the local authority level to change from year to year for reasons unconnected to the underlying business rate base – such as the overall amount of relief from rates that local businesses are entitled to, or losses on appeal. A technical paper will be published in August to provide a detailed discussion of these issues and options for the methodology for measuring business rates income. A full list of the technical papers to be issued is set out in chapter 6.

Q3: Do you agree with this proposed component of tariff and top up amounts as a way of re-balancing the system in year one?

Q4: Which option for setting the fixed tariff and top up amounts do you prefer and why?

Component 3: The incentive effect

3.21. From the first year of introducing business rates retention, all local authorities would stand to benefit from increases in their business rates, providing a strong incentive for growth. Regardless of how they are calculated, the principle of fixing tariff and top up amounts means that a significant proportion of additional business rates in future years would be retained by the local authorities in which they were generated.

3.22. As a result there would be an incentive for authorities to promote business rates growth, and a corresponding disincentive for authorities to see their rate bases fall, as this would directly affect their revenues. There would also be strong incentives for effective billing and collection of business rates.

3.23. This incentive effect is at the heart of the changes that business rates retention is aiming to deliver - shifting from the allocation of local government funding solely on the basis of a central government assessment of need and resources to future increases in funding being on the basis of local economic growth. This change has the potential to ensure that authorities engage more actively with businesses and seek to maximise their business rate base and ensure that businesses in their area all pay the correct rates.

Q5: Do you agree that the incentive effect would work as described?

Component 4: A levy recouping a share of disproportionate benefit

3.24. There would be no cap on the amount of business rates growth an authority can benefit from under the rates retention system. The more any authority grows its business rates base, the better off it will become.

3.25. However, to manage the possibility that some local authorities with high business rate taxbases could see disproportionate financial gains, and to make the system more sustainable in the long term, **we propose that Government would collect a levy recouping a *share* of disproportionate benefit; and use the proceeds to help manage large, unforeseen negative volatility in individual authorities' budgets**.

3.26. The way in which the levy is designed can have a positive impact on moderating a 'gearing effect' caused by the uneven distribution of business rate bases and the different spending needs of local authorities. As an example, in an authority with a business rates base of £100m and a total budget requirement of £50m, a 5 per cent increase in business rates income will result in a 10 per cent increase in revenue. For another, with a different rate base (£10m) and the same budget requirement (£50m), the same 5 per cent increase in rates income would only produce a 1 per cent increase in revenue.

3.27. There are a number of ways in which the levy could be calculated:

- The first option would be to create a levy based on pence in the pound with **the same rate for all authorities**. This would offer a simple and transparent incentive. However, a key disadvantage is that it does not deal with the gearing effect described above and would therefore result in authorities with a high tax base and low need benefiting more from the same levels of growth than authorities with a low taxbase and high need.

- The second option would be to create a levy based on pence in the pound but introduce a 'banding approach'. This would **assign authorities into different bands, with different levy rates** depending on their levels of benefit, so that authorities with a higher business rates base would face a higher levy rate. The main advantage is that it would help the gearing effect by more closely equating the increase in business rates income with an increase in revenue. The key disadvantage is that any system that sets bands will always have 'cliff edges' with some authorities falling just above or below a band boundary.

- The third option would be to create an individual levy rate for each local authority, to **allow the retention of growth in an equivalent proportion to its baseline revenue**, for example, 1 per cent growth in business rates income equalling retention of up to 1 per cent revenue growth. This means that if an authority grows rates by 1 per cent, then their rates retained will not be more than 1 per cent of their baseline revenue[21]. In this way we would help the gearing effect and offer a more equal incentive for all authorities – managing disproportionate benefits that authorities with large rates bases (relative to their baseline revenue) can make - without having any 'cliff edges' in the system, which would be the case for the banding approach.

3.28. There is flexibility in the third option to change the business rates growth to revenue growth ratio. For example instead of limiting 1 per cent business rate growth to 1 per cent revenue increase, we could adjust it to either: create a stronger incentive allowing, for example, 2 per cent revenue increase so that a high number of authorities keep all of their growth, or to 0.5 per cent of revenue, to increase levy funds available to support other areas. For the latter, the growth incentive is weaker, but almost every authority has a rate base sufficiently large to enable them to see 0.25 per cent growth in their baseline revenue for every 1 per cent of business rates growth.

3.29. Within each of the three options, there is then a balance to be struck between strongly incentivising growth (broadly speaking, the lower the levy, the greater the incentive for growth) and building in protections (broadly speaking, the higher the levy, the greater the amount of funding available for the protections discussed at paragraphs 3.30 to 3.37 below).

[21] This refers to the part of the budget funded by business rates and excludes other income, for example council tax or fees and charges.

Q6: Do you agree with our proposal for a levy on disproportionate benefit, and why?

Q7: Which option for calculating the levy do you prefer and why?

Q8: What preference do you have for the size of the levy?

Government's Renewable Energy commitment

In establishing an approach on managing the proportion of business rate rates growth which would be retained by local authorities in future years we need to consider the Programme for Government commitment to: *"allow communities that host renewable energy projects to keep the additional business rates they generate."*

We will ensure that business rate revenues from new renewable energy projects are kept by the local authorities within the area of the project, and that those revenues are discounted in the calculation of any levy that might be applied to growth in business rate revenues. This would mean that authorities would keep all of the business rates generated from new renewable projects. We propose that at least the greater proportion of this funding should go to the level of the local planning authority to maximise the community benefit.

This will be explored in more detail in a technical paper to be published in August, in good time to inform consultation responses. A full list of technical papers to be issued is set out in chapter 6.

Q9: Do you agree with this approach to deliver the Renewable Energy commitment?

Use of the proceeds of the levy

3.30. The proceeds of the levy could be used in a variety of ways. In redistributing this money we should not undermine the incentive effects of the approach as a whole. To ensure the necessary stability in the system, however, **we propose that a proportion of the levy pot is used to help manage significant, negative volatility in individual authorities' business rates**. There are two main reasons why local authorities may experience volatility and sudden decline in business rates:

- The first is caused by inherent volatilities of the business rates system. Between revaluations, rates income can vary from year to year because of appeals and physical changes to properties. In previous years, rates income has varied by about 10 per cent per year at local level. These changes can be unpredictable and are generally out of a local authority's control.

- The second is caused by a sudden change in local economic circumstances, for example, the closure or relocation of a major business.

3.31. In addition, **we propose that a proportion of the levy pot is used to protect the spending power of authorities who are less able to respond to the incentive** and have low growth, potentially reducing funding to levels where it becomes difficult to meet the service needs of the area.

3.32. To protect the spending power of authorities facing these circumstances (both significant volatility and being less able to respond to the incentive) and give local authority behaviour time to adapt, **we propose establishing a safety net** using the proceeds of the levy.

3.33. The safety net could offer two different forms of protection for local authorities: a) a level of short term protection against major drops in income to allow local authorities time to adjust budgets; and b) a level of longer term protection against drops in income below the baseline.

3.34. Funding from the levy pot could be available if:

- an authority experiences a drop of more than x per cent in its business rates compared to the previous year; or

- an authority's rates drop more than y per cent below its baseline business rates.

3.35. This would provide assurances for authorities that their income cannot fall by more than a manageable percentage from year to year or to a particular level below its baseline over time. This would ensure they are able to spend more of their money on providing services rather than offsetting risk. There is however a trade off between the level of protection and the incentive effect – the stronger the protection, the weaker the incentive effect. Setting the levy at a lower level and maximising the amount of business rates growth retained locally would involve a greater transfer of risks as well as of rewards, as the protection that could be afforded by the levy pot would be commensurately less.

3.36. A technical paper on volatility and the safety net will be published in August to provide more detail on how we envisage it operating and exploring what the balance between this trade off should be. A full list of the technical papers to be issued is set out in chapter 6.

3.37. Depending on the total size of the levy pot, there are choices to be made about the remainder. We could:

- **provide <u>ongoing</u> support to authorities that have experienced significant losses that take more than one year to recover from;**

- **top up the growth achieved in every authority which had not contributed to the levy.** This could reward authorities which had grown a small business rate base strongly;

- **support revenue expenditure in areas of lower growth or target expenditure on projects to unlock growth and prosperity;**

- **redistribute the remaining levy pot to all local authorities in proportion to each authority's baseline.** This would be the most effective way of ensuring that service pressures could be met in every authority, but would not support the growth incentive;

- **hold some levy money back in higher growth years to ensure sufficient funding for the safety net in lower growth years.**

Q10: Do you agree that the levy pot should fund a safety net to protect local authorities:

i) whose funding falls by more than a fixed percentage compared with the previous year (protection from large year to year changes); or
ii) whose funding falls by more than a fixed percentage below their baseline position (the rates income floor)?

Q11: What should be the balance between offering strong protections and strongly incentivising growth?

Q12: Which of the options for using any additional levy proceeds, above those required to fund the safety net, are you attracted to and why?

Q13: Are there any other ways you think we should consider using the levy proceeds?

Component 5: Adjusting for revaluation

3.38. Every five years, the Valuation Office Agency re-assesses all business properties and gives them new rateable values, based on rental values, for the purpose of calculating what business rates are payable. This is called revaluation and takes place to reflect the changes in the property market across the country. At revaluation, the overall increase in aggregate yield is capped by RPI as in all other years, and the multiplier is reset to achieve that effect. As different properties' rateable values will change by different proportions at a revaluation, the tax charge is redistributed across England. This means the business rates yield in each authority could go up or down significantly, depending on whether rateable value growth in their area has been greater or less than the national average.

3.39. This could result in local authorities experiencing significant volatility in their budgets as a result of revaluation changes which are out of their control. To avoid this effect, **we propose that the tariff or top up of each authority is adjusted at revaluation, so that the sum of each authority's retained rates and tariff or top up adjustment is the same after revaluation as immediately before**. This has the effect of ensuring that the incentive linked to physical growth can remain over the long run. It does, however, remove financial gain (or loss) from wider economic uplift reflected in rental values.

Q14: Do you agree with the proposal to readjust the tariff and top up of each authority at each revaluation to maintain the incentive to promote physical growth and manage volatility in budgets?

Transitional Relief

The transitional relief scheme protects business ratepayers from large increases at the five-yearly revaluation but, if operated within the rates retention system, it would also have an impact on local authority rates income. Some authorities would be better off because of transition and some worse off.

We do not propose to change the system of transitional relief which offers valuable protections to business and helps them manage the impact of changes to bills resulting from revaluation.

To manage the impact of transitional relief on budgets in the rates retention system, **we propose to strip out from the rates retention scheme the impact of the transitional relief on local authorities' finances**. This will ensure that authorities are not exposed to costs or surpluses arising from a transitional relief scheme applied in their local area over which they have no control.

A technical paper on variations of this option will be published in August. A full list of the technical papers to be issued is set out in chapter 6.

Q15: Do you agree with this overall approach to managing transitional relief?

Component 6: Resetting the system

3.40. In order to achieve a strong incentive effect, the tariff and top up amounts will remain fixed. However, over time, we would want to have the option of resetting the system if it was felt that resources were becoming too divergent from core service pressures within individual local authority areas, for example, because of population movements, or the characteristics of the area changing. **We propose having a mechanism to reset the system** to be able to realign resources, potentially with a completely new assessment of need should it be required.

3.41. In principle, the longer the period between resets, the greater the incentive effect as the benefit of growth is retained for longer. Further, if the period between resets is too short, new developments may not be completed and begin generating business rates in time for the local authority to benefit at all. In addition, if the reset period is known in advance, the more possible it becomes for local authorities to plan on that basis, and potentially to manage growth and investment in their area to seek to achieve the maximum gains from the reset process. This could result in perverse outcomes as local authorities seek to defer growth in their local area in the year before a reset is due.

3.42. There are two possible approaches to the reset period:

- The government could **decide not to set a fixed period for resets in advance**. Instead it would take a judgement on the basis of an objective assessment of how resources in the system were aligned with changing levels of underlying need as to whether a reset for need was necessary. This would strengthen the incentive effect and avoid perverse effects where authorities put themselves in a situation to demonstrate a high level of need or fail to invest due to uncertainty over the future.

- The government could **set a fixed period for resets**. This would give local authorities certainty over the period for which they would retain the benefits of growth. A longer period (for example over 10 years) would offer a strong incentive effect and encourage long term investment in growth. A shorter period would reduce that effect but offer more frequent reassessment of spending needs.

3.43. There are also different ways in which a reset could be carried out:

- First, the system could be **partially reset** against the baseline position only. This would mean redistributing the business rate income that was in the system on day one – leaving the income attributable to growth to sit with the authorities that achieved it.

- Second, we could do a **full reset** of the whole system – taking into account all of the business rate income then in the system including the growth achieved.

3.44. When undertaking a reset for need and resources – either partial or full – **we propose that it would be open to government to change the basis on which need was determined**. Any reset could determine the assessment of need and resource, and therefore the distribution of business rates, on some other basis than formula grant if the government agreed such an approach.

Q16: Do you agree that the system should include the capacity to reset tariff and top up levels for changing levels of service need over time?

Q17: Should the timings of resets be fixed or subject to government decision?

Q18: If fixed, what timescale do you think is appropriate?

Q19: What are the advantages and disadvantages of both partial and full resets? Which do you prefer?

Q20: Do you agree that we should retain flexibility on whether a reset involves a new basis for assessing need?

The new burdens principle

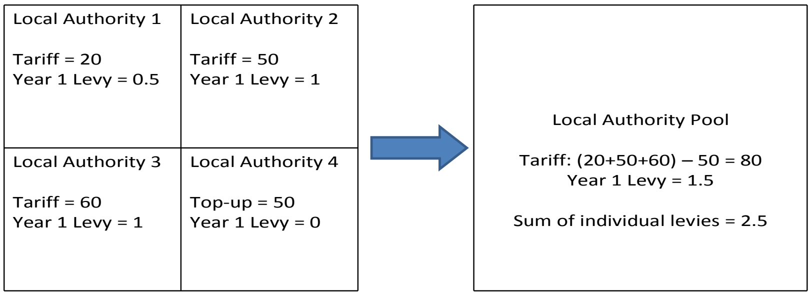
To ensure that the pressure on council tax is kept down, there is a long standing principle which states that the net additional cost of all new burdens placed on local authorities (including parishes, police and fire and rescue authorities) by central government must be assessed and fully and properly funded.

The relevant department leading on the policy is responsible for quantifying and funding the new burden and ensuring the necessary resource transfer is made. Previously, this has been managed by transferring additional funding into the Revenue Support Grant – one of the elements of formula grant – at the time of the Local Government Finance Settlement.

Under a business rates retention system some form of new burdens principle would continue to be needed to prevent excessive increases in council tax. We therefore propose to review the existing new burdens guidance, taking into account the proposals in this consultation. For example, departments could pay a section 31 grant to local authorities to meet the costs of a new burden, before mainstreaming the funding into the business rates retention system or other funding streams, such as the current Local Services Support Grant.

Component 7: Pooling

3.45. Under a rates retention system, we propose 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, amongst their members.



All figures (£m) are illustrative only

3.46. Pooling has two potential benefits. It could enable groups of local authorities to make additional increases in growth through collaborative effort by taking advantage of economic efficiencies and working across natural economic geographies. Were a pool to include local authority members of a local enterprise partnership, working together across a real economic area, it could both minimise displacement effects and bring greater alignment between financial incentives and decision-making on local economic development. Pooling could also help local authorities to manage volatility by sharing fluctuations in their budgets across a wider economic area.

3.47. Depending on the mix of authorities in the pool, and their individual tariffs, top ups and levies, pooling could also increase the level of rates retained across the pool where it leads to a lower aggregate levy. There is a theoretical possibility that the levy may be higher, and the rates retained therefore lower if the pool consisted of only tariff authorities all experiencing positive growth. But in this scenario the collaboration benefits producing additional growth would likely offset this effect.

3.48. Whilst there are clear potential benefits of pools, there are challenges associated with making them work. There are practical considerations about getting the geographies right and reliance on significant co-operation and agreement between member authorities to ensure the workability and stability of the pool.

3.49. Within the pool, there would need to be a system for:

- agreeing each member's contribution to the pool's tariff or entitlement to a portion of the pool's top up;
- agreeing each member's contribution to the levy amount – which in effect determines how the proceeds of growth are shared;
- agreeing how the proceeds of new business rate growth should be spent; and
- dealing with failure to agree on any of the above topics.

3.50. We want to encourage pools under the rates retention system. To give them the best chance of working and of realising the potential benefits, we are proposing the following criteria:

- that they are **voluntary** – pooling should not be imposed on areas;
- that they are **subject to assurances around governance and their workability** before being recognised by central government as a pool;
- that, **if the pool dissolved**, the members of the pool would return to their **individual** tariff, top up and levy amounts.

Pooling in two tier areas

3.51. We think that when pools form, it makes sense for districts to align with their counties. This is because, when tariffs and top ups for counties are set, a significant amount of the business rates collected by the district councils in their area will be 'assigned' to them (see box below – “Impact on non-billing authorities: county councils, police authorities and fire authorities”). If a district formed a pool outside its county area, it would still have to ‘pay’ a fixed proportion of its collected business rates to its county. This has a number of implications.

3.52. Under this scenario, the county could of course stand to benefit from any growth in the district as a result of the activities of the pool, but it would also carry some of the risk of the district being part of the pool - without having any contribution to the pool’s strategy or say over the way in which the tariff or levy contributions were shared. For example, the pool within which the district is operating could decide to promote growth elsewhere. This could result in a reduced level of funding for the county, which would still need to deliver the same level of upper tier services across its entire area; it could not offer a lower level of service in the particular district in the other pool.

3.53. If we adjusted the system to protect the county from reductions, it would still remain controversial, as it would be near impossible to separate any growth arising from the activities of the pool and county council.

3.54. We therefore think that there is a case for a fourth criterion, to require that pooling arrangements do not separate a district from its county. An alternative approach would be to require consent from the county before a district pooled with other authorities outside the county area. This would mean that it would be dependent on local agreement between all parties and that the county would have the final say as to whether it wanted to manage the risks involved.

Incentives to form pools

3.55. Whilst forming a pool could help to manage volatility and increase growth across an area, we could take further steps to encourage the formation of pools by providing further rewards for authorities that do – for instance, by allowing them to retain a greater proportion of growth within the rates retention system, or by offering additional incentives outside the system. Of course, any incentive offered to pools on retaining a higher proportion of growth would – all else being equal – result in smaller amounts being levied overall.

Q21: Do you agree that pooling should be subject to the three criteria listed at paragraph 3.50 and why?

Q22: What assurances on workability and governance should be required?

Q23: How should pooling in two tier areas be managed? Should districts be permitted to form pools outside their county area subject to the consent of the county or should there be a fourth criterion stating that there should always be alignment?

Q24: Should there be further incentives for groups of authorities forming pools and, if so, what would form the most effective incentive?

Impact on non-billing authorities: county councils, police authorities and fire authorities

Currently formula grant distributes resources not only to the billing authorities that collect business rates, but also to non-billing authorities, namely police and fire authorities and county councils in two tier authority areas. Therefore, we need to consider how these authorities will be funded under a rates retention scheme.

County councils

County councils have strong levers for promoting economic growth across their local area. We propose that all of the proposed components of the scheme and options for balancing strong incentives for growth with protections to ensure needs can be met, discussed in this chapter, would apply to county councils. County councils will receive a share of the business rates collected by district councils in their area (for instance, based on current revenue share). The difference between its share of business rates and baseline level of funding will determine whether the county should pay a tariff or receive a top up.

Subsequent business rates growth in the area would then also be shared between the district and county, so that both districts' and counties' budgets are dependent on the area's performance in driving business rates growth. This will provide a strong incentive for county and district councils to work together to promote local economic growth.

County councils and their districts will have a strong interest in the arrangements for sharing business rates across two tier areas. This will be the subject of a more detailed technical paper to be published in August in good time to inform consultation responses. A full list of technical papers to be issued is set out in chapter 6.

Police and fire authorities

Police and fire authorities have more limited levers for driving business growth and we therefore propose to treat them differently to billing authorities and county councils. Rather than having their funding affected by fluctuations in business rate income in 2013-14 and 2014-15, the police and fire sectors will receive guaranteed funding at the levels agreed in the 2010 Spending Review for these years. Damping policy for police authorities in these years will continue to be decided by the Home Secretary. The mechanics of how this will be achieved will be covered in a separate technical paper ('Establishing the baseline') to be published in August. A full list of the technical papers to be issued is set out in chapter 6.

The Government will fully review the way in which police and fire authorities are funded beyond this period in time to allow for changes to be implemented from the beginning of the next Spending Review period in 2015-16. This will include considering the potential for all government funding for the police to come from the Home Office. This will be in parallel to considering more closely aligning local authority functions and responsibilities with business rates income (as set out in this chapter, paragraph 3.7).

Q25: Do you agree with these approaches to non-billing authorities?

Chapter 4: Interactions with existing policies and commitments

4.1. Our proposals represent a radical reform of the local government finance system. The Government has a number of existing policies and commitments which have implications for local government funding. This chapter explains how we propose to deliver each of those commitments and policies alongside business rate retention.

The New Homes Bonus

4.2. The New Homes Bonus, which commenced in 2011, creates a powerful 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, with an additional amount for affordable homes, for the following six years to ensure that the economic benefits of growth are returned to the local area.

4.3. The Department for Communities and Local Government has set aside almost £1bn over the Spending Review period to fund the scheme, including nearly £200m in 2011-12 in year 1 and £250m for each of the following three years. Under the current local government finance system, funding beyond those levels is due to come from formula grant i.e. centrally pooled business rates.

4.4. The Government is committed to continuing to fund the New Homes Bonus within a business rates retention system.

4.5. We propose to deliver this commitment by fixing individual authorities' tariffs and top up amounts at a level which leaves a sufficient sum aside to fund the future cost of the New Homes Bonus. This would involve making a judgement, at the outset of the rates retention scheme, about the likely sum needed to fund future New Homes Bonus payments, which would need to take into account the latest housing growth projections and the potential level of central support available (there is £250m available for each year of the current Spending Review to 2014-15).

4.6. To ensure that the 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 this pot will not be needed. The Government will ensure that this is returned in full each year to local government. One way of doing this would be to redistribute the amount to local authorities in proportion to their baselines.

Q26: Do you agree this overall approach to funding the New Homes Bonus within the rates retention system?

Q27: What do you think the mechanism for refunding surplus funding to local government should be?

Local Authority Central Services Education Grant

4.7. The system for funding academies aims to give academies funding that is equivalent to what the authority spends on services for maintained schools. This means that there are resources within the local authority funding system that will in future need to be paid to academies. In the current Local Government Finance Settlement, DCLG made a transfer of funding for £148m in 2011-12 and £265m in 2012-13 to meet the estimated cost of these services for new academies and free schools. As the number of academies and free schools will continue to increase, funding will still need to be transferred from local authorities to them. Government will discuss options with local authorities.

The central list

4.8. The majority of business properties are listed on local rating lists and local authorities are responsible for the billing and collection of business rates from their occupiers. Certain types of property, which are not by their nature suitable for assessment on local rating lists, are listed on the central rating list, which is run directly by DCLG.

4.9. Under the business rates retention scheme, we do not propose to make any change to the types of properties which are generally, for administrative purposes, placed on the central list. Business rates will continue to be collected from the occupiers of centrally listed properties by central government.

4.10. As set out in chapter 3, funding levels for local government overall are fixed at the control totals already set for each of the last two years of the Spending Review 2010. We will review the position of centrally collected business rates at the next Spending Review.

Other functions funded through the local government settlement

4.11. The government funds a number of functions, which are generally cross-cutting in nature, through the local government settlement, for example, providing resources for specified bodies. The reforms in this consultation document will have no impact on the government's decisions on the funding of these functions in the future.

Running a good business rates system

4.12. During the course of the review, we have considered what improvements to the collection and enforcement of business rates might be desirable.

4.13. We propose to:

- allow billing authorities to publish certain statutory information which accompanies business rates bills online, instead of sending hard copies (though local authorities must send out hard copies when they are requested);

- operate multi-year billing for business rates; and

- clarify legislation on business rates refunds, so that billing authorities are permitted to offset outstanding liabilities from previous years, before offering refunds.

Business rates reliefs

4.14. The business rates system currently contains a number of mandatory reliefs (such as for empty properties and charities) and discretionary reliefs (such as for not for profit organisations) which reduce the liability of the ratepayer. The Government believes that ratepayers should be able to rely on the certainty and consistency that a national standard of reliefs provides and that therefore the current system of reliefs should be maintained. There will be no changes to the current system of reliefs, including eligibility. Government will include an allowance to cover the central government funding element of discretionary reliefs to ensure that local authorities have sufficient resources to continue to offer this important service. In practical terms this will mean that tariff and top up calculations will need to take account of reliefs.

4.15. We will publish a technical paper in August setting out options for how this could work in practice. A full list of the technical papers to be issued is set out in chapter 6.

Q28: Do you agree that the current system of business rates reliefs should be maintained?

Chapter 5: Supporting local economic growth through new instruments

5.1. Local retention of business rates is an important incentive for councils to drive local economic growth. To support councils in this, we are committed to strengthening the tools that they have to promote growth. This includes providing more freedoms to local authorities to make use of additional revenues to drive forward economic growth in their areas.

5.2. There are some tools for local authorities already in place:

- The **Business Rate Supplement** Act 2009 provided a new discretionary power for county councils, unitary district councils and, in London, the Greater London Authority to levy a maximum 2 pence supplement on the business rate. The authority is able to retain the proceeds to fund additional projects to promote the economic development of their local area, for example, to fund improvements in transport links, skills training, or promoting an area to attract inward investment.

  The Greater London Authority is levying a business rate supplement as part of the funding arrangements for Crossrail. The Government is, through the Localism Bill, amending the 2009 Act so that all liable businesses will be able to have a vote on the imposition of all future business rate supplements.

- A **Business Improvement District** is a partnership between a local authority and the local business community to develop projects and services in a defined area that will benefit the trading environment for up to five years. There is no limit on what may be provided under a Business Improvement District. Improvements may include extra safety or security measures, cleansing and environmental measures or improved promotion of the area.

  Business Improvement Districts are funded by businesses through an additional levy on the business rates bill of those businesses that are liable within an area. Business Improvement Districts can cover all the businesses within a given area, or be sector-specific, i.e. just for specific classes or sectors within a defined area. Businesses decide on the amount of the levy by a vote in a ballot on whether the scheme should go ahead. After a five year term is completed a second term can be implemented but is subject to a further ballot.

5.3. These existing tools offer local authorities powerful opportunities to work with businesses to agree priorities for investment and growth in their local area.

5.4. But we are committed to doing more. Through the Localism Bill, the Government will also give local authorities a broad power permitting them to reduce the business rates bills of any, or all, local businesses, as they see fit, according to local circumstance. The cost of these decisions will be borne locally.

5.5. Business rates are a significant cost, particularly for small businesses. Local business rate discounts will allow local authorities to provide temporary assistance to businesses to support small business growth and help start-up firms to encourage entrepreneurship. Providing this local discretion will mean local authorities have the flexibility to provide appropriate help to local businesses.

5.6. The remainder of this chapter focuses on our proposals to implement **Tax Increment Financing** as a way of funding infrastructure investment to unlock economic growth and regeneration.

5.7. Tax Increment Financing has been used in other countries to capture the value of uplifts in local taxes that occur as a result of infrastructure investment. In effect, Tax Increment Financing allows that uplift to take place by borrowing against the value of the future uplift to deliver the necessary infrastructure.

5.8. In 2010, the Deputy Prime Minister committed the Government to introducing Tax Increment Financing, allowing authorities *“the freedom to borrow against extra business rates to help pay for additional new developments”*.

Tax Increment Financing case study

In March 2011, the Scottish Parliament approved the use of Tax Increment Financing in the Waterfront area of Edinburgh.

The business case demonstrated that its use would assist in delivering infrastructure such as a new road link, public esplanade, pier and lock gates that would unlock regeneration in Leith.

The economic appraisal identified that the proposed infrastructure investment is expected to create around 800,000 square feet of commercial space, 1,100 hotel beds, 1,240 residential units, as well as £660m of private investment, with an additional 4,900 full-time equivalent jobs.

5.9. The Local Government Resource Review has considered the most appropriate way of delivering Tax Increment Financing in the context of our proposals to allow authorities to retain a significant proportion of their local business rates.

5.10. 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. Local authorities are able to borrow for capital projects without government consent, provided that they can afford to service the borrowing costs out of revenue resources, which can include future identified revenue streams.

5.11. Local retention of business rates will remove the most important barrier to Tax Increment Financing 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 their business rates. Borrowing for Tax Increment Financing 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.

5.12. However, such borrowing can only take place if local authorities and developers have a degree of certainty about the future tax revenue streams and whether there are sufficient guarantees that they will be retained within the authority. So the business rates retention scheme set out in chapter 3 needs to be able to deliver sufficient certainty to authorities, developers and banks to ensure that, in practice, Tax Increment Financing schemes do come forward.

5.13. There are two ways in which Tax Increment Financing could be operated within the business rates retention system:

- the first would allow local authorities to determine for themselves whether to invest in a Tax Increment Financing scheme, but would not exempt revenues from the impact of the retention scheme;

- the second would involve stronger government controls on the ability to bring forward a scheme but would guarantee revenues, without the risk of loss to the levy and reset process.

5.14. **Option 1**: In the rates retention system as described in chapter 3, after the setting of tariffs and top ups in year one, any additional business rates growth would sit in the area in which it is generated, but be subject to a levy to recoup a share of disproportionate benefit. Tariffs and top ups remain fixed for a period, but can be adjusted for revaluation or reset completely to re-align resources with need.

5.15. Under this option, we would not design in any special treatment of the revenues in the Tax Increment Financing area. This would mean that any growth in business rates within the area would be subject to the levy and would be taken into account in any reset of top ups and tariffs. Local authorities would be free to borrow against all their retained business rate revenues including anticipated growth, subject to the normal operation of the prudential borrowing system. Local authorities would have certainty about how the levy is applied to recoup a share of disproportionate benefit and would be able to plan borrowing and Tax Increment Financing projects on this basis.

5.16. **Option 2**: Under this option, which would be implemented in addition to option 1, additional business rates growth resulting from the Tax Increment Financing project would be retained for a defined period of time. During this defined period, it would not be subject to the levy and would be disregarded in any re-assessment of top ups and tariffs.

5.17. This approach offers the benefit of a guarantee that business rates growth in a defined area could be used to service debt and would not be at risk of reduction from the levy and resets. However, since the business rate growth in the area would be protected from the levy and from resets, there would be less money in the levy pot to manage significant volatilities and potentially a smaller proportion of resources would be available for re-balancing at any reset. With no controls over numbers of Tax Increment Financing schemes, this effect could be substantial.

5.18. As a result, this approach would require government control or approval in order to limit the number of schemes coming forward and maintain resources available for re-balancing at any reset. This could be done through a central government competition or bidding process.

5.19. The different approaches offer different benefits and risks:

- Option 1 would allow free and unfettered access to Tax Increment Financing. Although the risk of loss of a share of revenue to the levy and reset may limit the number of schemes that come forward, local authorities could mitigate this effect by using all growth across their area, not just development unlocked by the Tax Increment Financing infrastructure, and by pooling and prioritising key infrastructure for investment across a wider area.

- Option 2 would offer greater guarantees that additional growth (from defined developments that have been unlocked by the Tax Increment Financing infrastructure), will be sufficiently secure for developers and banks to lend against. But that is balanced by the need for government to take a more centralised approach and impose a limit on the number of schemes.

Enterprise Zones and Tax Increment Financing

Enterprise Zones were announced by the Government at the 2011 Budget. In the Enterprise Zone prospectus, Government committed that the uplift in business rates revenues from within the Enterprise Zone above the current baseline could be retained for 25 years from April 2013 to support the priorities of the local enterprise partnership.

To deliver this commitment, the Government will guarantee that, within the business rates retention system, all the uplift in business rates revenues within an Enterprise Zone area will be retained by the local enterprise partnership and will therefore be disregarded from the levy and not be taken into account in any re-assessment of the top ups and tariffs.

This will give local partners the certainty that they require to borrow against future revenues and invest in infrastructure to unlock growth and regeneration.

Q29: Which approach to Tax Increment Financing do you prefer and why?

Q30: Which approach do you consider will enable local authorities and developers to take maximum advantage of Tax Increment Financing?

Q31: Would the risks to revenues from the levy and reset in option 1 limit the appetite for authorities to securitise growth revenues?

Q32: Do you agree that pooling could mitigate this risk?

Q33: Do you agree that central government would need to limit the numbers of projects in option 2? How best might this work in practice?

5.20. Following responses to this consultation, the Government will publish a technical paper setting out more detail on Tax Increment Financing.

Chapter 6: Next steps

6.1. The consultation period on our proposals for how a business rates retention scheme should operate will run for 14 weeks from Monday 18 July to Monday 24 October. Responses will inform the final scheme design. The Government intends to bring forward legislation later in this session with a view to introducing business rates retention from April 2013.

6.2. A **summary of questions** in the consultation document is attached at Annex B.

6.3. Alongside this consultation we will shortly be publishing a **series of technical papers** to consider more of the detail. These are summarised in the table below:

	Technical Paper	Content
1	Establishing the baseline	How, technically, we establish the baselines and the implications of fixing them for a number of years between resets.
2	Measuring business rates	The issues associated with measuring business rates and options for doing so.
3	Dealing with non-billing authorities	The basis for funding police and fire authorities in 2013-14 and 2014-15 and, more widely, that for apportioning rates between authorities.
4	Business rates administration	The consequences for business rates administration of the scheme outlined in the consultation paper.
5	Tariff, top up and levy options	Options for the design of tariffs, top ups, the levy and the use of levy income.
6	Volatility	Causes and the options for dealing with it.
7	Revaluation and transition	The practicalities of assessing business rate income following a revaluation. It will also consider the implications of the transition scheme – and in particular, how this affects business rate administration and the payments made between authorities.
8	Renewable energy	Definitions of renewable energy, the treatment of rates from renewable sources for the purposes of tariffs, top ups and levies, and their distribution between the tiers.

Annex A: Terms of reference for Phase 1 of the Local Government Resource Review

The first phase of the Review will consider the way in which local authorities are funded, with a view to giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies.

It will look at ways to reduce the reliance of local government on central government funding, increase local accountability and ensure that the benefits of economic growth are reflected in the resources authorities have.

The review will include consideration of changes to the business rates system, and focus in particular on:

a) the optimum model for incentivising local authorities to promote growth by retaining business rates, whilst ensuring that all authorities have adequate resources to meet the needs of their communities and to deliver the commitments set out in the Spending Review;

b) the extent to which these proposals can set local authorities free from dependency on central funding;

c) considering how to fund authorities where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils who do not collect business rates, such as upper tier authorities, recognising that some parts of the country are currently more dependent on government funding;

d) reviewing the scope for greater transparency and localisation of the equalisation process;

e) the position of councils whose business rate yield would be significantly higher than their current spending;

f) how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;

g) how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;

h) how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;

i) examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers; and

j) the wider implications of rates retention for related policies, including the work of the Commission on the Funding of Care and Support and the Government’s other incentive schemes (the New Homes Bonus and the commitment to allow communities to keep the business rates for renewable energy projects).

The Review will take account of the responses made to the questions in "Local growth: realising every place's potential". It will also conduct extensive engagement with interested parties, including businesses of all sizes, to ensure that all views and perspectives are taken into account.

Following the announcements at the Spending Review and through introduction of the Welfare Reform Bill that Government will localise Council Tax Benefit, the Review will also consider the design of the new scheme (to be launched in 2013-14) and what flexibilities local authorities should have to help keep overall council tax levels down.

The first phase of the Review will conclude by July 2011, followed by the necessary steps to implement the concluded reforms.

Annex B: Summary of consultation questions

Chapter 3: A scheme for rate retention

Component 1: Setting the baseline

Q1: What do you think that the Government should consider in setting the baseline?

Q2: Do you agree with the proposal to use 2012-13 formula grant as the basis for constructing the baseline? If so, which of the two options at paragraphs 3.13 and 3.14 do you prefer and why?

Component 2: Setting the tariffs and top ups

Q3: Do you agree with this proposed component of tariff and top up amounts as a way of re-balancing the system in year one?

Q4: Which option for setting the fixed tariff and top up amounts do you prefer and why?

Component 3: The incentive effect

Q5: Do you agree that the incentive effect would work as described?

Component 4: A levy recouping a share of disproportionate benefit

Q6: Do you agree with our proposal for a levy on disproportionate benefit, and why?

Q7: Which option for calculating the levy do you prefer and why?

Q8: What preference do you have for the size of the levy?

Q9: Do you agree with this approach to deliver the Renewable Energy commitment?

Q10: Do you agree that the levy pot should fund a safety net to protect local authorities:
i) whose funding falls by more than a fixed percentage compared with the previous year (protection from large year to year changes); or
ii) whose funding falls by more than a fixed percentage below their baseline position (the rates income floor)?

Q11: What should be the balance between offering strong protections and strongly incentivising growth?

Q12: Which of the options for using any additional levy proceeds, above those required to fund the safety net, are you attracted to and why?

Q13: Are there any other ways you think we should consider using the levy proceeds?

Component 5: Adjusting for revaluation

Q14: Do you agree with the proposal to readjust the tariff and top up of each authority at each revaluation to maintain the incentive to promote physical growth and manage volatility in budgets?

Q15: Do you agree with this overall approach to managing transitional relief?

Component 6: Resetting the system

Q16: Do you agree that the system should include the capacity to reset tariff and top up levels for changing levels of service need over time?

Q17: Should the timings of reset be fixed or subject to government decision?

Q18: If fixed, what timescale do you think is appropriate?

Q19: What are the advantages and disadvantages of both partial and full resets? Which do you prefer?

Q20: Do you agree that we should retain flexibility on whether a reset involves a new basis for assessing need?

Component 7: Pooling

Q21: Do you agree that pooling should be subject to the three criteria listed at paragraph 3.50 and why?

Q22: What assurances on workability and governance should be required?

Q23: How should pooling in two tier areas be managed? Should districts be permitted to form pools outside their county area subject to the consent of the county or should there be a fourth criterion stating that there should always be alignment?

Q24: Should there be further incentives for groups of authorities forming pools and if so, what would form the most effective incentive?

Impact on non-billing authorities

Q25: Do you agree with these approaches to non-billing authorities?

Chapter 4: Interactions with existing policies and commitments

New Homes Bonus

Q26: Do you agree this overall approach to funding the New Homes Bonus within the rates retention system?

Q27. What do you think the mechanism for refunding surplus funding to local government should be?

Business rates relief

Q28: Do you agree that the current system of business rates reliefs should be maintained?

Chapter 5: Supporting local economic growth through new instruments

Q29: Which approach to Tax Increment Financing do you prefer and why?

Q30: Which approach do you consider will enable local authorities and developers to take maximum advantage of Tax Increment Financing?

Q31: Would the risks to revenues from the levy and reset in option 1 limit the appetite for authorities to securitise growth revenues?

Q32: Do you agree that pooling could mitigate this risk?

Q33: Do you agree that central government would need to limit the numbers of projects in option 2? How best might this work in practice?

Department for Communities and Local Government

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