LGA briefing on Consultation: Business Rates Retention

Date: 17 July 2012

Introduction

The Government has launched a consultation on a range of technical issues concerning the transition from the current formula grant system and the implementation of the new business rates retention scheme in April 2013.

Business Rates Retention Technical Consultation – on the DCLG website

The closing date for the consultation is 24 September 2012. The LGA will be interested to see the views and draft responses from member authorities and groups of authorities. Please send them to
Email: lgfinance@local.gov.uk

This briefing summarises the consultation paper by section, and provides some initial analysis and comment. The LGA will make its further analysis available to member authorities to assist with the preparation of consultation responses. These are due with DCLG by **24 September 2012**.

LGA comment

- The LGA has always supported the principle of business rate localisation. We are pleased there is now a degree of retention for local authorities.

- The LGA remains concerned that, in developing the detailed arrangements for business rates retention, the Government is putting the interests of the Treasury ahead of those of local authorities.

- Government forecasts for overall business rates yield have, in recent years, been consistently over optimistic. Retaining this optimism bias will significantly reduce the benefit authorities might gain from localised business rates. The LGA thinks that the forecasting process should be more transparent and that local authorities should retain all real terms growth in business rates.

- Taking out up to £350 million as insurance funding for the safety net and capitalisation is equivalent to a significant extra cut in 2013/14. Even if some of this money is subsequently returned to local authorities, it will be far too late for it to be taken into account in budgets. The LGA calls on the Government to take its share of the risk on funding for the safety net, rather than requiring local authorities to pay for that.

- These are technical changes but it is important for there to be transparency at the outset of the business rates retention scheme. We welcome the views of authorities on how the changes will affect them.

Local Government Association

Briefing

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Section 1 provides a general overview of the business rates retention system, and confirms that the overall design of the new arrangements remains as previously announced.

Section 2

Establishing the start-up funding and baseline funding levels

This section of the document looks at how baseline funding and revenue support grant will be established for each local authority. The document includes exemplifications of the effect of each possible change on 2012/13 formula grant.

Local government control totals

The Government shows how the control totals that it will use can be derived from those in the last Spending Review. It confirms that it will make further cuts to account for the assumption that public sector pay will go up by 1 per cent in 2013/14 and 2014/15 and take away £120 million (spread over six years) from general local authority funding to pay for the New Development Deals for Newcastle, Nottingham and Sheffield.

The effect is to reduce the local government spending control totals by £260 million for 2013/14 and by £517 million for 2014/15.

Some fire grants that were to have been rolled into formula grant will remain as separate grants, as will any funding for neighbourhood planning, yet to be determined.

The Government is holding back £100 million to pay for capitalisation and up to £250 million for the safety net, which will eventually be funded out of the levy. This money will be taken mainly from the surplus new homes bonus (NHB).

The Government will also be removing £2 billion out of each year's spending control total, up to 2020, to fund the NHB. Any money that is not needed will be returned to local government as described below.

The effect of all these changes means that the decrease in the control total for all local government (including police and fire) is 10.8 per cent in 2013/14 and then 7.7 per cent in 2014/15. This is a significantly worse position than the original Spending Review figures which were 0.8 per cent decrease for 2013/14 and 5.8 per cent decrease for 2014/15.

With transfers and adjustments it means that the control total for local government will be £24.759 billion in 2013/14 and £23.046 billion in 2014/15.

Baseline formula changes

The document is consulting on the following possible changes to relative needs formulae:

- Concessionary travel – use of new Department for Transport figures on bus boardings.

- Rural services – a variety of changes to the weightings for sparsity in various relative needs blocks – as proposed by the Rural Services Partnership.

- Relative resources element – returning the amount to its 2010/11 level to take account of the fact that the amount of council tax raised by authorities has remained roughly constant while grant has decreased.

Grants rolled-in using tailored distribution

A number of grants were rolled into formula grant in 2011/12 using the same distribution methods as they had when they were separate grants. Any damping was taken care of in the main formula grant damping.

These are:

- Local transport services
- Supporting people
- Housing strategy for older people
- Funding for post-16 staff transfer
- HIV/AIDS support
- Preserved rights funding
- Animal health and welfare funding
- Civil contingency in London funding.

The Government is proposing to keep the methodology for these tailored distributions unchanged.

Transfers and adjustments

The document contains further details on the transfers and adjustments which were announced in May. Unlike the grants rolled-in using tailored distribution these are likely to be included outside damping. These are:

Transfers in:

- **2011/12 council tax freeze grant.** £593 million is to be transferred in 2013/14 and 2014/15 to pay for the effects the 2011/12 council tax freeze.

- **Council tax support grant.** Based on the latest figures, the Government is assuming that the grant within the business rates retention system will be £3.387 billion for 2013/14 and £3.383 billion for 2014/15. The proposals for distribution were in the DCLG consultation which closed on 12 July.

- **Early intervention grant.** £1.726 billion will be transferred in 2013/14 and £1.633 billion in 2014/15. This includes the funding for the two-year-old free education which will be put into the dedicated schools grant. The same methodology will be used as for the grant in 2012/13; 77 per cent using the formula used for distributing Sure Start money in 2010/11 and the rest using the Connexions formula which was used within area based grant in 2010/11. Data, such as population, will be updated in line with the rest of the formula.

- **GLA general grant.** £46 million to be transferred – to the GLA only.

- **GLA transport grant.** £920 million to be transferred in 2013/14 and £770.5 million in 2014/15 – which will go to the GLA only through the local share.
- **Homelessness prevention grant.** £80 million to be transferred for each of 2013/14 and 2014/15. Distribution is expected to be similar to that in 2012/13.
- **Lead Local Flood Authorities grant.** £21 million to be transferred for each of 2013/14 and 2014/15.
- **DoH learning disability and health reform grant.** £1.408 billion in 2013/14 and £1.439 billion in 2014/15; will use the current methodology of distribution.
- **Sustainable Drainage (SuDS) funding.** Amount yet to be determined.
- **Bus service operators grant.** The Government intends to issue a separate consultation paper in the summer on transferring this in London only.

Transfers out:

- **Central education functions which may transfer to academies –**

£1.218 billion will be transferred out in 2013/14 and £1.193 billion in 2014/15. Authorities will then be funded separately for the central education functions that they still retain. The Department for Education has issued a separate consultation on how this funding will be calculated and distributed.

For more detail, please see the LGA's separate briefing on this below:

Academy money to be return to councils: LGA media release 17 July.

Taxbase data

The Government proposes to continue to use projections for the council taxbase in the relative resources element.

Population and other data indicators

There are a variety of options presented on population data. The Government's preferred option is to use the interim 2011-based sub-national population projections – incorporating 2011 Census data. This is due to be published in September / October 2012. However, if that is not available they may use either the 2011 mid-year population estimates (incorporating 2011 Census data) or the headline Census figures published on 16 July.

Generally the Government will update data indicators to the most recent available. However, there are some indicators which will change because the previous sources of data are no longer available and some which cannot be updated, including day visitors.

Distribution of revenue support grant

As announced by the Government in May, the new revenue support grant (RSG), which will be largely funded through the central share of business rates, will be the difference between the control total for local government and the local share baseline. Based on an estimated business rates aggregate for 2013/14 of £23 billion, the document estimates that £10.6 billion will be the local share and £13.5 billion will go in RSG.

For 2014/15 distribution will not change but the Government is proposing to scale the level of RSG to the reduced 2014/15 control totals. This will take account of the spending profile for the different service tiers.

Floor damping

The Government is proposing to calculate floor damping at a service-tier level. This means that, for example, all damping for lower-tier services – provided by shire districts and single-tier authorities – would be included in one damping block.

In 2011/12 and 2012/13 the Government had different bands for damping depending on grant dependency. These bands will be frozen.

New homes bonus (NHB)

The Government confirms it will be removing £2 billion for each of the years affected by the reset period. In initial years £345 million will be held back from this to fund capitalisation and the safety net. The Government aims that NHB payments should be announced in time to be announced with the provisional Local Government Finance Settlement. Any money not used, and not required for the £345 million hold back, will be returned to authorities via a Section 31 non-ringfenced grant, and will be distributed in proportion to authorities' baseline funding levels.

Police funding

The document confirms that police funding will not be included in the business rates baseline: they will be funded through the central share of business rates.

Section 3: Setting up the business rates retention scheme

1. The consultation paper sets out the steps involved in setting up the **individual authority business rates baselines**:
    - Determining the estimated business rates aggregate (the total amount of business rates that authorities are expected to collect in 2013/14)
    - Splitting the aggregate total into central and local shares
    - Apportioning the local share between all billing authorities to arrive at the billing authority business rates baselines
    - Splitting the billing authority business rates baselines between the billing authority and major precepting authorities
    - Applying a top-up or a tariff to the individual authority business rates baseline

2. The Government intends to determine the **estimated business rates aggregate** by first arriving at a notional gross yield for 2013/14 and then making a series of adjustments. To arrive at the 2013/14 notional gross yield, the Government will:
    - determine the total rateable value of businesses on local rating lists, using the local lists at 30 September 2012, as published by the Valuation Office Agency, up-rated by the change in the rateable value for England from 1 April 2012 to 30 September 2012 to give a notional rateable value as at 1 April 2013.
    - add to this half the expected growth in rateable value for 2013/14 (represented as the change in rateable value from 1 April 2012 to 30 September 2012) to provide an estimate of rateable value as at 30 September 2013.
    - multiply the 30 September 2013 notional rateable value by the 2013/14 small business non-domestic multiplier.

3. The following **adjustments** will be made to the notional gross yield figure to arrive at the estimated business rates aggregate:
    - Net cost of the small business rate relief scheme in 2013/14.
    - Mandatory reliefs (including rate-free periods for empty property).
    - Discretionary reliefs.
    - Enterprise Zones, New Development Deals and renewable energy schemes.
    - Costs to billing authorities of collection.
    - City of London offset.
    - Losses on appeal, including an estimate for 2013/14 losses.

    The paper confirms that transitional relief will be dealt with outside the business rates retention scheme.

4. To establish a billing authority business rates baseline, the estimated business rates aggregate will be apportioned to each billing authority on the basis of **proportionate shares**. It is proposed that proportionate shares will be based on the average rates income over five years from 2007/08 to 2011/12, and not the two years that was envisaged in the August 2011 technical paper. Incomes for 2007/08 to 2009/10 will, for this purpose, be adjusted to take into account the changes to authorities' total rate income that resulted from revaluation 2010.

5. In calculating average rates income, the Government proposes to start from the net contribution to the pool figures and then adjust for transitional reliefs, losses in collections and deferrals when calculating proportionate shares. Draft proportionate shares figures will be published in the autumn when 2011/12 NNDR data is available.

6. Billing authority business rates baselines will be split between the billing authority and major precepting authorities on the basis of major precepting authority shares. The **county share** of the billing authority baseline will be set at 20 per cent, less the percentage share due to single purpose fire and rescue authorities where the county does not carry out that function. The **single purpose fire and rescue authority share** will be set at two per cent. The paper indicates that the Government is still discussing the split of business rates between the **London boroughs** and the Greater London Authority (GLA) with the

relevant authorities and their representative bodies and intends to set out its proposals on these shares shortly.

Section 4: The operation of the rates retention scheme

1. This section of the paper is arranged chronologically to give local authorities an idea about how the scheme will operate year-by-year and sets out more detail on:
    - Information requirements (including revisions to the NNDR1 and NNDR3 forms)
    - Schedules of payments
    - Budget setting.

2. The **NNDR1 form** that billing authorities use to estimate the business rates income that it expects to collect in the next financial year will be revised to take as its starting point the rateable value appearing on local lists at 30 September. It will also allow authorities the ability to provide their own forecasts by adjusting income figures to reflect local intelligence about growth and possible changes to the rating list.

3. The estimate of business rates income in the NNDR1 will be used by central Government to determine a **schedule of payments** for the payment of the central share due to central government. The estimate will also form the basis on which a billing authority and its relevant precepting authorities work out a schedule of payments for the business rates income due to the precepting authority. Billing authorities will be responsible for making payments to any relevant precepting authority, and to central government in respect of the central share, in accordance with the schedule of payments agreed before the start of the financial year.

4. The estimates of business rates income in NNDR1s will be used to determine authorities' provisional eligibility for **safety net payments** for the forthcoming financial year. The Government will confirm provisional safety net payments to authorities on the strength of the provisional NNDR1s returned in mid-December. Authorities can then include the sums in their budgets and the Government will build them into the schedule of payments.

5. As in the current system, each billing authority will be required to complete a NNDR3 form setting out the non-domestic rating income that was actually collected during the course of the year. On the basis of the out-turn information contained in its NNDR3 form, a billing authority will need to calculate the final surplus or deficit on its **collection fund**. Any difference between the final surplus, or deficit, and the estimated surplus, or deficit that was taken into account in setting the budget for year two, will need to be shared between the billing authority, central government and any relevant precepting authorities in accordance with the relevant shares of business rate income. The information in the NNDR3 will also be used to calculate the final sums due to, or from, authorities by way of transitional protection, levy or safety net payments.

7. For **budget setting** purposes, an authority will need to deduct the sums due to the Government in respect of the central share and sums due to relevant precepting authorities from the net rating income reported in its NNDR1 form for that year, and then add or subtract the transitional protection payment it can expect to receive or pay as well as its top-up or tariff payment. Authorities will also be able to calculate whether they are eligible to pay a levy or receive a safety net payment and should bring these sums into their budgets as well. The treatment of any surplus or deficit in the collection fund within the budget is left to the discretion of the authority's Section 151 officer. Precepting authorities will need to aggregate the sums due to them from each of their billing authorities then add or subtract their top-up or tariff payment.

8. **Reconciliation payments** in respect of any transitional protection that is allowed will be made in the year following the financial year to which they relate and should be retained in their entirety by the billing authority. Any surplus or deficit in the collection fund needs to be adjusted to reflect any reconciliation payments.

9. It is the Government's intention that tariff, top-up payments, levy and safety net payments will all be made to or from an authority's **general fund**. The Government will provide in regulations for a sum to be transferred from an authority's collection fund to its general fund in respect of the income due to the billing authority, broadly on the basis of its NNDR1 forecast.

10. In the early years of the scheme, the **safety net** will be guaranteed. To ensure that sufficient funds are available to provide support to authorities meeting the safety net criteria regardless of levy income, and as noted above, the Government intends to hold back up to £250 million of money that would otherwise be paid out through RSG. Any money not needed will be returned to local authorities in proportion to the start-up funding allocation. In the event that the **levy** income is greater than required to support authorities meeting the **safety net** criteria, any surplus **levy** income will be distributed back to local government.

11. The consultation material sets out the formulae that will be used to calculate the levy rate and safety net threshold that will apply for each authority. Levy payments will be made at the end of a financial year rather than in-year.

Further information: For further information on this briefing, please contact Tim Hamilton, LGA Public Affairs and Campaigns Manager on Telephone: 020 7664 3270 or Email: tim.hamilton@local.gov.uk .