Department for Communities and Local Government

Business Rates Retention

Technical consultation - Equality Statement

July 2012

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Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

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Equality Statement

1. Name of Directorate
Local Government Finance
2. Please list all the policy streams in your business area.

Reforming the Local Government Finance System

England's local government finance system is currently one of the most centralised in the world. Under the current system business rates, which are levied on all non-domestic properties in England, are collected by billing authorities and then pooled at the national level. They are re-distributed by central government to all local authorities as part of their formula grant settlement.

The Government is working to replace the current formula grant funding system with a business rates retention scheme from 2013-14. This will enable local authorities to retain a significant proportion of the business rates generated in their area and decrease their dependence on central government funding. This will provide a strong financial incentive for them to promote local economic growth. Councils can have a big influence on growth through interventions including planning, investment in local infrastructure, managing the local environment and developing a positive relationship with the private sector. This change is not simply about redistributing the proceeds of growth - if these reforms lead to every council working as hard as it possibly can to help businesses thrive, then they have the potential to increase growth overall, which will benefit communities, since any increase in business rates means more money to invest in local services.

Technical consultation on business rates retention

The Government is consulting on the technical details underpinning the business rates retention scheme over summer 2012, including:

- setting local authorities' start-up funding allocation and baseline funding levels;
- calculating local authority business rates bases, (which together with the baseline funding level will be used to determine tariff and top-ups) – including treatment of major precepting authorities and reliefs; and
- operation of the levy and the safety net.

The Government will then publish a draft Local Government Finance Report for 2013-14 late in 2012 and undertake statutory consultation on the provisional Local Government Finance settlement for 2013-14.

Previous Equality Impact Assessment

In December 2011, the Department for Communities and Local Government undertook an initial screening to examine the potential impact of business rates retention on protected groups. This assessment concluded that there were no disproportionate impacts on protected groups. This Equality Statement updates the assessment in light of subsequent policy developments.

3. Identify any policy streams aimed at or impacting upon a Protected Group.

Local government provides a large range of services, including those targeting or impacting upon protected groups. The role of the Department for Communities and Local Government is to set the overall framework for local government funding- individual funding decisions will be made by individual councils themselves, who are in turn directly accountable for these decisions to their electorate. Furthermore, local authorities are subject to the equality duties and so will need to consider equality issues when making these decisions. The Government's proposals for the business rates retention scheme only change the way that business rates are distributed and will make no change to the way individual businesses' rates are valued or collected- there will be no direct impact on individuals or groups of people.

Impact of distributional changes

This Equality Statement therefore focuses on the impact of distributional changes in local government funding. The business rates retention scheme is designed to ensure that all councils have a strong incentive for growth, whilst making sure all councils have sufficient resources to deliver services to local people. The scheme will be set up to provide a stable starting point so that at the outset of the scheme each council receives adequate funding through a mixture of retained business rates and central government grant to meet its funding needs. This is achieved through a system of tariffs and top-ups. Over time, however, the income of individual councils will diverge from their starting position depending upon growth in their local business rates base. This, of course, is fundamental to the growth incentive and therefore an integral feature of the reform.

Whilst the Office for Budget Responsibility forecasts business rates growth at national level, no evidence is available centrally regarding business rates growth at a local level. However, we have analysed historic growth to see if there is any correlation with protected groups. It is important to note that the presence or absence of any such correlation between historic local growth rates and protected groups does not mean that such a correlation will be present in future. Statistical analysis undertaken by the Department for Communities and Local Government in 2012 for the purposes of this Equality Statement indicates that:

- Historic local business rate growth is negatively correlated with the proportion of Disability Living Allowance claimants - but the correlation is very weak
- No significant correlation between historic local business rates revenue growth and race/ethnicity, age structure or religion.

An authority's gearing – the relationship between its baseline funding level and its business rates baseline - will affect its balance of risk and reward within the scheme. Broadly speaking, a top up authority will see lower rewards for positive growth balanced against lower risk to its retained income from negative growth, whilst tariff authorities will see higher rewards for positive growth balanced against higher risk to their retained income from negative growth. We have analysed the distribution of protected groups between tariff and top up authorities and found that:

  - tariff authorities providing education / personal social services have a higher proportion of BME population than top up education / personal social services authorities

- top up billing authorities have a higher proportion of Disability Living Allowance claimants than tariff billing authorities

We can conclude from this analysis that only one of these outcomes indicates a possible negative impact on the protected groups. There is a very weak correlation between areas with a higher proportion of Disability Living Allowance claimants and slower historical growth in their business rates revenue. However, since the correlation is very weak, past growth rates do not determine future growth rates and substantial protections are already built into the scheme, there is no evidence of a disproportionate impact on this group. Our analysis also highlighted positive correlation between top-up authorities, who will receive a greater proportion of their income from index-linked grant and therefore are more protected under the scheme, and Disability Living Allowance claimants. Other findings suggest a lack of any differential impact on protected groups as a consequence of the distribution of funding to their local authority.

The significant protections already built into the scheme are an important part of considering disproportionate impact on protected groups. These protections include:

- Index "tariffs" and "top-ups" to RPI in future years. This ensures that a major part of top-up authorities' income within the scheme - and so their ability to fund key services such as adult social care and child protection - is not eroded in real terms over time,
- ensure that, in two-tier areas, counties are top-up authorities and nearly all district councils are tariff authorities**.** This tier split ensures that the strongest incentive is placed on the tier of government responsible for planning decisions and that counties experience a greater degree of protection, as a major part of their income will be provided through index-linked top-up grant,
- provide support through a "safety net" for authorities that in any year see their retained rates income drop, in any year, by more than a set percentage (final percentage will be set between 7.5% and 10%) below their retained business rates baseline funding level.

Overall, owing to the lack of any strong correlation between historic rates of local business rates growth and protected groups, to the fact that historical growth is no prediction of future growth and the significant protections in the business rates retention scheme, we can conclude that there is no disproportionate impact on any protected group and therefore the policy should be implemented.

Taking account of Relative Needs and Relative Resources

To ensure that authorities most dependent on formula grant, which tend to be authorities with more significant social challenges, received a smaller decrease in funding than other authorities, the Government decided for the 2011-12 and 2012-13 Local Government Finance Settlements to increase the percentage of formula grant going through the Relative Needs Amount from 73.0% to 83.0%. It decreased the percentage going through the Central Allocation from 53.6% to 43.6%, while the Relative Resource Amount remained unchanged at -26.6%.

The relative resource amount takes account of authorities' ability to raise income, through other means, in particular council tax base. The Government proposes in 2013-14 and 2014-15 to restore the absolute level of the Relative Resource Amount to its 2010-11 level to support authorities with a comparatively low council tax base, to maintain the increased size of the Relative Needs Amount at 83.0% and to increase only the Central Allocation to compensate for the change to the Relative Resource Amount. Analysis indicates that protected groups are more likely to live in areas with a lower council tax base and therefore impact of the Government's proposals will be to offer greater protection to such councils.

Rolling grants into the business rates retention scheme

The Government announced on 17 May that a number of currently separate grants, some of which target protected groups, will be included in the business rates retention system. The impact of rolling in these grants will be to further simplify and decentralise funding to maximise the size of the local share and ensure that the incentive for economic growth is sufficiently large.

The grants are:

- 2011-12 Council Tax Freeze Grant, excluding the amount that will be paid to Local Policing Bodies directly
- Council Tax Support Grant, excluding the amount that will be paid to Local Policing Bodies directly
- Early Intervention Grant, excluding funding for free education for two year olds, announced by the Chancellor in his Spending Review 2010 and Autumn Statement
- GLA General Grant
- A proportion of GLA Transport Grant
- Homelessness Prevention Grant
- A proportion of Lead Local Flood Authorities Grant
- Department of Health Learning Disability and Health Reform Grant and
- A proportion of Sustainable Drainage System Maintenance Costs Grant.

Whilst some of this funding targets protected groups, the Government is proposing that the overall amount and distribution of each grant will remain the same as previously set out at the last Spending Review. The proposed approach is to roll each grant into the starting point in 2013-14 after floor damping and to retain the visibility of their individual distributions in 2014-15, scaling back each grant to match its individual. This will mean that the overall amount and distribution of each grant will be separately identifiable in each of the remaining two years of this Spending Review period. Moreover, considering the analysis on overall impact as set out above and the significant protections already built into the scheme, we have concluded that directing funding through the business rates retention scheme rather than specific, un-ringfenced grants will not have a disproportionate impact on protected groups.

In relation to the Early Intervention Grant, this is strongly weighted towards disadvantage, including recognition of the challenges faced by sparsely distributed communities. Rolling in the Early Intervention Grant to the local government funding scheme will not in itself change the distribution of funding between areas. However, due to the removal of 2 year old funding from the Early Intervention Grant, the method of damping applied to the grant between 2011-12 and 2012-13 needs to be re-determined. In thinking through the different potential options for damping the Department for Education has taken into account the impact of any changes to the distribution of funding between local authorities on protected groups; for example, because of the high proportion of ethnic minority groups in some areas.

Grant transferring out of formula grant: The Academies Funding Transfer

The funding for some of the central education functions currently paid through formula grant will be transferred into the budget of the Department for Education in 2013-14. The relevant functions are those for which academies receive their funding from the Department for Education's Local Authority Central Spend Equivalent Grant (LACSEG). The Department for Education will then administer and distribute a separate un-ringfenced grant to local authorities and to academies proportionate to the number of pupils for which they are responsible on a national basis.

Distributing this funding as a separate grant from the Department for Education on a national per pupil basis will:

- end year-on-year fluctuation within a single local authority;
- end uncertainty for local authorities around recoupment;
- end the wide variation in the LACSEG rates across the country; and
- introduce simplicity and transparency and hugely reduce the scope for error.

In developing these proposals the Department for Education has considered the impact on protected groups under the Equality Act. We do not believe that the proposals for transferring this aspect of business rates retention start-up funding allocation to a Department for Education grant from 2013-14 will impact on a particular group with protected characteristics.

4. Who has responsibility for developing these policies?

Simon Ridley, Director, Local Government Finance, DCLG.

5. Are there any EU or other statutory regulations that need to be adhered to regarding equalities?

Public bodies are subject to the public sector equality duty in section 149 of the Equality Act 2010. Section 149 replaces section 71 of the Race Relations Act 1976, section 49A of the Disability Discrimination Act 1995 and section 76A of the Sex Discrimination Act 1975, which imposed similar public sector equality duties in relation to race, disability and gender respectively. Section 149 extends the new public sector equality duty to cover gender reassignment in full, age, religion or belief and sexual orientation.

6. The following summary will be analysed and used as evidence which you considered in demonstrating due regard to the Public Sector Equality Duty. Have you used information from any of the following sources when developing policies?

Sources of evidence include but are not limited to;

- Discussions from January 2012 to June 2012 in the consultative Local Government Finance Working Group and its sub groups, which included representatives of local authority groups and government departments;

• The Local Government Resource Review consultation on possible options for inclusion in the settlement conducted from July 2011 to October 2011 and the Government response to this consultation published in December 2011; • The Local Government Finance Report for 2012-13 and supporting documentation; • The statutory consultation on the draft Local Government Finance Report for 2012-13; • Meetings with and correspondence from local authorities, representative bodies, MPs and other external partners.
7. Have you discovered any of the following and as a consequence taken actions on identified equality issues?
• *Known difference in needs for those with a protected characteristic, and* • *Evidence of an adverse equality impact on those with a protected characteristic.* • *List any actions taken to mitigate again adverse equality impact on those with a protected characteristic*
As business rates retention affects the distribution of local government funding rather than how funding is spent, this Equality Statement has not identified any known difference in needs for those with a protected characteristic. As set out in detail above, we have identified weak correlation between areas with a higher proportion of Disability Living Allowance claimants and slower historical growth in their business rates revenue. However, owing to the fact that historic growth rates are not a prediction of future growth rates and the significant protections already built into the scheme, we do not identify that this results in business rates retention having a disproportionate impact upon protected groups and therefore that mitigating actions are required.
8. When your policies are finally implemented which groups are most likely to benefit?
Areas that achieve growth in their business rates base will benefit from the business rates retention scheme as they will have more income to invest to meet the needs of their local population. As well as providing additional revenue to local authorities the increased expansion of business floor space will add to economic activity and thus provide a general benefit to the population through increased employment and incomes. Analysis by the Department for Communities and Local Government shows that this could add £10 billion to the Gross Domestic Product of England over the first 7 years of the scheme.
9. In considering the above information have any gaps in data or equalities information been identified?
We have not identified any gaps in data or equalities information in completing this Equality Statement.
10. Overall, can you make an assessment of the potential of this policy to have a substantial equalities impact on discrimination, fostering good relations or advancing equality of opportunity? Please try to limit your answer here to less

than an A4 page.			
Business rates retention is intended to provide opportunity for growth and to promote localism. Councils will be incentivised to support additional business growth through increased economic activity, which local communities will benefit from. This will mean that councils will be encouraged to foster good relationships with all businesses in their community.			
This analysis was undertaken by (name of Equality Champion and any other colleagues involved).			
Name/Title	Marguerite McNally		
Directorate/Unit	LGF	**Lead contact**	Andrew Lock
Date	July 2012	**Date**	July 2012
SCS Sign off **I have read the available evidence and I am satisfied that this demonstrates compliance, where relevant, with Section 149 of the Equality Act and that due regard has been made to the need to: eliminate unlawful discrimination; advance equality of opportunity; and foster good relations.**			