Department for
Communities and
Local Government

Business Rates Retention and Shale Oil and Gas

Summary of Responses and the Government Response

January 2015
Department for Communities and Local Government

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Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

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Technical consultation on draft regulations to allow the 100% local retention of business rates on shale gas and oil sites.

Summary of Responses

The technical consultation was open for 6 weeks from 24 October until 5 December 2014. In total 25 responses were received:

- 10 from local authorities
- 1 from the Local Government Association
- 10 from members of the public
- 1 from a group opposed to hydraulic fracking
- 1 from an oil and gas business
- 1 from UK Onshore Oil and Gas
- 1 from a Member of Parliament

The overall proposal to allow local government to retain 100% of business rates on shale oil and gas sites

13 responses supported the overall proposal to allow local government to retain 100% of business rates on shale oil and gas sites (the 10 local authorities, the Local Government Association, UK Onshore Oil and Gas and the one business respondent).

11 responses objected to the overall proposal (10 members of the public and the group opposed to hydraulic fracking). They felt that allowing planning authorities to retain business rates on shale oil and gas sites was inconsistent with impartial planning decision making. They also raised a number of other concerns about shale oil and gas developments in general including increased traffic flow of heavy vehicles on the roads around sites, increased toxic gas emissions and concerns that shale gas development would deter tourists from visiting locations and reduce local house prices.

The proposed split of the 100% business rates income between tiers of local government

The Government had proposed that 100% of business rates on shale oil and gas sites should be retained by local government on the basis of the following shares:

- Unitary Authorities and Metropolitan Authorities which are not also Fire Authorities should retain 99%,

- Unitary Authorities which are also Fire Authorities should retain 100%

- County Councils which are also Fire Authorities should retain 60%,

- County Councils which are not also Fire Authorities should retain 59%,
- Fire Authorities should retain 1%,
- Shire Districts should retain 40%,
- London Boroughs should retain 80%, and
- the Greater London Authority should retain 20%.

4 local authorities supported this proposed split.

3 local authorities (all county councils) felt that county councils, as the authority responsible for planning decisions on shale oil and gas sites, should retain 100% of the income. They argued that this would be consistent with the position for new renewable developments (in respect of which, the relevant planning authority also retains 100% of business rates).

3 local authorities (all districts) wanted district councils to retain a greater share of the income. They felt that this would ensure more of the income was spent in the location of the shale oil or gas development.

The Local Government Association felt the allocation of the 100% should be decided by local authorities to reflect local circumstances. The Member of Parliament felt that the income should be allocated 20% for parish councils, 30% for district councils and 50% for county councils, with any deduction for fire authorities coming from the county council.

The definition of hereditaments to which the 100% retention will apply

2 responses (the business and UK Onshore Oil and Gas) felt that the definitions in the draft regulations should be widened. They argued that shale oil and gas and coal bed methane were both in the formative phase of their development and that public opinion did not distinguish between them and, as such, they should both benefit from 100% local retention. They also felt that certain other sites which are developed to understand the characteristics of shale but do not involve fracking should also be included in the policy.

The Government’s Response

The Government believes that shale oil and gas has the potential to add to the UK’s energy supply, helping to improve energy security, create jobs and meet carbon targets. The development of shale oil and gas sites will not only benefit the UK as a whole, but will produce local economic benefits.

The principle that local authorities should retain the new rates income on developments they may have had a role in considering has already been firmly established under the existing rates retention scheme. This is not incompatible with consideration of development proposals through the planning system. Planning decisions are taken within a clearly defined legal and policy framework. The Government believes that this, coupled with wider safeguards within the planning system, will ensure that decisions on shale oil and gas sites, in common with other development decisions, are taken with the highest standard of propriety based upon planning grounds, and not some ulterior motive.

But the Government also believes that where decisions are taken to permit the development of shale oil and gas sites, local communities should benefit from, and as appropriate, be compensated for any costs associated with the development.

The Government has also considered respondents' concerns about the safety of shale oil and gas developments. It believes that those concerns are misplaced. To ensure that shale development is safe, there are already robust rules in place to secure on-site safety, prevent water contamination, mitigate seismic activity and minimise air emissions. The Royal Society and Public Health England agree shale can be developed while protecting the environment as long as it is properly regulated. Independent expert regulators examine companies' proposals and will not allow hazardous operations.

Therefore, having considered the responses to the consultation, the Government continues to believe that where shale oil and gas sites are developed, local government should be permitted to retain 100% of the business rates collected.

The consultation paper set out how the Government proposed to allocate the 100% rates retention amongst different tiers of local authorities. As indicated above, 4 local authorities supported the split whereas 6 felt that more income should flow to either county or district councils.

Having considered the representations, the Government is concerned that allowing county councils to retain 100% of the rates collected, would deny any income to district council, the principal tier of local government that is closest to local communities. However, increasing the share of business rates income to be retained by district councils would deny revenue to counties who, having highways and environmental responsibilities, might be expected to incur costs associated with the development, in particular as a result of increased traffic flows. On balance, the Government continues to believe that its proposals for sharing business rates income (as set out above) strike the right balance.

The Government is also unpersuaded of the merits of allowing parishes to keep a share of any business rates income. The rates retention scheme, of which the proposals for 100% retention on shale oil and gas sites are part, concerns the funding of the principal tiers of local government. Parishes do not currently receive any business rates income under the retention scheme. The Government does not believe that allowing parishes to share rates income from shale sites is practicable and, moreover, the relatively low spending needs of parishes are already adequately met from the precept they raise on council tax.

Nor does the Government believe that it would be practicable within the current framework of the rates retention scheme to leave local government in an area to decide how business rates income should be shared.

Finally, amending the definition of those hereditaments which benefit from the 100% retention would extend the policy beyond shale oil and gas fracking into other aspects of oil and gas extraction. 100% retention is an exceptional measure which the Government does not believe should be extended to other types of oil or gas extraction. Under the rates retention scheme, local councils will still retain 50% of the rates income on these developments. No other responses were received on the definitions in the Regulations and, therefore, the Government continues to believe the Regulations correctly define shale oil and gas sites.