Business rates retention scheme: The central and local shares of business rates

A Statement of Intent

(revised June 2012)

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Department for Communities and Local Government

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LOCAL GOVERNMENT FINANCE BILL

STATEMENT OF INTENT

Business Rates Retention Scheme: The central and local shares of business rates

1. *Local Growth: realising every place's potential*[1] outlined a new approach to local growth, shifting power away from central government to local authorities, citizens and independent providers. It highlighted the Local Government Resource Review and stated that the Government would consider the opportunities that local retention of business rates could offer to strengthen the incentives to support growth and give local authorities greater financial autonomy.

2. The Government has made clear from the outset that, within a system of business rates retention, some business rates income would need to be retained by central government so that the scheme operates within the existing spending control totals, which are critical to our efforts to get the deficit under control, and so that the scheme will be fiscally sustainable in future.

3. The consultation: *Local Government Resource Review: Proposals for Business Rates Retention*[2], set out the Government's proposed approach for achieving this:

   - Forecast business rate revenues above set expenditure limits for 2013-14 and 2014-15 would be set aside and directed to local government through other grants.

4. The Government's response to consultation[3], published in December 2011, confirmed its intention to ensure the scheme is fiscally sustainable. But in response to the views of local government about the potential risk of being expected to pay a fixed sum in business rates to central government, the Government announced that <u>business rates would instead be shared between central and local government on a percentage basis</u>:

   - The local share of business rates will be retained in full by local government - set at a level sufficiently large to maintain a strong incentive for growth upon all local authorities. The sector will retain all growth on the local percentage share, which will be fixed for the duration of the reset period. The local share will form the baseline for setting each authority's baseline funding level and therefore tariff or top up amounts.

   - The central share of business rates will be paid by each billing authority to the Secretary of State. It will be used by central government in its entirety to fund the local government sector.

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[1] www.bis.gov.uk/assets/biscore/economic-development/docs/l/cm7961-local-growth-white-paper.pdf
[2] http://www.communities.gov.uk/documents/localgovernment/pdf/1947200.pdf
[3] http://www.communities.gov.uk/publications/localgovernment/resourcereviewgovtresponse

5. By sharing business rates in this way, some of the reward of positive growth, but also some of the risk of negative growth, will be borne by central government.

6. The police will be treated differently. Local Policing Bodies[4] will receive guaranteed funding at the levels agreed in the 2010 Spending Review for these years (subject to adjustments to reflect subsequent policy decisions, for example on public sector pay restraint). This will be paid from the central share. The Government will fully review the way in which the police are funded beyond this Spending Review period.

Setting the level of local share and reset period

7. In determining the percentage of business rates that is localised, the Government has had regard to the spending control totals for local government set in the 2010 Spending Review; the functions and services to be funded through retained business rates; the interests of local government and the need to ensure future fiscal sustainability.

8. The Government has considered the scope for further simplification of funding and will include the specific grants listed at **Annex A** in the business rates retention system from April 2013.

9. As a result, the Government is able to set the local share at 50% which delivers our objectives on growth and localism whilst allowing for future fiscal control to protect the interests of the taxpayer and the wider economy. From April 2013, councils will keep all of the growth upon their share of business rates, subject only to the levy on disproportionate benefit. In all cases, the more an authority grows its business rates base, the better off it will become.

10. The local share percentage will be fixed at 50% until any reset of the system. A reset involves reviewing baseline funding levels for each local authority to take account of changes in relative need and resource. The length of the reset period or the way it will be done will not be set in regulation.

11. The Government does not intend to reset the system until 2020 at the earliest, except in exceptional circumstances. This provides the long term certainty of reward that will incentivise local authorities to take pro-growth decisions, whilst taking a pragmatic approach to align resets with revaluation years. At each five yearly business rates revaluation, tariffs and top-ups will be adjusted to ensure that an authority's retained rates income is not affected. Aligning resets with revaluation years will avoid the need to adjust tariffs and top-ups more frequently

[4] Section 1 of the Police Reform and Social Responsibility Act 2011 (c. 13) replaces police authorities in England and Wales, other than in London, with police and crime commissioners. Section 3 of the same Act replaces the Metropolitan Police Authority with the Mayor's Office for Policing and Crime. It is intended that section 1 will come into force in November 2012 and section 3 came into effect in January 2012. Police and crime commissioners, the Mayor's Office for Policing and Crime and the Common Council of the City of London (which retains its role as police authority for the City of London) are referred to collectively in the Act as "local policing bodies".

than necessary and increase certainty for local authorities within the system. Longer term, the Government remains committed to its aspiration for 10 year reset periods.

Revenue Support Grant

12. Under the current system the amount of business rates collected has not been sufficient to fully fund the services local government provides, after allowing for funding raised through council tax and specific grants. The Government has made up this difference with Revenue Support Grant, based on a distribution set out in the Local Government Finance Report.

13. The local share of business rates has been set at a level which allows for future fiscal control to protect the interests of the taxpayer and the wider economy and is below the current spending control totals set for local government. The Government will provide Revenue Support Grant to make up the difference between the local share of business rates at the outset of the scheme and the spending control totals for local government in 2013-14 and 2014-15, having taken into account the amount which will be required to fund the New Homes Bonus. (The spending control totals will be adjusted to take account of the additional grants rolled into the rates retention system, listed at annex A). So, in addition to locally retained business rates, each authority within the rates retention scheme will also receive Revenue Support Grant. Taken together, an authority's retained rates at the outset of the scheme and its Revenue Support Grant will ensure that it receives its share of the spending control total in any given year.

14. The amount of Revenue Support Grant for 2013-14 and 2014-15 will be set out in the 2013-14 Local Government Finance Report. In future years, the total amount of grant funding will be determined through Spending Reviews and the Government will set out the basis for its distribution in annual local government finance reports.

Local Government Finance Bill

15. Paragraphs 4, 5 and 6 of new Schedule 7B to the Local Government Finance Act 1988, as inserted by Schedule 1 to the Bill, provide for the means of sharing the rewards and risks of the rates retention scheme between central and local government through central and local shares.

16. Paragraph 4 places a requirement on the Secretary of State to determine the central and local share percentages of business rates for each billing authority, for each year. It is intended that the percentage shares set at the outset of the scheme will remain unaltered for seven years to 2020 in order to provide authorities with the certainty that they need to plan and budget.

17. Paragraph 5 requires the determination of the central and local shares, provided for under Paragraph 4, to be set out in a local government finance report. By requiring central and local shares to be specified in a local government finance

report, which itself must be debated and approved by the House of Commons, we will ensure that Parliament is able to exercise the necessary scrutiny of this critical component of the rates retention scheme.

18. Paragraph 6 provides that, where a local government finance report has been approved by the House of Commons, billing authorities are to pay the central share specified in the report, to the Secretary of State. The payment from authorities is to be of an amount equal to that share of their business rates income.

19. Paragraph 7 provides for the Secretary of State to make regulations about the way in which billing authorities will be required to make central share payments, provided for under Paragraph 6.

Regulations

20. Government will define in regulations what a billing authority's business rates income is for the purposes of determining the local and central shares.

21. The Government intends that the definition is tied to the business rates payable to the authority, in respect of occupied and empty property, in that year, and will take into account the effect on that amount of:

- i) Mandatory rate reliefs
- ii) Discretionary relief
- iii) Losses on collection
- iv) Hardship relief
- v) Repayments of refunds in respect of previous years.

22. The Local Government Finance Bill provides that the regulations may make provision for the calculations of the central share payments to be made by reference to the total business rates collected by it for the year under sections 43 and 45 of the Local Government Finance Act 1988[5], subject to such adjustments as may be specified and/or any payments received from the Secretary of State.

23. Taking the total paid to an authority in respect of the year under these sections without adjustment would simply give the gross amount of rates due to a billing authority. Therefore, the Government intends that the definition of income for billing authorities will include a number of adjustments to deal with a range of issues, including:

- Central share payments
- Payments to major precepting authorities
- Tariff and top ups

[5] Section 43 of the Local Government Finance Act 1988 is the ratepayer's liability to pay business rates in respect of occupied hereditaments on the local rating list. Section 45 is the ratepayers liability to pay business rates in respect of unoccupied hereditaments on the local rating list.

- Reliefs (mandatory and discretionary)
- Costs of collection
- Losses in collection
- Income in respect of areas and classes of hereditament as set out in Part 10

24. The exact treatment of these issues in the income definition is still being considered and Government has been working through the detail of the business rates retention scheme with the Local Government Finance Working Group. Government will consult on the precise definition of income for the purposes of calculating central share payments over the summer.

25. It will not be possible to know the precise amount a billing authority will be liable to pay until after the end of the financial year, though it will be necessary for them to make central share payments in advance of this point, based on their budget forecasts. Government will also define in regulations the timing and manner of central share payments – for example over how many payments, and at what intervals during the course of the year the total amount will be paid. It is our initial view is that this will be done through 10 monthly payments between April and January.

26. It is intended that a fixed schedule of payments for a given financial year is set on the basis of forecast income. The initial view of the Local Government Finance Working Group is that these should be payable from billing authorities' collection funds. It is intended that any surplus or deficit is shared between all parties who are eligible for receipts from the collection fund – the billing authority itself, any major precepting authorities and central government. It is intended that this will be done through an adjustment to the following financial year's schedule of payments.

Department for Communities and Local Government
May 2012

ANNEX A

LIST OF GRANTS INCLUDED IN THE BUSINESS RATES RETENTION SCHEME FROM 2013/14:

- Bus Service Operators Grant (London Buses Portion)[6]
- 2011-12 Council Tax Freeze Grant
- Council Tax Support Grant[7]
- Early Intervention Grant[8]
- GLA General Grant
- A proportion of GLA Transport grant[9]
- Homelessness Prevention Grant
- A proportion of Lead Local Flood Authorities Grant[10]
- Department of Health Learning Disability and Health Reform Grant
- A proportion of Sustainable Drainage Systems Maintenance Costs Grant[11]

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[6] It is the aim of the Government to devolve the Bus Service Operators Grant (BSOG) in London. Stakeholders will be consulted with the issuing of a consultation paper in the summer. If, in the light of this consultation, Government concludes that the London element of BSOG should be funded through locally retained business rates, Government will implement this policy at the first available opportunity. Government would endeavour for this opportunity to be the launch of the Business Rates Retention system on 1 April 2013.

[7] Excluding the amount that will be paid to Local Policing Bodies directly.

[8] Excluding funding for free early education for two year olds, announced by the Chancellor in his Spending Review and Autumn Statement.

[9] Funding for TfL will (i) continue to include a Transport Grant payable directly to the GLA for the purposes of TfL, as provided for under Section 101 of the GLA Act; and (ii) include a share of the locally retained business rates passed through the GLA.

[10] Further details will be set out in the upcoming summer consultation on business rates retention.

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