Localisation of Business Rates

Cabinet 13 September 2012, item 10

Committee:	**Cabinet**	**Agenda Item**
Date:	**13 September 2012**	**10**
Title:	**Localisation of Business Rates**	
Portfolio Holder:	**Councillor Robert Chambers**	Key decision: **Yes**

Summary

1. Localisation of Business Rates is a key part of the Government's reform of local government finance. Along with New Homes Bonus and Local Council Tax Support, it represents part of the Government strategy to give local authorities direct financial incentives to support their local economies.

2. The purpose of this report is to raise awareness of the Government's proposals for Localisation of Business Rates (which are not yet confirmed) and to illustrate the possible issues for UDC.

3. There are no proposed changes to the way business rates are set and billed to businesses. The Council will not be responsible for determining the rates. The Government and its agency the Valuation Office will continue to determine the rates payable. The Council will continue to issue the bills and collect the income. It is how the collected income is distributed that will be changing.

4. Despite the headline "Localisation of Business Rates" in practice a complex system of tariffs and levies will operate such that only a small proportion of business rates payable by Uttlesford businesses will be retained by UDC – around 4%. In most foreseeable scenarios the amount of business rates income retained by UDC will range from £1.4m to £1.8m per annum. This compares with the current level of business rates income of £38.5m.

5. No definitive figures are likely to be available until publication of the Local Government Finance Settlement in late November / early December.

6. The Council needs to ensure it has a coherent and robust policy for the granting of discretionary rate relief. The Council has no written policy at the moment. A new policy is needed which contributes directly to economic prosperity in the district e.g. by safeguarding businesses vital to rural village communities and by giving incentives to start up or expand within Uttlesford.

7. Local authorities have an opportunity to "pool" their business rates in order to reduce the proportion taken by central government, share the benefits of growth and to share the risk of reductions in income. All Essex authorities except Thurrock have expressed an interest in pooling. However, the Government require detailed proposals of how the pool will operate by 10 September. On 31 August, ECC as the lead authority and Essex CFOs collectively came to a consensus that this timetable could not be met. Accordingly pooling will not be pursued this year but there will be opportunities to return to this in future.

Recommendations

8. The Cabinet is recommended to:

   a) Note this report

   b) Agree that the Council should continue to participate in discussions with other Essex local authorities regarding setting up a pool, subject to details of how this will operate being brought to a future Cabinet meeting for approval

   c) Authorise officers, in consultation with Finance & Communities Portfolio Holders, to develop a new discretionary rate relief policy for future Cabinet approval.

Financial Implications

9. There are no direct financial implications at this stage. The report attempts to illustrate the effect of fluctuations in business rates income on the amount of funding received by the Council.

10. It is important to note that the retained business rates income is expected to supplant existing Formula Grant, so does not represent windfall income. No firm figures are available yet.

Background Papers

DCLG Localisation of Business Rates proposal documents and technical papers

ECC Reports to Essex Leaders & Chief Executives

Impact

Communication/ Consultation	Essex authorities have shared information and are working together to develop pooling proposals.
Community Safety	No specific implications
Equalities	No specific implications
Health and Safety	No specific implications
Human Rights/ Legal Implications	No specific implications
Sustainability	There are added incentives under the scheme for local authorities to ensure sustainable local economies.
Ward-specific impacts	No specific implications
Workforce/Workplace	It will be essential to ensure that business rates billing and recovery

	work continues to be properly resourced

Business Rates – summary of present system

11. The business rates system currently operates as follows:

    a) The Government, and its agency the Valuation Office, decide how much business rates businesses have to pay.

    b) Billing authorities (such as district councils) send the business rates bills to businesses and collect the income.

    c) Charities and certain types of businesses (such as small businesses and rural businesses) get discounts (“relief”) on their business rates bills. Billing authorities have discretion to top up the mandatory reliefs.

    d) Billing authorities hand over all business rates income collected to Central Government, who redistribute it to local authorities through the formula grant system.

12. Ostensibly, the Government wishes to reform the system for the following stated reasons:

    a) The system does not give local authorities a direct financial incentive to increase the business rates income in their areas (and therefore support their local economy)

    b) There is no direct financial accountability between local authorities and businesses.

    c) Local authorities are unable to predict their income from the Formula Grant system.

Localisation of Business Rates – summary of Government proposals

13. Under the Government’s proposals:

    a) The Government (and its agency the Valuation Office) will continue to decide how much business rates are paid by businesses. UDC will continue to issue the bills and collect the income.

    b) At a national level, 50% of business rates income will be handed over to Government, instead of 100% as at present. The Government will use this money to fund local government grants, such as Formula Grant and New Homes Bonus.

    c) 50% of business rates income will be retained by local authorities. In two-tier areas such as Essex this will be divided into 9% for County Councils, 1% for Fire Authorities and 40% for district councils.

d) District councils whose "**Business Rates Baseline**" is more than their "**Baseline Funding Level**" will have to pay the excess to Government. This is known as a "**tariff**" and applies to UDC, who will have to pay a **tariff** of £13.958m in the first year.

The estimated **Business Rates Baseline** for UDC is £15.534m. It is calculated as follows:

Total UK Business Rates income: £22,199.5m

Local government share of this (50%): £11,099.7m

Uttlesford share of this (0.17494%): £19.418m

Uttlesford DC baseline (80%): **£15.534m**

The estimated **Baseline Funding Level** for UDC is £1.576m. It is calculated as follows:

Local Government share (as above): £11,099.7m

Uttlesford DC share of 2012/13 formula grant: 0.0141964%

£11,099.7m x 0.0141964% = **£1.576m**

The **Tariff** is the excess of Business Rates Baseline over the Baseline Funding Level. For UDC £15.534m less £1.576m equals **£13.958m**.

All figures are illustrative and subject to confirmation in the Local Government Finance Settlement.

e) If business rates income falls, the amounts distributed will reduce. A **safety net** system will operate so that the amount retained will not fall below a certain proportion of the Baseline Funding Level (£1.576m for UDC as shown above). The Government has proposed that the safety net will be between 7.5% and 10%, and have issued example calculations using 8.5%. Based on the Baseline Funding Level of £1.576m, a safety net of 8.5% would mean that **UDC retained income would not fall below £1.442m**. So the Council stands to lose up to £0.134m of annual income, if business rates income falls.

f) If business rates income grows, the amounts distributed to Government, County, Fire and District will increase. However, a **levy** system will operate (to fund safety net payments). A proportion of the growth will therefore be distributed to Government through the levy system. The estimated **levy for UDC will be 90%** and is calculated as follows: the Baseline Funding Level, £1.576m, is 10% of the Business Rates Baseline, £15.534m. 100% minus 10% = 90%. 90% of the excess of retained income over the Baseline Funding Level is paid to Government under the Levy system.

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14. The following table shows how 2012/13 business rates income collected by UDC would be distributed under the proposed localisation system. Figures are illustrative only.

	£m	
Estimated business rates yield	38.500	Estimated total business rates collection for 2012/13
Central Government share	-19.250	50% of gross yield
County Council share	-3.465	9% of gross yield
Fire Authority share	-0.385	1% of gross yield
District Council share (before tariff)	15.400	40% of gross yield
Tariff payable to Central Government	-13.958	As detailed above
Amount retained by Uttlesford District Council	**1.442**	This is the figure that would be budgeted for as income.

15. The following table exemplifies various scenarios.

£m	**10% drop**	**5% drop**	**Base level (as above)**	**5% growth**	**10% growth**
Estimated business rates yield	34.650	36.575	38.500	40.425	42.350
Central Government share 50%	-17.325	-18.288	-19.250	-20.213	-21.175
County Council share 9%	-3.119	-3.292	-3.465	-3.638	-3.812
Fire Authority share 1%	-0.347	-0.366	-0.385	-0.404	-0.424
District Council share (before tariff) 40%	13.860	14.630	15.400	16.170	16.940
Tariff payable to Central Government	-13.860	-13.958	-13.958	-13.958	-13.958
Amount retained by Uttlesford District Council (before safety net and levy)	0.000	0.672	1.442	2.212	2.982
Safety net payment from Government	1.442	0.770	N/A	N/A	N/A
Levy payable to Government	N/A	N/A	N/A	-0.572	-1.264
NET AMOUNT KEPT BY UDC	**1.442**	**1.442**	**1.442**	**1.640**	**1.718**
Proportion of gross yield retained by UDC	4.16%	3.94%	3.75%	4.06%	4.06%
Proportion of gross yield retained by Central Government	85.84%	86.06%	86.25%	85.94%	85.94%

16. The figures (along with more detailed modelling calculations) show that:

    a) The proportion of gross business rates income retained by UDC will be close to 4%. Essex County Council and Essex Fire get 9% and 1% respectively while Central Government keeps around 86%. As a result the "localisation" does not in practice represent a new frontier in local government financial autonomy.

    b) The Council's retained income will be a minimum of £1.442m even in the unlikely event of dramatic falls in total business rates income.

    c) If total business rates income grows, the Council's retained income would increase incrementally, up to around £1.7m if there is 10% growth (this rises to around £1.8m with 15% growth). It would seem prudent not to budget for more than £1.5m however until reliable trends can be established.

    d) Therefore annual income to UDC under this scheme under most foreseeable scenarios will be within the £1.4m to £1.8m range. Thus the financial volatility is potentially challenging, but the safety net mechanism should help the Council to avoid disastrous outcomes.

17. There are variable factors which affect officers' ability to produce robust estimates of the financial outcomes. DCLG proposals may change before finalisation. In addition businesses appealing to the Valuation Office to reduce the rateable value of their premises can affect the level of income, as can collection performance on which risks exist during the recession.

18. Baselines will increase by RPI inflation which will mean that business growth would have to outstrip inflation before local authorities enjoy additional financial benefit.

Pooling

19. The Government has suggested that groups of local authorities could "pool" their business rates in order to:

    a) Encourage joint decisions about investments in the local economy, such as infrastructure projects

    b) Give councils greater protection from reductions in retained income, for example the pool could protect an individual district from a large business closing down or large valuation appeal

    c) Minimise the amount of funds transferred to Central Government, by offsetting tariffs and levies against top up and safety net payments.

20. The calculations exemplified above will be calculated for the pool as a whole rather than the individual constituent authorities. In this way, surpluses and deficits can be offset and levy payments in particular can be minimised.

21. Essex County Council has estimated that if ECC and all 12 Essex districts operate as a pool, Essex as a whole would be better off by £2.3m in the first year. This rises to £2.6m by adding Southend to the pool. (Thurrock has indicated they do not wish to participate).

22. Members of the pool themselves will decide how they distribute aggregate revenues within the pool. This will allow members of a pool to decide how best to support shared economic priorities across the pool or to manage volatility. The simplest approach would be for the pool to adopt a ‘no worse off’ approach, whereby individual members of the pool would be no worse off inside a pool than had they been treated as individual authorities. Details of how this would operate including governance need to be determined.

23. Because of the disproportionate effect of Stansted Airport and supporting businesses on the Uttlesford business rates income, and other large concentrations e.g. Chesterford Research Park, it would seem sensible to enter into a pooling arrangement whereby risks of income reductions are shared. The flip side is that business rates growth arising in Uttlesford may not necessarily be spent in Uttlesford as it could be used by the pool to fund investment projects elsewhere in Essex. Financial stability for pool members and investing in the health of the Essex economy would be the prime considerations.

24. Following endorsement of the pooling principle by Essex Leaders and Chief Executives a non-binding expression of interest in forming a pool has been sent to DCLG has been made on behalf of all Essex authorities except Thurrock.

25. On 13 August, DCLG notified ECC (as lead authority) that a firm list of pool members and details of how the pool would operate should be submitted by 10 September. On 31 August ECC came to a view that it was not possible to meet this deadline because of the intensive resourcing required to develop a workable scheme, and the lack of time for individual authorities to take this through their decision making processes. In consultation with the Essex Chief Finance Officers Group, consensus was reached that it was not possible to pursue the pooling proposal this year. There will be opportunities to return to this in future. Officers from all Essex authorities shall be meeting with DCLG officials on 6 September to discuss this further.

Essex Deal for Growth

26. Emerging ideas from the “Essex Deal for Growth” initiative include making proposals to Government to retain a greater proportion of business rates in Essex. This would be used to invest in infrastructure as a means of supporting economic growth. This is but one component of a multi-faceted strategic proposal for generating investment in infrastructure, skills, education and housing. The offer to government is likely to include a review of how better to integrate working to deliver growth (stronger joint governance) in return for much higher levels of business rate growth retention by Essex authorities, at least in relation to defined zones

Rate Relief

27. Mandatory rate relief is available for registered charities, small businesses and rural businesses (e.g. village post offices).

28. As mentioned above billing authorities can supplement mandatory rate relief with discretionary rate relief. This is typically used to top up mandatory reliefs (e.g. 80% made up to 100%) and to support amateur sports clubs and non-profit making organisations.

29. The Council last reviewed its rate relief policy in the 1990s but unfortunately no copy of the full policy appears to exist. Applications for relief are currently determined with reference to 1990s committee minutes. The table below summarises the reliefs currently given; allowing for expected applications the total cost to UDC this year will be around £75,000.

Type of Organisation	No of organisations getting discretionary relief	Proportion of discretionary relief cost met by UDC	Approx cost to UDC in 2012/13
Charities	75	75%	£26,000
Non-profit	69	25%	£20,000
Rural settlement	37	25%	£25,000
Sports clubs not included in other categories	1	75%	£100

30. With localisation of business rates it is felt that the opportunity should be taken to regularise discretionary rate relief policy. In the process, the feasibility of including incentives for new or expanding businesses could be examined, in order to support the local economy and increase business rates income longer term. Support for other business types e.g. low carbon footprint could be considered. Hardship support is another matter for consideration.

31. It is suggested that officers research best practice and consult with the Finance and Communities Portfolio Holders in order to develop a draft policy for consultation ahead of approval by Cabinet.

Next Steps

32. DCLG is meeting with Essex Finance Officers on 6 September and a wider seminar is being held in Cambridge on 12 September. Key issues arising from these meetings will be advised verbally to the Cabinet on 13 September.

33. Ongoing discussions between Essex authorities regarding pooling and its relationship with the Essex Deal for Growth and Whole Essex Community Budget.

34. Development of discretionary rate relief policy and consultation prior to consideration by Cabinet.

35. Publication of the Local Government Finance Settlement by DCLG in early December.

36. 2013/14 budget set in February 2013 and new system comes into effect on 1 April 2013.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The final scheme will be different from the DCLG proposals, with Councils worse off as a result	2 (Government schemes rarely contain revelations that significantly differ from proposals)	3 (material changes could have significant implications)	Meeting with DCLG on 6 September
Pooling arrangements cannot be agreed, or do not operate as intended	3 (a complex issue requiring a lot of organisations to agree)	2 (the intention is that individual councils are no worse off whether or not they are in the pool)	Discussions between Essex authorities are needed
The Council's funding reduces due to a fall in the level of business rates income caused by revaluations	3 (there is major concern about the Valuations Office's rigour in assessing revaluation applications).	3 (safety net mechanism will keep adverse funding fluctuations to challenging but manageable levels)	Concerns are being put to DCLG and clarity sought about bears the cost of allowed appeals, and backdating. Authorities may wish to invest in a resource to challenge appeals.
The Council's funding reduces due to a fall in the level of business rates income caused by worsening collection performance	2 (collection levels are currently very strong- 99%+ - but recessionary pressures could affect this.	3 (safety net mechanism will keep adverse funding fluctuations to challenging but manageable levels)	Ensure business rates billing & recovery continues to be adequately resourced. Investment in additional management information.
The Council's funding reduces due to a fall in the level of business rates income caused by a contraction in the local business sector	2 (recessionary impacts)	3 (safety net mechanism will keep adverse funding fluctuations to challenging but manageable levels)	Economic development strategy