LG Group Executive
9 December 2010

APPENDIX B

LG Group Resource Review: local retention of business rates

Purpose of report

For discussion and direction

Summary

The Government's White Paper 'Local growth: realising every place's potential' examines the potential for local retention of business rates. This is an option which has long been LGA policy.

Recommendation

That the Executive agree:

1. Within the context of the Local Government Resource Review, officers consult with member authorities, discuss with CLG, and bring back for members' further consideration, ways in which the LGA's goal of relocalising business rates can be achieved. This work should take into account:
   1.1 The advantages and disadvantages, in the context of a relocalised model which would also allow for incentives, of various options by which authorities that currently raise very large amounts of business rates might contribute to the needs of authorities where business rates and council tax income is currently insufficient to fund spending.
   1.2 That the LGA's goal remains to have local control over the rate, but this might have to be achieved gradually.
   1.3 Implications for the local government finance system as a whole, such as a simplified and more transparent needs formula

Action

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LG Resource Review: Local retention of business rates

Background

1. The Government in its Local Growth white paper published on 28th October indicates its willingness to consider wide ranging changes to the system of collecting and then redistributing business rates. The aim of the changes would be to provide stronger incentives for councils to promote local economic growth. Some of these ideas are in line with changes previously advocated by the Local Government Association.

The issue

2. As the Local Growth White Paper notes, under existing arrangements all business rates collected by local authorities are paid into a national pool, which is then redistributed as part of formula grant. This means that councils do not receive the direct benefit of business growth, so there is little incentive. The previous government tried, through the Local Authority Business Growth Incentive scheme (LABGI) to provide for local authorities to be rewarded for local growth in the business rates taxbase. This scheme was seen by its critics as too bureaucratic and non-transparent.

3. The White Paper examines the idea of a Business Increase Bonus which would allow authorities where business rates growth exceeds a threshold to keep the increase, up to a certain level, for a period of six years. This, the White Paper suggests, could provide a strong incentive to all councils to seek long term sustainable growth: but it would not change the basic architecture of the business rates pool. The White Paper also considers a more radical alternative, looking at ways of enabling councils to retain locally raised business rates. This, it suggests, could provide an even stronger incentive and could also mean that many local councils 'are set free from dependency on central funding'. The government will therefore be looking at this within the context of the Local Government Resource Review, which will formally commence in January. Officers have had contact with CLG officials in the run-up to this.

4. In its submissions to the Balance of Funding Review and the Lyons Inquiry the LGA, with all party agreement, proposed a model along the lines of the radical alternative which the Government is now exploring.

5. The White Paper also commits to introducing new borrowing powers to enable authorities to carry out Tax Increment Finance (TIF). This would allow councils to borrow against future growth in business rates income. It is likely that, at least initially, TIF would be introduced through a bid-based process. The White

Paper notes that the interactions between TIF and the Business Increase Bonus scheme could differ from those between TIF and a system for retention of business rates. Officers' analysis is that a business rates retention model would provide greater certainty and encourage greater use of TIF powers as a means of investing in infrastructure that would support economic growth.

Options for locally retained business rates

6. The White Paper notes that a series of questions need to be addressed in developing a proposal under which councils could retain locally raised business rates. These issues include:

   6.1 the position of councils whose business rates and council tax income is significantly higher than their current spending: a possible mechanism could be that instead of paying over all their business rates councils would only pay over an excess, calculated according to a needs measurement less an amount representing ability to raise to council tax;
   6.2 how to fund councils where locally raised business rates, along with council tax, do not raise enough money to pay for services – in particular councils such as county councils in two tier areas.

7. In its December 2006 publication, in conjunction with Tony Travers, 'Would it be possible to relocalise the NNDR' the LGA developed a model to show how these issues might be resolved. This work has now been updated for 2010/11. According to one variant based on the 'excess' arrangements described in 6.1 above, 77 authorities would pay into a pool and 343 authorities would gain from the pool.

8. It would be possible to add provision for an incentive to the basic proposal. according to which local authorities would get to keep increases over a threshold, along the lines of the business incentives bonus. The amount paid out by the pool would be scaled down, so there would be losers as well as gainers.

9. It is recommended that further work is done to develop these and other options so that their advantages and disadvantages can be clearly understood.

10. The main further issue in relocalising business rates is control over the rate. In our submission to Lyons, we proposed giving councils leeway of +/-3% over the national rate. The White Paper does not rule out giving councils control over the rate, but says that businesses should not be subject to locally imposed increases in the burdens of taxation which they do not support.

Conclusion and recommendations

11. The White Paper indicates that local business rates retention, and the development of the policy and legislative framework for TIF, will be considered in the Local Government Resource Review which the government is due to launch in January and run for about 6 months.

12. LGA officers recommend that the Group Executive's starting point should be to welcome the willingness to consider the radical alternative of business rates retention, and authorise work to develop proposals for reform along these lines, including wide consultation with member authorities. In principle, it is considered that there are strong advantages to this model over the current situation:

    12.1 It may be possible to develop a scheme in which, for the majority of authorities, all business rates could be retained locally;
    12.2 With a clear entitlement to business rates income now and in the future, authorities could borrow against future business rate growth, both as part of a TIF scheme and more widely, as part of their prudential borrowing;
    12.3 This kind of reform could make it much easier for authorities to introduce local discount schemes for business rates;
    12.4 Even with 'equalisation' arrangements to cater for authorities whose business rates income was much higher or lower than their spending, it should be possible to provide stronger and clearer incentives to encourage growth than with less radical alternatives such as the Business Increase Bonus

13. It is important to emphasise that, in this work, the LGA role is in promoting solutions which would be widely seen as improving the position of local government as a whole. Our established policy is not to promote one particular distribution as opposed to another, and this would be respected.

14. It is proposed that a further report should be made to the Group Executive once the issues have been more fully explored and, in particular, the current views of member authorities have been taken.

Financial Implications

15. This work can be carried out within the group's existing resources.