Local Government Association

Finance Panel
23 November 2012

Item 8

Update on business rates

Purpose of report

For information.

Summary

This report updates members on key developments on the implementation of business rates retention and revaluation. These are:

1. The passage of the Local Government Finance Bill through Parliament.

2. The key issues raised by the LGA in its response to the business rates technical consultation.

3. The decision by the Government to postpone the 2015 revaluation of business rates to 2017.

Recommendation

That members continue to receive updates on the situation.

Action

The LGA will issue a full briefing after the Local Government Finance settlement comes out in December.

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Update on Business Rates

Background

1. The 2012 Local Government Finance Act became law on 31 October 2012. It provides for the implementation of a system of business rates retention from 1 April 2013, based on a locally retained share of 50 per cent.

2. In July 2012 the Government issued a detailed technical consultation document on how the business rates retention scheme will work. This closed on 24 September 2012.

3. In brief, the Local Government Finance Settlement will set out start-up funding allocations for all authorities; this is basically the current formula grant plus various transfers in and out. The most important of the transfers in, relate to support for local council tax and to early intervention and the most important transfer out relates to central education functions.

4. This will in turn determine the 'top-ups' and 'tariffs' which are the difference between 50 per cent of predicted business rates to be collected in 2013-14 and that part of the start up funding allocation which is funded through the local share. These two sums will be identical at a national level but at a local level the top-ups and tariffs will operate to ensure that councils get their start up funding allocation given the very different amounts collected through business rates. The remainder of the start up funding allocation will be funded through the central share, through Revenue Support Grant.

5. Once the scheme is underway councils will retain 50 per cent of business rates growth above a baseline. However this is subject to a system of levies and safety nets. Where a council's increase in revenue outstrips the increase in its funding level this will be clawed back through a levy. Equally there will be a system of safety nets which will protect the local share from falls of 7.5 per cent to 10 per cent. (The Government has not yet determined the precise level). One of the issues of contention is that the Government wants to fund the difference between levies and safety nets through a further top-slice.

The Act and Regulations

6. The LGA supplied extensive briefing on the Bill whilst it was in both houses of Parliament. Our lobbying efforts concentrated on an amendment to raise the local share of business rates from 50 per cent by 5 per cent every two years, by a so-called escalator clause. This was moved by Lord Jenkin at Report Stage in the House of Lords. He withdrew the amendment after Lady Hanham for the Government said that the Government hoped to increase the local share once economic conditions improved.

7. Much of the Act will be implemented in regulations, of which drafts have been published. They cover matters such as payments of the local share from billing authorities to preceptors, of the central share from councils to Government and defining

the cases where councils will in any case retain business rates income outside the retention scheme (for example enterprise zones and renewable energy projects).

Business rates technical consultation

8. The LGA's response to the business rates technical consultation, which was cleared by lead members, made the points that the Act does not deliver full business rates localisation, and this enables the Treasury to squeeze total local government funding over the period to 2020. In addition, the proposals outlined in the technical consultation, if confirmed in the local government finance settlement, will take away even more money from local government than envisaged in the Spending Review 2010 totals. The specific holdbacks we mentioned are:

   8.1. the proposal to top-slice £345 million to fund the safety net and capitalisation;

   8.2. the top-slice of £150 million out of the Early Intervention Grant, so that, when the transfer of funding for two year olds to the ringfenced Dedicated Schools Grant is also taken into account, the non-ringfenced sum shows a fall of 27 per cent compared with the grant in 2012-13;

   8.3. the transfer out of funding for central education functions which will be funded through a separate non-ringfenced grants paid to councils and academies; we say that the amount councils retain should be increased in order to meet councils' legitimate expectations under the New Burdens Doctrine.

9. In addition we expressed our concern at a number of other issues. These include:

   9.1. the possibility that large numbers of authorities will suffer a loss due to the fact that the Department for Communities and Local Government (DCLG) propose to use a five year average to divide the predicted forecast total income for 2013-14 between authorities;

   9.2. the possibility that some councils will suffer a loss due to business rates appeals;

   9.3. the fact that the start up funding baselines will not take into the transitional grant received in 2012-13. This could potentially expose a small group of 12 shire districts to significant loss.

10. LGA officers have been talking to DCLG officials about these and officials from other departments such as the Department for Education on the academies funding transfer. We are hopeful of progress on a number of fronts, but this will not be confirmed until the Local Government Finance Settlement in mid/late December. Any progress will be reported in oral updates to your meeting.

Postponement of the 2015 business rates revaluation

11. In the Growth and Infrastructure Bill there in provision for the next business rates revaluation, due in 2015, to be postponed to 2017. The Government stated that the reason for this was to avoid unexpected rises in business rates. The Written Ministerial

Statement confirming this stated that this is a one-off; the next revaluation will follow in 2022.

12. One implication of this is that the reset of the business rates retention system, when the data underlying top-ups and tariffs, which is intended to be in 2020, will now no longer coincide with business rates revaluation. The LGA understands that DCLG officials consider this manageable. It should be noted, by the way, that revaluations do not in themselves affect the business rates retention scheme, as top-ups and tariffs will be automatically recalculated so the effect is neutral. However there could be an effect on business rates income, which normally falls towards the end of a valuation period due to appeals.

13. In our on the day briefing on the Bill we said that we are aware that businesses are having a tough time and postponing the revaluation will give businesses in areas where underlying rents are rising more certainty. However we believe that the data underlying business rates should be kept up to date and would not want to see the revaluation postponed beyond 2017.

Conclusion and next steps

14. The LGA will issue a full briefing at the time of the local government finance settlement when the Government will announce its decision on the key matters within the business rates technical consultation highlighted in this report.

Financial Implications

15. This work will be contained within existing programme budgets.