Communities and Local Government

Local Government Resource Review: Proposals for Business Rates Retention

Technical paper 3: Non-billing authorities

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August 2011
Department for Communities and Local Government

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000
Website: www.communities.gov.uk

If you require this publication in an alternative format please email alternativeformats@communities.gsi.gov.uk

DCLG Publications
Tel: 030 0123 1124
Fax: 030 0123 1125

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Chapter 1

Introduction

1.1. On 18 July, the Department for Communities and Local Government (DCLG), published a consultation paper, *Local Government Resource Review: Proposals for Business Rates Retention*.

1.2. This set out proposals for a rates retention scheme to replace the current local government finance system, under which business rates are redistributed as part of formula grant.

1.3. The consultation paper outlined the principal features of the proposed rates retention scheme. It undertook to provide further detail in a series of technical papers, to be published in August.

1.4. Taken together, the consultation paper and technical papers raise a number of questions about the proposed rates retention scheme, on which the Government is seeking views. The **consultation will close on Monday 24 October 2011**. Details of how to respond can be found on page 7 of the main consultation paper[1].

1.5. This is one of eight technical papers. The full list is:

Paper 1: Establishing the Baseline
Paper 2: Measuring Business Rates
Paper 3: Non-billing Authorities
Paper 4: Business Rates Administration
Paper 5: Tariff, Top Up and Levy Options
Paper 6: Volatility
Paper 7: Revaluation and Transition
Paper 8: Renewable Energy

1.6. All technical terms in the papers appear in italics and are explained in the Glossary of technical terms, which is attached to each technical paper as an annex.

1.7. An outline of the eight papers can be found in *Business Rates Retention – Technical Papers: An Overview*.

[1] www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates

Chapter 2

About this paper

2.1 At present, business rates are pooled centrally and distributed to local government as part of formula grant. Currently, all billing authorities and major precepting authorities (including police authorities and single purpose fire and rescue authorities) receive formula grant funding. However, only billing authorities (district councils in two-tier areas, London Boroughs, metropolitan district councils, unitary authorities, the City of London and the Isles of Scilly) collect rates. Therefore as part of a rates retention scheme there will need to be a mechanism for sharing the business rates between billing authorities, other principal authorities, police and single purpose fire and rescue authorities.

2.2 This paper considers the mechanisms through which “non-billing” authorities will be funded within the business rates retention scheme. As outlined in the main consultation paper, those mechanisms are likely to be different for different classes of authority.

Two-tier county councils

2.3 County councils in two-tier areas have significant levers for promoting economic growth across their local area and an equally strong interest in doing so. The Government believes, therefore, that the incentive for growth, created by allowing local authorities to retain a significant proportion of their business rates, should equally apply to two-tier county councils and that, like other principal councils, they should be allowed to benefit from growth in local business rates. To achieve this, a share of all rates income collected by district councils in a two-tier area will be paid over to the county council. If local business rates grow, a county council would see the income from its share of local business rates grow too. Chapter 4 of this paper looks at options for determining how business rates are to be shared between district and county councils.

Police authorities

2.4 The Government recognises that police authorities have more limited levers to promote economic growth than principal authorities and, therefore, the main consultation paper proposed that, for 2013-14 and 2014-15 at least, instead of being allocated a share of the *national business rates baseline*, the police sector, as a whole, would be allocated a fixed sum of funding through an *adjustment* to *forecast national business rates*. Decisions about the allocation of that fixed sum to individual police authorities would be taken by the Home Secretary. Chapter 5 of this paper considers how *forecast national business rates* will be adjusted to provide for police funding.

Fire and rescue authorities

2.5 Fire and rescue services can be the responsibility of county, or unitary, councils, or can be delivered by single purpose fire authorities. Their treatment under a rates retention scheme is therefore complicated by the different governance and funding arrangements that apply to each. Chapter 6 considers whether they should be treated like county councils and allocated a share of the *national business rates baseline*, or whether, like police authorities they should be provided with a fixed sum of funding through an *adjustment* to *forecast national business rates*.

Chapter 3

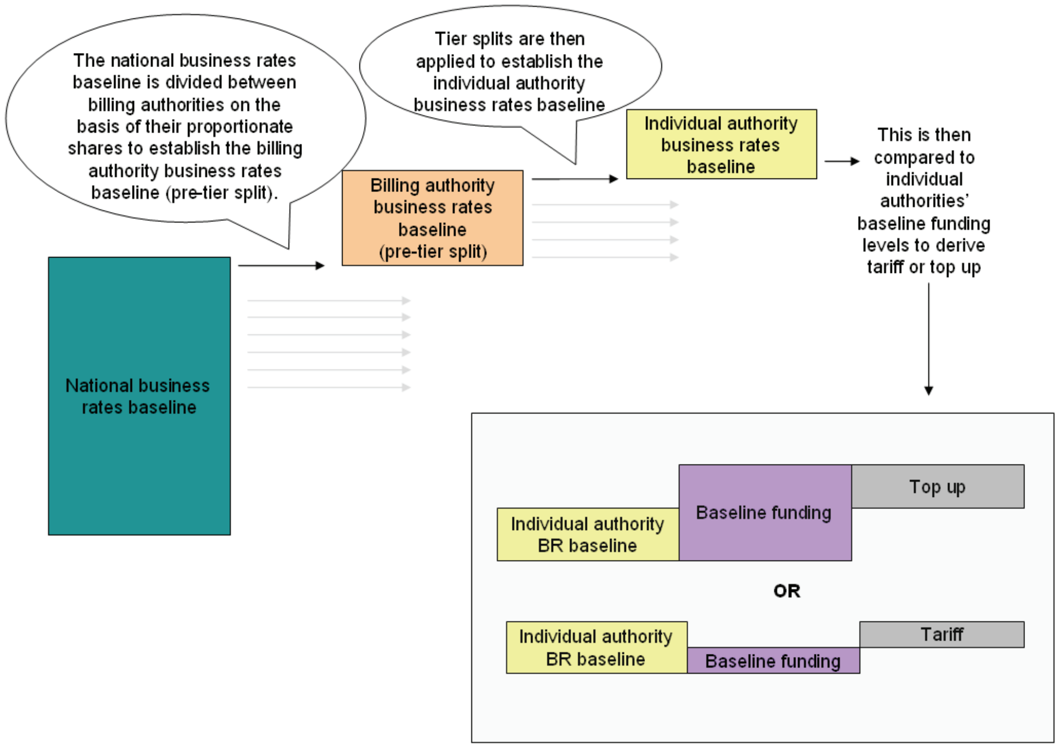
Establishing individual authority business rate baselines

3.1 *Technical Paper 1: Establishing the Baseline* and *Technical Paper 2: Measuring Business Rates* explained that the Government would produce a forecast of national business rates, in order to calculate the amount that would need to be set aside to ensure that the business rates retention scheme operates within the spending control totals in 2013-14 and 2014-15. As those papers explained, the *forecast national business rates* would be further adjusted to fund both the New Homes Bonus and those non-billing authorities that will receive fixed funding allocations in 2013-14 and 2014-15 (see chapters 5 and 6 of this paper).

3.2 The *forecast national business rates* remaining after the *set aside* and *adjustments* would form the *national business rates baseline.* As illustrated in the diagram below, this would be apportioned between billing authorities on the basis of their *proportionate shares* to produce for each billing authority a *billing authority business rates baseline (pre-tier split)*. The *billing authority business rates baseline (pre-tier split)* would be shared between the billing authority and any non-billing authorities that were part of the rates retention scheme (see chapter 4 for a discussion of county councils in two-tier areas and chapter 6 for a discussion of single purpose fire and rescue authorities).

3.3 Each authority's share of the *billing authority business rates baseline (pre-tier split)* will establish for it an *individual authority business rates baseline*, which will be compared to its *baseline funding* level to derive its tariff or top up. The options for establishing individual authority *baseline funding* levels are discussed in *Technical Paper 1: Establishing the Baseline*).

Establishing individual authority business rate baselines



Chapter 4

Two-tier county councils

Introduction

4.1 County councils in two-tier areas currently receive formula grant through the local government finance system. As set out in paragraph 2.3 above, they have considerable ability to influence local growth, not least as a result of their economic development and transport functions. Together with their district councils, two-tier county councils have a strong interest in creating thriving local economies and improving local employment.

4.2 The Government therefore proposes that, like other principal councils, two-tier county councils should be able to benefit from growth in local business rates. This will be achieved by, each year, district councils sharing with their county council a fixed percentage of the business rates that they collect (after any *set aside* and *adjustments*). This would enable tariffs and top ups to be set for county councils.

Setting tariffs and top ups

4.3 A two-tier county council would be allocated a fixed percentage share of the *billing authority business rates baseline (pre-tier split)* of each of the district councils in its area. The sum of all of the shares allocated to the county by its districts would form its *individual authority business rates baseline*. This baseline, when compared to its individual authority *baseline funding* level, will determine its *tariff*, or *top up*.

4.4 Further details about tariffs and top ups can be found in *Technical Paper 5: Tariff, Top Up and Levy Options.*

Income from business rates

4.5 *Technical Paper 4: Business Rates Administration* explains that the fixed percentage share of the district council *billing authority business rates baseline (pre-tier split)* which is allocated to its county council will also determine how much of the business rates that a billing authority collects (after any *set aside* and *adjustments*) must be paid over to the county council. The fixed percentage share will also determine how much of any transitional relief payment, or receipt adjustment, would be apportioned to the county council (*see Technical Paper 6: Revaluation and Transition*).

4.6 As set out in *Technical Paper 5: Tariff, Top Up and Levy Options*, each authority will, therefore, be allocated their own business rates income in order to determine whether it should make a levy payment or receive any support through the *safety net*.

Options for establishing tier splits

4.7 In theory, there are a number of ways in which the county and district share of the *billing authority business rates baseline (pre-tier split)* could be determined. In practice, we believe that there are two which merit further consideration:

- First, on the basis of fixed, national shares, relating to spend. Under this option each tier of authority would be allocated a standard proportion of business rates based on average national spending.

- Second, on the basis of individually-tailored shares, relating to local rates bases. Under this option, county and district shares would vary from one area to another.

Option 1: Fixed national shares

4.8 Under this option, we would create fixed, national shares that would apply to all two-tier county and district councils across the country. These would be based on the national aggregate spending patterns in two-tier areas.

4.9 The main advantage of this option is that it would be simple, would produce consistent results across the country and would ensure that the tier of local government with the greatest need to spend would receive the greatest proportion of any local business rates income.

4.10 However, being based on national spending patterns, it would make no allowance for local circumstances. Nor would it reflect the distribution of rates locally.

Option 2: Individually tailored shares

4.11 An alternative would be to set individually tailored shares, based on the local distribution of business rates.

4.12 Under this approach, the first step would be to work out the total rates yield across the county area, based on the sum of all the district council rates yields in the county council area.

4.13 We would then work out each district council's rates yield as a proportion of the county total. The district council would get to keep this proportion of their *billing authority business rates baseline (pre-tier split)*. This means that, if a district council's rates yield was equivalent to 20 per cent of the total rates yield of the county area, it would retain 20 per cent of its *billing authority business rates baseline (pre-tier split)*. If its rates yield was equivalent to 30 per cent of the aggregate, it would keep 30 per cent of its *billing authority business rates baseline (pre-tier split)*. The remaining percentage of its *billing authority business rates baseline (pre-tier split)* would form the county share.

4.14 This could be based on the same calculation of billing authority's business rates yield from which *proportionate shares* would be determined (*see Technical Paper 2: Measuring Business Rates*).

4.15 This would allow those districts – principally, county towns, whose business rates are high in relation to the rest of the county – to keep a higher proportion of the business rates they raise. Relative to their baseline funding levels, this would tend to increase their gearing and, as *Technical Paper 5: Tariff, Top Up and Levy Options* shows, this would be likely to produce – in those parts of a two-tier area where, perhaps, the potential for growth is strongest – the strongest incentive to achieve such growth.

TP3 Q1: Of the two options outlined for determining a county council's share of a *billing authority business rates baseline (pre-tier split)*, which do you prefer?

Chapter 5

Police authorities

5.1 With the exception of the Metropolitan Police Authority in London which is a functional body of the Greater London Authority and the City of London Police, police responsibilities are delivered by single purpose authorities which cover each metropolitan area and shire county (and sometimes a combination of these). Currently they receive specific grant funding directly from the Home Office and formula grant through the local government finance system.

5.2 The introduction of a rates retention scheme will not affect police authorities' specific grant funding, which will continue to be provided directly from the Home Office. But the funding currently provided through the formula grant will, in future, need to be paid from the national business rates within the rates retention scheme.

5.3 As set out in the main consultation paper and at paragraph 2.4 above, in recognition of the more limited levers available to police authorities to influence growth, a fixed sum of the *forecast national business rates* will be allocated to the police sector for 2013-14 and 2014-15. As set out in chapter 3 of this paper, this will be paid out of an *adjustment* made to the *forecast national business rates*. Decisions about the allocation of police funding to individual authorities will be made by the Home Secretary.

5.4 As set out in the main consultation paper, the Government will review the way in which police authorities are funded beyond this two year period. Any changes would be implemented from the beginning of the next Spending Review period in 2015-16.

TP3 Q2: Do you agree that police authorities should receive fixed funding allocations in 2013-14 and 2014-15 through an *adjustment* to the *forecast national business rates*?

Chapter 6

Fire and rescue authorities

6.1 As set out in paragraph 2.5 above, fire and rescue services can be the responsibility of county councils (county fire authorities), or can be delivered by single purpose fire and rescue authorities. Currently, both receive formula grant through the local government finance system.

County fire authorities

6.2 There are fifteen county fire authorities with direct responsibility for fire and rescue services. They include three unitary authorities, who as billing authorities in their own right will retain 100 per cent of their *billing authority business rates baseline (pre-tier split)* from which to fund local services, including fire and rescue services.

6.3 The other 12 county fire authorities are in two-tier areas and, under the proposals in chapter 4, will be allocated a share of each district councils *billing authority business rates baseline (pre-tier split)*, from which to fund the services for which they are responsible.

6.4 It is not obvious why, given the levers two-tier county councils have to promote growth, we should consider funding the fire and rescue element of their responsibilities in any other way from other county services. Accordingly, the Government proposes that all county fire authorities should be funded through retained local business rates, plus, where appropriate, any top up funding from central government, as set out at paragraph 4.3 of this paper.

Single purpose fire authorities

6.5 Outside the 15 county areas in which county councils are responsible for fire and rescue services, responsibility lies with single purpose fire and rescue authorities.

6.6 The main consultation paper considers whether these authorities should be treated differently from other principal councils and from the 15 county fire authorities, who will be fully funded through the allocation of a share of *billing authority business rates baselines (pre-tier split)*, subject to any top up or tariff.

6.7 Theoretically, it might be possible to treat single purpose fire and rescue authorities like police authorities and provide them, for 2013-14 and 2014-15, with guaranteed funding at the levels agreed in the 2010 Spending Review. As set out in paragraph 3.6, this would mean making an *adjustment* to *forecast national business rates*.

6.8 Whilst this would guarantee single purpose fire and rescue authorities the funding included for them in the 2010 Spending Review, they would not benefit from any growth in business rates achieved by the authorities in their area. Equally, they would not be exposed to any risk. Although, if they were part of the rates retention scheme, given that their funding shares would come from a number of different authorities, any such risks would be moderated to a degree.

6.9 Moreover, it could be argued that single purpose fire and rescue authorities should be treated consistently with county fire authorities, rather than putting in place different funding arrangements for 2013-14 and 2014-15 (following which, as the main consultation paper indicated, the Government would fully review the way in which fire and rescue authorities were funded).

6.10 If the Government were to conclude that single purpose fire and rescue authorities should be funded from *billing authority business rates baselines (pre-tier split)* we would probably adopt a measure similar to that outlined in paragraphs 4.8 – 4.15 above, in order to determine the respective percentage shares of single purpose fire and rescue authorities and the principal authorities over whose area they operate.

TP3 Q3: Do you agree that the services provided by county fire and rescue authorities should be funded through a percentage share of each district council's *billing authority business rates baselines (pre-tier split),* subject to any *tariff* or *top up* required to bring them to their *baseline funding* level?

TP3 Q4: Do you think that single purpose fire and rescue authorities should be funded:

a. through a percentage share of each district council's *billing authority business rates baselines (pre-tier split),* subject to any *tariff* or *top up* required to bring them to their *baseline funding* level; or

b. through fixed funding allocations for 2013-14 and 2014-15, through an *adjustment* to the *forecast national business rates*?

Annex A

Business Rates Retention: Glossary of technical terms

Adjustments
After deducting the *set aside* from the *forecast national business rates* further adjustments will be made to fund the New Homes Bonus, police authorities and potentially single purpose fire and rescue authorities.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 4

Allowable deductions
A deduction made to a billing authority's business rates income, when calculating its *proportionate share*. Examples of where allowable deductions will be made are for rate reliefs and cost of collections.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 4

Banded levy
Authorities assigned to their different levy bands with different pence in the pound levy rates based on the ratio of their *individual authority business rates baseline* and their *baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Baseline funding level (or **individual authority baseline funding level**)
A fair starting point based on formula grant distribution, within the overall expenditure controls set out in Spending Review 2010.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 5

Billing authority business rates baseline (pre-tier split)
Derived by dividing the *national business rates baseline* between *billing authorities* on the basis of their *proportionate shares*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Flat rate levy
The same pence in the pound levy rate for all authorities.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Forecast national business rates
Forecast of national business rates for England in 2013/14 and 2014/15. Based on the 2012/13 national non-domestic multiplier, uprated for *Retail Prices Index* and the latest published information from the national non-domestic rates returns.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 3

Gearing effect
The relationship between *individual authority business rates baseline* and the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 2

Individual authority business rates baseline
Derived by apportioning the *billing authority business rates baseline (pre-tier split)* between billing and non-billing authorities on the basis of *tier splits*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Individual authority business rates
The amount of business rates income which each authority receives before payment of *tariffs and top ups*.

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 5

Interactive Calculator
Enables users to explore the principal features of the proposed rate retention scheme by entering their own inputs and varying components.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 7

Levy
To manage the possibility that some local authorities could see disproportionate financial gains, the *levy* will recoup a share of this disproportionate benefit. Applied to the change in *pre-levy income* (either all growth or growth above *Retail Prices Index*), as measured against the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

National business rates baseline
The *forecast national business rates* less *set aside* and *adjustments*.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 5 and *Technical Paper 2: Measuring Business Rates*, Chapter 5

Post-levy income
Individual authority business rates minus/plus the *tariff* or *top up*, minus any *levy*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Pre-levy income
Individual authority business rates minus/plus the *tariff or top up*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Proportional levy
Individual pence in the pound levy rate for each authority so that percentage growth in *retained income* is proportional to growth in *individual authority business rates*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Proportionate shares
Used to apportion the *set aside*, *adjustments* and *national business rates baseline* between billing authorities. Equals a billing authority's business rates income (after *allowable deductions*) as a proportion of total business rates yield (after *allowable deductions* and exclusive of the impact of transitional relief).

Reference: *Technical Paper 2: Measuring Business Rates*, Chapter 4

Retail Prices Index
A measure of inflation in the UK.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 2

Retained income
Individual authority business rates minus/plus *tariff* or *top up*, minus any *levy*, plus any *safety net* payments.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 4

Revaluation adjustment
An adjustment to tariffs and top ups to ensure that authorities do not experience gains or losses as a consequence of a revaluation.

Reference: *Technical Paper 7: Revaluation and Transition*, Chapter 3

Safety net
The safety net offers: i) annual protection against a decline in *retained income* and ii) protection against a decline in *retained income* relative to the *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 5

Set aside
The share of the *forecast national business rates* that will be set aside to meet the overall expenditure controls set out in Spending Review 2010. The set aside will be apportioned between billing authorities and non-billing authorities on the basis of their *proportionate shares*.

Reference: *Technical Paper 1: Establishing the Baseline*, Chapter 3

Tier splits or **tier split shares**
Applied to *billing authority business rates baseline (pre-tier split)* to establish the *individual authority business rates baseline.*

Reference: *Technical Paper 3: Non-Billing Authorities*, Chapter 3

Tariffs and top ups
Assigned to a local authority to achieve a fair starting point. An authority will pay a *tariff* if their *individual authority business rate baseline* is more than their *baseline funding level*. An authority will receive a *top up* if their *individual authority business rate baseline* is less than their *individual authority baseline funding level*.

Reference: *Technical Paper 5: Tariff, Top Up and Levy Options*, Chapter 3

Transitional adjustment
An adjustment to ensure that authorities do not experience gains or losses as a consequence of granting transitional relief.

Reference: *Technical Paper 7: Revaluation and Transition*, Chapter 4

Volatility
The degree to which individual authority business rates in a particular area may change.

Reference: *Technical Paper 6: Volatility*, Chapter 3