WIRRAL COUNCIL

CABINET

13 OCTOBER 2011

SUBJECT	**LOCAL GOVERNMENT RESOURCE REVIEW – BUSINESS RATES REFORM CONSULTATION RESPONSE**
WARD/S AFFECTED	**ALL**
REPORT OF	**DIRECTOR OF FINANCE**
RESPONSIBLE PORTFOLIO HOLDER	**COUNCILLOR STEVE FOULKES**
KEY DECISION	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This Local Government Resource Review was launched by the Government on 17 March 2011. The central issue is the repatriation of business rates whereby local councils keep their local business taxes with grant dependence scaled back except where it is needed to protect the interest of taxpayers. The intention is to set an initial baseline and local authorities whose business rates income is higher than this would pay the difference to the Government by way of a tariff. Those whose income is less than the baseline would receive the balance in the form of a top up

1.2 Reports to the Cabinet on 14 April 2011 and 22 September 2011 outlined the basic proposals. The latest consultation sets out the proposed core components for a business rates retention system. In addition it sets out how Tax Incremental Financing will operate within the system. It further outlines how the proposals interact with wider Government initiatives to promote growth, including the New Homes Bonus.

1.3 In addition to the core proposals there are a further eight technical papers to which councils may respond. These provide further details on the topics covered in the core consultation. A brief summary of these is included later in this report.

1.4 Appendix 1 contains a proposed response to the core consultation but not the technical aspects which purely inform the overall response.

2.0 RECOMMENDATIONS

2.1 That the response to the core consultation be agreed.

2.2 That any final amendments are to be agreed by the Director of Finance in conjunction with the Leader of the Council.

3.0 REASONS FOR RECOMMENDATIONS

3.1 The response is made on the basis that, as far as possible, it protects the Council's financial position. Although a series of technical papers have been released these still do not give a full understanding of the detail or the possible outcome of the consultation. This is evidenced by the number of issues, stemming from the various Resource Review meetings, that the DCLG admits still need to be resolved. It could be that the legislation will be agreed at a high level with much of the detailed workings not available until later in 2012 and possibly around the time of the Local Government Finance Settlement for 2013/14.

3.2 Discussions are still ongoing between the Council, SIGOMA and the Liverpool City Region on a number of technical issues which must conclude by 24 October 2011.

4.0 BACKGROUND AND KEY ISSUES

PROPOSALS FOR BUSINESS RATES RETENTION

4.1 On 17 March 2011 the Government launched the Local Government Resource Review. The details were reported to Cabinet on 14 April 2011 and 22 September 2011.

4.2 In summary the key principles for reform are:

- To build into the local government finance system an incentive for local authorities to promote local growth over the long term;
- To reduce local authorities dependency on the Government;
- To maintain a degree of resource distribution to ensure that local authorities with high needs and low tax bases are able to meet the needs of their areas; and
- Protection for businesses and specifically, no increase in locally imposed taxation without the agreement of local businesses.

SUMMARY OF THE TECHNICAL PAPERS

4.3 **Technical paper 1 – Establishing the baseline**
The Government proposes that baseline funding will be based on the spending review control totals. Forecast business rates for 2013-14 and 2014-15 will be higher than the control totals and it is therefore proposed to set aside a share of business rates to fund other grants to local government. There is also a proposal to make further adjustments to fund the New Homes Bonus, the guaranteed level of police funding and any changes in local authority functions.

The paper considers the options for setting individual local authorities' baselines. Should the 2012-13 formula grant allocation be adjusted or should the formula grant be recast prior to establishing the baseline. For example updating data, reviewing the relative needs formula, would alter the amount that is accounted for by service demands and resources and the use or not of floor damping. Finally the paper considers options for when the baseline should be reset which would be required when resources were becoming too divergent from service delivery pressures.

4.4 **Technical paper 2 – Measuring business rates**
This covers proposals to set the forecast national business rates, the basis of proportionate shares which determines how much each billing authority would be required to contribute towards the national set aside and any adjustments and the allowable deductions (e.g. hardship relief) made to business rates yield in determining the proportionate shares.

4.5 **Technical paper 3 – Non billing authorities**
Not applicable to Wirral

4.6 **Technical paper 4 – Business rates administration**
This covers business rates payments to the Government, the year end reconciliation process in respect of the set aside, adjustments, top ups and tariffs, notification of levy and safety net payments, and the treatment of Enterprise Zones on data returns.

4.7 **Technical paper 5 – Business rate retention**
This paper considers the choices about how tariffs and top ups are rolled forward into future years and the consequent effect on maximising the growth incentive and ensuring adequate protection for local authorities. It introduces the concept of voluntary pooling and how this would be treated for tariffs, top ups and levies. The levy, whether in relation to pooling or individual local authorities, is to generate funding for areas in need of support by limiting disproportionate gains in local authorities' pre-levy income. A number of options are proposed as to how the levy should be calculated and how the amount to fund any safety net would be calculated.

4.8 **Technical paper 6 – Volatility**
A number of factors give rise to changes in the volatility of business rates income, such as changes in the rateable value of very large properties. A number of options to counter this are proposed – to provide local authorities with compensation for specific events, local authorities to apply directly for support from the levy pot or to have a safety net that provides support if rates income fell below a pre-determined threshold.

4.9 **Technical paper 7 – Revaluation and transition**

At revaluation the business rates yield in each local authority could go up or down significantly, depending on whether rateable value growth in their area has been greater or less than the national average. It is proposed to adjust each local authority's tariff or top up following a revaluation, to ensure that their retained income is the same after revaluation as immediately before.

At the property level it maybe that following a revaluation there will be significant changes in the bills of the individual ratepayers following a revaluation. A transitional rate relief scheme works by phasing in increases in rates bills over a number of years; this is paid for by phasing in reductions in rates. Transitional relief is designed to be self financing on a national level but this will not necessarily be the case on a local level. The Government is minded to take transitional rate relief outside the rates retention scheme to prevent the potential of it undermining the incentive effect.

4.10 **Technical paper 8- Renewable Energy**

It is proposed that for certain renewable energy technologies rates payments the local authority will benefit from full retention of the associated rates. The full retention will apply to new projects for renewable energy as defined in previous business rates statutory instruments. It is proposed that it will be the responsibility of the billing authority to assess whether a property qualifies as a renewable energy project.

IMPLICATIONS FOR WIRRAL

4.11 The proposals could adversely affect Wirral and similar local authorities with low Business Rate tax bases and limited potential to increase the base. Local authorities with high tax bases are predominately in the South-East and gain because after the initial top-up adjustment those areas with a high base and lower needs will generate (and potentially retain) substantially more than an area with a low tax base and high needs.

4.12 The Enterprise Zone and Tax Increment Financing proposals are of interest given the Wirral Waters and International Trade Centre schemes. This would potentially allow the retention of increases in business rate revenues and provides the facility to borrow against potential future increased business rates uplifts from economic regeneration and investment.

5.0 RELEVANT RISKS

5.1 The major risk is financial. At this early stage in the process there are many unresolved issues, for example where the safety net will be set which means it is not possible to fully assess the relevant risks. The safety net is designed to provide a degree of assistance where a local authority experiences a decline of more than a certain percentage in their retained income from one year to another. It has not yet been decided at what percentage the safety net will be set which makes it difficult to assess the level of risk.

There is a financial risk to Local Authorities who will have to make up any deficit caused by failure to achieve the Government estimates of growth in NNDR.

6.0 OTHER OPTIONS CONSIDERED

6.1 There are none as the Council is responding to a Government consultation.

7.0 CONSULTATION

7.1 The Government has invited contributions to its consultation paper, Local Government Resource Review: Proposals for Business Rates Retention, the deadline for responses is 24 October 2011.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are none arising directly from this report. The Government has indicated that Business Ratepayers will be unaffected by the proposals and that existing reliefs will remain.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 Wirral expects to collect £60 million in Business Rates in 2011/12 which is paid into the national pool. Wirral receives £121 million in Government Grant from the re-distribution of the pool. If the Government proposals are implemented then Wirral will retain the Business Rates collected and receive a 'top-up' grant so that Wirral will receive the same business rates income in 2013/14 as for 2012/13.

9.2 Looking ahead the annual Local Government Finance Settlement which seeks to allocate Government support to those areas based upon need, will no longer exist in its current format. It would be for Wirral to meet any increased pressures from within the Business Rates collected locally plus the 'top-up' grant although the Government is proposing the option of re-setting the system if it was felt that resources were no longer meeting pressures within local authority areas. This could offer some protection to Wirral and others with low growth options.

9.3 It is difficult to quantify the impact on Wirral. This is because of the large number of uncertainties and unknowns in the draft proposals, for example how often the system will be reset has yet to be confirmed.

9.4 There are no asset, staffing or IT implications arising from this report.

10.0 LEGAL IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising directly from this report.

REPORT AUTHOR: Tom Sault
Head of Financial Services
telephone: 0151 666 3407
email: tomsault@wirral.gov.uk

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BACKGROUND PAPERS

The Department for Communities and Local Government 'Local Government Resource Review : Proposals For Business Rates Retention consultation paper was issued on 18 July 2011 and can be found at:-
www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates.

The plain English guide to rates retention is available at:-
www.communities.gov.uk/publications/localgovernment/resourcereviewplainenglish.

REFERENCE MATERIAL / SUBJECT HISTORY

Council Meeting	Date
Cabinet	14 April 2011
Cabinet	22 September 2011

Appendix 1

Consultation Paper

Q1: What do you think that the Government should consider in setting the baseline?

The base-line position for 2013/14 will be within the overall spending control total set by the Government with each authority allocated a share in line with the 2012/13 grant allocations.

The proposed scheme critically breaks the link between funding and need and will have a significant impact on authorities that face a disproportionate increase in demand for services based on the socio-economic breakdown of the region.

Formula grant is allocated on the basis of three criteria, Relative needs, Relative resources and a central allocation. The relative weightings applied to each are shown below.

Year	Relative Needs Amount	Relative Resources Amount	Central Allocation
2008-09 to 2010-11	73.0%	-26.6%	53.6%
2011-12 to 2012-13	83.0%	-26.6%	43.6%

We have always argued that additional resources should be allocated through the RNA, and despite the severity of the cuts imposed on this Council in the last settlement we were pleased to see that the government recognised the importance of the Relative Needs weighting. However it is still considered that there is too much focus on the Central Allocation and we would have hoped there is still an opportunity to further develop the needs allocation. The proposal for business rate retention severely mitigates against this.

According to Government figures, Wirral suffered a reduction in ‘Revenue Spending Power’ of 7.44% in 2011/12 and 4.09% in 2012/13. There is concern that the results of the settlement will be locked into the baseline funding for Wirral if the 2012/13 Formula Grant settlement is taken as the base i.e. Wirral will be locked into a cycle of downward government funding when the baseline is set.

Whatever baseline is chosen the system must not suffer from any volatility. In order to maintain a degree of certainty within the system there should be little or no change to the formula and damping should be retained.

Q2: Do you agree with the proposal to use 2012-13 formula grant as the basis for constructing the baseline? If so, which of the two options at paragraphs 3.13 and 3.14 do you prefer and why?

We do not agree with the proposal to use the 2012-13 formula grant as the basis for constructing the baseline. The information set out in Q1 provides explanation and details behind this response.

The first option, 3.13, would be to take individual authorities' actual 2012-13 formula grant allocations as their baseline position but adjust them in proportion to the new control totals with no further changes.

The second option, 3.14, would be to establish the baseline position for each local authority by applying the process used to determine their 2012-13 formula grant allocation to the local government control totals and at the same time make very limited technical updates to the formulae.

If 2012/13 Formula Grant is to be used as the baseline then our preferred option is the first as outlined in paragraph 3.13 as at least it provides some level of certainty about the level of the funding.

Q3: Do you agree with this proposed component of tariff and top up amounts as a way of re-balancing the system in year one?

If the proposed system is to be implemented then we agree with the concept of tariffs and top ups as a mechanism for rebalancing a system for localising business rates. However we believe that it is important to conduct a needs based assessment when setting the tariff and top up.

Q4: Which option for setting the fixed tariff and top up amounts do you prefer and why?

As outlined in Q3 we believe that there should be a needs based assessment. Of the 2 options set out in the consultation paper the preferred option would be for tariffs and top ups to be uprated in line with RPI. In our view the potential for volatility in funding is too much of a risk if top up and tariff amounts were to be fixed.

Q5: Do you agree that the incentive effect would work as described?

The incentive effect would have the potential to work in certain areas where conditions are conducive to encouraging businesses into the area. In areas where there is a low existing tax base and disincentives to invest such as weak infrastructure it might still prove hard to encourage investment.

It is also our view that businesses might encourage practices such as home working in certain sectors and increasing number or length of shifts will limit physical business rate growth. Also it should be considered that businesses may relocate to Enterprise Zones for financial benefits thereby reducing the capacity to generate physical business rate growth.

Q6: Do you agree with our proposal for a levy on disproportionate benefit, and why?

Based on the scheme described we agree with the proposal for a levy to recoup a share of any disproportionate benefit. This levy should be used to reduce the unevenness which exists in the current system. Due to a gearing effect a small growth in businesses in that area can lead to a large increase in business rates revenues.

Q7: Which option for calculating the levy do you prefer and why?

We would prefer option 3, to create an individual levy rate for each local authority which allows the retention of growth in an equivalent proportion to its baseline revenue; it appears to be the most equitable and avoids any authority suffering a “cliff edge” effect as might be case if authorities were put into different bands as in option 2.

Q8: What preference do you have for the size of the levy?

Wirral would prefer a larger levy with more resources being available to provide protection. It is essential that the most needy and vulnerable in society are protected from any volatility in the system.

Q9: Do you agree with this approach to deliver the Renewable Energy commitment?

We agree with the approach to deliver the Renewable Energy Commitment

Q10: Do you agree that the levy pot should fund a safety net to protect local authorities: i) whose funding falls by more than a fixed percentage compared with the previous year (protection from large year to year changes); or ii) whose funding falls by more than a fixed percentage below their baseline position (the rates income floor)?

We believe that the levy pot should be used to act as a safety net in either of the two options above not just in one situation or the other. It is critical that the safety net is at as lower variance from both the baseline and the previous years funding to ensure that Authorities do not experience damaging fluctuations in funding.

Q11: What should be the balance between offering strong protections and strongly incentivising growth?

It is important to provide strong protections, we believe that authorities are already strongly incentivised to grow their business rates revenue and that it is best to have a strong balance towards protecting authorities.

Q12: Which of the options for using any additional levy proceeds, above those required to fund the safety net, are you attracted to and why?

Of the options our preference is for options one and two, i.e. (1) provide ongoing support to authorities that have experienced significant losses that take more than one year to recover from, and (2) top up the growth achieved in every authority which had not contributed to the levy. We would be concerned about how this is to be allocated and would emphasise the importance of allocating on a needs basis.

Q13: Are there any other ways you think we should consider using the levy proceeds?

If the Government continues with its preferred option to set the baseline on damped formula grant then any levy proceeds not required for a safety net could also be used to provide funding to those Authorities that do not receive resources based on their assessed needs. Given that they are often those areas with lower tax bases such investment would also provide additional resources to support a focus on economic regeneration

Q14: Do you agree with the proposal to readjust the tariff and top up of each authority at each revaluation to maintain the incentive to promote physical growth and manage volatility in budgets?

Wirral agrees with the proposal, in order for the system to work well it is important that there is an incentive to promote growth and particularly to manage volatility in budgets.

Q15: Do you agree with this overall approach to managing transitional relief?

Yes. We agree to keep it as a national scheme; the overall high level approach would seem to be okay.

Q16: Do you agree that the system should include the capacity to reset tariff and top up levels for changing levels of service need over time?

We agree that there should be the capacity to reset tariff and top up levels.

Q17: Should the timings of resets be fixed or subject to government decision?

A fixed period seems reasonable. It would be a sensible idea to allow government to intervene and adjust the timings of a reset but only when there is reasonable justification and not on a whim.

Q18: If fixed, what timescale do you think is appropriate?

We would argue either for every four years or every three years, this would bring it more into line with spending reviews.

Q19: What are the advantages and disadvantages of both partial and full resets? Which do you prefer?

A partial reset will ensure the growth experienced by an area will be locked into that area in future. In line with concerns above, over time this risks opening up wide gaps between areas as those who have the greatest growth will continually get the edge over those with weaker growth. Over time this will have the opposite effect of what government is trying to achieve i.e. it will give the strongest economic areas the greater advantage –allowing them to use tools such as TIF or business rate discounts to attract additional investment. A partial reset over time could have very damaging effects – a full reset would offer the stability needed nationally while also allowing those who do experience growth to benefit.

Q20: Do you agree that we should retain flexibility on whether a reset involves a new basis for assessing need?

If there is a new basis for assessment it is crucial that the model remains needs based.

Q21: Do you agree that pooling should be subject to the three criteria listed at paragraph 3.50 and why?

Yes. It is important that the decision to pool should be voluntary and if the pool is dissolved authorities should return to their individual tariffs and top ups.

Q22: What assurances on workability and governance should be required?

The same assurances on workability and governance should be required as are currently in place when two local authorities collaborate currently.

Q23: How should pooling in two tier areas be managed? Should districts be permitted to form pools outside their county area subject to the consent of the county or should there be a fourth criterion stating that there should always be alignment?

N/A

Q24: Should there be further incentives for groups of authorities forming pools and, if so, what would form the most effective incentive?

No, there must already be an incentive if authorities have volunteered to form pools, it should also be considered where would the funding for further incentives come from, it would have to come at the expense of authorities who chose not to form pools.

Q25: Do you agree with these approaches to non-billing authorities?

We agree in principal as long as there is no adverse affects on billing authorities such as ourselves.

Q26: Do you agree this overall approach to funding the New Homes Bonus within the rates retention system?

We believe that the current New Homes Bonus scheme needs to be fundamentally reviewed in light of the proposals.

The scheme was established under the previous system where additional Council Tax Income generated from new homes was effectively equalised within the system with the full benefit of growth not being received by individual Authorities. The New Homes Bonus provided an added incentive.

Under the proposed system all additional Council Tax raised through new homes will be kept by individual Authorities.

Top-slicing of the funds for the New Homes Bonus means that going forward areas able to build homes will receive a double reward , increases in Council tax and Homes bonus whilst areas unable to develop will see no increase in resources through Council tax and indeed a reduction in core funding to provide funds for the more wealthy.

Q27: What do you think the mechanism for refunding surplus funding to local government should be?

Wirral agrees with the Government's proposal to return any surplus amount to local authorities on the basis of baseline funding.

Q28: Do you agree that the current system of business rates reliefs should be maintained?

We agree that the current system should be maintained. We would note that the Government may wish to give consideration to providing additional mandatory relief for the third sector who have been hit by the Governments economic policies in the pursuit of the deficit reduction plan.

Q29: Which approach to Tax Increment Financing do you prefer and why?

Wirral do not have a preference for either option. We wish to raise concerns in relation to the impact that the proposed system. It is our view that more prosperous areas that are able to easily generate growth in business rates are in a better position to encourage business to relocate, thereby increasing growth. Our concern is that this will be at the detriment of areas where growth is difficult and resources are not available to provide financial incentives when viewed against the need to provide basis services.

We further believe that the Government needs to consider mechanisms to avoid growing areas being able to 'drain' business from other areas.

Q30: Which approach do you consider will enable local authorities and developers to take maximum advantage of Tax Increment Financing?

Option 2 would provide a greater incentive for local authorities and developers because of the greater certainty around the long term retention of any growth locally.

However it should be noted that the proposals do not recognise that some areas have high percentage of public sector workers and it will not matter which option is selected this sector will not have the resources to invest in the area.

Q31: Would the risks to revenues from the levy and reset in option 1 limit the appetite for authorities to securitise growth revenues?

Yes, we would think so as any growth would be subject to the levy calculation and would also be lost when the system is reset.

Q32: Do you agree that pooling could mitigate this risk?

We are uncertain, whether risk would be mitigated would depend upon the composition of the pool and the way in which it is set up to operate.

Q33: Do you agree that central government would need to limit the numbers of projects in option 2? How best might this work in practice?

Yes otherwise the amount of growth subject to a levy would diminish and this in turn would reduce the safety net fund.