LANCASTER
CITY COUNCIL
Promoting City, Coast & Countryside

LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Council Business Committee

Thursday, 15th September 2011

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
7	1 - 75	CONSULTATION: LOCAL GOVERNMENT RESOURCE REVIEW	Report received after the publication of the Agenda.	Report of the Head of Financial Services.

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
8	76 - 139	CONSULTATION: LOCALISING SUPPORT FOR COUNCIL TAX IN ENGLAND	Report received after the publication of the Agenda.	Head of Revenues and Benefits (Shared Service).

COUNCIL BUSINESS COMMITTEE

Local Government Resource Review: Proposals for Business Rates Retention – Consultation Response 15 September 2011

Report of Head of Financial Services

PURPOSE OF REPORT
To inform the Committee of a Government consultation on proposals to change aspects of business rates and the current national pooling arrangements, as part of the Local Government Resources Review, and to seek approval for agreeing the Council's response.
This report is public.

RECOMMENDATIONS

1. **That the Committee makes any initial comments or observations to feed into drafting the county-wide response,**

2. **That arrangements be put in place for the Committee to consider electronically the county-wide response and also to determine electronically any additional City Council response to be submitted by the consultation deadline of 24 October 2011.**

3. **That the Head of Financial Services be authorised to finalise and submit any City Council response formulated in the light of (2) above.**

1 **Introduction and Proposal Details**

1.1 The Government recently issued an initial consultation document on proposals for business rates retention, developed as part of its ongoing Resource Review. The consultation paper is set out at ***Appendix A***. The closing date for responding is Monday 24 October.

1.2 In addition, the consultation also seeks views on options for enabling authorities to carry out Tax Increment Financing within the business rates retention system. This follows the Government's commitment to "*provide incentives for local authorities to deliver sustainable development, including for new homes and businesses."*

1.3 A number of technical papers have been produced in support of the consultation but at the time of writing this report, these had only recently been received and had not been analysed. As yet therefore, it has not been possible to undertake any useful modelling of what the proposals may mean but a number of key principles can be highlighted:

- The Government intends to introduce business rates retention from April 2013.
- Rate setting powers would remain under the control of central Government. The revaluation process would be unchanged. Business would see no general changes in billing and collection arrangements.
- The retention scheme would work initially within the expenditure limits set as part of the Spending Review 2010.
- Any forecast rates income above these limits would be set aside and directed back to local government through other grants (such as New Homes Bonus).
- A system of 'tariffs' and 'top-ups' would be introduced, to address fairness.
- After allowing for such adjustments, in very general terms, if an authority collected extra rates income (e.g. through more businesses moving into the district), it could keep that extra income. If however, its income reduced, then it would need to address this impact. Any new arrangements would also have to deal with how such changes are to be shared between the various types of local authorities, such as county councils and districts as examples.
- Other safety measures are also be built in, to help financial management and planning.

1.4 The Local Government Association (LGA) has published two briefings on the information available so far, incorporating its preliminary views, and these are set out at ***Appendices B and C.***

1.5 At a more local level, Lancashire Chief Finance Officers' Group is to draft a county-wide response for consideration by Lancashire Leaders at their meeting on 10 October.

1.6 In view of timescales but also recognising the need to have more information on which to base any response, once the county-wide response has been completed, this will be shared with the Committee for consideration.

1.7 In addition, in light of the county-wide position the Committee may wish to submit a supplementary response from the City Council's perspective only. At this stage, however, this report seeks approval only of the process.

2 **Details of Consultation**

2.1 No other consultation has taken place, but the proposals have been noted in the Council's budget and planning process for 2012/13 onwards.

3 **Options and Options Analysis (including risk assessment)**

3.1 There are a number of options available for consideration.

Option 1: To approve the arrangements for agreeing any response as reflected in the recommendations.

Option 2: Not to involve the Committee in any response**.**

4 **Officer Preferred Option (and comments)**

4.1 It is recommended that Option 1 be applied. Whilst the county-wide response will provide an overall opinion based upon the views of all Lancashire authorities, in view of the potential significance of these Government proposals it is considered that the Committee would wish to have an opportunity to make additional comments on the City Council's behalf.

5 **Conclusion**

5.1 No firm conclusions can be drawn until more information is known, but such changes to the finance system could have major implications (either way) for the authority in future.

CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing) Any proposals ultimately adopted by Government will be the subject of an impact assessment, but from the information available so far, there are no obvious implications arising.	
FINANCIAL IMPLICATIONS The financial implications are not known at this stage; where possible, modelling will be undertaken to inform any response.	
SECTION 151 OFFICER'S COMMENTS The section 151 Officer has prepared this report.	
LEGAL IMPLICATIONS There are no legal implications arising at this stage.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS None.	**Contact Officer:** Nadine Muschamp **Telephone:** 01524 582117 **E-mail:** nmuschamp@lancaster.gov.uk **Ref:**

APPENDIX A

Communities and Local Government

Local Government Resource Review: Proposals for Business Rates Retention

A Plain English Guide

What are we changing and why?

- At the moment, local councils receive their funding from three main sources: grants from central government; council tax; and other locally generated income (such as fees and charges for services). Britain's local government finance system is one of the most centralised in the world and our councils get more than half of their income from central government grant.

- Central government grants can be received as 'specific grants', which can come with restrictions on what they can be spent on, or through 'formula grant', which has no restrictions and can be used by the authority for any purpose. The formula grant funds a wide range of local services, including children's services, adult social services, police, fire, and highways maintenance, and is distributed to all local authorities using a complex formula.

- One of the main components of formula grant is National Non-Domestic Rates, commonly known as business rates. Business rates are collected by local authorities from businesses in their areas like shops, offices, warehouses and factories, but they are currently paid into a central pool to be redistributed as part of formula grant.

- This system means that local authorities do not have any financial incentive to promote business growth in their area, as they will not receive any of the business rates receipts from new development.

- This dependence on central government funding also means there is a greater incentive to design services in order to secure government funding, rather than to respond to local communities' needs or align spending with citizens' service preferences; councils may feel they can generate better results for their area by lobbying government for more resources or demonstrating their need, rather than driving cost efficiencies or investing in local growth.

- The Government wants to change the current system by enabling councils to keep a share of the growth in business rates in their area. This will make councils more financially independent from central government and give them a strong incentive to promote local business growth.

- We are not proposing to make any changes to the way businesses pay tax or the way the tax is set. Rate setting powers will remain under the control of central government. Nor will there be any changes to the existing reliefs available to eligible business ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector.

- Councils do currently have powers to increase rates by introducing a business rate supplement or a levy in a Business Improvement District. The Localism Bill is changing the law to ensure a referendum of local businesses is required to authorise any business rate supplement, as already happens with Business Improvement Districts. The Localism Bill is also amending the law to allow councils to introduce local business rates discounts, funded by the council.

Our proposals for change

- If we allowed all councils to keep all of the business rates generated in their areas, some areas would have a much larger amount than they need to deliver their services whilst some others would have much less than they need.

- So, to ensure a fair starting position for the new system, we will take an amount of business rates away from those with too large an amount in comparison to their current spending and top up those authorities with too little, again in comparison to their current spending.

- In future years the amount of business rates that central government gives or takes from each local authority will remain fixed. This means that any growth in business rates an authority achieves will be kept by them. This creates a strong incentive effect to promote growth.

- There would be no fixed limit on the amount of business rates growth an authority can benefit from under the new system. The more any authority grows its business rates base, the better off it will become.

- However, some local authorities with large amounts of business property in their area and may stand to gain disproportionate amounts. Where this happens, we are proposing to take back a share of their growth.

- We are proposing to use the proceeds of this to give financial help to those authorities who experience significant drops in business rates, for example caused by the closure or relocation of a major business. We are also proposing to protect those authorities who are less able to grow. Depending on the amounts raised, the proceeds could also be redistributed to authorities with lower growth, or fund schemes, for example, for regeneration, in areas with high growth potential.

- In the future, the Government may judge that the level of a number of councils' business rates no longer meet changing pressures on local services. In this situation, we could choose to 'reset' the fixed amounts of business rates that were either taken from councils with too high levels of business rates or given to those with too low levels. This would probably involve a new assessment of local authorities' need.

- The whole system could also work for groups of councils working together, for example those in local enterprise partnerships or districts and counties, who want to form voluntary groups, allowing them to collaborate to promote growth and share in the benefits.

What do these proposals mean in practice?

- **Members of the general public** will find their local council's budget is more strongly linked to local business growth. In general terms, the more new business premises are developed in your area, the more funding (outside of council tax, fees and charges) your local council will have to provide local services and investment, as well as having positive impacts on employment and the local economy more widely. The proposals include protections to ensure that local authorities are able to meet local service needs in their area.

- **Business rates payers** see no change in the way in which their business rates bills are calculated. The Government is not proposing to change the way that properties are valued or business rates levels are set. However, it should mean that the rates you pay have more impact on local authority budgets in your local area, and that your local authority has more incentive to work closely with the Valuation Office Agency to ensure that all businesses in your area have their properties valued correctly and are paying the right amount of tax.

- **Developers** will find local authorities have greater incentives to grant planning permissions for appropriately-sited and well-planned non-residential development and go for growth. This is especially true of new renewable energy projects that start paying business rates from year one of the system, as councils would keep all of the business rates paid by such projects Local authorities would also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure.

- **Billing authorities** (district councils, unitary authorities) still bill and collect business rates, as now. But instead of contributing all business rates into the central pool and receiving formula grant, under these proposals, some of your business rates would be retained locally. Your baseline level of funding would be set so that at the start of the system, your budget is equivalent to what it would have been under the current system. From then on your funding would grow if the business rates base in your area grows, but could fall if your business rate base declines. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

- **County councils** will receive a share of business rates revenues from the districts in your area (and a top up from other areas if relevant), rather than receiving formula grant. Your baseline level of funding would be set so that at the start of the system your budget is equivalent to what it would have been under the current system. From then on, your funding would grow if the business rates base in your area grows, but could fall if your business rates base declines. You will want to consider with your districts, and possibly neighbouring areas/your local enterprise partnership, whether you could form a pool to make decisions about the distribution of funding locally. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

- **The police and fire sectors** will receive the level of funding for 2013-14 and 2014-15 that was agreed as part of the 2010 Spending Review. Your funding will therefore not be affected by fluctuations in business rates in your area. The way in which you are funded will be fully reviewed in time for changes to be made at the next Spending Review, from 2015-16. You might want to respond to this consultation.

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Communities and Local Government

Local Government Resource Review: Proposals for Business Rates Retention

Consultation

www.communities.gov.uk

Local Government Resource Review: Proposals for Business Rates Retention

Consultation

July 2011
Department for Communities and Local Government

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Ministerial foreword

Britain's local government finance system is one of the most centralised in the world. The Organisation for Economic Co-operation and Development (OECD) has calculated that local authorities in the USA, Spain, France, Germany, and Japan all have greater autonomy over budgets than do their counterparts here. Our councils derive more than half of their income from central government grant.

If localism is to reach its potential; if councils are to live up fully to their role as powerful, effective leaders, then new legal freedoms - such as the General Power of Competence in the Localism Bill - must be matched by freedom over finance. This is not a new principle. A number of reviews over recent years, from the Layfield Committee in 1976 to the Lyons Inquiry in 2007, have emphasised the importance of local financial control to strengthening local democracy.

In the first phase of our review of local government resourcing, we have focused on local retention of business rates.

Currently, councils in England collect some £19bn of business rates each year. But no sooner has the cash come in than it is gathered up by the national Treasury, and then redistributed to councils according to a complex formula. First, this denies councils control over locally raised resources. Second, it deprives them of the certainty they need to plan their finances for the longer term. Third, it creates a disconnection between the success of local businesses, and the state of their own finances. This distorts the way councils behave.

This Government is determined to repatriate business rates. No more should proud cities be forced to come to national government with a begging bowl. Councils should have greater control over cash, helping them plan for the longer term. And they should see a direct link between the success of local businesses and their own cash flow. Any council that grows its local economy will be better off under the new system. This will create the right incentives for them to work closely with local businesses, helping to create the conditions for growth, and giving local leaders reasons to celebrate their successes, not conceal them.

We are determined that the repatriation of rates should happen in a fair and effective way. Those places with greatest dependency should, and will, continue to receive support, while being allowed to keep the products of enterprise. Those places which raise the greatest sums through business rates should expect to make a contribution. And businesses, which need stability throughout this process, will see no difference in the way they pay tax or the way the tax is set.

This consultation asks a number of specific questions about how we can best design a new system which repatriates business rates. I want to work with all local authorities, representative groups and political parties to achieve lasting change. I would welcome any comments and responses that will help us refine the proposals, and take a major step towards two of the Government's major priorities: putting power back in the hands of local councils and communities, and creating the conditions for renewed, sustainable economic growth.

The Rt Hon Eric Pickles MP

Scope

Topic of this consultation:	This consultation seeks views on the Government's proposals to change the way local government is funded by introducing retention of business rates. It also seeks views on options for enabling authorities to carry out Tax Increment Financing within the business rates retention system. This follows the commitment in the Coalition's Programme for Government[1] to *"provide incentives for local authorities to deliver sustainable development, including for new homes and businesses"*. The Local Growth white paper[2] stated that business rates retention would be considered as part of a Local Government Resource Review. The Terms of Reference of the Local Government Resource Review were set out in a Written Statement[3] on 17 March 2011. These are attached at Annex A.
Scope of this consultation:	This consultation sets out the Government's proposed core components for a business rates retention system. In addition, the consultation sets out how we propose Tax Increment Financing will operate within the business rates retention system as a way of funding infrastructure investment to unlock economic growth. This consultation also outlines how the proposals interact with wider Government initiatives to promote growth, including the existing New Homes Bonus, and considers how they will work alongside the existing architecture of the business rates system which we are not proposing to change – for example rate reliefs and the national business rate multiplier. Eight technical papers will be published in August which provide further detail on some of the topics in this consultation.
Geographical scope:	This consultation is applicable to England only.
Previous engagement:	We have held regular meetings since March 2011 with local authority representative groups, local authority finance experts and business representatives to work through options and ideas and the mechanics of the proposed model. In addition, the department has held a number of bilateral meetings with partners and experts to share the emerging model design and

[1] http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf
[2] http://www.bis.gov.uk/assets/biscore/economic-development/docs/l/cm7961-local-growth-white-paper.pdf
[3] http://www.communities.gov.uk/statements/corporate/localgovernmentfinance

	consider their views. We have received a number of representations from partners, including local authorities, following the publication of the Terms of Reference for the Local Government Resource Review. All of this correspondence has been logged and will be used to inform the final model design.

Basic information

To:	Local authorities and local authority representative groups Businesses and business representative organisations
Body/Bodies responsible for the consultation:	The Department for Communities and Local Government Local Government Finance Directorate Business Rates and Valuation Division
Duration:	**The consultation will commence on Monday 18 July and end on Monday 24 October 2011** and is published online at: http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/
Enquiries:	ResourceReview@communities.gsi.gov.uk – Joel Winston, Zone 5/D1, DCLG, Eland House, Bressenden Place, SW1E 5DU
How to respond:	Please send responses electronically to: ResourceReview@communities.gsi.gov.uk (with attachments in Microsoft Word only) Hard copy responses can be sent to: Joel Winston, Zone 5/D1, DCLG, Eland House, Bressenden Place, SW1E 5DU
After the consultation:	Following the consultation we will review the responses received and announce the final decisions on the rates retention model.
Compliance with the Code of Practice on consultation:	This consultation document and consultation process have been planned to adhere to the Code of Practice on Consultation issued by the Department for Business, Innovation and Skills and is in line with the seven consultation criteria, which are: 1. Formal consultation should take place at a stage when there is scope to influence the policy outcome. 2. Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible. 3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals. 4. Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

	5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained. 6. Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation. 7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience. Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004). If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department. The Department for Communities and Local Government will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested. Your opinions are valuable to us. Thank you for taking the time to read this document and respond. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please contact: DCLG Consultation Co-ordinator Department for Communities and Local Government Zone 6/H10 Eland House Bressenden Place London SW1E 5DU or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

Chapter 1: Introduction

1.1. The Coalition Government has made clear that its priorities are to reduce the financial deficit, deliver economic growth, both nationally and locally, and reform public services.

1.2. The Spending Review[4] last year set the path for public spending over the next four years. The Budget 2011[5] set out how we intend to create the right conditions that will help the private sector grow and remove unnecessary barriers that can stifle economic growth. The 'Plan for Growth'[6], published by HM Treasury and the Department for Business, Innovation and Skills alongside the Budget this year, set out the results of the Government's Growth Review and is an urgent call for action to help Britain regain its lost ground in the world economy.

1.3. At the local level, the Government is committed to a *"radical shift of power from the centralised state to local communities"*[7]. Measures in the Localism Bill and the recent Open Public Services white paper[8] are central to this agenda. Decentralisation will create efficiencies by reducing bureaucracy; give power, money and knowledge to those best placed to find the right local solutions; and improve the relationship between government and those being governed.

1.4. Local government finance is key to delivering these objectives. Successive governments have acknowledged the need for change. Over the last 40 years, there have been reports from Lord Layfield[9], the Balance of Funding Review[10] and Sir Michael Lyons[11]. These have resulted in a high quality analysis and exploration of the benefits that could come from reform.

1.5. This Government believes that now is the right time to take action and has made a number of specific public commitments to reform the current system of local government finance to provide strong incentives for local economic growth and change local authority behaviour.

1.6. The Coalition's Programme for Government[12] set out the need for a review of local government finance. It also promised to allow communities that host renewable energy projects to keep the additional business rates they generate. The Local Growth white paper, which followed in October 2010, highlighted the Local Government Resource Review. The Terms of Reference for Phase 1 were published in March 2011, focusing on the retention of business rates and council tax benefit localisation.

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4 http://www.hm-treasury.gov.uk/spend_index.htm
5 http://www.hm-treasury.gov.uk/2011budget.htm
6 http://cdn.hm-treasury.gov.uk/2011budget_growth.pdf
7 http://www.communities.gov.uk/documents/localgovernment/pdf/1793908.pdf
8 http://www.cabinetoffice.gov.uk/resource-library/open-public-services-white-paper
9 Layfield Report (1976): *Local Government Finance: report of the Committee of Inquiry*
10 Balance of Funding Review (2004)- http://webarchive.nationalarchives.gov.uk/20081205143343/http://www.local.communities.gov.uk/finance/balance/report.pdf
11 Lyons Inquiry into Local Government (2007) - http://www.official-documents.gov.uk/document/other/9780119898545/9780119898545.pdf
12 http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf

1.7. This consultation document delivers proposals for retention of business rates and also takes forward the Deputy Prime Minister's announcement last year that the Government will implement Tax Increment Financing. These proposals form part of a programme of incremental reform to local government finance which includes the proposed localisation of council tax benefit. The Local Government Resource Review's Terms of Reference for Phase 2, focusing on Community Budgets, are now published[13].

Local retention of business rates

1.8. Enabling local authorities to retain a significant proportion of the business rates generated in their area will provide a strong financial incentive for them to promote local economic growth. Councils can have a big influence on growth through planning, investment in local infrastructure, managing the local environment and developing a positive relationship with the private sector. Business rates retention will help to incentivise local authorities to take action to promote growth.

1.9. Our proposals focus on the distribution of business rate tax revenues, rather than changes to the system of business rate taxation. Businesses will see no difference in the way they pay tax or the way the tax is set. Rate setting powers will remain under the control of central Government[14] and the revaluation process will be unchanged.

1.10. The Government intends to bring forward legislation later in this session with a view to introducing business rates retention from April 2013.

1.11. This consultation sets out and seeks views on the Government's proposals for how a business rates retention scheme should operate.

Overview of the current system

Under the current system, local government has three main sources of income: grants from central government; council tax; and other locally generated income (such as fees and charges for services).

On average, councils receive 53 per cent of their income from central government grants, of which there are two types. First, 'specific grants', which may be ringfenced for specific purposes, or unringfenced. Second, 'formula grant', which is an unringfenced revenue grant distributed to local authorities through the Local Government Finance Settlement.

[13] http://www.communities.gov.uk/documents/localgovernment/pdf/1933423.pdf

[14] The City of London Corporation can currently (because of its special circumstances, notably its very small resident population) set its business rates multiplier, subject to certain constraints, at a higher level than the rate which applies outside the City of London and retain part of the proceeds to help pay for the services it provides. This will remain unchanged.

Formula grant funds a wide range of local services, including children's services, adult social services, police, fire, highways maintenance, environmental, protective and cultural services. It includes funding from central government, known as 'Revenue Support Grant'; Police Grant from the Home Office; and National Non-Domestic Rates, commonly known as business rates. Business rates are collected by local authorities, paid into a central government pool and redistributed through the Local Government Finance Settlement. Billing authorities (district councils and unitary authorities) collect business rates from the occupiers of non-domestic properties - mainly businesses such as shops, offices, warehouses and factories. There are approximately 1.7 million properties liable for business rates in England. Each property has a rateable value which is assessed by the Valuation Office Agency on the basis of the annual rent that a tenant would be willing to pay for it on the open market. Every five years there is a revaluation to ensure a property's rateable value reflects changes to the property market.

The business rates owed are calculated as a function of the rateable value and a multiplier. The national multiplier currently stands at 43.3p in England. So a property with a rateable value of £100,000 would have an annual bill of £43,300. The multiplier is increased each year by the Retail Prices Index (RPI). The multiplier is also adjusted at each revaluation so that the overall tax yield remains the same in real terms before and after revaluation. There are a number of reliefs (with mandatory and discretionary elements) available to occupants to reduce their liability – for example reliefs for charities, community amateur sports clubs, certain businesses in rural areas and Small Business Rate Relief.

What would these proposals mean for me?

This consultation seeks your views on proposals to change the current system by enabling councils to keep a share of the growth in business rates in their area. This will make councils more financially independent from central government and give them a strong incentive to promote local business growth. These proposals would mean:

Members of the general public will find their local council's budget is more strongly linked to local business growth. In general terms, the more new business premises are developed in your area, the more funding (outside of council tax, fees and charges) your local council will have to provide local services and investment, as well as having positive impacts on employment and the local economy more widely. The proposals include protections to ensure that local authorities are able to meet local service needs in their area.

Business rates payers see no change in the way in which their business rates bills are calculated. The Government is not proposing to change the way that properties are valued or business rates levels are set. However, it should mean that the rates you pay have more impact on local authority budgets in your local area, and that your local authority has more incentive to work closely with the Valuation Office Agency to ensure that all businesses in your area have their properties valued correctly and are paying the right amount of tax.

Developers will find local authorities have greater incentives to grant planning permissions for appropriately-sited and well-planned non-residential development and go for growth. This is especially true of new renewable energy projects that start paying business rates from year one of the system, as councils would keep all of the business rates paid by such projects. Local authorities would also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure.

Billing authorities (district councils, unitary authorities) still bill and collect business rates, as now. But instead of contributing all business rates into the central pool and receiving formula grant, under these proposals, some of your business rates would be retained locally. Your baseline level of funding would be set so that at the start of the system, your budget is equivalent to what it would have been under the current system. From then on your funding would grow if the business rates base in your area grows, but could fall if your business rate base declines. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

County councils will receive a share of business rates revenues from the districts in their area (and a top up from other areas if relevant), rather than receiving formula grant. Your baseline level of funding would be set so that at the start of the system your budget is equivalent to what it would have been under the current system. From then on, your funding would grow if the business rates base in your area grows, but could fall if your business rates base declines. You will want to consider with your districts, and possibly neighbouring areas/your local enterprise partnership, whether you could form a pool to make decisions about the distribution of funding locally. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

The police and fire sectors will receive the level of funding for 2013-14 and 2014-15 that was agreed as part of the 2010 Spending Review. Your funding will therefore not be affected by fluctuations in business rates in your area. The way in which you are funded will be fully reviewed in time for changes to be made at the next Spending Review, from 2015-16. You might want to respond to this consultation.

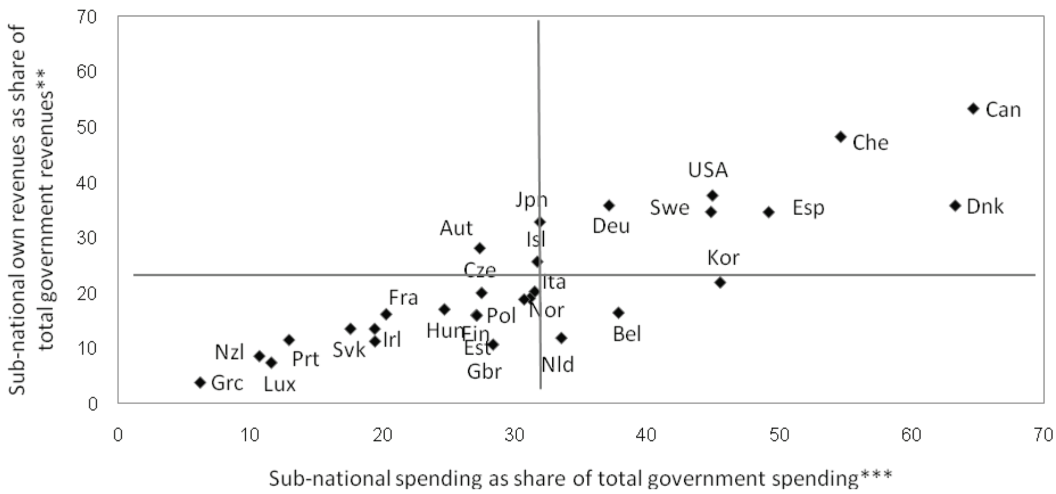
Chapter 2: The case for change

The problem

2.1. The current local government finance system is one of the most centralised in the world with local authorities, on average, raising only 47 per cent of their revenue spending locally (excluding dedicated schools grant and other specific and special grants).

2.2. Indeed, the international comparison at figure 1 below demonstrates that sub-central government in England has considerably less financial autonomy than elsewhere.

Figure 1: Sub-central governments' share in general government revenues and expenditure (2006*)[15]



*Or latest year available;
**Excluding transfers received from other levels of government;
***Excluding transfers paid to other levels of government.

2.3. Business rates, although collected by local authorities, are subsequently pooled centrally by government and redistributed to local authorities (including police and fire authorities) through formula grant. In 2011-12, £19bn of business rates are to be collected and redistributed in this way.

2.4. This dependence on a central distribution of funds means that local authorities do not face a financial incentive to promote business growth in their area, as they will not receive any of the business rates receipts from additional development. Rather, authorities arguably face a financial disincentive given that if they allow development they must provide services to commercial property. This, combined with the fact that communities tend to oppose development due to misaligned costs and benefits (localised costs versus wider, more thinly spread, benefits) has meant that local authorities can be reluctant to allow commercial development and promote economic growth.

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[15] OECD,Organisation for Economic Co-operation and Development (2010), *Fiscal policy across levels of government in times of crisis*

2.5. The result is additional costs to the economy. Professor Michael Ball, in a research paper for the National Housing and Planning Advice Unit, estimated the transaction costs alone of delays in the planning application process (residential and non-residential combined) at £3bn per year[16].

2.6. Local authorities' current dependence on central government funding also has a number of further adverse consequences:

- it weakens local accountability. There is a greater incentive to design services in order to secure government funding, rather than to respond to local communities' needs or align spending with citizens' service preferences;
- authorities' ability to respond to local service pressures is determined by central government's ability, through the local government finance system, to accurately assess an authority's spending needs; and
- authorities may feel they can generate better results for their area by lobbying government for more resources or demonstrating their need, rather than driving cost efficiencies or investing in local growth.

Levers for growth

2.7. Local authorities can have a big influence on local growth, not just through the planning system, but also through a strategic approach to service delivery - such as providing local transport infrastructure that meets business needs, and ensuring young people can access education and training which develops the skills needed by local employers. The ways in which local authorities exercise other powers - including advertising consent, licensing, building regulation control and food standards - can also either help or hinder local businesses in their area.

2.8. The case for providing incentives to promote economic growth at local level has been made by a number of experts in the field. Kate Barker, in the interim report of her Review of Land Use Planning (2006)[17], criticised the lack of incentives within the local government finance framework, arguing that *"there is currently little financial incentive for plans and decisions to promote economic development, particularly in the economically stronger regions of England…the local government finance system may provide little incentive to adopt a growth agenda."*

2.9. The New Homes Bonus, local enterprise partnerships and planning reform are beginning to change the way councils plan for growth. But a stronger financial incentive is needed to ensure that local authorities respond to business concerns and actively promote the conditions that would lead to greater economic growth - especially where growth would otherwise lead to increased costs.

[16] http://www.communities.gov.uk/documents/507390/pdf/1436960.pdf
[17] http://webarchive.nationalarchives.gov.uk/20110218140706/webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/media/d/2/barker2_interim050706.pdf

Principles for reform

2.10. The Government has already announced - in the October 2010 Local Growth white paper and, again, on publication of the Local Government Resource Review's Terms of Reference - its key principles for addressing these problems through the retention of business rates. These principles were:

- 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** upon central government, by producing as many self sufficient authorities as possible;

- to maintain a degree of redistribution of resources to ensure that authorities with high need and low taxbases are still **able to meet the needs** of their areas; and

- **protection for businesses** and specifically, no increases in locally-imposed taxation without the agreement of local businesses.

2.11. The proposed business rates retention scheme on which we are consulting meets all of these principles. It will provide every local authority in England with a strong incentive to promote business growth as increases in local authority budgets will be linked to changes in local business rates. Authorities will be keen to engage with business and will actively seek out, and remove barriers to, investment in their local area, driving decisions on planning, business regulation and local business-facing services. Communities will be more willing to accept development due to a better alignment of costs and benefits.

2.12. Academic analysis suggests that such a rates retention model will reduce land supply restrictions. The London School of Economics' assessment[18] of the nationalisation of business rates found that the level of 'planning restrictiveness' increased following the changes leading to less development and subsequently higher costs for business through restricted supply of property. Similarly, The Centre for Cities[19] have found that, after controlling for economic conditions, the annual growth rate of commercial floor space reduced following nationalisation. This provides an indication that business rates retention will help to address the problems of the current system and will result in additional development.

2.13. That is why the Government is consulting on changes to the local government finance system. By allowing local authorities to keep a large share of local business rate income, the proposals set out in this consultation will substantially increase local authorities' financial independence – in doing so, the proposals go further than the Government's original Business Increase Bonus proposals to meet our objectives on localism and decentralisation. They will restore a direct link between local authorities and their business communities. They will help to incentivise business growth by enabling authorities to see financial benefits, as well as costs, from allowing commercial development. They will also allow councils

[18] Cheshire, Paul and Hilber, Christian A.L. (2008)), *Office space supply restrictions in Britain: the political economy of market revenge. Economic journal*, 118 (529).
[19] http://www.centreforcities.org/assets/files/2011%20Research/11-07-11_Room_for_improvement.pdf

the scope to pool resources and work together for the greater benefit of their wider area.

What is already being done?

The changes to the local government finance system on which the Government is consulting should not be considered in isolation of the steps already being taken to radically shift the approach local authorities – and their partners - take to growth in their areas.

Government is promoting a new, decentralised, localist approach to growth, providing greater freedoms and strengthened levers to local government through:

Providing for a new General Power of Competence for local authorities in the Localism Bill, published in December 2010 and going through Parliament. By allowing authorities to do anything which is not specifically prohibited by law, this will provide them with more freedom to work with others in new ways to drive down costs and meet local needs.

Streamlining the planning system, making it more efficient and less cumbersome, ensuring that all planning applications and appeals will be processed in 12 months and major infrastructure projects will be fast-tracked. The Localism Bill will require local authorities to allocate a proportion of Community Infrastructure Levy[20] revenues back to the neighbourhood from which it was raised, ensuring that those most directly affected by development are the ones to benefit from it.

Introducing a new right for communities to draw up a 'neighbourhood development plan' and have a say about where new houses, businesses and shops are sited and what they should look like, making it easier and quicker for development to go ahead.

Introducing a New Homes Bonus to provide a strong financial incentive for local authorities to deliver housing growth. Until now, increased housing in communities has meant increased strain on public services and reduced amenities. The Bonus ensures that the economic benefits of growth are returned to the areas where growth takes place, helping to engender a more positive attitude to growth and create an environment in which new housing is more readily accepted.

Establishing local enterprise partnerships to bring together local business and civic leaders within geographies that properly reflect the natural economic areas of England. These partnerships will provide the clear visions to drive sustainable private sector growth and job creation in their areas.

Establishing the Regional Growth Fund to support the creation of private sector jobs. This will help communities currently dependent on the public sector to make the transition to private sector led growth and prosperity.

[20] The Community Infrastructure Levy was introduced in 2010 as a simple, fair and transparent system for collecting developer contributions towards infrastructure. Planning obligations are being scaled back to deal with local impacts of development.

Removing top-down targets, including abolishing the time-consuming and expensive process of Regional Spatial Strategies which often alienated and antagonised local communities, pitting them against development.

Creating Enterprise Zones to allow areas with real potential to create the new businesses and jobs they need.

Providing a new power in the Localism Bill for local authorities to grant business rate discounts, enabling them to respond to the concerns of local businesses.

Offering greater financial freedoms for local authorities by reducing ringfencing.

Chapter 3: A scheme for business rates retention

3.1. The seven core components of our proposed rates retention scheme are outlined below. They have been developed to:

- ensure a fair starting point for all local authorities;
- deliver a strong growth incentive where all authorities can benefit from increases in their business growth and from hosting renewable energy projects;
- include a check on disproportionate benefits;
- ensure sufficient stability in the system; and
- include an ability to reset in the future to ensure levels of need are met.

3.2. Within each component there are options on which we would welcome views to inform the final detailed design of the scheme and ensure we meet our objective of balancing a strong growth incentive with adequate protections for those authorities which experience significant fluctuations in the level of their business rates or which are less able to respond to the incentive.

3.3. Alongside this consultation, we will shortly be publishing a series of eight technical papers to provide a more detailed discussion of the issues and options. Chapter 6 provides a summary of the issues each of these papers will address.

Spending Review control totals

Spending Review 2010

3.4. Spending Review 2010 set out expenditure control totals for local government over the four-year period from 2011-12 to 2014-15. We expect that business rates collected in England in 2013-14 and 2014-15 will be greater than these expenditure control totals.

3.5. To deliver a fiscally sustainable system and avoid putting at risk the Government's deficit reduction programme, we will ensure that the business rates retention scheme operates within the set expenditure limits for 2013-14 and 2014-15. Forecast business rate revenues above those limits will be set aside and directed to local government through other grants. The amounts set aside in this way will include funding to maintain powerful incentives for housing growth through the New Homes Bonus, as set out in more detail in chapter 4.

3.6. This approach will ensure that local authorities are able to benefit from growth in business rates above forecast levels.

Beyond 2014-15

3.7. The Government will consider, at the next Spending Review, the total spending figures for local government with a view to more closely aligning local authority functions and responsibilities with business rates income from 2015-16.

3.8. The implications for the amount of business rate revenues which is set aside and directed to local government through other grants, and options for dealing with any change, will be discussed in detail in a technical paper to be published in August, in good time to inform consultation responses.

A summary of proposed components of the business rates retention scheme:

A fair starting point…

Component 1: Setting the baseline
To establish a fair starting point for all local authorities and ensure that no-one loses out at the outset of the system we would set a baseline position in 2013-14 for each local authority, within the overall envelope of the expenditure control totals set out in the 2010 Spending Review. As set out at paragraph 3.5, this means that a proportion of business rates revenues will be set aside and directed to local government through other grants. This component is described in more detail at paragraphs 3.9 – 3.15.

Component 2: Setting tariffs and top ups
In order to achieve this fair starting position, government would calculate a tariff or top up amount for each local authority. Those authorities with business rates in excess of their baseline level of funding would pay a tariff to government; those authorities with business rates yield below their baseline would receive a top up grant from government. The tariff and top up grants would be self funding and remain fixed in future years. This component is described in more detail at paragraphs 3.16 – 3.20.

A strong growth incentive…

Component 3: The incentive effect
In future years, local authorities would keep a significant proportion of increases in their business rates. So, authorities whose business rates grew would retain a significant proportion of that growth in revenues, while those whose rates declined or grew at a lower rate would experience lower or negative growth. This component is described in more detail at paragraphs 3.21 – 3.23.

A levy recouping a share of disproportionate growth to ensure sufficient stability in the system…

Component 4: A levy recouping a share of disproportionate benefit
To manage the possibility that some local authorities with high business rate taxbases could see disproportionate financial gains, government would recoup a share of disproportionate benefit through a levy. The proceeds would, in the first instance, be used to manage significant negative volatility in individual authorities' business rates and so ensure stability in the system. Depending on the amounts raised, resources could also be redistributed to, for instance, authorities with lower growth, or for example, to fund regeneration schemes, in areas with high growth potential. This component is described in more detail at paragraphs 3.24 – 3.37.

Component 5: Adjusting for revaluation
The system would be adjusted to take account of changes in the distribution of business rates yield resulting from five yearly revaluations, while ensuring that the incentive to promote physical growth in the business rates base remained in place for all authorities. This component is described in more detail at paragraphs 3.38 – 3.39.

An ability to reset to ensure levels of need are met…

Component 6: Resetting the system
Government would have the option of resetting the system if it was felt that resources no longer met changing service pressures sufficiently within individual local authority areas. The longer the period between resets, the greater the incentive effect and level of certainty for local authorities about the funding system. This component is described in more detail at paragraphs 3.40 – 3.44.

And a mechanism for collaborating.

Component 7: Pooling
Local authorities, for example those in local enterprise partnerships, or districts and counties, could choose to form voluntary pools within the system, allowing them to share the benefits of growth and smooth the impact of volatility over a wider economic area. This component is described in more detail at paragraphs 3.45 – 3.55.

A technical paper ('Tariff, top up and levy options') allowing local authorities to see the effect of the options within the key components upon the balance between maximising the growth incentive and offering sufficient protections, will be available alongside the other technical papers in August, in good time to inform consultation responses. A full list of the technical papers to be issued is set out in chapter 6.

Component 1: Setting the baseline

3.9. We want to establish a fair starting point for all local authorities and ensure that no authority loses out in its ability to meet local service needs at the outset of the system, as a result of their business rates base.

3.10. Across the country, some local authorities collect business rates in excess of their current formula grant funding whilst others collect an amount below current funding levels. It is therefore not possible simply to allow business rates to be retained where they are paid; there needs to be a degree of re-balancing, or some authorities would see very large reductions in their revenue, which could adversely affect their ability to deliver core services to their communities.

3.11. The Government therefore **proposes a re-balancing of resources at the outset of the scheme.** This will involve some authorities paying a 'tariff' to government and some receiving a 'top up' from government. In order to determine whether an authority should pay a tariff or receive a top up amount, we will need to establish a 'baseline' sum of money for each authority. This would, in effect, be an assessment of the level of funding against which to compare the amount of business rates the authority collects.

3.12. In deciding how to set the baseline, we have taken as a priority the need to maintain local budget stability and give local authorities the opportunity to benefit from the growth incentive within the new system from day one. We consider that the best and most pragmatic way to achieve this is to start from local authorities' current formula grant position, rather than introduce major change and turbulence into the system, which would result in a long period of transition and weaken the incentive effect. As a result, **we propose to use 2012-13 formula grant as the basis for constructing the baseline in the first year of the new business rates retention system.**

3.13. As explained above, we will also need to take into account the spending control envelope for local government in 2013-14 and 2014-15. This could be done in one of two ways. The first option 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. This approach provides certainty and stability for the start of the business rates retention scheme.

3.14. Alternatively, we could establish the baseline position for each local authority by applying the process used to determine their 2012-13 formula grant allocations to the local government control totals and at the same time make very limited, technical updates to the formulae.

3.15. Local authorities will of course have a keen interest in precisely how the baseline is set and the options and associated issues will be discussed in more detail in a technical paper to be published in August in good time to inform consultation responses. This will include consideration of any need to change the legislative provisions which require government to pay Revenue Support Grant and a topslice of that grant to any specified body. A full list of the technical papers to be issued is set out in chapter 6.

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

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?

Component 2: Setting tariffs or top ups

3.16. To ensure we achieve a fair starting point, **we propose that authorities whose business rates income is higher than their baseline position would pay the difference to central government in the form of a 'tariff'. Those whose business rates are less than their baseline would receive the balance from central government in the form of a 'top up' grant**.

3.17. The tariffs or top up amounts mean that at the outset of the new system, each authority receives an equivalent amount to what it would have received in formula grant according to the approach adopted to establishing the baseline. There could, in theory, be authorities whose business rates exactly match their baseline position and therefore neither pay a tariff nor receive a top up. Since the system balances overall at the outset these adjustments are self-funding: the total tariffs across authorities will equal the total top up amounts.

3.18. To create a strong incentive and reward authorities promoting growth, in future years of the system the tariff and top up amounts would remain fixed so that a significant proportion of business rate growth in future years would be retained by the local authority in which it occurred.

Fixing tariff and top up amounts

3.19. Within this component, there are options for fixing the tariff and top up amounts that - together with other features capable of being flexed within the system, all of which interact – have a bearing on the overall balance achieved between maximising the growth incentive and ensuring adequate protections.

- The first option would be to **uprate the year one tariff and top up amounts by the Retail Prices Index (RPI)** each year to reflect the annual RPI increase in the nationally set business rates multiplier. In a tariff authority, any uplift in the rates used to pay the tariff, resulting from the RPI increase in the multiplier, would be taken out of their budget - it would therefore have to achieve real physical growth in its taxbase to see its spending power rise in real terms. In a top up authority, the RPI uplift in its rates resulting from changes to the multiplier would remain with the authority (subject to any levy on disproportionate benefit), and its top up amounts would also increase by RPI.

- The second option would be to retain the year one cash amounts and **not uprate by RPI**. Authorities paying a tariff and those receiving a top up would both see their collected rates uprated by RPI, as a result of the annual increase in the business rates multiplier. However, authorities in receipt of a top up would face a very strong incentive to grow their taxbase to offset real-terms reductions in their top up amount. This approach therefore creates a strong incentive for growth, but offers less protection to authorities with low taxbases and high needs.

Measuring business rates

3.20. In order to calculate tariffs and top up amounts, it will be necessary not only to establish the baseline, but also to have an agreed way of measuring each authority's business rates income. There is a range of different options for carrying out an assessment of business rate income. It could, for instance, be based on business rates income at a single point in time, or the average over a number of years. It could include or exclude elements which can cause rates income at the local authority level to change from year to year for reasons unconnected to the underlying business rate base – such as the overall amount of relief from rates that local businesses are entitled to, or losses on appeal. A technical paper will be published in August to provide a detailed discussion of these issues and options for the methodology for measuring business rates income. A full list of the technical papers to be issued is set out in chapter 6.

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?

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

Component 3: The incentive effect

3.21. From the first year of introducing business rates retention, all local authorities would stand to benefit from increases in their business rates, providing a strong incentive for growth. Regardless of how they are calculated, the principle of fixing tariff and top up amounts means that a significant proportion of additional business rates in future years would be retained by the local authorities in which they were generated.

3.22. As a result there would be an incentive for authorities to promote business rates growth, and a corresponding disincentive for authorities to see their rate bases fall, as this would directly affect their revenues. There would also be strong incentives for effective billing and collection of business rates.

3.23. This incentive effect is at the heart of the changes that business rates retention is aiming to deliver - shifting from the allocation of local government funding solely on the basis of a central government assessment of need and resources to future increases in funding being on the basis of local economic growth. This change has the potential to ensure that authorities engage more actively with businesses and seek to maximise their business rate base and ensure that businesses in their area all pay the correct rates.

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

Component 4: A levy recouping a share of disproportionate benefit

3.24. There would be no cap on the amount of business rates growth an authority can benefit from under the rates retention system. The more any authority grows its business rates base, the better off it will become.

3.25. However, to manage the possibility that some local authorities with high business rate taxbases could see disproportionate financial gains, and to make the system more sustainable in the long term, **we propose that Government would collect a levy recouping a *share* of disproportionate benefit; and use the proceeds to help manage large, unforeseen negative volatility in individual authorities' budgets**.

3.26. The way in which the levy is designed can have a positive impact on moderating a 'gearing effect' caused by the uneven distribution of business rate bases and the different spending needs of local authorities. As an example, in an authority with a business rates base of £100m and a total budget requirement of £50m, a 5 per cent increase in business rates income will result in a 10 per cent increase in revenue. For another, with a different rate base (£10m) and the same budget requirement (£50m), the same 5 per cent increase in rates income would only produce a 1 per cent increase in revenue.

3.27. There are a number of ways in which the levy could be calculated:

- The first option would be to create a levy based on pence in the pound with **the same rate for all authorities**. This would offer a simple and transparent incentive. However, a key disadvantage is that it does not deal with the gearing effect described above and would therefore result in authorities with a high tax base and low need benefiting more from the same levels of growth than authorities with a low taxbase and high need.

- The second option would be to create a levy based on pence in the pound but introduce a 'banding approach'. This would **assign authorities into different bands, with different levy rates** depending on their levels of benefit, so that authorities with a higher business rates base would face a higher levy rate. The main advantage is that it would help the gearing effect by more closely equating the increase in business rates income with an increase in revenue. The key disadvantage is that any system that sets bands will always have 'cliff edges' with some authorities falling just above or below a band boundary.

- The third option would be to create an individual levy rate for each local authority, to **allow the retention of growth in an equivalent proportion to its baseline revenue**, for example, 1 per cent growth in business rates income equalling retention of up to 1 per cent revenue growth. This means that if an authority grows rates by 1 per cent, then their rates retained will not be more than 1 per cent of their baseline revenue[21]. In this way we would help the gearing effect and offer a more equal incentive for all authorities – managing disproportionate benefits that authorities with large rates bases (relative to their baseline revenue) can make - without having any 'cliff edges' in the system, which would be the case for the banding approach.

3.28. There is flexibility in the third option to change the business rates growth to revenue growth ratio. For example instead of limiting 1 per cent business rate growth to 1 per cent revenue increase, we could adjust it to either: create a stronger incentive allowing, for example, 2 per cent revenue increase so that a high number of authorities keep all of their growth, or to 0.5 per cent of revenue, to increase levy funds available to support other areas. For the latter, the growth incentive is weaker, but almost every authority has a rate base sufficiently large to enable them to see 0.25 per cent growth in their baseline revenue for every 1 per cent of business rates growth.

3.29. Within each of the three options, there is then a balance to be struck between strongly incentivising growth (broadly speaking, the lower the levy, the greater the incentive for growth) and building in protections (broadly speaking, the higher the levy, the greater the amount of funding available for the protections discussed at paragraphs 3.30 to 3.37 below).

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[21] This refers to the part of the budget funded by business rates and excludes other income, for example council tax or fees and charges.

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

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

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

Government's Renewable Energy commitment

In establishing an approach on managing the proportion of business rate rates growth which would be retained by local authorities in future years we need to consider the Programme for Government commitment to: *"allow communities that host renewable energy projects to keep the additional business rates they generate."*

We will ensure that business rate revenues from new renewable energy projects are kept by the local authorities within the area of the project, and that those revenues are discounted in the calculation of any levy that might be applied to growth in business rate revenues. This would mean that authorities would keep all of the business rates generated from new renewable projects. We propose that at least the greater proportion of this funding should go to the level of the local planning authority to maximise the community benefit.

This will be explored in more detail in a technical paper to be published in August, in good time to inform consultation responses. A full list of technical papers to be issued is set out in chapter 6.

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

Use of the proceeds of the levy

3.30. The proceeds of the levy could be used in a variety of ways. In redistributing this money we should not undermine the incentive effects of the approach as a whole. To ensure the necessary stability in the system, however, **we propose that a proportion of the levy pot is used to help manage significant, negative volatility in individual authorities' business rates**. There are two main reasons why local authorities may experience volatility and sudden decline in business rates:

- The first is caused by inherent volatilities of the business rates system. Between revaluations, rates income can vary from year to year because of appeals and physical changes to properties. In previous years, rates income has varied by about 10 per cent per year at local level. These changes can be unpredictable and are generally out of a local authority's control.

- The second is caused by a sudden change in local economic circumstances, for example, the closure or relocation of a major business.

3.31. In addition, **we propose that a proportion of the levy pot is used to protect the spending power of authorities who are less able to respond to the incentive** and have low growth, potentially reducing funding to levels where it becomes difficult to meet the service needs of the area.

3.32. To protect the spending power of authorities facing these circumstances (both significant volatility and being less able to respond to the incentive) and give local authority behaviour time to adapt, **we propose establishing a safety net** using the proceeds of the levy.

3.33. The safety net could offer two different forms of protection for local authorities: a) a level of short term protection against major drops in income to allow local authorities time to adjust budgets; and b) a level of longer term protection against drops in income below the baseline.

3.34. Funding from the levy pot could be available if:

- an authority experiences a drop of more than x per cent in its business rates compared to the previous year; or

- an authority's rates drop more than y per cent below its baseline business rates.

3.35. This would provide assurances for authorities that their income cannot fall by more than a manageable percentage from year to year or to a particular level below its baseline over time. This would ensure they are able to spend more of their money on providing services rather than offsetting risk. There is however a trade off between the level of protection and the incentive effect – the stronger the protection, the weaker the incentive effect. Setting the levy at a lower level and maximising the amount of business rates growth retained locally would involve a greater transfer of risks as well as of rewards, as the protection that could be afforded by the levy pot would be commensurately less.

3.36. A technical paper on volatility and the safety net will be published in August to provide more detail on how we envisage it operating and exploring what the balance between this trade off should be. A full list of the technical papers to be issued is set out in chapter 6.

3.37. Depending on the total size of the levy pot, there are choices to be made about the remainder. We could:

- **provide <u>ongoing</u> support to authorities that have experienced significant losses that take more than one year to recover from;**

- **top up the growth achieved in every authority which had not contributed to the levy.** This could reward authorities which had grown a small business rate base strongly;

- **support revenue expenditure in areas of lower growth or target expenditure on projects to unlock growth and prosperity;**

- **redistribute the remaining levy pot to all local authorities in proportion to each authority's baseline.** This would be the most effective way of ensuring that service pressures could be met in every authority, but would not support the growth incentive;

- **hold some levy money back in higher growth years to ensure sufficient funding for the safety net in lower growth years.**

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)?

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

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?

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

Component 5: Adjusting for revaluation

3.38. Every five years, the Valuation Office Agency re-assesses all business properties and gives them new rateable values, based on rental values, for the purpose of calculating what business rates are payable. This is called revaluation and takes place to reflect the changes in the property market across the country. At revaluation, the overall increase in aggregate yield is capped by RPI as in all other years, and the multiplier is reset to achieve that effect. As different properties' rateable values will change by different proportions at a revaluation, the tax charge is redistributed across England. This means the business rates yield in each 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.

3.39. This could result in local authorities experiencing significant volatility in their budgets as a result of revaluation changes which are out of their control. To avoid this effect, **we propose that the tariff or top up of each authority is adjusted at revaluation, so that the sum of each authority's retained rates and tariff or top up adjustment is the same after revaluation as immediately before**. This has the effect of ensuring that the incentive linked to physical growth can remain over the long run. It does, however, remove financial gain (or loss) from wider economic uplift reflected in rental values.

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?

Transitional Relief

The transitional relief scheme protects business ratepayers from large increases at the five-yearly revaluation but, if operated within the rates retention system, it would also have an impact on local authority rates income. Some authorities would be better off because of transition and some worse off.

We do not propose to change the system of transitional relief which offers valuable protections to business and helps them manage the impact of changes to bills resulting from revaluation.

To manage the impact of transitional relief on budgets in the rates retention system, **we propose to strip out from the rates retention scheme the impact of the transitional relief on local authorities' finances**. This will ensure that authorities are not exposed to costs or surpluses arising from a transitional relief scheme applied in their local area over which they have no control.

A technical paper on variations of this option will be published in August. A full list of the technical papers to be issued is set out in chapter 6.

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

Component 6: Resetting the system

3.40. In order to achieve a strong incentive effect, the tariff and top up amounts will remain fixed. However, over time, we would want to have the option of resetting the system if it was felt that resources were becoming too divergent from core service pressures within individual local authority areas, for example, because of population movements, or the characteristics of the area changing. **We propose having a mechanism to reset the system** to be able to realign resources, potentially with a completely new assessment of need should it be required.

3.41. In principle, the longer the period between resets, the greater the incentive effect as the benefit of growth is retained for longer. Further, if the period between resets is too short, new developments may not be completed and begin generating business rates in time for the local authority to benefit at all. In addition, if the reset period is known in advance, the more possible it becomes for local authorities to plan on that basis, and potentially to manage growth and investment in their area to seek to achieve the maximum gains from the reset process. This could result in perverse outcomes as local authorities seek to defer growth in their local area in the year before a reset is due.

3.42. There are two possible approaches to the reset period:

- The government could **decide not to set a fixed period for resets in advance**. Instead it would take a judgement on the basis of an objective assessment of how resources in the system were aligned with changing levels of underlying need as to whether a reset for need was necessary. This would strengthen the incentive effect and avoid perverse effects where authorities put themselves in a situation to demonstrate a high level of need or fail to invest due to uncertainty over the future.

- The government could **set a fixed period for resets**. This would give local authorities certainty over the period for which they would retain the benefits of growth. A longer period (for example over 10 years) would offer a strong incentive effect and encourage long term investment in growth. A shorter period would reduce that effect but offer more frequent reassessment of spending needs.

3.43. There are also different ways in which a reset could be carried out:

- First, the system could be **partially reset** against the baseline position only. This would mean redistributing the business rate income that was in the system on day one – leaving the income attributable to growth to sit with the authorities that achieved it.

- Second, we could do a **full reset** of the whole system – taking into account all of the business rate income then in the system including the growth achieved.

3.44. When undertaking a reset for need and resources – either partial or full – **we propose that it would be open to government to change the basis on which need was determined**. Any reset could determine the assessment of need and resource, and therefore the distribution of business rates, on some other basis than formula grant if the government agreed such an approach.

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?

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

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

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

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

The new burdens principle

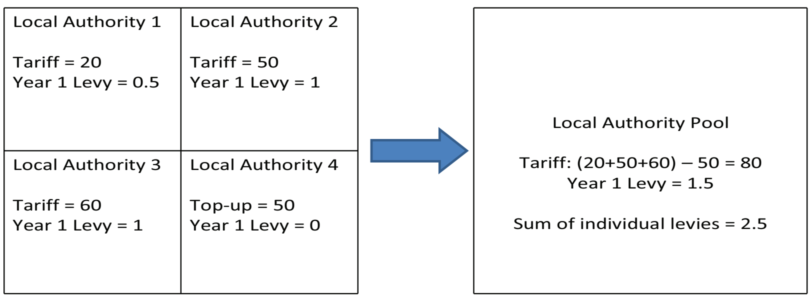
To ensure that the pressure on council tax is kept down, there is a long standing principle which states that the net additional cost of all new burdens placed on local authorities (including parishes, police and fire and rescue authorities) by central government must be assessed and fully and properly funded.

The relevant department leading on the policy is responsible for quantifying and funding the new burden and ensuring the necessary resource transfer is made. Previously, this has been managed by transferring additional funding into the Revenue Support Grant – one of the elements of formula grant – at the time of the Local Government Finance Settlement.

Under a business rates retention system some form of new burdens principle would continue to be needed to prevent excessive increases in council tax. We therefore propose to review the existing new burdens guidance, taking into account the proposals in this consultation. For example, departments could pay a section 31 grant to local authorities to meet the costs of a new burden, before mainstreaming the funding into the business rates retention system or other funding streams, such as the current Local Services Support Grant.

Component 7: Pooling

3.45. Under a rates retention system, we propose that a group of local authorities could come together voluntarily to form a ‘pool’. There would be a single tariff or top up for the pool which would be the sum of all tariffs or top ups of the individual authorities. In addition there would be a single levy for the pool which would be calculated on the aggregate income and growth across authorities in the pool rather than levying each authority individually. Pools would be able to decide for themselves how they distribute aggregate revenues, including any levy proceeds, amongst their members.



All figures (£m) are illustrative only

3.46. Pooling has two potential benefits. It could enable groups of local authorities to make additional increases in growth through collaborative effort by taking advantage of economic efficiencies and working across natural economic geographies. Were a pool to include local authority members of a local enterprise partnership, working together across a real economic area, it could both minimise displacement effects and bring greater alignment between financial incentives and decision-making on local economic development. Pooling could also help local authorities to manage volatility by sharing fluctuations in their budgets across a wider economic area.

3.47. Depending on the mix of authorities in the pool, and their individual tariffs, top ups and levies, pooling could also increase the level of rates retained across the pool where it leads to a lower aggregate levy. There is a theoretical possibility that the levy may be higher, and the rates retained therefore lower if the pool consisted of only tariff authorities all experiencing positive growth. But in this scenario the collaboration benefits producing additional growth would likely offset this effect.

3.48. Whilst there are clear potential benefits of pools, there are challenges associated with making them work. There are practical considerations about getting the geographies right and reliance on significant co-operation and agreement between member authorities to ensure the workability and stability of the pool.

3.49. Within the pool, there would need to be a system for:

- agreeing each member's contribution to the pool's tariff or entitlement to a portion of the pool's top up;
- agreeing each member's contribution to the levy amount – which in effect determines how the proceeds of growth are shared;
- agreeing how the proceeds of new business rate growth should be spent; and
- dealing with failure to agree on any of the above topics.

3.50. We want to encourage pools under the rates retention system. To give them the best chance of working and of realising the potential benefits, we are proposing the following criteria:

- that they are **voluntary** – pooling should not be imposed on areas;
- that they are **subject to assurances around governance and their workability** before being recognised by central government as a pool;
- that, **if the pool dissolved**, the members of the pool would return to their **individual** tariff, top up and levy amounts.

Pooling in two tier areas

3.51. We think that when pools form, it makes sense for districts to align with their counties. This is because, when tariffs and top ups for counties are set, a significant amount of the business rates collected by the district councils in their area will be 'assigned' to them (see box below – "Impact on non-billing authorities: county councils, police authorities and fire authorities"). If a district formed a pool outside its county area, it would still have to 'pay' a fixed proportion of its collected business rates to its county. This has a number of implications.

3.52. Under this scenario, the county could of course stand to benefit from any growth in the district as a result of the activities of the pool, but it would also carry some of the risk of the district being part of the pool - without having any contribution to the pool's strategy or say over the way in which the tariff or levy contributions were shared. For example, the pool within which the district is operating could decide to promote growth elsewhere. This could result in a reduced level of funding for the county, which would still need to deliver the same level of upper tier services across its entire area; it could not offer a lower level of service in the particular district in the other pool.

3.53. If we adjusted the system to protect the county from reductions, it would still remain controversial, as it would be near impossible to separate any growth arising from the activities of the pool and county council.

3.54. We therefore think that there is a case for a fourth criterion, to require that pooling arrangements do not separate a district from its county. An alternative approach would be to require consent from the county before a district pooled with other authorities outside the county area. This would mean that it would be dependent on local agreement between all parties and that the county would have the final say as to whether it wanted to manage the risks involved.

Incentives to form pools

3.55. Whilst forming a pool could help to manage volatility and increase growth across an area, we could take further steps to encourage the formation of pools by providing further rewards for authorities that do – for instance, by allowing them to retain a greater proportion of growth within the rates retention system, or by offering additional incentives outside the system. Of course, any incentive offered to pools on retaining a higher proportion of growth would – all else being equal – result in smaller amounts being levied overall.

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

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

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?

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

Impact on non-billing authorities: county councils, police authorities and fire authorities

Currently formula grant distributes resources not only to the billing authorities that collect business rates, but also to non-billing authorities, namely police and fire authorities and county councils in two tier authority areas. Therefore, we need to consider how these authorities will be funded under a rates retention scheme.

County councils

County councils have strong levers for promoting economic growth across their local area. We propose that all of the proposed components of the scheme and options for balancing strong incentives for growth with protections to ensure needs can be met, discussed in this chapter, would apply to county councils. County councils will receive a share of the business rates collected by district councils in their area (for instance, based on current revenue share). The difference between its share of business rates and baseline level of funding will determine whether the county should pay a tariff or receive a top up.

Subsequent business rates growth in the area would then also be shared between the district and county, so that both districts' and counties' budgets are dependent on the area's performance in driving business rates growth. This will provide a strong incentive for county and district councils to work together to promote local economic growth.

County councils and their districts will have a strong interest in the arrangements for sharing business rates across two tier areas. This will be the subject of a more detailed technical paper to be published in August in good time to inform consultation responses. A full list of technical papers to be issued is set out in chapter 6.

Police and fire authorities

Police and fire authorities have more limited levers for driving business growth and we therefore propose to treat them differently to billing authorities and county councils. Rather than having their funding affected by fluctuations in business rate income in 2013-14 and 2014-15, the police and fire sectors will receive guaranteed funding at the levels agreed in the 2010 Spending Review for these years. Damping policy for police authorities in these years will continue to be decided by the Home Secretary. The mechanics of how this will be achieved will be covered in a separate technical paper ('Establishing the baseline') to be published in August. A full list of the technical papers to be issued is set out in chapter 6.

The Government will fully review the way in which police and fire authorities are funded beyond this period in time to allow for changes to be implemented from the beginning of the next Spending Review period in 2015-16. This will include considering the potential for all government funding for the police to come from the Home Office. This will be in parallel to considering more closely aligning local authority functions and responsibilities with business rates income (as set out in this chapter, paragraph 3.7).

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

Chapter 4: Interactions with existing policies and commitments

4.1. Our proposals represent a radical reform of the local government finance system. The Government has a number of existing policies and commitments which have implications for local government funding. This chapter explains how we propose to deliver each of those commitments and policies alongside business rate retention.

The New Homes Bonus

4.2. The New Homes Bonus, which commenced in 2011, creates a powerful incentive for local authorities to deliver housing growth in their area. It is based on the additional council tax raised for new homes and properties brought back into use, with an additional amount for affordable homes, for the following six years to ensure that the economic benefits of growth are returned to the local area.

4.3. The Department for Communities and Local Government has set aside almost £1bn over the Spending Review period to fund the scheme, including nearly £200m in 2011-12 in year 1 and £250m for each of the following three years. Under the current local government finance system, funding beyond those levels is due to come from formula grant i.e. centrally pooled business rates.

4.4. The Government is committed to continuing to fund the New Homes Bonus within a business rates retention system.

4.5. We propose to deliver this commitment by fixing individual authorities' tariffs and top up amounts at a level which leaves a sufficient sum aside to fund the future cost of the New Homes Bonus. This would involve making a judgement, at the outset of the rates retention scheme, about the likely sum needed to fund future New Homes Bonus payments, which would need to take into account the latest housing growth projections and the potential level of central support available (there is £250m available for each year of the current Spending Review to 2014-15).

4.6. To ensure that the tariffs and top ups are able to remain fixed, it will be necessary to take out from year one the total required to fund the New Homes Bonus at its steady state. Therefore, particularly in the early years of the New Homes Bonus, a significant amount of this pot will not be needed. The Government will ensure that this is returned in full each year to local government. One way of doing this would be to redistribute the amount to local authorities in proportion to their baselines.

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

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

Local Authority Central Services Education Grant

4.7. The system for funding academies aims to give academies funding that is equivalent to what the authority spends on services for maintained schools. This means that there are resources within the local authority funding system that will in future need to be paid to academies. In the current Local Government Finance Settlement, DCLG made a transfer of funding for £148m in 2011-12 and £265m in 2012-13 to meet the estimated cost of these services for new academies and free schools. As the number of academies and free schools will continue to increase, funding will still need to be transferred from local authorities to them. Government will discuss options with local authorities.

The central list

4.8. The majority of business properties are listed on local rating lists and local authorities are responsible for the billing and collection of business rates from their occupiers. Certain types of property, which are not by their nature suitable for assessment on local rating lists, are listed on the central rating list, which is run directly by DCLG.

4.9. Under the business rates retention scheme, we do not propose to make any change to the types of properties which are generally, for administrative purposes, placed on the central list. Business rates will continue to be collected from the occupiers of centrally listed properties by central government.

4.10. As set out in chapter 3, funding levels for local government overall are fixed at the control totals already set for each of the last two years of the Spending Review 2010. We will review the position of centrally collected business rates at the next Spending Review.

Other functions funded through the local government settlement

4.11. The government funds a number of functions, which are generally cross-cutting in nature, through the local government settlement, for example, providing resources for specified bodies. The reforms in this consultation document will have no impact on the government's decisions on the funding of these functions in the future.

Running a good business rates system

4.12. During the course of the review, we have considered what improvements to the collection and enforcement of business rates might be desirable.

4.13. We propose to:

- allow billing authorities to publish certain statutory information which accompanies business rates bills online, instead of sending hard copies (though local authorities must send out hard copies when they are requested);

- operate multi-year billing for business rates; and

- clarify legislation on business rates refunds, so that billing authorities are permitted to offset outstanding liabilities from previous years, before offering refunds.

Business rates reliefs

4.14. The business rates system currently contains a number of mandatory reliefs (such as for empty properties and charities) and discretionary reliefs (such as for not for profit organisations) which reduce the liability of the ratepayer. The Government believes that ratepayers should be able to rely on the certainty and consistency that a national standard of reliefs provides and that therefore the current system of reliefs should be maintained. There will be no changes to the current system of reliefs, including eligibility. Government will include an allowance to cover the central government funding element of discretionary reliefs to ensure that local authorities have sufficient resources to continue to offer this important service. In practical terms this will mean that tariff and top up calculations will need to take account of reliefs.

4.15. We will publish a technical paper in August setting out options for how this could work in practice. A full list of the technical papers to be issued is set out in chapter 6.

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

Chapter 5: Supporting local economic growth through new instruments

5.1. Local retention of business rates is an important incentive for councils to drive local economic growth. To support councils in this, we are committed to strengthening the tools that they have to promote growth. This includes providing more freedoms to local authorities to make use of additional revenues to drive forward economic growth in their areas.

5.2. There are some tools for local authorities already in place:

- The **Business Rate Supplement** Act 2009 provided a new discretionary power for county councils, unitary district councils and, in London, the Greater London Authority to levy a maximum 2 pence supplement on the business rate. The authority is able to retain the proceeds to fund additional projects to promote the economic development of their local area, for example, to fund improvements in transport links, skills training, or promoting an area to attract inward investment.

  The Greater London Authority is levying a business rate supplement as part of the funding arrangements for Crossrail. The Government is, through the Localism Bill, amending the 2009 Act so that all liable businesses will be able to have a vote on the imposition of all future business rate supplements.

- A **Business Improvement District** is a partnership between a local authority and the local business community to develop projects and services in a defined area that will benefit the trading environment for up to five years. There is no limit on what may be provided under a Business Improvement District. Improvements may include extra safety or security measures, cleansing and environmental measures or improved promotion of the area.

  Business Improvement Districts are funded by businesses through an additional levy on the business rates bill of those businesses that are liable within an area. Business Improvement Districts can cover all the businesses within a given area, or be sector-specific, i.e. just for specific classes or sectors within a defined area. Businesses decide on the amount of the levy by a vote in a ballot on whether the scheme should go ahead. After a five year term is completed a second term can be implemented but is subject to a further ballot.

5.3. These existing tools offer local authorities powerful opportunities to work with businesses to agree priorities for investment and growth in their local area.

5.4. But we are committed to doing more. Through the Localism Bill, the Government will also give local authorities a broad power permitting them to reduce the business rates bills of any, or all, local businesses, as they see fit, according to local circumstance. The cost of these decisions will be borne locally.

5.5. Business rates are a significant cost, particularly for small businesses. Local business rate discounts will allow local authorities to provide temporary assistance to businesses to support small business growth and help start-up firms to encourage entrepreneurship. Providing this local discretion will mean local authorities have the flexibility to provide appropriate help to local businesses.

5.6. The remainder of this chapter focuses on our proposals to implement **Tax Increment Financing** as a way of funding infrastructure investment to unlock economic growth and regeneration.

5.7. Tax Increment Financing has been used in other countries to capture the value of uplifts in local taxes that occur as a result of infrastructure investment. In effect, Tax Increment Financing allows that uplift to take place by borrowing against the value of the future uplift to deliver the necessary infrastructure.

5.8. In 2010, the Deputy Prime Minister committed the Government to introducing Tax Increment Financing, allowing authorities *"the freedom to borrow against extra business rates to help pay for additional new developments"*.

Tax Increment Financing case study

In March 2011, the Scottish Parliament approved the use of Tax Increment Financing in the Waterfront area of Edinburgh.

The business case demonstrated that its use would assist in delivering infrastructure such as a new road link, public esplanade, pier and lock gates that would unlock regeneration in Leith.

The economic appraisal identified that the proposed infrastructure investment is expected to create around 800,000 square feet of commercial space, 1,100 hotel beds, 1,240 residential units, as well as £660m of private investment, with an additional 4,900 full-time equivalent jobs.

5.9. The Local Government Resource Review has considered the most appropriate way of delivering Tax Increment Financing in the context of our proposals to allow authorities to retain a significant proportion of their local business rates.

5.10. The retention of business rates does not alter the current potential for local authorities to carry out borrowing under the prudential system, underpinned by the Local Government Finance Act 2003. Local authorities are able to borrow for capital projects without government consent, provided that they can afford to service the borrowing costs out of revenue resources, which can include future identified revenue streams.

5.11. Local retention of business rates will remove the most important barrier to Tax Increment Financing schemes, namely that local authorities are currently not permitted to retain any of their business rates and therefore could not borrow against any predicted increase in their business rates. Borrowing for Tax Increment Financing schemes would therefore fall under the prudential system, allowing local authorities to borrow for capital projects against future predicted increases in business rates growth, provided that they can afford to service the borrowing costs out of revenue resources.

5.12. However, such borrowing can only take place if local authorities and developers have a degree of certainty about the future tax revenue streams and whether there are sufficient guarantees that they will be retained within the authority. So the business rates retention scheme set out in chapter 3 needs to be able to deliver sufficient certainty to authorities, developers and banks to ensure that, in practice, Tax Increment Financing schemes do come forward.

5.13. There are two ways in which Tax Increment Financing could be operated within the business rates retention system:

- the first would allow local authorities to determine for themselves whether to invest in a Tax Increment Financing scheme, but would not exempt revenues from the impact of the retention scheme;

- the second would involve stronger government controls on the ability to bring forward a scheme but would guarantee revenues, without the risk of loss to the levy and reset process.

5.14. **Option 1**: In the rates retention system as described in chapter 3, after the setting of tariffs and top ups in year one, any additional business rates growth would sit in the area in which it is generated, but be subject to a levy to recoup a share of disproportionate benefit. Tariffs and top ups remain fixed for a period, but can be adjusted for revaluation or reset completely to re-align resources with need.

5.15. Under this option, we would not design in any special treatment of the revenues in the Tax Increment Financing area. This would mean that any growth in business rates within the area would be subject to the levy and would be taken into account in any reset of top ups and tariffs. Local authorities would be free to borrow against all their retained business rate revenues including anticipated growth, subject to the normal operation of the prudential borrowing system. Local authorities would have certainty about how the levy is applied to recoup a share of disproportionate benefit and would be able to plan borrowing and Tax Increment Financing projects on this basis.

5.16. **Option 2**: Under this option, which would be implemented in addition to option 1, additional business rates growth resulting from the Tax Increment Financing project would be retained for a defined period of time. During this defined period, it would not be subject to the levy and would be disregarded in any re-assessment of top ups and tariffs.

5.17. This approach offers the benefit of a guarantee that business rates growth in a defined area could be used to service debt and would not be at risk of reduction from the levy and resets. However, since the business rate growth in the area would be protected from the levy and from resets, there would be less money in the levy pot to manage significant volatilities and potentially a smaller proportion of resources would be available for re-balancing at any reset. With no controls over numbers of Tax Increment Financing schemes, this effect could be substantial.

5.18. As a result, this approach would require government control or approval in order to limit the number of schemes coming forward and maintain resources available for

5.19. The different approaches offer different benefits and risks:

- Option 1 would allow free and unfettered access to Tax Increment Financing. Although the risk of loss of a share of revenue to the levy and reset may limit the number of schemes that come forward, local authorities could mitigate this effect by using all growth across their area, not just development unlocked by the Tax Increment Financing infrastructure, and by pooling and prioritising key infrastructure for investment across a wider area.

- Option 2 would offer greater guarantees that additional growth (from defined developments that have been unlocked by the Tax Increment Financing infrastructure), will be sufficiently secure for developers and banks to lend against. But that is balanced by the need for government to take a more centralised approach and impose a limit on the number of schemes.

Enterprise Zones and Tax Increment Financing

Enterprise Zones were announced by the Government at the 2011 Budget. In the Enterprise Zone prospectus, Government committed that the uplift in business rates revenues from within the Enterprise Zone above the current baseline could be retained for 25 years from April 2013 to support the priorities of the local enterprise partnership.

To deliver this commitment, the Government will guarantee that, within the business rates retention system, all the uplift in business rates revenues within an Enterprise Zone area will be retained by the local enterprise partnership and will therefore be disregarded from the levy and not be taken into account in any re-assessment of the top ups and tariffs.

This will give local partners the certainty that they require to borrow against future revenues and invest in infrastructure to unlock growth and regeneration.

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

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

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

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

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?

5.20. Following responses to this consultation, the Government will publish a technical paper setting out more detail on Tax Increment Financing.

Chapter 6: Next steps

6.1. The consultation period on our proposals for how a business rates retention scheme should operate will run for 14 weeks from Monday 18 July to Monday 24 October. Responses will inform the final scheme design. The Government intends to bring forward legislation later in this session with a view to introducing business rates retention from April 2013.

6.2. A **summary of questions** in the consultation document is attached at Annex B.

6.3. Alongside this consultation we will shortly be publishing a **series of technical papers** to consider more of the detail. These are summarised in the table below:

	Technical Paper	Content
1	Establishing the baseline	How, technically, we establish the baselines and the implications of fixing them for a number of years between resets.
2	Measuring business rates	The issues associated with measuring business rates and options for doing so.
3	Dealing with non-billing authorities	The basis for funding police and fire authorities in 2013-14 and 2014-15 and, more widely, that for apportioning rates between authorities.
4	Business rates administration	The consequences for business rates administration of the scheme outlined in the consultation paper.
5	Tariff, top up and levy options	Options for the design of tariffs, top ups, the levy and the use of levy income.
6	Volatility	Causes and the options for dealing with it.
7	Revaluation and transition	The practicalities of assessing business rate income following a revaluation. It will also consider the implications of the transition scheme – and in particular, how this affects business rate administration and the payments made between authorities.
8	Renewable energy	Definitions of renewable energy, the treatment of rates from renewable sources for the purposes of tariffs, top ups and levies, and their distribution between the tiers.

Annex A: Terms of reference for Phase 1 of the Local Government Resource Review

The first phase of the Review will consider the way in which local authorities are funded, with a view to giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies.

It will look at ways to reduce the reliance of local government on central government funding, increase local accountability and ensure that the benefits of economic growth are reflected in the resources authorities have.

The review will include consideration of changes to the business rates system, and focus in particular on:

a) the optimum model for incentivising local authorities to promote growth by retaining business rates, whilst ensuring that all authorities have adequate resources to meet the needs of their communities and to deliver the commitments set out in the Spending Review;

b) the extent to which these proposals can set local authorities free from dependency on central funding;

c) considering how to fund authorities where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils who do not collect business rates, such as upper tier authorities, recognising that some parts of the country are currently more dependent on government funding;

d) reviewing the scope for greater transparency and localisation of the equalisation process;

e) the position of councils whose business rate yield would be significantly higher than their current spending;

f) how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;

g) how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;

h) how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;

i) examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers; and

j) the wider implications of rates retention for related policies, including the work of the Commission on the Funding of Care and Support and the Government's other incentive schemes (the New Homes Bonus and the commitment to allow communities to keep the business rates for renewable energy projects).

The Review will take account of the responses made to the questions in “Local growth: realising every place’s potential”. It will also conduct extensive engagement with interested parties, including businesses of all sizes, to ensure that all views and perspectives are taken into account.

Following the announcements at the Spending Review and through introduction of the Welfare Reform Bill that Government will localise Council Tax Benefit, the Review will also consider the design of the new scheme (to be launched in 2013-14) and what flexibilities local authorities should have to help keep overall council tax levels down.

The first phase of the Review will conclude by July 2011, followed by the necessary steps to implement the concluded reforms.

Annex B: Summary of consultation questions

Chapter 3: A scheme for rate retention

Component 1: Setting the baseline

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

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?

Component 2: Setting the tariffs and top ups

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?

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

Component 3: The incentive effect

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

Component 4: A levy recouping a share of disproportionate benefit

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

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

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

Q9: Do you agree with this 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)?

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

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?

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

Component 5: Adjusting for revaluation

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?

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

Component 6: Resetting the system

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?

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

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

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

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

Component 7: Pooling

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

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

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?

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

Impact on non-billing authorities

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

Chapter 4: Interactions with existing policies and commitments

New Homes Bonus

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

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

Business rates relief

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

Chapter 5: Supporting local economic growth through new instruments

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

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

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

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

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?

Department for Communities and Local Government

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APPENDIX B

Local Government Resource Review: Proposals for Business Rates Retention - Consultation

LGA Briefing

Briefing

Introduction

- The proposed business rates retention scheme will initially work within the expenditure limits set as part of Spending Review 2010.
- Any forecast business rates income above this will be set aside and directed to local government through other grants. Local authorities will benefit from growth in business rates above forecast levels.
- Rate setting powers will remain under the control of central Government. The revaluation process will be unchanged.
- At the next Spending Review, the Government will consider the total spending figures for local government with a view to more closely aligning local authority functions and responsibilities with business rates income from 2015-16.
- Police and fire authorities will, for 2013-14 and 2014-15, receive guaranteed funding at the levels set in Spending Review 2010. The way these authorities are funded will be fully reviewed in time for changes to be made at the next Spending Review.
- The consultation period will run for 14 weeks, closing on 24 October.
- The Government intends to bring forward legislation later in this session with a view to introducing business rates retention from April 2013.

LGA view

- **The LGA supports the principal of the Government carrying out a consultation on proposals for repatriation of business rates.**
- The consultation proposals set out a range of options for moving to a clearer and more straightforward system of local government finance. **The LGA is pleased that the government wants to work with all local authorities, representative groups and political parties to achieve lasting change.**
- **The current system of local government finance is incredibly complex. It has left residents and businesses confused about the relationship between the money they pay and the how much the council has to spend on services.** With local authorities dealing with significant reductions in the money they receive from central government it makes sense to adopt a system that gives them greater freedom and flexibility.
- **Fairness must be at the heart of any new system.** Moves toward the localisation of business rates must be done in a way which recognises the advantage that national infrastructures give some authorities over others and takes into consideration the needs of a local authority. **The aim must be to give councils greater freedom and incentive to encourage growth in local areas** while allowing every community to benefit from national prosperity.
- **All local authorities need to be satisfied that the reforms will deliver a fair deal for their local communities**.
- As the Government makes clear, **this does not significantly change the 2010 Spending Review settlement** (which the LGA characterised as "one of the toughest across the public sector"). **The key change is that councils will have access to any business rates growth above that forecast from 2013**. We will be pressing the government for transparency on this.

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- **We would encourage all member authorities to participate fully in the consultation** and will be actively seeking your views throughout the consultation period as we develop the LGA response
- **We have set up a Community of Practice to facilitate discussion with members.** You can register for the CoP on our website: http://www.communities.idea.gov.uk/login.do
- We are hosting a **web-based seminar** from 2.00 - 3.30pm on the 22nd July to **discuss the proposed business rates retention scheme**. Stephen Jones, Director of Finance for the LG Group, will give an overview of the Government's proposals, followed by views from a range of experts in the sector on what the proposals mean for local authorities. **Further details are available on the main LG Group website.**
- We intend to provide **further briefings and updates** throughout the summer as the technical papers are released.

<u>Proposed scheme for business rates retention</u>

There are seven components to the proposed scheme:

Setting the Baseline

- The Government will set out a baseline position in 2013-14 for each local authority. This will use the 2012-13 formula grant as a baseline, either unadjusted or with some limited technical updates. A separate more detailed consultation paper on this will be published in August.

Setting tariffs and top-ups

- Authorities whose business rates income is higher than their baseline would pay the difference to government as a 'tariff'. Those whose business rates are less than their baseline would receive the balance as a 'top-up'.
- In future years tariffs and top ups could either be uprated by the Retail Prices Index (RPI) to reflect the annual increase in the business rates multiplier or retained at their original year 1 amounts. A technical paper on measuring business rates income will follow in August.

The incentive effect

- The Government says that from 'year one' all local authorities would stand to benefit from retaining increases in business rates. This would provide an incentive for councils to engage with businesses in their area to maximise growth.

A levy to recoup a share of 'disproportionate benefit'

- The Government proposes to collect a levy from those councils with the highest business rates income. This, the consultation document says, can help with moderating the 'gearing effect' between different need to spend and ability to raise business rates.
- There are a number of ways in which this can be calculated:
    - It could be based on the **same rate** for all authorities; this would be simple but would not deal with this gearing effect.
    - It could be based on putting authorities in **different bands**
    - Finally; it could be based on **revenue**; so that if an authority grows its business rates income by 1% it would be allowed 1% growth in its baseline revenue. This percentage could be varied up or down; for example if it was 2% a high number of authorities would keep all their growth; or it was 0.5% there would be more of a levy income

- The proceeds of the levy could be used:
    - To **manage volatility** in authorities' business rates income, due to factors such as appeals and changes to properties or due to sudden changes in economic circumstances.
    - To **support authorities with low growth**, through a 'safety net' mechanism. Access to this could be triggered if business rates fall by more than a certain percentage each year or if they drop by more than a certain percentage below the original baseline business rates. Further details will be in a technical paper to be published in August.
    - If there is sufficient income left there are a variety of **other possible uses**: including providing ongoing support to authorities which have experienced loss, top-up the growth reward for low business rates authorities, support expenditure on targeted projects to encourage growth, or redistribute in proportion to the baseline.

Revaluation

- The tariff and top-up for each authority would be adjusted when business rates are revalued; so that the sum of top-ups and tariffs was the same after as before revaluation.
- The document does not propose any other changes to revaluation; so the multiplier would still fall to reflect any increase in overall taxbase.
- It is proposed that the impact of transitional relief allowed following revaluation is stripped out from the business rates retention scheme.
- Further details are expected in another technical paper to be published in August.

Resetting the system

- The document says there are two possible approaches to resetting the underlying tariffs and top-ups:
    - The Government could decide not to set a fixed period for resets; they say this will allow the incentives to remain in the system for longer.
    - Alternatively there could be a fixed period for resets: the possibility of a ten year period is trailed, which would offer a strong incentive effect; alternatively a shorter reset period would allow a more frequent reassessment of spending needs. In addition resets could relate to the baseline position only or to the whole system, including the incentive growth.

Pooling

- The Government proposes that local authorities could come together voluntarily to form a pool; the pool would be treated as a unit in the system, with a single tariff and top-up and a single levy.
- Pools could decide for themselves how they distribute business rates growth, including any levy proceeds, amongst their members.
- The Government wants to encourage pooling, subject to assurances on workability and governance and what would happen if pools dissolved.
- The Government suggests that in two tier areas it makes sense for districts to align with their counties; it is suggested that, if a district formed a pool outside its county area, it might still be required to pay a fixed proportion of its business rates to its county. Two tier arrangements are to be covered in one of the more detailed technical papers to be issued in August.

Further Information

Police and Fire authorities

- The Government propose that police and fire authorities should, for 2013-14 and 2014-15, be funded without being impacted by the business rates retention scheme.
- Police and fire authorities will therefore continue to receive funding at the levels set in Spending Review 2010 for those years. Beyond that, there will be a full review of future funding arrangements, including the option that the police might receive all funding from the Home Office.

New Burdens

- The New Burdens principle will continue to operate; but additional sums for particular policies may go into grants such as the Local Services Support Grant although the funding could subsequently be mainstreamed into the business rates retention system.

Tax Increment Financing

- The Government is consulting on two options for how Tax Increment Financing (TIF) could operate within a business rates retention system.
- Under 'Option 1', local authorities would have full discretion to determine whether to invest in a TIF scheme. However, any additional business rates growth on top of the tariffs and top ups set in year one would be subject to the "disproportionate growth" levy and growth would also be taken into account in any future reset of tariffs and top ups.
- 'Option 2' proposes that additional business rates growth would not be subject to any levy or be taken into account in any reset of tariffs and top ups. However, schemes would require government control or approval in order to limit the number of schemes coming forward, with a view to ensuring that the levy pot was maintained at a level sufficient to manage volatilities.
- The Government also proposes that all uplift in business rate revenues within an Enterprise Zone would be retained by the Local Enterprise Partnership, and not subject to a levy or reassessment of tariffs or top ups.
- The Government will publish a detailed technical paper on TIF following the close of the consultation on business rates retention.

New Homes Bonus

- The Government proposes to fund the New Homes Bonus from 2013-14 by fixing individual authorities' tariff and top up amounts at a level that would allow a sufficient sum to be top-sliced from the total business rates yield to fund the future cost of the bonus.
- To ensure that the tariffs and top ups can remain fixed; the Government would take out from 'year one' of the retention scheme the total required to fund the New Homes Bonus at its steady state.
- Since a significant amount of this pot may not be needed in the early years of the bonus scheme, the Government would return any surplus to local government each year. One option being considered for returning the surplus is to redistribute the amount to local authorities in proportion to their baselines.

Business rates reliefs

- No changes to the current system of reliefs, including eligibility, are proposed.
- An allowance to cover the central government funding element of discretionary reliefs will be provided.

- As tariff and top up calculations will need to take account of reliefs, a technical paper will be published in August setting out options for how this could work in practice.

Changes to collection and enforcement

- The Government proposes to:
    - allow billing authorities to publish certain statutory information which accompanies business rates online, although they would be required to send out hard copies on request;
    - operate multi-year billing for business rates; and
    - clarify legislation on business rates refunds so that billing authorities can offset outstanding liabilities from previous years before offering refunds.

Technical papers

Further detail on a number of elements of the retention scheme will be released through a series of technical papers expected to come out in August, including the:

- Establishment of the baselines and implications for fixing them for a number of years between resets
- Options for measuring business rates
- Non-billing authorities, specifically the basis for funding police and fire authorities in 2013-14 and 2014-15 and for apportioning rates between authorities
- Implications of the proposed scheme for business rates administration
- Options for the design of tariffs, top ups, the levy and use of levy income
- Options for dealing with volatility
- Revaluation and transition
- Definitions of renewable energy and the treatment of rates from renewable sources

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Further information: For further information on this briefing, please contact Ben Kind, LGA Public Affairs and Campaigns Manager on 020 7664 3216 or ben.kind@lga.gov.uk

APPENDIX C

Local Government Association

Briefing

Title **Local Government Resource Review Technical Papers on Business Rates retention**

Date: 22 August 2011

Introduction

The government is currently consulting on proposals for a Business Rates retention scheme that will run from 2013-14 onwards.
The government consultation document is at
http://www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates

The LGA Briefing on this document is at http://www.lga.gov.uk/lga/tio/19377920

On 19 August the government released eight Technical Papers covering detailed aspects of the Business Rates retention scheme. These Technical Papers can be accessed on the same website as the main consultation document.

This Briefing summarises the eight Technical Papers and provides some initial analysis and comment. The LGA will make further its analysis available to member authorities to assist with the preparation of consultation responses which are due back with CLG by **24 October 2011**.

Key points

- The Technical Papers are thoughtfully constructed documents that should assist authorities in gaining a proper understanding of the government's proposals for Business Rates retention.
- It is in particular helpful that the government has provided an Interactive Calculator to assist understanding of the trade offs that might be needed in the detailed design of the Business Rates retention scheme.
- The LGA has previously made clear that **fairness must be at the heart of any new system**. All local authorities need to be satisfied that the reforms will deliver a fair deal for their local communities. It is therefore disappointing that the Technical Papers envisage that the government might retain for itself both inflationary increases in business rates yield up to 2014-15 and an element of forecast growth above inflation. The LGA believes that, in order to deliver a fair outcome for local authorities, Business Rates retention needs to allow local government to retain the full proceeds of growth.
- In providing comprehensive coverage of the design of the new scheme, the Technical Papers necessarily touch on a number of points of complexity, such as the interaction between the proposed 'safety net' arrangements and the tariff, top-up and levy elements of the scheme. The design options discussed frequently assume that Ministerial intervention is the first or only option to resolve such issues, rather than exploring the use of automatic or local government-led mechanisms that could be both more localist and more effective.

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Technical Paper 1: Establishing the baseline

1. Under the proposals for Business Rates retention, local authorities will from 2013-14 retain a share of business rates growth by either:
    a. retaining their Business Rates income, if that income is less than a baseline figure reflecting the current level of Formula Grant, and in addition receiving a top-up amount; or
    b. retaining their Business Rates income less a tariff, if the Business Rates income is more than a baseline figure reflecting the current level of Formula Grant.

2. The way in which the new scheme will work for individual local authorities is therefore critically dependent on the baseline figure that is set. Technical Paper 1 is about how the baseline is calculated.

3. The Technical Paper first of all confirms that the government intends that local authorities' funding from Business Rates should be managed within the totals set out in the 2010 Spending Review. These totals are £24.2bn for 2013-14 and £22.9bn for 2014-15, plus £0.5bn in each year to cover repayments to authorities arising from errors in forecasting Business Rates yield.

4. The government therefore proposes that the baseline will be set by reference to its calculation of *Forecast National Business Rates* for 2013-14 and 2014-15. Authorities will benefit only to the extent that Business Rates actually raised exceed the forecast level.

    LGA comment: The government's forecast will not be made until the autumn of 2012. In the meantime, local authorities have had to manage the substantial additional costs of higher than expected inflation. Furthermore, it is not clear what expectation of future real growth will be built into the government's forecast. A model of business rates retention in which the government retains all the yield attributable to higher than expected inflation, and quite possibly yield attributable to an initial estimate of real growth in business rates in 2013-14 and 2014-15, would operate to local government's disadvantage and give most of the benefit of incentives for growth to the Treasury, rather than to local people and local businesses. The proposals need to be amended to deliver a deal for local government that is demonstrably fair.

5. The government proposes that amounts of forecast national business rates for 2013-14 and 2014-15 above the Spending Review 2010 control totals will be *set aside*. The baseline figure for the Business Rates retention scheme will be based on the 2014-15 spending control total. The amounts of forecast business rates above this amount will be set aside and may be used to fund other grants to local government.

6. At individual billing authority level, the amount of *set aside* will be determined as a fixed proportion of the authority's forecast business rates income. Set aside money will have to be paid to the government.

7. For 2013-14, authorities will be retain amounts in addition to their individual baseline figures that, in total, equal the £1.3bn by which the Spending Control Total for that year exceeds the corresponding figure for 2014-15. At individual local authority level, it is proposed that this adjustment is calculated by reference to a notional formula grant calculation. The *set aside* for 2013-14 will then be calculated after making this adjustment.

8. The Technical Paper discusses in detail how individual baseline figures should be calculated. The broad approach that the government proposes to adopt is to:
    a. take the 2012-13 Formula Grant settlement (after applying damping) as the starting point; then
    b. make a calculation of 2013-14 Formula Grant equivalent, based on the 2012-13 numbers; and then
    c. make a calculation of the 2014-15 baseline figure using the 2013-14 Formula Grant equivalent as the starting point for the calculation.

9. Within that framework, the Technical Paper offers some choices about how the calculations are done:
    a. **Option 1** – adjust 2012-13 numbers by reference to the average year-on-year changes in the Spending Control totals (which would require the overall 2012-13 Formula Grant figure to be split between lower-tier, upper-tier, police and fire elements according to a standard methodology set out in detail in the Technical Paper); or
    b. **Option 2** – re-apply the 2012-13 Formula Grant methodology to arrive at revised numbers for 2013-14 and 2014-15.

    The Technical Paper points out that Option 2 would be likely to lead to greater changes to the current distribution than Option 1, and that in applying Option 2 there are a number of further choices to be made, including:
    - whether to update data (in particular, population data);
    - whether to review the formulae for around £2bn of funding currently included in Formula Grant via tailored distributions;
    - whether to review concessionary travel formulae; and
    - whether to amend the weightings in the grant formulae for needs and resources elements.

10. Finally, the Technical Paper explains how funding for New Burdens, adjustments for local authority boundary changes and provisions for periodic resets of the system might be managed.

Technical Paper 2: Measuring business rates

1. Under the proposed business rate retention scheme, individual local authorities' baselines will ultimately be set by reference to the government's calculation of *forecast national business rates* for 2013-14 and 2014-15. Technical Paper 2 explains how the Government proposes to calculate *forecast national business rates,* given that estimates from billing authorities will not be available in time. The paper then goes on to set out proposals for how the national baseline will be apportioned between individual authorities.

2. The Government proposes to establish the *forecast national business rates* using:

    - the actual national non-domestic multiplier for 2013-14;
    - an estimated non-domestic multiplier for 2014-15, based on the latest published Office for Budget Responsibility forecast of the retail prices index;
    - a mid-year estimate of the rateable value on local rating lists for 2013-14 and 2014-15.

3. The Government intends to publish the methodology for establishing *forecast national business rates* as part of the summer consultation on the local government finance settlement.

4. The resulting yield, adjusted for mandatory reliefs and other items, will form the national business rates baseline, from which individual billing authorities' baselines will be derived on the basis of *proportionate shares*. Once set, the proportionate shares would be fixed unless a reset of the rates retention system was undertaken.

5. A billing authority's *proportionate share* would be its individual business rates income expressed as a percentage of the aggregate of all billing authorities' rates income. For single tier authorities, this percentage multiplied by the national baseline would yield the figure for their individual baseline (depending on the treatment of single purpose police and fire authorities). However, in two-tier areas, there would be a further apportionment between billing authorities and county councils (discussed in more detail in Technical Paper 3).

6. The Government also proposes to use proportionate shares to determine how much a billing authority is required to contribute to the national *set aside* (discussed in Technical Paper 1) and other adjustments.

7. *Individual authority business rates* would be calculated using each authority's gross yield, adjusted for any additional income and allowable deductions such as mandatory and discretionary reliefs. Transitional relief is proposed to operate outside of the rate retention scheme.

8. The Government sets out two options for how individual authorities *proportionate shares* of business rates could be calculated:

    - **Option 1** – a spot assessment on a particular day of authorities' estimates of their 2012-13 business rates yield;
    - **Option 2** – an average of an authority's rates income over two or three years.

    The paper points out that whilst Option 1 could provide the most up-to-date snapshot of authorities' business rates income, it would not necessarily take into account volatility and poses the risk of measuring rates yield at a particularly high or low point that may not result in a fair starting point. By contrast, Option 2 could have the effect of smoothing the effects of year-on-year volatility and provide an accurate reflection of what authorities had actually collected.

9. In addition to the existing relief schemes, the Government proposes to introduce a number of allowable deductions that would be factored into the calculation of an individual authority's business rates, including:

   - Charges on property
   - Costs of collection
   - Interest payments
   - Losses in collection
   - The City of London offset
   - Uplift in rates revenue within Enterprise Zones

LGA Comment:

Local authorities need assurance that, in addition to a fair starting point providing a proper incentive for growth, any new system ensures that their resources keep pace with spending needs. The fairness of individual baselines depends on both an accurate calculation of the forecast national business rates and the extent to which that calculation discounts growth that local authorities should be allowed to retain. As one of the factors in the methodology for establishing *forecast national business rates* relies on forecast inflation, local authorities need greater clarity on how the Government intends to address any discrepancies between estimates and the final totals, particularly if future inflation turns out to be lower than forecast. Greater clarity is also required on the basis on which rateable value is to be estimated for 2013-14 and 2014-15: it would not be appropriate for local authorities to be held to committing up-front to pass over to the government their forecast real growth in yield.

Technical paper 3: Non-billing authorities

Summary

1. The paper considers how non-billing authorities (county councils, police and single purpose fire and rescue authorities) would be funded within the Business Rates retention scheme.

Options

2. **County Councils –** The paper proposes that the incentive for growth should apply equally to counties and districts in two-tier areas to reflect levers for growth. To achieve this, a fixed percentage of all Business Rates income collected by districts in a two-tier area will be paid to the county.

3. The paper consults on whether this percentage should be calculated on the basis of:
   a) fixed national shares (each tier would be allocated a standard proportion of Business Rates based on average national spending).
   b) individually-tailored shares (based on each district council's Business Rates yield as a proportion of the county total, so for example if a district council's Business Rates yield was 20% of the county total it would retain 20% of the billing authority business rates baseline with the remainder going to the county).

4. **Police Authorities** – The paper argues that police authorities have more limited levers to influence growth and therefore proposes that they will receive a fixed sum of forecast national business rates for 2013-14 and 2014-15. The Home Secretary will decide how that funding is allocated to individual police authorities. The government will review police authority funding beyond this period and any resulting changes would be implemented from 2015-16.

5. **Fire and Rescue Authorities –** The paper proposes that county fire authorities should be funded in the same way as other county services, through a percentage share of retained business rates and any tariff or top-up. The paper asks for views on whether single purpose fire authorities should be funded in the same way as county fire authorities or through fixed funding allocations as for police authorities. It highlights that the government intends to fully review the way fire and rescue authorities are funded after 2014-15.

   LGA Comment
   Councils, police and fire and rescue authorities will respond to the options proposed taking into account local circumstances and it is likely that different authorities will have different views. The LGA invites views from its member authorities to ensure the issues and risks of each of the options to share Business Rates income are properly understood and that the rate retention system produces a fair outcome for all billing and non-billing authorities.

Technical paper 4: Business Rates Administration

1. Technical Paper 4 considers how payments and information flows to central government and between billing and non billing authorities will be administered.

2. **LGA comment:** It is essential that these proposals ensure a transparent and efficient system for both billing and non-billing authorities. Any additional process costs for authorities should be funded as a new burden.

Information requirements

3. This Technical Paper outlines the information the Government will provide to billing and non-billing authorities. This will include:
    - The authority's *tier-split share.* Billing authorities will also be notified of the *tier-split shares* of their non billing authorities.
    - For billing authorities; the payments that are due to central government as its share of the *set aside* and *adjustments* and any payments due to, or from central government by way of *transitional adjustments.* These will be expressed as a fixed sum. Non -billing authorities will also be notified of these payments.
    - The authority's *tariff* or *top up*.
    - *Levy* or *safety net* payments.

4. At the start of each year the government will provide all authorities with a statement of account itemising all direct transactions between authorities and central government and providing a schedule of payments. At the end of each year, central government will provide a final account that will be audited by the National Audit Office.

5. Billing authorities will be required to provide precepting authorities with a schedule of payments. Billing authorities will also be required to provide end-year outturns to central government and non billing authorities. These will be audited in line with current arrangements for NNDR3 returns.

6. The information requirements set out in the Technical Paper will be provided through the NNDR1, NNDR2 and NNDR3 returns.

Payments

7. In line with the current system, *tariffs, top ups*, *transitional adjustments* and any payments due to or from central government as its share of *set aside* and *adjustments* will be expressed as a fixed sum and should be paid in 24 fortnightly payments.

8. In the first year only, each non billing authority's *tier-split share of the billing authority business rate baseline* will determine both its *individual authority business rate baseline* and the gross payments due to it from billing authorities. The net payment from billing authorities to non billing authorities (gross payment due to it from billing authority +/- the non billing authority's share of any *transitional adjustment)* should both be paid in 24 fortnightly payments.

9. As explained in Technical Paper 5 any *levy* or *safety net* payments due from, or to, authorities will be determined at the end of that financial year and paid as a single payment. This will be calculated on the basis of an authority's *pre-levy income.*

10. *Year end reconciliation* will cover the provisional *transitional adjustment.* This will ensure that the provisional transitional adjustment (based on prior year forecasts) is reconciled with the amounts of transitional relief actually paid. This reconciliation would be carried out following receipt of audited outturn data. Any additional sums owed to the authority would be netted off payments due from the billing authority in the following year; any sums due would be added to the following years payments. The government propose that billing and non-billing authorities determine locally how any sums due from one to another are paid. Billing authorities' contributions to the *set aside* and *adjustments, tariffs* and *top ups* will not require reconciliation as these will be fixed sums.

11. A system whereby payments to non-billing authorities are set at the beginning of the year and only reconciled to actual collection rates at year end would place the entire risk of <u>in year</u> volatility on the shoulders of billing authorities. The government therefore proposes a means by which billing authorities can provide their non-billing authorities with amended payment schedules, reflecting in-year forecasts of the business rates they will collect. Key issues for local authorities will include the frequency of such changes and how such payment schedules are agreed – for example at fixed points during the financial year.

12. The arrangements outlined for year one in the Technical Paper would be expected to broadly continue in subsequent years. Billing authorities and their non-billing authorities would, in advance of the financial year need to agree a payments schedule. Following year one this would be based on a forecast of the business rates that the billing authority expected to collect.

<u>Enterprise zones and renewable energy projects</u>

13. The government propose that billing authorities exclude from their payments to non-billing authorities all yield in respect of renewable energy projects from 2013 and enterprise zones. Allocation of this funding would take place via the *year end reconciliation.*

14. Both growth in Enterprise Zones and business rates generated by new renewable energy projects coming into existence after April 2013 will be excluded from the levy calculation. Business rates collected in the area prior to the Enterprise Zone coming into existence and already generated by renewable energy projects prior to April 2013 will however be part of the business rate retention scheme. Baseline Enterprise Zones business rates will be determined for each Enterprise Zone by means of a spot assessment based on business rates yield on 31 December 2011.

Technical Paper 5: Tariff, top-up and levy options

1. Under the proposals for Business Rates retention, local authorities will from 2013-14 retain a share of business rates growth by either:
    a. retaining their Business Rates income, if that income is less than a baseline figure reflecting the current level of Formula Grant, and in addition receiving a top-up amount; or
    b. retaining their Business Rates income less a tariff, if the Business Rates income is more than a baseline figure reflecting the current level of Formula Grant.

2. Technical Paper 5 is about the design of the tariff and top-up arrangements. It also covers design options for a supplementary levy that might be applied in cases where an authority could be said to benefit disproportionately from Business Rates retention.

3. In order to illustrate the impact of the options in the Technical Paper, CLG have helpfully published an *Interactive Calculator* to enable users to explore the principal features of the proposed Business Rates retention scheme.

Tariffs and top-ups

4. The government proposes that the Business Rates retention scheme will operate for each local authority by reference to a baseline, calculated by reference to 2012-13 Formula Grant, that sets an initial funding level. Authorities entering the new arrangements with a level of Business Rates higher than the initial funding level will pay a *tariff* to the government. Authorities that enter the new arrangements with Business Rates that are lower than the initial funding level will receive a *top-up*. The authority's status as a tariff payer or top-up recipient will only be changed thereafter on a reset of the system.

5. The Technical Paper discusses two options for tariff and top-up amounts. Either:
    c. these amounts can remain fixed in cash terms; or
    d. the tariff and top-up amounts can be increased by reference to RPI inflation.

6. The Technical Paper illustrates that different authorities are likely to have different preferences, and seeks view on the options. A fixed tariff is likely to be preferred by authorities liable to pay it; by contrast, top-up authorities are likely to prefer indexation of the top-up amount.

7. The Technical Paper also illustrates how arrangements for top-ups and tariffs might work for authorities electing to be part of a pooling arrangement, and asks whether there is agreement that, in such an arrangement, the pool's tariff or top-up position should simply be the aggregate of its members' individual tariffs and top-ups.

LGA comment: As the Technical Paper notes and discusses in detail, decisions about top-up and tariff arrangements cannot be taken in isolation from other key decisions, in particular about how any *levy* on 'disproportionate benefit' should operate, and what arrangements should apply to provide a *safety net* for authorities experiencing significant dips in Business Rates income. The overall design of tariff, top-up, levy and safety net arrangements needs to represent a consistent package that is fair to all types of authority.

The levy and the safety net

8. The Technical Paper recognizes that some authorities could gain significantly more than others from the basic tariff and top-up arrangements. The government therefore proposes to recover 'disproportionate' benefit through a *levy*. The levy proceeds would be redistributed to local government, principally through a *safety net* to protect authorities whose Business Rates income falls, either temporarily or permanently.

9. The Technical Paper notes that the levy could be calculated by reference to year on year changes in Business Rates income, or by reference to change compared with the original funding baseline. A preference for the latter approach is stated, with the baseline either fixed in cash terms or indexed, to follow the decision taken on the tariff and top-up design.

10. The design of the levy could be either:
    e. a **flat rate percentage** of growth above the baseline; or
    f. **banded percentages** of growth above the baseline, with progressively higher levy rates; or
    g. a **proportional** levy that seeks to ensure that there is a fixed relationship between the percentage increase in an authority's Business Rates and the percentage increase in its retained income.

11. The Technical Paper seeks authorities' views on the design options, and also asks for views on whether pooling arrangements should be incentivized by being allowed a more favourable treatment for the purposes of the levy than would have applied had the authorities concerned not been members of a pool.

12. The Technical Paper offers various options for the design of the safety net:
    h. it could operate to protect authorities experiencing a significant year on year decline in Business Rates income;
    i. it could operate on declines in income by reference to the original baseline funding level (or by reference to the indexed baseline);
    j. safety net funding might need to be scaled back, if the proceeds of the levy proved insufficient, or recouped from future levy income.

Technical Paper 6: Dealing with volatility

1. The Business Rates income that local authorities collect from one year to another can be affected by changes, either in the rateable value of properties or because properties move between different authorities' rating lists. In practice, there can be significant negative volatility.

2. The main consultation paper proposed that a proportion of the levy pot should be used to help manage the impact of significant negative volatility, which may be increased where alterations – for example, appeals against valuations – have a retrospective effect back over, potentially, several years.

3. Technical Paper 6 considers how such income volatility could be handled and considers different ways in which authorities could be compensated:
    a. **Option 1:** to isolate the specific events giving rise to that volatility and provide authorities with compensation for those events;
    b. **Option 2:** to adopt an application-based approach, under which authorities would have to apply for support from the levy pot;
    c. **Option 3**: to put in place a *safety net* that provided support if local authorities' Business Rates income fell below pre-determined thresholds.

4. The Technical Paper points out that Option 1 would allow support to be focused on unforeseen changes to local rating lists, but in practice would rely on judgments within the Valuation Office Agency. Option 2 would depend on the decision of central government in response to specific applications. As it would provide no certainty to local authorities it might be of limited help therefore in planning for the impact of volatility.

5. The government is therefore minded to adopt **Option 3** which would provide a safety net to local authorities and provide them with financial support where their retained income fell below pre-determined thresholds, regardless of the reason for that fall. (Greater detail about how the safety net would work, and about the interaction between the thresholds that might be set are provided in greater detail in *Technical Paper 5: Tariff, Top Up and Levy Options.)*

6. The Technical Paper seeks authorities' views on whether or not some financial assistance should be provided to authorities for the effects of volatility. Authorities are asked which of the options they would prefer.

Technical Paper 7: Revaluation and transition

1. The proposed Business Rates retention scheme does not involve changes to revaluation or the scheme of transitional relief to ratepayers in order to phase in changes to their bills. Operating within the context of a new retention-based system, these aspects of Business Rates could result in significant turbulence in authorities' income if they are not managed carefully.

2. Technical Paper 7 sets out the government's proposals for managing the impacts of revaluation, including the transitional relief scheme. The next revaluation is expected to take place in 2015.

3. **Revaluations** are currently carried out to a constant national yield, and the government does not propose to change this approach. This means that as the business taxbase goes up, the nationally-set multiplier automatically falls. The impact of the lowering of the multiplier inevitably has a variable impact on local rates yield and historic evidence shows this could lead to considerable change in the local Business Rates income following a revaluation, even if the local taxbase has stayed constant or even grown.

4. To address this risk, the government proposes to adjust each authority's top up or tariff, following a revaluation, to ensure that their retained income is the same after revaluation as immediately before. There will be no further adjustments to deal with appeals: the provisions on volatility (Technical Paper 6) will cover this situation.

5. The issue of handling **transitional reliefs** in a more localised system is trickier. Currently, the transitional relief scheme is set up to be self-financing at a national level, such that the phasing in of increases to some ratepayers is essentially paid for by a similar phasing in of decreases to other ratepayers. However, this balance does not always hold at a local level, where an authority could well have more ratepayers on transitional relief than in downward transition, or vice versa. As a result, an authority could face losses or windfall gains in Business Rates income related entirely to the transitional relief scheme rather than changes to its local rates base.

6. Because of the potential volatility that might be attributable to transitional relief, and the risk that the growth incentive of the new scheme could be unintentionally obscured, the government proposes to take transitional relief out of the Business Rates retention scheme and deal with it by means of a separate series of *transitional adjustments*.

7. The *transitional adjustments* will be worked out by comparing the Business Rates income of a billing authority including transitional relief with the income excluding relief. If an authority's income including transitional relief is less than its income exclusive of transitional relief, the billing authority will receive an additional payment from central government. If the situation is the reverse, that authority would need to pay the balance to

central government. In both cases, the payments would be apportioned between billing and non-billing authorities.

8. Unlike most elements of the proposed scheme, transitional adjustments would be reviewed on an annual basis, based on forecasts and re-adjusted on outturn figures.

9. Even though the transitional relief scheme is designed to be self-financing, it can run on a deficit even at a national level in early years, unwinding in later years to come into balance. Currently, the cost of any deficit is managed within the national Business Rates pool. The government proposes that any deficit in the transitional relief scheme could be charged to the pot of funding derived from the proposed levy on disproportionate growth discussed in Technical Paper 5.

Technical Paper 8: Renewable Energy

1. The government is committed via the Coalition Programme to allow communities that host new renewable energy projects to keep the additional Business Rates that are generated. This Technical Paper seeks to clarify what kinds of projects are covered, who determines whether a project is covered and how the Business Rates from renewable energy projects should be apportioned between authorities in two-tier areas.

2. The Technical Paper first sets out the renewable energy technologies that the government proposes should be eligible as follows:
    a. onshore wind power
    b. offshore wind power – as applies to substation buildings and cables on land
    c. hydroelectric power
    d. biomass – using 100 per cent non-waste biomass fuel for combined heat and power only – which leaves out energy only, heat only generation and co-firing with fossil fuel
    e. biomass conversion from coal
    f. energy from waste including combustion for energy only and combined heat and power. This applies to the rateable value of the energy plant only and not any additional waste treatment plant (i.e. Materials Recycling Facility) on the same site
    g. anaerobic digestion, landfill and sewage gas
    h. advanced thermal conversion technologies – gasification and pyrolysis
    i. geothermal
    j. photovoltaics

    The government seeks comment on this list.

3. The Technical Paper proposes that ‘new’ projects are those that are entered onto the rating list from 1 April 2013

4. The Technical Paper sets out three categories that could be considered for Business Rates retention or part retention as new renewable energy projects:
    a. development of a new property whose primary purpose is the generation of a qualifying renewable energy (“new renewable power station”) – the proposal is that all Business Rates income from such developments should be retained in full
    b. expansion of an existing property whose primary purpose is the generation of a qualifying renewable energy – the proposal is that above RPI increases in Business Rates income from such developments, other than increases directly attributable to five yearly revaluations, should be retained
    c. new renewable technologies on properties used primarily for other purposes – the proposal is that, where the technology has a

separately identifiable impact on the rateable value of the property, the Valuation Officer should certify the relevant proportion of the total RV attributable to this, and the Business Rates income arising would then be retained.

The government seeks comment on whether this approach, involving the creation of a baseline of business rates on all existing renewable energy projects with new growth considered in light of the baseline, is the most effective mechanism for capturing growth. Comment is also sought on whether the previous statutory definition of “renewable energy projects” remains appropriate.

5. The Technical Paper seeks feedback on who determines whether a property is a new renewable energy project and provides two options:
    a. The relevant billing authority while working closely with the Valuation Office Agency (the government’s preferred option)
    b. The Valuation Office Agency

6. Finally, the Technical Paper seeks feedback on the allocation of revenues from business rate retention with two options offered:
    a. The local planning authority retains all of the Business Rates revenue generated by renewable energy projects (the government’s preferred option).
    b. The alternative could be splitting revenue along the same lines as the New Homes Bonus where the lower tier receives 80 per cent with 20 per cent going to the upper tier.

COUNCIL BUSINESS COMMITTEE

Welfare Reform Bill
Provisions for localising support for Council Tax – Consultation Response
15 September 2011

Report of Head of Revenues & Benefits (Shared Service)

PURPOSE OF REPORT
To inform the Committee of a Government consultation, issued as part of its plans for welfare reform, on provisions to abolish council tax benefit and replace with a new localised scheme to be administered by local authorities, and to seek approval for agreeing the Council's response.
This report is public.

RECOMMENDATIONS

1. **That the Committee makes any initial comments or observations to feed into drafting the county-wide response.**

2. **That arrangements be put in place for the Committee to consider electronically the final county-wide response and to determine electronically any additional City Council response to be submitted by the consultation deadline of 14 October 2011.**

3. **That the Head of Financial Services be authorised to finalise and submit any City Council response formulated in the light of (2) above.**

1 **Introduction and Proposal**

1.1 The Government recently issued a consultation document on proposals to localise council tax benefit, developed as part of its ongoing plans for welfare reform. The proposals state that support for council tax will be a local authority responsibility from April 2013 and will not become part of Universal Credit.

1.2 The full consultation paper is set out at ***Appendix A***. The closing date for responding is Monday 14 October 2011. Similarly with the Resource Review consultation, the Lancashire Chief Finance Officers' Group is to oversee the drafting of a county-wide response, which is to be considered at their meeting on 16th September 2011. Once available, this response will be shared with the Business Committee.

1.3 In addition, the Committee may consider that it wishes to submit an alternative or a supplementary response from the City Council's perspective only.

1.4 Unfortunately, however, at this stage a draft response is not available, and therefore this report seeks approval only for the arrangements regarding future agreement.

2 Objectives of Government's Proposals

2.1 The Government states a number of reasons why they have decided to transfer responsibility for determining the scheme of council tax support to local authorities (LAs), away from having a national scheme:

- to give local authorities a greater stake in the economic future of their local area
- to provide local authorities with the opportunity to reform the system of support for working age claimants
- to reinforce local control over council tax - enabling decisions to be taken locally about the provision of support with council tax is consistent with a drive for greater local financial accountability
- to give local authorities a significant degree of control over how a 10 per cent reduction in expenditure on the current council tax benefit bill is achieved, allowing Councils to balance local priorities and their own financial circumstances
- to give local authorities a financial stake in the provision of support for council tax.

3 Summary of Key points

3.1 The consultation states that the proposals will seek to ensure that the most vulnerable in society, in particular pensioners, are protected and that the changes should help to ensure that work pays. It sets out the following principles:

- Local authorities are to have a duty to run a scheme to provide support for council tax in their area, from April 2013 onwards
- Expenditure is to be reduced by 10% (impact of around £1M in Lancaster). The intention is to deliver savings nationally of approximately £500M per annum on previous schemes.
- The new scheme would align support more closely with the existing system of discounts and exemptions by reducing the amount of Council Tax payable – sometimes down to zero, by applying a % reduction.
- Local schemes should support work incentives, and in particular avoid disincentives to move into work. The government is clear that it is essential that any local scheme aligns with Universal Credit and reflects the key principles for incentivising people to work:

3.2 The local scheme proposals are based on allowing authorities to balance local priorities and their own financial circumstances. Schemes would be developed by LAs within broad parameters set by Government and are expected to be informed by:

- the framework set by central government
- requirements to mitigate the effects of child poverty in their local area

- local priorities
- forecast of demand by eligible groups
- assumptions about take up
- the level of grant available, including any other sources of funding, and any estimated impact on council tax yield

3.3 Fraud responsibility for council tax support cases would rest with the local authority – good working relationships with the Single Fraud Investigation Service (SFIS) would be vital as SFIS will/may investigate the housing side of a case. The local authority would need to retain enough resource to investigate council tax support, however.

4 **Details of Consultation**

4.1 As referred to within the report. Consultation is considered to be a major factor in both shaping, as well as implementing, any reforms.

5 **Options and Options Analysis (including risk assessment)**

5.1 There are a number of options available for consideration.

Option 1: To approve the arrangements for agreeing any response as reflected in the recommendations.

Option 2: Not to involve the Committee in any response**.**

6 **Officer Preferred Option (and comments)**

6.1 It is recommended that Option 1 be applied. Whilst the county-wide response will provide an overall opinion based upon the views of all Lancashire authorities, in view of the significance of these Government proposals it is considered that the Committee would wish to have an opportunity for input or to make additional comments on the City Council's behalf.

7 **Conclusion**

7.1 The issue of ensuring a balance between creating a fair system, avoiding poverty and encouraging people into work is a key issue for Government.

7.2 The Benefits Service has a major impact upon the wellbeing of the poorer members of the local community. In achieving a 10% reduction in benefit, the Council would be tasked with deciding who should pay less council tax and how much less they should pay, given much reduced funding and limited parameters in which to operate.

7.3 The proposals raise specific concerns in relation to cost, timescales and the impact of creating protected groups, from the help that others currently receive.

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The proposed scheme, in establishing its overall protections in the proposed framework, would give much reduced scope to make changes. The protections in the consultation mean that pensioner awards (currently 6,240 cases) could not be changed, nor could a disincentive to work be created for those who are in work (1,430 cases). A small number of claimants (88 cases) have also been disregarded for these purposes. ie. Disabled students.

From a caseload of 12,778, therefore, the Council could be left to look at 5,020 cases, in receipt of income support, jobseekers allowance or employment and support allowance (income based). These claims would also include families with children and claimants with disabilities and the consultation suggests that Councils should look to protect these vulnerable groups.

In the end, the Council may well have to decide which vulnerable group/s are lowest priority and these could suffer a reduction in support, much greater than 10%, to cover protected groups. It is clear overall, that in reducing support from current benefit levels, people would be adversely affected.

FINANCIAL IMPLICATIONS

The scheme would need to be designed and consultation carried out in advance of the 2013/14 budget and council tax setting process.

Central Government would provide a fixed amount of money to local authorities to operate their new schemes, amounting to 90% of the subsidy awarded in the previous year. The 10% reduction amounts to approx £1M for Lancaster.

However, unlike current arrangements, this central government grant would not be ring-fenced and would not vary according to demand. Councils who experience lower than expected demand can retain any surplus to hold down the level of council tax or to support other initiatives – though in view of the potential impact highlighted above and current economic pressures, this scenario is considered unlikely.

The Council would also need to consider how to manage financial pressures resulting from a potential fall in council tax collection rates and what contingency arrangements to put in place, i.e. how to collect from customers who experience a reduction in support, or a high level of demand for support from eligible groups, exceeding the projected budget for the scheme.

SECTION 151 OFFICER'S COMMENTS
The Section 151 Officer has been consulted and her comments reflected in the report.

LEGAL IMPLICATIONS
There are no legal implications arising at this stage. Careful consideration would need to be given in terms of equality impact assessments, to help protect the Council from legal challenge.

MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS None.	**Contact Officer:** Adrian Robinson **Telephone:** 01524 582202 **E-mail:** adrobinson@lancaster.gov.uk **Ref:** HORB/LW/WR/Consultation

Communities and Local Government

Localising Support for Council Tax in England

Consultation

www.communities.gov.uk

Communities and Local Government

Localising Support for Council Tax in England

Consultation

August 2011
Department for Communities and Local Government

Department for Communities and Local Government
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Scope of the consultation

Topic of this consultation:	This consultation seeks views on proposals for the localisation of council tax support in England from 2013-14.
Scope of this consultation:	Localising support for council tax is part of a wider policy of decentralisation, giving councils increased financial autonomy and a greater stake in the economic future of their local area. The framework for local council tax support schemes will be established in a local government finance bill to be introduced in this Parliamentary session, and in regulations. The Government would welcome views on all aspects of the proposed approach set out in the document, in addition to the specific questions asked.
Geographical scope:	This consultation applies only to England.
Impact Assessment:	

Basic Information

To:	This is a public consultation and it is open to anyone to respond. We would particularly welcome views from: – local authorities; – local government professional and representative bodies; – voluntary and third sector organisations.
Body/bodies responsible for the consultation:	Local Government Finance Directorate, Department for Communities and Local Government.
Duration:	2 August 2011 to 14 October 2011.
Enquiries:	Elise Laker 0303 444 1331 Michael Ning 0303 444 2072 CTB-Reform@communities.gsi.gov.uk

How to respond:	Council Tax Benefit Reform Team, Department for Communities and Local Government, 5/H2 Eland House, Bressenden Place, London, SW1E 5DU CTB-Reform@communities.gsi.gov.uk
Additional ways to become involved:	There will be a programme of engagement on technical issues with local government and other interested organisations during the consultation period.
After the consultation:	Government intends to publish a response to the consultation on the Department for Communities and Local Government website.
Compliance with the Code of Practice on Consultation:	This is compliant with the Code of Practice.

Background

Getting to this stage:	As announced in the 2010 Spending Review, support for council tax will be localised from 2013-14 and expenditure reduced by ten per cent.
Previous engagement:	The Department has run a series of pre-consultation engagement sessions with a variety of groups and local government representatives. Their input was taken on board when developing this consultation paper. On 6 July 2011 the Department for Communities and Local Government Select Committee held an evidence session, as part of their inquiry into the effects of welfare reform on local government. This included the proposed localisation of support for council tax.

Additional copies

1. This consultation paper, complete with electronic response form, is available on the Department for Communities and Local Government website at www.communities.gov.uk .You may request a hard copy of this consultation paper from the address given above.

Confidentiality and data protection

2. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are, primarily, the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

3. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

4. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

5. Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Help with queries

6. Questions about the policy issues raised in the document can be sent to the address given on page three.

7. A copy of the consultation criteria from the Code of Practice on Consultation is at Annex C. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please contact:

   DCLG Consultation Co-ordinator
   Zone 8/J6
   Eland House
   Bressenden Place
   London
   SW1E 5DU

   Or by email to: consultationcoordinator@communities.gsi.gov.uk

Contents

Section 1

Introduction

1.1 At Spending Review 2010 the Government announced that it would localise support for council tax from 2013-14, reducing expenditure by 10 per cent. On 17 February 2011 the Government published the Welfare Reform Bill, containing provisions for the abolition of council tax benefit, paving the way for new localised schemes.

1.2 Localising support for council tax is part of a wider policy of decentralisation, giving councils increased financial autonomy and a greater stake in the economic future of their local area. This supports the Government's wider agenda to enable stronger, balanced economic growth across the country and complements the Government's proposals for other incentives, such as the New Homes Bonus.

1.3 The Government is committed to ensuring that local authorities continue to provide support for council tax for the most vulnerable in society, including pensioners. The localisation of support for council tax is taking place within a wider programme of welfare reform which is intended to help move people back into work. However, there are certain low-income groups, in particular pensioners, whom the Government does not expect to work to increase their income. The Government therefore intends protecting pensioners from any change in award as a direct result of this reform and the consultation also raises whether other groups should similarly be protected.

1.4 The Government also expects localised schemes to support the positive work incentives that will be introduced through its plans for Universal Credit for people of working age (see text box on page 15) and is therefore seeking views on how this can be achieved in a way which is consistent with localisation.

1.5 This consultation sets out proposals on key elements of a framework for local support for council tax. This framework will be established in a local government finance bill to be introduced in this Parliamentary session, and in regulations. The Government will maintain an ongoing dialogue with local government on the developing detail of the scheme, and will also consult on the draft regulations. It is intended that local authorities will establish their own local schemes by April 2013. We would welcome views on what guidance and other assistance is necessary to support local authorities in setting up local schemes.

1.6 This consultation forms part of the Local Government Resource Review in England, which is looking a several key areas of local government finance, including local retention of business rates.

1.7 The Government would welcome views on all aspects of the proposed approach set out in the document, in addition to the specific questions asked. Details of how to respond to this consultation are set out at the beginning of this document. As part of the consultation, we will be engaging extensively with local authorities and other relevant organisations, to enable us to develop and refine our proposals, as well as listening closely to views expressed by the general public.

1.8 The Welfare Reform Bill contains provisions for council tax benefit in its current form to be abolished across the whole of Great Britain. As local government finance is devolved to Scotland and Wales, the Government expects that the Devolved Administration Governments will put forward their own proposals. The Department for Communities and Local Government, HM Treasury and the Department for Work and Pensions will continue to work with the Devolved Administration Governments to ensure that schemes can be developed within the appropriate framework of powers.

Section 2

Why localise support for council tax

2.1 The Government has decided to localise support for council tax to:

- Give local authorities a greater stake in the economic future of their local area, and so supporting the Government's wider agenda to enable stronger, balanced economic growth across the country. The Government has considered the situation for low-income pensioners who would currently be eligible for support with their council tax bill and would not expect them to seek paid employment to increase their income. The Government therefore proposes that as a vulnerable group, low-income pensioners should be protected from any reduction in support as a result of this reform.
- Provide local authorities with the opportunity to reform the system of support for working age claimants. In particular it will enable local authorities to align the system of support for working age households much more closely with the existing system of council tax discounts and exemptions, simplifying the complex system of criteria and allowances.
- Reinforce local control over council tax. Enabling decisions to be taken locally about the provision of support with council tax is consistent with a drive for greater local financial accountability and decision-making, including the Government's proposals for local referendums on council tax levels.
- Give local authorities a significant degree of control over how a 10 per cent reduction in expenditure on the current council tax benefit bill is achieved, allowing councils to balance local priorities and their own financial circumstances. Reducing the costs of support for council tax is a contribution to the Government's vital programme of deficit reduction. Localisation is intended to help deliver savings of around £500m a year on the current council tax benefit bill across Great Britain.
- Give local authorities a financial stake in the provision of support for council tax. This reform will create stronger incentives for councils to get people back into work and so support the positive work incentives that will be introduced through the Government's plans for Universal Credit.

Section 3

Overview of consultation

3.1 The consultation document sets out the Government's expectations about how local schemes could operate within the parameters that the Government proposes. We would welcome views on all aspects of these proposals, in addition to the specific questions asked.

3.2 In broad terms, it is envisaged that:

- Schemes will be developed within broad parameters set by the Government, including:
  - the framework for support for eligible pensioners
  - the importance of supporting incentives to work
- Local authorities will be free to collaborate to reduce costs, develop schemes that support priorities that are shared by a number of neighbouring authorities, and manage financial risks.
- Local authorities will be encouraged to consider how the process of establishing eligibility for working age claimants can be simplified. The Government will work with local government to understand how data sharing can help further reduce administrative costs and complexity.
- Local authorities will seek to integrate arrangements for providing support within the council tax system, and will continue to provide support to households as a reduction in the amount of council tax payable, rather than a cash payment.

3.3 The reform will be accompanied by a new Government grant to local authorities, who will be able to take this into account when setting the local scheme.

3.4 The Government will consider whether maintaining the new grant allocations unchanged for several years will help to provide certainty for local authorities. This could also provide an incentive effect to councils to get people back into work, by enabling councils to benefit financially from having managed down demand for support.

3.5 This consultation document sets out proposals for local mechanisms to help manage financial pressures, in particular to ensure that district councils are not exposed in full to financial pressures.

Section 4

What changes to support for council tax could mean for you

4.1 What this change will mean for you will depend on who you are.

- If you are not entitled to council tax benefit, nothing will change for you.
- If you are someone of pension age who receives council tax benefit, nothing will change for you.

4.2 However, if you are someone of working age who receives council tax benefit, there may be changes which will affect you from April 2013.

- Some changes will affect how you claim support with your council tax bill.
- Some changes may affect how much support you can claim.

4.3 Instead of the Government setting the rules about how much support you can get, the Government is suggesting that councils should be free to decide who should pay less council tax and how much less they should pay – as long as what it does means that pensioners are no worse off and people are generally better off working than claiming benefits.

4.4 The Government is proposing to give local authorities an amount of money in advance and the local authorities will have to share that among those who need it most in their area.

4.5 However, it is possible that, if your local authority does not think that you are among those who need most support, as a result of these changes, you might have to pay more of your council tax than you do currently.

4.6 This document is not about how much you should pay. It is about how your local authority could operate the system for offering support with your council tax. This document asks for the views of local authorities – and anyone who could be affected by these changes – to help the Government decide on the framework within which your local authority will design and operate its scheme.

Section 5

Principles of the scheme

5.1 The Government has been clear that, in introducing a localised system of support for council tax, it will seek to ensure that the most vulnerable in society, in particular low income pensioners, are protected and that the changes should help to ensure that work pays.

5.2 We therefore propose the following principles to underpin local schemes:

- Local authorities to have a duty to run a scheme to provide support for council tax in their area.
- For pensioners there should be no change in the current level of awards, as a result of this reform.
- Local authorities should also consider ensuring support for other vulnerable groups.
- Local schemes should support work incentives, and in particular avoid disincentives to move into work.

Protecting the vulnerable

5.3 The localisation of support for council tax is taking place within a wider programme of welfare reform to help move people back into work. However, there are groups, in particular low-income pensioners, who would struggle to pay council tax without additional support, and whom the Government does not expect to work to increase their income.

5.4 Given the Government's concern that pensioners remain protected – and its interest in the level of protection provided – it is proposed that Government will prescribe the criteria, allowances and awards for council tax support to pensioners which local authorities will need to provide for in their local schemes. This will avoid low-income pensioners experiencing any increase in their council tax liability as a result of this reform and will also ensure that pensioners who become eligible for support with council tax at any time in the future will enjoy the same support as existing eligible pensioners. Local authorities will be able to use the new grant to fund support for both pensioner and working age claimants.

5.5 Section 9.26 looks in more detail at the administrative implications of Government's proposed approach to guaranteeing support for pensioners.

5.6 There are other groups who may struggle to pay council tax to whom the Government may wish to ensure local authorities offer support. These could also be groups who might not be expected to increase their income through work, for example because they are exempt from conditionality rules under current or planned welfare arrangements. Decisions to extend protection to other groups will need to be balanced by the need for local authorities to manage the financial implications of offering support for council tax, and the potential impacts on council budgets and other council tax payers. The Government will consider, in the light of this, what guarantees of support should be extended to these groups.

Questions:

5a: Given the Government's firm commitment to protect pensioners, is maintaining the current system of criteria and allowances the best way to deliver this guarantee of support?

5b: What is the best way of balancing the protection of vulnerable groups with the need for local authority flexibility?

Work incentives

Work incentives and Universal Credit

Universal Credit will bring together different forms of income-related support and provide a simple integrated benefit for people in or out of work. It will provide a basic income for people out of work covering a range of needs including those currently delivered by Housing Benefit. It will make work pay as people move into and progress in work.

Universal Credit will improve work incentives in three ways by:

- Ensuring that support is reduced at a consistent and predictable rate, and that people generally keep a higher proportion of their earnings.
- Ensuring that any work pays and, in particular, low-hours work.
- Reducing the complexity of the system, and removing the distinction between in-work and out-of-work support, thus making clear the potential gains to work and reducing the risks associated with moves into employment.

Single earnings taper

The taper is the rate at which benefit is reduced to take account of earnings. Currently there are different tapers for in-work benefits and Tax Credits which apply to either gross or net income. Housing benefit and council tax benefit together have an 85 per cent taper on net income; Tax Credits have a 41 per cent taper on gross income.

Universal Credit will improve work incentives for low earners by means of a single gradual withdrawal of benefits as earned income increases. This will be by means of a single taper of around 65 per cent of net earnings.

A single taper will produce a marginal deduction rate (the impact on income of the combined effect of tax and benefits being withdrawn) on earned income of 76 per cent for those paying national insurance and income tax, a significantly lower withdrawal rate than the current maximum marginal deduction rate of 96 per cent that people can currently experience.

The gradual withdrawal of benefit through the taper is complemented by a system of earnings disregards which help to strengthen work incentives for those who have been out of work for a long time, who are looking to take their first steps into the labour market. Together the disregards and taper ensure that people should see a clear financial gain to working and progressing in work.

5.7 The Government is clear that it is essential that any local scheme aligns with Universal Credit and reflects the key principles for incentivising people to work:

- People should get more overall income in work than out of work.
- People should generally get more overall income from working more and earning more.
- People should be confident that support will be provided whether they are in or out of work that it will be timely and correct, and that claiming will not be a complicated and frustrating experience.

5.8 Local authorities already have a strong interest in increasing employment among their local population and one of the aims of localisation is to create stronger incentives for local authorities to get people back into work.

5.9 There is a risk, however, that some of the advantages from the single Universal Credit taper, set out in the 2010 white paper *Universal Credit: welfare that works*, could be lost if there is a separate and overlapping withdrawal of council tax support through localised schemes. This would produce a marginal deduction rate higher than 76 per cent (or 65 per cent for those below the tax/National Insurance threshold). If council tax support is withdrawn quickly on entering work, it could also raise the participation tax rates faced by low earning workers and act as a disincentive for working at all.

5.10 To help local authorities to develop schemes which support the work incentives that Universal Credit is intended to deliver, the Government invites views on proposed national guidelines, guidance and model schemes for the design of local support schemes so that the two systems work effectively together to provide strong, transparent work incentives for individuals.

Section 6

Establishing local schemes

Introduction

6.1 Localisation of support for council tax will mean a significant change in the role of local authorities. Currently local authorities administer council tax benefit in accordance with national criteria set by the Department for Work and Pensions and are fully reimbursed by the Department for the rebates that are determined in this way. In future local authorities will need to design schemes for working age claimants, taking into account available funding and the support to be provided to pensioner claimants.

6.2 This reform provides an opportunity to align support for council tax more closely with the existing council tax system, and in particular council tax discounts. This would mean that for claimants eligible for support, their council tax liability would be reduced – in some cases to zero. This would be calculated once other discounts which the claimant is eligible to receive, for example single person discount, have been taken into account. In practice this is unlikely to appear to claimants as very different to current arrangements for council tax benefit.

Aligning arrangements for support with the wider council tax system

6.3 There are a number of advantages to integrating the new approach to providing local support for council tax with the council tax system. This could:

- Help to reduce the administrative burden by having common processes and systems when dealing with working age claimants and those claiming council tax discounts and exemptions.
- Reduce complexity for claimants, by making support for council tax one of the discounts and exemptions that residents can claim rather than a separate system.
- Provide a framework for sharing financial pressures between billing and precepting authorities, using the mechanism of the collection fund, reducing the exposure of small district billing authorities to financial risk. See Section 8 'Managing risk' on page 25.

Process for establishing schemes

6.4 The key steps in the process of establishing a local scheme will be:

- Design.
- Consultation.
- Feeding into the budget and council tax-setting processes.

Design

6.5 As a first step the lead local authority (or authorities) will need to establish the parameters of the scheme taking into account the funding the local authority intends to dedicate to the scheme. The parameters are likely to be informed by:

- The framework set by central government: in particular requirements relating to support for pensioners and ensuring work incentives are supported.
- Other duties and responsibilities, including the requirement under the Child Poverty Act to reduce, and mitigate the effects of, child poverty in their local areas.
- Local priorities, such as tackling unemployment.
- Forecasts of demand including the assessment of the potential size of eligible groups.
- Assumptions about take-up, including the assessment of the proportion of potential eligible groups that will actually apply for support.
- Level of grant available, including any other sources of funding, and any estimated impact on council tax yield, for example as a result of non-collection.

Consultation

6.6 The local authority will need to submit the proposed scheme to some form of public scrutiny or challenge, including making the data underpinning the scheme publicly available. This could include formal public consultation as well as sign-off by elected members. See the section on joint working on page 21. The local authority will also need to ensure other authorities, including precepting authorities, have an appropriate role in this process.

6.7 We would also welcome views on whether other forms of scrutiny, for example by an external auditor would be helpful in ensuring that schemes are robust.

Budget and council tax-setting processes

6.8 To put schemes into operation councils will need to:

- Know their indicative grant allocation in advance of the budget-setting process (see Section 11 on funding on page 41).
- Have designed, consulted on and agreed the local scheme in advance of the budget and council tax setting process.
- Take account of the value of discounts to be offered under the local scheme as part of the process of establishing the tax base, which, alongside the budget requirement, informs the setting of council tax.
- Make any adjustments to the individual's council tax bill to include information on support.

Work incentives

6.9 As set out in the previous chapter the Government considers it essential that the design of local council tax support schemes support the improved work incentives that Universal Credit is intended to deliver. The Government would therefore welcome views on what parameters or support could help to ensure that council tax support and Universal Credit work effectively together to provide strong, transparent work incentives for individuals.

6.10 The Government considers that it is particularly important that local authorities seek to avoid high participation tax rates, which remove the incentives to enter work. Guidelines, guidance and model schemes would seek to ensure local authorities are able to design schemes which avoid high participation tax rates, and ideally create a maximum net participation tax rate of no more than 20 per cent, once Universal Credit is fully implemented.

6.11 The Government would welcome views on how this could be achieved, through one or a combination of the following:

- Guidance on setting taper rates and earnings disregards.
- Guidance on maximum participation tax rates that low earning households should face.
- Guidelines on the treatment of income and earnings to avoid the double counting of different income types.
- Model schemes, demonstrating how this could be achieved.

6.12 Alongside this the Department for Work and Pensions and the Department for Communities and Local Government will work closely with local authorities to make sure that the local schemes interact smoothly with Universal Credit.

Adjusting schemes over time

6.13 It may become desirable or necessary to make adjustments to the local scheme, for example to the level of support provided. The Government does not believe that it would be helpful to allow for changes to happen within the billing year, because of the financial uncertainty this would create for claimants. Section 8.4 sets out how local authorities might be able to manage financial pressures in-year.

6.14 Local authorities should be able to make adjustments to schemes each year, following a local consultation process at least where significant adjustments are planned. Government expects that local authorities would want to ensure that any resulting plans to change the level of support are clearly notified to claimants in good time before the change is reflected in council tax demand notices.

Questions:

6a: What, if any, additional data and expertise will local authorities require to be able to forecast demand and take-up?

6b: What forms of external scrutiny, other than public consultation, might be desirable?

6c: Should there be any minimum requirements for consultation, for example, minimum time periods?

6d: Do you agree that councils should be able to change schemes from year to year? What, if any restrictions, should be placed on their freedom to do this?

6e: How can the Government ensure that work incentives are supported, and in particular, that low earning households do not face high participation tax rates?

Section 7

Joint working

7.1 The collection and distribution of council tax is administered by billing authorities – in two-tier areas this is the lower tier authority (district council). They also administer the current council tax benefit regime on behalf of the Department for Work and Pensions. The Government suggests that billing authorities should lead on the design and administration of localised council tax support schemes in their areas because of their current responsibilities and expertise.

7.2 However, there would be many benefits from local authorities collaborating with others. Collaboration could, for example, help to reduce administrative costs, manage financial risks by enabling local authorities to manage funding over a broader area, and ensure local schemes support wider local priorities for growth.

7.3 The following section looks at the reasons why local authorities may need or want to work together to design, administer and manage risks for local schemes, and the types of arrangements that might be needed to support joint working – between district and county councils, billing and precepting authorities, and different billing authorities. It seeks views on how different authorities should be involved, and what if any safeguards are needed to ensure the interests of collaborating authorities are protected.

Benefits of collaboration

7.4 The following section considers how local authorities may choose to come together to design and administer schemes jointly to:

- Reduce duplication and cost (see Section 7.5).
- Address needs and priorities that extend beyond the boundaries of the billing authority (including avoiding inconsistencies which might attract opposition from local taxpayers who find they have to deal with significantly different administrative processes when moving between neighbouring authorities) (see Section 7.14).
- Manage financial risk (see Section 8.4).

Reducing duplication and cost

7.5 Two ways in which the local government sector – either nationally or locally – could collaborate to reduce duplication and cost are:

- Developing templates or guidance to support local authorities in setting up local schemes.
- Developing model schemes which could help minimise the time and resource needed to design schemes.

Joint design/administration

7.6 Some local authorities already come together to administer council tax jointly (see text box below on council tax joint working). A coordinated approach between such billing authorities in designing schemes could reduce duplication, minimise administrative costs, make better use of expertise, and enable more strategic engagement with suppliers. This would also benefit the precepting bodies, which would not need to deal with several authorities individually as schemes are developed.

7.7 It may be that in two-tier areas the county, rather than individual billing authorities, could coordinate the **design** of a single scheme (noting that it is usually the billing authorities that have council tax collection systems and their associated IT support, and expertise). How this might operate is set out in more detail in Section 7.14 on types of joint working. Specific legal provisions would be required to enable this form of joint working.

Joint working on council tax collection
Partnership working between local authorities has enabled the delivery of better services and reduction of costs:

The Anglia Revenues Partnership comprising the Breckland District Council, East Cambridgeshire District Council and Forest Health District Council has achieved in excess of £1m savings per year in their shared Revenue & Benefits service with over 98 per cent council tax collection rates (http://www.angliarevenues.gov.uk/).

The South West Devon Districts comprising the South Hams District Council and West Devon Borough Council estimates savings of £350,000 a year for their Revenue and Benefits service with initial upfront costs of £300,000 (http://www.districtcouncils.info/fileuploads/91-5560.pdf).

7.8 Once schemes are in operation, joint working could also sensibly extend to the **administration of schemes**, building on the current joint arrangements for council tax billing and collection in a number of areas.

Addressing needs and priorities that extend beyond the boundaries of the billing authority

7.9 Where a coordinated approach is being taken to jobs and growth, for example through a local economic partnership, local authorities may want to work together to develop schemes which support these shared priorities. To achieve this it is possible that authorities might choose as a matter of policy to establish a single scheme, with consistent rules and levels of award, across a number of authorities.

7.10 Even where there is no active joint working, neighbouring authorities will also want to understand the possible impacts of operating different schemes alongside each other, in particular the implications for local residents moving between authorities of different schemes.

7.11 Upper tier authorities in two-tier areas and local precepting authorities (commonly parish councils) may also have an interest in the impacts on their residents of the proposed scheme. This is separate to any interest that precepting authorities will have in the impacts of the design and administration of local schemes on council tax collection, which is set out in Section 8.8 'Managing risk'.

Types of financial risk

7.12 In designing and administering local schemes local authorities will also need to manage potential financial risks. The types of risks authorities might face and the ways that they might manage them, including through collaboration, are set out in Section 8 'Managing risk' on page 25.

Arrangements for joint working

7.13 As far as possible, local authorities should be free to come together in ways that are appropriate to them and their areas, but there will be some circumstances in which more formal arrangements are needed. In developing the legislative framework for localised schemes, the Government is keen to ensure that different forms of collaboration are possible.

Types of joint working

7.14 Billing authorities would be free to come together and coordinate approaches to setting schemes where each authority retains responsibility for the scheme in their area. However, local authorities may also want to undertake more significant collaboration, for example where a coordinated approach is being taken to jobs and growth, for example through a local economic partnership. Two such examples are:

- Making one single authority (which could be the county council in two-tier areas, the Greater London Authority in London, or a lead billing authority) the responsible authority for developing a single scheme which applies across a number of authorities.
- Establishing a joint body, made up of a number of authorities, to lead on the development of a single scheme.

7.15 Such structures could enable authorities to pool the funding they receive from central government to be able to offer consistent level of award across a number of authorities. Such arrangements, enabling more than one body to have the responsibility of making a scheme for an area, would require specific legal mechanisms. The Government would need to consider how to ensure these were not unnecessarily bureaucratic.

Questions:

7a: Should billing authorities have default responsibility for defining and administering the schemes?

7b: What safeguards are needed to protect the interests of major precepting authorities in the design of the scheme, on the basis that they will be a key partner in managing financial risk?

7c: Should local precepting authorities (such as parish councils) be consulted as part of the preparation of the scheme? Should this extend to neighbouring authorities?

7d: Should it be possible for an authority (for example, a single billing authority, county council in a two-tier area) be responsible for the scheme in an area for which it is not a billing authority?

7e: Are there circumstances where Government should require an authority other than the billing authority to lead on either developing or administering a scheme?

Section 8

Managing risk

8.1 Currently support for council tax is demand-led. From 2013-14 funding will be through a grant paid from the Department for Communities and Local Government departmental expenditure limits[1]. In designing and administering local schemes, local authorities will need to consider how to manage any possible financial pressures as a result of a fall in collection rates, which might occur if:

- Local authorities struggle to collect increased amounts of council tax from those households who experience a reduction in support with their bill.
- There are unexpectedly high levels of demand for support from eligible claimants, which exceeds the value of discounts which was forecast at the point where budgets and council tax levels were set.

8.2 The Government believes it is important that local authorities plan to manage financial risks locally. Key to this are:

- Local contingency arrangements to provide for increased take-up or demand.
- A 'safety-valve' so if take-up or demand exceed even contingency forecasts financial pressures can be shared with other authorities.

Local contingency arrangements

8.3 It is important that local tax payers have certainty about what support will be available to them, and the Government therefore does not believe that authorities should change or withdraw schemes part way through the billing year, or ration support. It will therefore be essential that in designing schemes local authorities make provision for increases in take-up or demand.

Managing financial pressures with other authorities

8.4 Collaboration will be an important means of managing financial risk. It is possible that in a very small number of cases sudden increases in demand – for example as a result of a localised job-shock – could exceed the level of demand forecast at the time that budgets were set. In such cases it is important that the billing authority

[1] Departmental Expenditure Limits: the total spending limits for Government departments over a fixed period of time, excluding demand-led and exceptionally volatile items. Departmental Expenditure Limits are planned and set at Spending Reviews.

– which may be a small district council – is not exposed to the full impact of any financial pressure.

8.5 The Government proposes the following principles for managing financial risks in such circumstance, and would welcome views on whether these are the right principles and how they could be put into effect.

- **Billing authorities should be able to share any financial pressure as a result of unexpectedly high increases in demand for support with major precepting authorities.**

8.6 This should enable the billing authority to continue to offer support where there are exceptional levels of demand which exceed those forecast at the time that budgets were set.

8.7 This might mean allowing the billing authority to continue to offer a reduction in liability, but not requiring it to cover the foregone revenue from its own resources. Instead, the shortfall in council tax revenue would be shared between billing and major precepting authorities. We propose that the default arrangement should be for billing authorities to share risks with the major precepting authorities (police and fire and rescue authorities, and county councils in two-tier areas). Local precepting authorities (normally parish councils) would be excluded from such arrangements.

- **The billing authority should not be exposed to the totality of the financial pressure in-year.**

8.8 Currently shortfalls in council tax revenue are shared between billing and precepting authorities at the end of the financial billing year as adjustments in the Collection Fund (see 'How council tax works' on page 54). Further steps may be needed to ensure that rigid payment schedules set at the start of the billing year do not mean that the billing authority faces the totality of this pressure before the distribution of the deficit takes place.

- **While risk sharing with precepting authorities will be the default approach, different forms of risk sharing should be possible.**

8.9 Collaboration between the billing and major precepting authorities will be the most straightforward approach to sharing risk in most areas. However, this should not rule out other risk-sharing arrangements, where this fits best with local arrangements – for example, sharing risk between unitary authorities or a number of district councils.

8.10 In all risk sharing arrangements, it will be essential that the authorities with whom risk is shared are assured that the design of the scheme does not expose them to unnecessary financial risks. This could be achieved through a formal consultation process, but we would welcome views on whether any more safeguards need to be put in place. Consultation could also ensure that the views of local precepting bodies and neighbouring authorities can be taken into account.

Questions:

8a: Should billing authorities normally share risks with major precepting authorities?

8b: Should other forms of risk sharing (for example, between district councils) be possible?

8c: What administrative changes are required to enable risk sharing to happen?

8d: What safeguards do you think are necessary to ensure that risk sharing is used appropriately?

Section 9

Administering local schemes

Introduction

9.1 It will be important that local authorities are able to administer local support for council tax in a way which is fair and easy to understand for the claimants, whilst minimising administrative costs, errors and the risk of fraud. The arrangements for tackling fraud can be found in the section on data sharing.

9.2 This reform of council tax benefit is part of the Government's wider plan to make work pay. It is particularly important that local authorities ensure that the level of award and its possible effect on a claimant's decision to work more hours are readily understood by the claimant and the process for making a claim is administratively simple and avoids creating disincentives to work (for example, because the complexity of re-establishing eligibility means claimants are reluctant to take on work for short periods).

9.3 All local schemes will need to:

- Establish eligibility – according to the terms of the scheme.
- Grant an award.
- Allow for appeals; and
- Address errors.

9.4 Government wants to give local authorities as much freedom as possible, within certain parameters, to design their schemes. However, there may be some elements of administration where it may be desirable to:

- Provide for a degree of consistency between authorities to support data sharing and minimise the complexity for tax payers moving between areas.
- Remove disincentives to entering into temporary work by avoiding some of the potential administrative complexity of claiming local support for council tax.

9.5 The following paragraphs explore this further.

Establishing eligibility and making a claim

9.6 It is envisaged that local authorities will be given powers to develop their own local schemes for working age claimants, with the freedom to determine the levels of support that should be offered and how the scheme should operate. Local authorities will be free to configure local services as they see fit, taking into account the need to provide a high quality service to local residents and meet any relevant access requirements. It will be important for local authorities to consider how they ensure that their service meets the needs of claimants and in doing so they may find it helpful to involve advice providers and relevant bodies.

Role of advice providers

AdviceUK provides support to a UK-wide network of independent advice centres which provides free advice to their clients. Currently, AdviceUK is working with Nottingham City Council and local advice agencies on shaping future advice provision from a bottom-up and early intervention perspective which aims to improve the client's experience in accessing support.

For more details see www.adviceuk.org.uk/projects-and-resources/projects/bold.

9.7 The Government is interested in views on what minimal level of consistency between schemes might be desirable to:

- Minimise complexity for claimants who move between authorities.
- Support joint-working and data sharing.

9.8 For example, consistency might be desirable in:

- Establishing identity – for example, continuing to use the National Insurance number.
- Definitions e.g. of income and capital (although Government is minded to assume that local authorities would then be free to set their own income and capital thresholds for working age claimants).

9.9 We would welcome views on how any consistency between schemes should be achieved – whether this should be prescribed in the framework; set out in Regulations, or whether it would be sufficient to set out in guidance aspects of the scheme where a common approach should be taken.

Question:
9a: In what aspects of administration would it be desirable for a consistent approach to be taken across all schemes?

9b: How should this consistency be achieved? Is it desirable to set this out in Regulations?

Providing certainty for claimants

9.10 It will be essential that claimants are not discouraged from entering into temporary work because of the administrative complexity claiming local support for council tax. This certainty can be provided through a number of means:

'Run-ons'

9.11 Currently a council tax benefit claimant or their partner can receive 'extended payment' of council tax benefit for up to four weeks after they are no longer eligible providing the individual satisfies a number of conditions. Claimants may also be entitled to an extended payment if they move to a different local authority during the extended payment period provided there is a council tax liability at the new address.

9.12 Allowing the award to continue unchanged for a period after someone returns to work can have a beneficial effect on work incentives, encouraging people to take up a work opportunity when they might not otherwise do so. Local authorities may wish to consider incorporating such a 'run on' as part of their scheme.

Advance claims

9.13 Currently council tax benefit claimants of working age can apply up to eight weeks, or if they are of pensionable age up to 17 weeks, in advance of being responsible for a council tax liability for a dwelling. Also a claimant can apply for up to six months of backdated council tax benefit from the date of a backdated application if there is good cause for not submitting a council tax benefit claim at the appropriate time. The Government proposes that local authorities should be able to allow claimants to submit claims for council tax support in advance of being liable for paying council tax.

9.14 There are advantages to both the local authority, in terms of efficiency, and the claimant, in having a simplified process for reinstating claims following a short break in entitlement. Knowing that such a facility is available may encourage some claimants to take up short term employment opportunities. Local authorities may wish to consider making this a feature of their local schemes.

Retaining 'information stubs' about claimants for a fixed period after eligibility is lost

9.15 Currently, a local authority may use simplified claim procedures when a claimant entitled to Income Support/Job Seekers Allowance reclaims within 12 weeks of their previous council tax benefit claim provided there has been no change in their circumstances.

9.16 It would be desirable for similar arrangements to be retained in local systems to minimise unnecessary bureaucracy, increase administrative simplicity for previous claimants and remove a possible barrier to entering temporary work.

Questions:

9c: Should local authorities be encouraged to use these approaches (run-ons, advance claims, retaining information stubs) to provide certainty for claimants?

9d: Are there any other aspects of administration which could provide greater certainty for claimants?

9e: How should local authorities be encouraged to incorporate these features into the design of their schemes?

Granting the award

9.17 We propose that support for council tax should be delivered as a new form of council tax discount, which reduces council tax liability once other discounts (which the claimant is eligible to receive e.g. single person discount) have been taken into account. The council tax for which claimants are liable will therefore be reduced (in some cases to zero) while they are receiving support.

9.18 Currently the rebate and any discounts are set out on the council tax bill, and this approach could be continued under the new arrangements, with the necessary changes being made to the current Council Tax Billing Regulations, Council Demand Notices (England) Regulations 2010 (SI 2010/2990).

9.19 An alternative approach would be to inform claimants that they are in receipt of support through a separate notification. We do not believe there are any strong arguments for changing the current arrangements, but would welcome views on:

- Whether permitting or requiring local authorities to notify claimants separately of any award of support via a discount has any strong administrative, or other, advantages (for example, where the claimant is one of several people sharing joint and several liability for council tax).

- Whether there are any unhelpful implications of making the level of support the claimant is eligible for part of the calculation of the overall liability.

Hardship

9.20 Currently the billing authority has responsibility for the collection of council tax liability from each liable individual if there is a remaining liability after receiving council tax benefit support. In cases of financial hardship, a billing authority can either agree alternative payment arrangements or offer a discount using their powers under Section 13A of the Local Government Finance Act 1992. The Government considers that local authorities should continue to be free to offer assistance in cases of financial hardship under local schemes.

Question:

9f: Do you agree that local authorities should continue to be free to offer discretionary support for council tax, beyond the terms of the formal scheme?

Transitional protection

9.21 As set out in section 6.13 Government expects that local authorities may need to adjust the parameters of their scheme between financial years, to reflect changing local priorities. Early notification to current claimants of the change in their award will be essential to help claimants manage the effect of changes in their award.

Question:

9g: What, if any, circumstances merit transitional protection following changes to local schemes?

Appeals

9.22 Local schemes will need to ensure that claimants are fairly treated and that the administrative processes to correct errors are simple, transparent and cost-effective. Currently the claimant is responsible for reporting any change in circumstance, including that of non-dependants sharing their home, but there are circumstances where the local authority sometimes has to make a judgement on the facts presented to them which may then be challenged.

9.23 Because council tax benefit is a welfare benefit, any unresolved appeal between the billing authority and the council tax benefit claimant is referred to the Social Entitlement Chamber of the First-tier Tribunal for investigation and resolution (the First-tier Tribunal forms part of the national administrative justice system).

9.24 Currently, unresolved appeals on the council tax bill, such as billing of the correct person, calculation of exemptions and discounts on dwellings, are dealt with by the Valuation Tribunal for England which is independent of the local authority and the Valuation Office Agency (which decides on the council tax band of the liable dwelling). As part of the Arms Length Bodies Review, the Government announced its proposal to abolish the Valuation Tribunal for England and its administrative support body, the Valuation Tribunal Service. The jurisdiction of the Valuation Tribunal for England is proposed to be transferred to a new Property, Land and Housing Chamber in the First-tier Tribunal, which the Ministry of Justice is working to establish within the unified tribunal system.

9.25 As the Government is proposing to make local schemes for council tax support an integral part of the council tax system, this might extend to the handling of appeals and we would welcome views on how appeals should be handled in future.

Question:

9h: Should arrangements for appeals be integrated with the new arrangements for council tax appeals?

Administrative arrangements for pensioners

9.26 Government is clear that it does not want support for pensioners to be affected as a result of this reform. Section 5.3 sets out in more detail Government's commitment on support for pensioners.

9.27 Government proposes that this protection could be most effectively delivered by requiring local authorities – through primary legislation and regulations – to develop schemes which provide a guaranteed level of support for pensioners. This would be achieved by prescribing the approach to be taken to elements including levels of award, allowances and criteria.

9.28 Local authorities would continue to be responsible for delivering this support (for example, assessing claims and offering discounts), which they would do alongside developing local arrangements for working age claimants. They would be able to use the new grant from Government to meet the costs of the scheme for both pensioners and working age claimants. There would be no separate funding arrangements for pensioner claimants.

Question:

9i: What administrative changes could be made to the current system of council tax support for pensioners to improve the way support is delivered (noting that factors determining the calculation of the award will be prescribed by central Government)?

Section 10

Data sharing

Introduction

10.1 Data sharing will be an important way of maximising convenience and reducing complexity for claimants, while also helping to reduce administrative costs.

10.2 Ideally people who apply for council tax support should not have to provide to their local authority the same information, or supporting evidence, that they have already provided to the Department for Work and Pensions in an application for Universal Credit or other benefits. However, any such sharing of information must meet the requirements of the Data Protection Act 1998 and respect human rights issues.

Current arrangements

10.3 The Department for Work and Pensions currently shares an extensive range of data with local authorities to assist in the administration of housing benefit and council tax benefit. Data is shared electronically and sent using secure infrastructure. Section 122C of the Social Security Administration Act 1992 allows such sharing. However, the information must be supplied in accordance with the Data Protection Act 1998 and the European Convention on Human Rights.

10.4 When customers make a claim for an income related benefit (Income Support, Jobseekers Allowance, Employment Support Allowance or Pension Credit guarantee) they are able to make a claim for housing benefit and council tax benefit at the same time. The Department collects information that, in most cases, will enable local authorities to assess entitlement to housing benefit and council tax benefit without contacting the claimant again.

10.5 This means that claimants are not asked to supply local authorities with information they have already given the Department, who also notifies local authorities of changes in the circumstances of claimants that are relevant to the assessment of housing benefit or council tax benefit and could affect the award.

10.6 In addition, local authority staff involved in the assessment of housing benefit or council tax benefit claims are given access to the Department's Customer Information System. This enables them to confirm details of the benefits in payment to a claimant where it is necessary and lawful to do so.

Benefits of data sharing

10.7 Maintaining or improving data sharing arrangements has the potential to bring significant benefits:

- The applicant will benefit through only having to provide information and supporting evidence to one organisation for all the benefits they are claiming.
- Local authorities will benefit, as for the vast majority of applicants, the local authority will not have to process claims from the beginning but will be able simply to use information already processed by the Department for Work and Pensions, reducing the administrative workload.
- The tax-payer will benefit, as instances of error are likely to be reduced and occasions of attempted fraud are likely to be easier to spot, so less public money will be paid out to people who are not entitled to it.

10.8 Under Universal Credit, the Department for Work and Pensions will hold a great deal of information that would be useful to local authorities in the processing of claims for local council tax support.

10.9 This could include:

- Personal circumstances (age, employment, marital status, number of dependants, etc.).
- Income information.
- Amount of benefits received.
- Specific benefits received.

Data protection

10.10 Any information sharing must comply with the requirements of the Data Protection Act, including only sharing information which a local authority requires for the operation of its scheme. As localised schemes may differ in their information requirements to be compliant with the Data Protection Act, the Department will consider carefully what information can be shared within legal constraints.

10.11 Providing individually tailored information to each local scheme could place an administrative burden upon the Department, with additional costs to the public purse.

10.12 For this reason the Government wants to work with local authorities to identify how best to share data, in a way which supports local schemes and does not significantly increase cost and complexity. This could include identifying a common core of information that will be required by all schemes and establishing a limited number of sets of data requirements, which correspond to different model local schemes.

10.13 If the Department for Work and Pensions is unable to provide to each local authority the information that it needs to process claims under their system, the most likely source is the applicant themselves. This would probably require applicants to provide information and evidence that they have provided previously to the Department in other applications, and require the local authority to have in place the necessary administrative systems to process claims in full.

10.14 Alternatively, local authorities may be able to find alternative sources of information and/or means of verifying information provided by the claimant. In order to facilitate this, we would need to ensure that appropriate legal powers were in place.

10.15 Having established what information they need, local authorities will need to consider the form in which they wish to receive any information that they obtain from the Department (or from other sources). They will need to consider both the nature of the information, raw data or interpreted in some way, and the format in which it is received.

10.16 Raw data would probably give local authorities the greatest amount of flexibility. However, there may be significant costs associated with processing it.

10.17 It may be that there are administrative advantages to receiving the information interpreted in some way. Rather than receiving large quantities of personal information, it may be that local authorities would prefer to agree that there should be a certain number of categories of claimants, with certain characteristics, which may be defined according to the amount of benefits they receive; whether they are in receipt of certain specific benefits; their age, and other factors. The local authority would then be told by the Department that, on the basis of the information they hold, the claimant is in Category A, and will then provide the applicant with the level of support that they have determined is appropriate for people in Category A.

10.18 This could reduce the administrative burden on both the donor and recipient of the information. However, agreement would be needed on the number of categories as well as the common characteristics of each category, and this process would need to be able to be automated.

Questions:

10a: What would be the minimum (core) information necessary to administer a local council tax benefit scheme?

10b: Why would a local authority need any information beyond this "core", and what would that be?

10c: Other than the Department for Work and Pensions, what possible sources of information are there that local authorities could use to establish claimants' circumstances?

Would you prefer to use raw data or data that has been interpreted in some way?

10d: If the information were to be used to place the applicants into categories, how many categories should there be and what would be the defining characteristics of each?

10e: How would potentially fraudulent claims be investigated if local authorities did not have access to the raw data?

Fraud and error

Introduction

10.19 It will be key to ensure that fraud and error are minimised and the prevention of fraud and error should be considered as part of the design of any scheme – simplicity would make it more difficult to defraud as well as making errors less frequent. However, both may occur, and if they do, they will need to be investigated.

10.20 The responsibility for fraud investigation under a system of localised support for council tax will rest with the local authority. However, good relations between the local authority and Department for Work and Pensions' Single Fraud Investigation Service will be vital, as they are likely to find themselves working on related cases or collaborating on investigations and prosecutions. It will be essential that both organisations are sufficiently empowered to facilitate collaborative working where it may be beneficial.

Current situation – investigating Council Tax Benefit fraud and error

In 2009-10 fraud and error overpayments in Council Tax Benefit stood at 4.2 per cent of overall expenditure (about £200m). Of this, fraud accounted for 1.1 per cent (about £50m) of overpaid benefit expenditure, customer error accounted for 2.4 per cent (about £110m) and official error accounted for 0.7 per cent (about £30m).[2]

The key cause of both fraud and customer error in Council Tax Benefit is income. As with many income-related benefits, the complexity of the information customers need to provide relating to their income, which may also fluctuate regularly, is such that they can easily mask information to commit fraud, or more commonly they simply have difficulty understanding what information they need to supply in order to ensure that their benefit payments remain correct throughout the lifetime of their claim.

In order to minimise the impact of fraud and error in the Council Tax system, local authorities employ a range of activities to both prevent and detect any inconsistencies in customers' claims. This may include data matching, with other Government sources or with private sector data, visits, and telephone interviews.

Under the current system local authorities are expected to review a claim from a person of working age not more than every six months unless the claim is considered to be exceptionally risky; and a pensioner's claim be reviewed not more than once every three years, but this can be more frequent if an local authority chooses to do so.

Changes to fraud and error investigation

10.21 Currently, local authorities are responsible for the investigation of council tax benefit and housing benefit fraud. A new Single Fraud Investigation Service will commence in 2013 and will be responsible for investigating and where appropriate prosecuting fraud related to Social Security benefits and tax credits and, from October 2013, Universal Credit.

10.22 Local authorities will no longer be responsible for investigating and prosecuting fraud in relation to the housing benefit caseload once the Single Fraud Investigation Service begins, but it is envisaged that generally the lead responsibility for investigating or prosecuting fraud in relation to local schemes for support for council tax will continue to rest with each local authority. This will be part of local government's wider responsibilities for investigating and prosecuting fraud in relation to its services – particularly fraud relating to council tax and tenancy.

10.23 Work is already under way to develop a local government fraud strategy guided by a ten-point plan developed by the National Fraud Authority. This builds on work being led by the Taskforce on Fraud, Error and Debt, which has overseen eight pilots

2 Source: National Fraud and Error Statistics 2009/10 http://statistics.dwp.gov.uk/asd/asd2/fem/fem_apr09_mar10.pdf

to test new approaches to tackling fraud, including the more efficient use of credit reference agency information, the deployment of data analytics, and the use of insights from behavioural science to improve how fraud is combated.

Future arrangements for fraud and error investigation and prosecution

10.24 To be able to successfully investigate and prosecute fraud in relation to council tax support, local authorities will need sufficient powers to investigate or to commission others to investigate on their behalf, and have access to sufficient information to investigate. Retaining responsibility for investigating council tax support fraud locally would enable local authorities to use local knowledge and would complement responsibilities for investigating council tax fraud and tenancy fraud in particular.

10.25 Government would welcome views on what local authorities will need to be able successfully to investigate fraud – and in particular how data sharing can support their work.

10.26 Although Government expects that local authorities will generally lead on the investigation and prosecution of fraud for council tax support, we recognise that the creation of the Single Fraud Investigation Service creates opportunities to join up investigation of in particular income related fraud, and would welcome the views of respondents on what scope there is for the Single Fraud Investigation Service to support the work of local authorities– enabling a more joined-up approach to using data in dealing with fraud, and creating opportunities for efficiencies.

Questions:

10f: What powers would local authorities need in order to be able to investigate suspected fraud in council tax support?

10g: In what ways could the Single Fraud Investigation Service support the work of local authorities in investigating fraud?

10h: If local authorities investigate possible fraudulent claims for council tax support, to what information, in what form would they need access?

10i: What penalties should be imposed for fraudulent claims, should they apply nationally, and should they relate to the penalties imposed for benefit fraud?

10j: Should all attempts by an individual to commit fraud be taken into account in the imposition of penalties?

Section 11

Funding

Introduction

11.1 Currently funding is paid by the Department for Work and Pensions out of their Annually Managed Expenditure[3] to local authorities as a reimbursement of their expenditure according to nationally-set criteria (see Key features of Council Tax Benefit on page 52). In future the funding to be distributed to local authorities will be cash limited and will be paid from the Departmental Expenditure Limit budget of the Department for Communities and Local Government. Moreover, the amount to be made available will be reduced by 10 per cent. The Department expects to deliver this money to local authorities as grant.

11.2 Schemes will need to be designed based on a fixed grant allocation. Local authorities will need to consider what additional contingency arrangements should be put in place within their local schemes to take account of unplanned increases in demand or take-up.

11.3 Issues to be considered include:

- The form of this grant.
- Whether councils should be able to offer rebates in excess of the grant they receive.
- How the grant is distributed, and how frequently the distribution is adjusted.

11.4 In addressing these issues, it will be important to consider how far proposed solutions deliver:

- **Certainty** – to assist local authorities in their financial planning and the management of risk. This could be through flexibility to enable local authorities and their council taxpayers generally to benefit financially from reductions in demand for support for council tax.
- **Incentives to manage down expenditure.**

[3] Annually Managed Expenditure is public expenditure that is typically volatile and demand-led and which is therefore not subject to firm multi-year limits in the same way as Departmental Expenditure Limits. The biggest single Annually Managed Expenditure element is social security spending.

Current funding arrangements
Local authorities are reimbursed at 100 per cent for correctly processed claims which they incur on behalf of eligible claimants. Payments are made to local authorities on a monthly basis based on initial estimates submitted to the Department for Work and Pensions during the year.

Local authorities are required to submit their claims to the Department to be reconciled with the total benefit subsidy payments paid to local authorities and recover overpayments if necessary.

The form of the grant

11.5 Government envisages funding to be paid to local authorities in the form of an unringfenced special grant. This means that councils who experience lower than expected demand, or who are able to hold down demand by moving people into work, are able to use any surplus to hold down council tax or support services.

Restrictions on the cost of the scheme

11.6 Local authorities may wish to establish schemes where the total value of planned rebates offered exceeds the value of the grant they receive from central government. This is a separate issue to unforeseen levels of demand leading to rebates in excess of the level of government grant which is dealt with under the 'Managing Risk' section (see Section 8).

11.7 Government would welcome views on whether they should be able to do this and if so whether authorities should be required to make up the shortfall, and whether there should be any restriction on the degree to which authorities can 'top-up' schemes from their own resources to ensure that councils are not rewarded for choosing to spend more or are made more vulnerable to financial pressures.

Basis for allocating grant, and frequency of adjustments

11.8 A separate detailed technical consultation will be held on the specific factors and indicators which should determine the level of grant allocated to a particular authority. Decisions on this will inform what data Government may require from local authorities about their schemes to enable allocations to be adjusted.

11.9 The Government considers that relevant factors could include:

- The relative size of eligible claimant groups – in particular pensioners – for which local authorities are required by central government to provide support.
- Previous expenditure. This could be a useful indicator of likely levels of demand, especially where take-up varies between areas. However, it will be important to avoid perverse incentives to run very generous schemes which may prove to be unaffordable. Adjustments may also need to be based on factors not subject to local influence – such as claimant figures for other benefits

11.10 The way in which funding is allocated, and in particular the frequency with which allocations are adjusted, will be significant. There are two broad options:

- **Reflecting as closely as possible levels of take-up or demand, by adjusting as frequently as is practicable to changes in these levels.**

11.11 This would achieve a better match between need and grant across all authorities. This would tend to reduce the financial risks to authorities. In doing this it would be important to avoid perverse incentives for local authorities to maximise their allocation.

- **Leaving the grant allocation unchanged for several years.**

11.12 This would provide local authorities with greater certainty about their allocation in future years and help with financial planning. It would also enable a local authority to gain if liabilities under its scheme were to fall during that period. This could incentivise local authorities to take steps to manage demand down, for example by working to increase employment in their area.

11.13 Local contingency arrangements (set out in more detail in Section 8) will help manage any pressures between adjustments to the allocation.

11.14 Future Spending Reviews will provide an opportunity to review the overall funding envelope.

Questions:

11a: Apart from the allocation of central government funding, should additional constraints be placed on the funding councils can devote to their schemes?

11b: Should the schemes be run unchanged over several years or be adjusted annually to reflect changes in need?

Section 12

Administrative costs

Council Tax Benefit administration costs

12.1 Housing benefit/council tax benefit administration subsidy is a targeted Department for Work and Pensions specific grant paid to the relevant local authorities in Great Britain to help meet the cost of administering housing benefit/council tax benefit. This subsidy accounts for about half of the total cost of approximately £1bn administering housing benefit/council tax benefit. Individual allocations to local authorities are calculated annually based on a formula that is responsive to caseload. The funding contribution for the council tax benefit element is not disaggregated from the total housing benefit/council tax benefit subsidy given to local authorities.

12.2 The methodology for distributing subsidy to individual local authorities is based on workload levels. This takes account of the number of new housing benefit and council tax benefit claims each receives and the caseload that they have to maintain.

Future funding of council tax benefit administration

12.3 Changes to both housing benefit and support for council tax will have implications for their administration. The Government does not intend the administration of local schemes to put pressure on local government finances, in line with the new burdens doctrine. The Government will therefore work with local authorities to assess the net impact of housing benefit centralisation and localisation of support for council tax, including the transitional costs of moving to the new arrangements.

12.4 As the current administration of council tax benefit is closely linked with the administration of housing benefit, detailed work will be needed to determine the amount of funding for the administration of local schemes.

Joint working

12.5 Local authorities should take every opportunity to reduce the costs of establishing and operating local schemes through joint working. This could mean sharing expertise, systems and staff. Section 7.4 sets out the advantages of joint working. Government will take into account the scope for councils to minimise administrative costs through collaboration in its assessment of the level of administration grant that local authorities should receive.

Questions:

12a: What can be done to help local authorities minimise administration costs?

12b: How could joint working be encouraged or incentivised?

Section 13

Transitional and implementation issues

Introduction

13.1 It will be essential that there is a seamless transition to new arrangements for council tax support from April 2013, to avoid unnecessary disruption. The transition to new localised schemes will need to take account of:

- The wider context of welfare reform and in particular the changes to the administration of housing benefit;
- The process and timescales for designing new schemes and commissioning and procuring new systems; and
- Communicating changes to claimants.

The Government envisages the following timescale for implementing localised schemes, subject to the Parliamentary timetable:

Summer 2011

- Consultation begins.
- Government begins working with local authorities, representative organisations and suppliers on delivery requirements for localisation.
- Basis for model schemes considered.

Autumn/winter 2011-12

- Government publishes a response to the consultation.
- Introduction of Local Government Finance Bill (included provisions for localisation of council tax support).
- Central and local government begin working on model schemes.

Spring 2012

- Primary legislation in passage through Parliament.
- Government preparing and publishing draft secondary legislation.

Summer 2012

- Primary legislation passed.
- Secondary legislation prepared.
- Local authorities designing and consulting on local schemes.

Autumn/winter 2012-13

- Local authorities establishing local schemes – putting place systems, notifying claimants of changes.
- Local authorities setting budgets.

Spring 2013

- Local schemes in operation.

Transition to new arrangements

13.2 It will be important to consider what process will offer the simplest solution for both local authorities and claimants.

13.3 Government envisages a one-off transition to the localised schemes in April 2013. This should minimise administrative complexity by effectively switching off one system and turning on another, rather than requiring local authorities to wind down one system and wind up another while simultaneously preparing for the introduction of Universal Credit. However, it would require the new systems to be in place and sufficiently robust to be able to cope with all claimants simultaneously.

13.4 Inevitably even a one-off move to localised schemes would leave some outstanding issues, such as appeals, applications in the system, legacy payments and overpayments.

13.5 Ideally, people already in receipt of council tax benefit would not have to reapply for council tax support, as this would inconvenience claimants and create an administrative burden for local authorities. However, we would need to be confident that local authorities would be in possession of sufficient information to determine the levels of council tax support under the new scheme to which existing recipients of council tax benefit would then be entitled to.

13.6 While this approach would be likely to be administratively simpler there is a risk that by simply transferring all recipients across to the new system some individuals may not receive the correct levels of support because changes in circumstances have not been taken into account.

13.7 As well as considering how best to handle the claims of those currently in receipt of council tax benefit, there will also be a question regarding how to address as yet unprocessed applications which may include elements of council tax benefit entitlement from prior to 1 April 2013. This will require local authorities to calculate the reduction in council tax liability of these applicants on the basis of the level of entitlement they would have had for the period up to 1 April 2013. Similar consideration will have to be given to any appeals regarding levels of liability prior to 1 April 2013.

13.8 An alternative to a single switch-over would be to transfer people to the new system as new claims are activated or existing claimants' circumstances change. This would allow for a gradual transition. However, it would mean that local authorities would be managing several different processes for claims for local support for council tax (on top of the wider transition to Universal Credit) which may be confusing for local people, and may make it more difficult for local authorities to manage the reduction in funding.

13.9 How possibly fraudulent claims for council tax support will be investigated is addressed in more detail in the relevant section of this document, however, local authorities will need to retain adequate powers and capacity to investigate and prosecute council tax benefit fraud cases that come to light after 1 April 2013.

Questions:

13a: Do you agree that a one-off introduction is preferable? If not, how would you move to a new localised system while managing the funding reduction?

13b: What information would local authorities need to retain about current recipients/applicants of council tax benefit in order to determine their entitlement to council tax support?

13c: What can Government do to help local authorities in the transition?

13d: If new or amended IT systems are needed what steps could Government take to shorten the period for design and procurement?

13e: Should applications, if submitted prior 1 April 2013, be treated as if submitted under the new system?

13f: How should rights accrued under the previous system be treated?

Section 14

List of consultation questions

Section 5:

5a: Given the Government's firm commitment to protect pensioners, is maintaining the current system of criteria and allowances the best way to deliver this guarantee of support?

5b: What is the best way of balancing the protection of vulnerable groups with the need for local authority flexibility?

Section 6:

6a: What, if any, additional data and expertise will local authorities require to be able to forecast demand and take-up?

6b: What forms of external scrutiny, other than public consultation, might be desirable?

6c: Should there be any minimum requirements for consultation, for example, minimum time periods?

6d: Do you agree that councils should be able to change schemes from year to year? What, if any restrictions, should be placed on their freedom to do this?

6e: How can the Government ensure that work incentives are supported, and in particular, that low earning households do not face high participation tax rates?

Section 7:

7a: Should billing authorities have default responsibility for defining and administering the schemes?

7b: What safeguards are needed to protect the interests of major precepting authorities in the design of the scheme, on the basis that they will be a key partner in managing financial risk?

7c: Should local precepting authorities (such as parish councils) be consulted as part of the preparation of the scheme? Should this extend to neighbouring authorities?

7d: Should it be possible for an authority (for example, a single billing authority, county council in a two-tier area) be responsible for the scheme in an area for which it is not a billing authority?

7e: Are there circumstances where Government should require an authority other than the billing authority to lead on either developing or administering a scheme?

Section 8:

8a: Should billing authorities normally share risks with major precepting authorities?

8b: Should other forms of risk sharing (for example, between district councils) be possible?

8c: What administrative changes are required to enable risk sharing to happen?

8d: What safeguards do you think are necessary to ensure that risk sharing is used appropriately?

Section 9:

9a: In what aspects of administration would it be desirable for a consistent approach to be taken across all schemes?

9b: How should this consistency be achieved? Is it desirable to set this out in Regulations?

9c: Should local authorities be encouraged to use these approaches (run-ons, advance claims, retaining information stubs) to provide certainty for claimants?

9d: Are there any other aspects of administration which could provide greater certainty for claimants?

9e: How should local authorities be encouraged to incorporate these features into the design of their schemes?

9f: Do you agree that local authorities should continue to be free to offer discretionary support for council tax, beyond the terms of the formal scheme?

9g: What, if any, circumstances merit transitional protection following changes to local schemes?

9h: Should arrangements for appeals be integrated with the new arrangements for council tax appeals?

9i: What <u>administrative</u> changes could be made to the current system of council tax support for pensioners to improve the way support is delivered (noting that factors determining the calculation of the award will be prescribed by central Government)?

Section 10

10a: What would be the minimum (core) information necessary to administer a local council tax benefit scheme?

10b: Why would a local authority need any information beyond this "core", and what would that be?

10c: Other than the Department for Work and Pensions, what possible sources of information are there that local authorities could use to establish claimants' circumstances?

Would you prefer to use raw data or data that has been interpreted in some way?

10d: If the information were to be used to place the applicants into categories, how many categories should there be and what would be the defining characteristics of each?

10e: How would potentially fraudulent claims be investigated if local authorities did not have access to the raw data?

10f: What powers would local authorities need in order to be able to investigate suspected fraud in council tax support?

10g: In what ways could the Single Fraud Investigation Service support the work of local authorities in investigating fraud?

10h: If local authorities investigate possible fraudulent claims for council tax support, to what information, in what form would they need access?

10i: What penalties should be imposed for fraudulent claims, should they apply nationally, and should they relate to the penalties imposed for benefit fraud?

10j: Should all attempts by an individual to commit fraud be taken into account in the imposition of penalties?

Section 11:

11a: Apart from the allocation of central government funding, should additional constraints be placed on the funding councils can devote to their schemes?

11b: Should the schemes be run unchanged over several years or be adjusted annually to reflect changes in need?

Section 12:

12a: What can be done to help local authorities minimise administration costs?

12b: How could joint working be encouraged or incentivised?

Section 13:

13a: Do you agree that a one-off introduction is preferable? If not, how would you move to a new localised system while managing the funding reduction?

13b: What information would local authorities need to retain about current recipients/ applicants of council tax benefit in order to determine their entitlement to council tax support?

13c: What can Government do to help local authorities in the transition?

13d: If new or amended IT systems are needed what steps could Government take to shorten the period for design and procurement?

13e: Should applications, if submitted prior 1 April 2013, be treated as if submitted under the new system?

13f: How should rights accrued under the previous system be treated?

Annex A

How council tax works

Council tax is payable in respect of any dwelling which is not exempt. The liable person is the resident if there is one, or the owner if there is no-one resident. If two or more people are liable in respect of a dwelling, they are jointly and severally liable. The amount to be collected depends both on the band to which the dwelling has been assigned, and on the overall level of council tax set by the various local authorities entitled to raise council tax in respect of the property.

Discounts are available in some circumstances. The single person discount of 25 per cent applies if there is only one resident. Other discounts apply to second homes and empty properties, and billing authorities have discretion to apply other discounts. Certain persons (e.g. full time students) are 'disregarded' when deciding how many residents there are. People who are disregarded are not liable to pay the tax.

The two main categories of authority for council tax are *billing authorities*, which administer the council tax system; including sending out bills, collecting and enforcing payment; and *precepting authorities* which set council tax of their own ('precepts'), but rely on billing authorities to collect it and pass it on to them. The main categories of precepting authorities are county councils, police authorities, fire and rescue authorities, and parishes. Unitary authorities and shire district councils are the main categories of billing authority.

Billing authorities and major precepting authorities calculate their own amounts of council tax for a financial year. In broad terms, their council tax requirement (the total amount each needs to raise from council tax) is the difference between (a) their projected expenditure for the year, and (b) the amounts they expect to receive from Government grants, their own fees and charges, and transfers from their own reserves.

Billing authorities calculate a council tax base each year. It reflects the number and value band of the mix of dwellings in their area; and is adjusted to reflect the discounts and exemptions applicable to them. They use it to calculate the amounts of tax they will raise from each property in a given band. They are required to inform each precepting authority of the council tax base, and they likewise use it to determine the necessary level of their council tax.

All authorities have to maintain a 'General Fund revenue account' into which most of their revenue is paid and from which most expenditure is made. Billing authorities have to maintain a separate Collection Fund, into which council taxes are paid, and from which payments were made to the general fund of billing and major precepting authorities.

National Non-domestic Rates collected by a billing authority are also paid into the fund before being passed on to central government for distribution to local authorities as part of formula grant.

Annex B

Key features of Council Tax Benefit

Council Tax Benefit is an income related social security benefit which may be claimed by an eligible individual who is liable to pay council tax in respect of their sole or main residence and who has submitted a claim to the relevant local authority. It may be payable to people with either sole or joint liability.

Although Council Tax Benefit is a national benefit with policy and rules set by central Government, it is administered by local authorities in England, Scotland and Wales. Administration is linked closely to the council tax billing arrangements and usually takes the form of a reduction to the council tax a person would otherwise be liable to pay. Council tax is a devolved matter in Scotland and Wales, whereas Council Tax Benefit is reserved to the UK Government.

The amount of Council Tax Benefit entitlement is calculated on a weekly basis according to a person's daily liability for council tax after deducting any disability reductions, discount or transitional relief. Entitlement takes into account the means of the person claiming and their partner.

The means test for Council Tax Benefit follows the rules for the income related benefits (Income Support, income-based Jobseeker's Allowance, income–related Employment and Support Allowance or the guarantee credit of Pension Credit) and is based on a system of applicable amounts for living expenses set according to the circumstances of the family unit. The person's applicable amount is compared to their income and capital, including that belonging to any partner.

People with income at, or below, the level of the applicable amount are entitled to maximum Council Tax Benefit. This is the whole of their weekly eligible council tax less any set contributions assumed in respect of non-dependant adults who live in the household but are not themselves liable for council tax. People who are not claiming income related benefits, including people who are working may get Council Tax Benefit subject to an income taper. The amount of income which exceeds the applicable amount is taken into account against council tax liability by 20 pence for every one pound of excess income.

In Council Tax Benefit there is a lower capital limit – £6,000 for people of working age and £10,000 pension age – above which an assumed income is taken into account. Council tax benefit is not payable to people with capital above the upper limit of £16,000 unless they are entitled to one of the income-related benefits.

Alternative maximum Council Tax Benefit, more commonly known as the 'Second Adult Rebate', may be awarded to the claimant if they would be better off with this than with council tax benefit under the main rules. Second Adult Rebate may apply when the claimant as the owner or tenant of a property shares their home with a non-dependant person(s) (aged 18 or over) who has no responsibility to pay council tax and is not on the list of disregarded persons. The amount is based on the gross income of the non-dependant person(s) excluding any income related benefits, Attendance Allowance or Disability Allowance. The claimant's own income is ignored. The maximum amount of Second Adult Rebate is limited to 25 per cent of council tax liability.

Annex C

Consultation criteria

The Government has a code of practice on consultations. The criteria below apply to all UK public consultations on the basis of a document in electronic or printed form, and will often be relevant to other sorts of consultation.

Though they have no legal force, and cannot prevail over statutory or other mandatory external requirements, the instructions below should otherwise generally be regarded as binding on UK departments and their agencies, unless ministers conclude that exceptional circumstances require a departure.

1. Formal consultation should take place at a stage when there is scope to influence the policy outcome

2. Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible

3. Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals

4. Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach

5. Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained

6. Consultation responses should be analysed carefully, and clear feedback should be provided to participants following the consultation

7. Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience

   The full consultation code may be viewed at:

   http://www.bis.gov.uk/policies/better-regulation/consultation-guidance