BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Director of Finance / Chief Financial Officer	**Report Number: L80**
To: Executive / Strategy Committee	**Date of meeting: 3 / 6 October 2011**

LOCALISATION OF BUSINESS RATES AND COUNCIL TAX BENEFITS

1. Purpose of Report

1.1 To consider the Government's consultation papers on the proposals for Business Rates Retention in relation to growth in business rates income and Localisation of Support for Council Tax which form part of the Local Government Resource Review. The consultations set out and seek views on the proposals for how, from 1 April 2013:

(a) A local business rates retention scheme that allows councils to keep additional income from growth could operate

(b) Local Council Tax Benefit schemes could be introduced, saving 10% on current costs.

1.2 To authorise officers to submit a response based on the Local Government Association's (LGA) draft responses to the consultations, attached at Appendix B, and the additional key points in Appendix C.

2. Recommendations

2.1 That the Councils' response to the Government's Business Rates and Council Tax Benefit Scheme consultation proposals should be based on the key points set out in the LGA responses (Appendix B) and additional key points from officers (Appendix C).

2.2 That the final details of the submission be delegated to the Director of Finance in consultation with the Chairman of the Strategy Committee.

The Committee is able to resolve these matters.

3. Financial Implications

3.1 There are no direct financial implications in respect of the consultation proposals, but once implemented in April 2013 there are likely to be, and this would need to be considered and quantified once the detailed arrangements have been announced.

3.2 It would be expected that Business Rates proposals will provide additional income to councils but how much is unknown. However, there may be 'winners and 'losers'. Deductions are proposed to fund future funding adjustments to the New Homes Bonus and shares of funding to Police/Fire Authorities.

3.3 The saving of 10% on current costs of Local Council Tax Benefit schemes could result in additional financial risks/pressures.

4. Risk Management

4.1 As these are currently only proposals, risks will need more detailed consideration when they are finalised. The key risks are around unpredictability and will include:

- The design and detail of the business rate retention scheme and volatility in income, depending on economic growth
- Impacts on citizens as a result of the 10% cut in Council Tax Benefit funding and financial risks to the Council to keep spending within that cost envelope.

5. Consultations

5.1 The Shared Revenues Partnership (SRP) manages and collects business rates on behalf of the 3 partner Councils – Ipswich, Babergh and Mid Suffolk. The aim is to submit a joint response to the Government's proposals.

6. Equality and Diversity Impact

6.1 Not applicable at this stage. The Business Rates consultation does not propose any direct impact on services but there may be indirect implications if funding levels change and these will be considered once the detailed arrangements are announced.

6.2 On Council Tax Benefit, there are likely to be impacts on 'unprotected' people on low incomes. This will need careful consideration when the arrangements are finalised and local schemes drawn up.

7. Shared Service / Partnership Implications

7.1 See section 5 above. There could be implications if shared/pooled arrangements are agreed, including risk sharing.

8. Key Information

8.1 This report considers a response to the Government's consultation paper on the proposals for the local retention of Business Rates and Local Council Tax Benefit schemes, which form part of the wider Local Government Resource Review. The consultation sets out and seeks views on the detailed proposals for how these could operate with effect from April 2013 and how it would fit in with and facilitate existing Government policies and commitments. The consultation periods close on the 14 October (Council Tax) and 24 October 2011 (Business Rates).

Business Rates

8.2 The Department for Communities and Local Government (CLG) has issued the consultation in a suite of documents. The detailed proposals on Business Rates are contained in the "Local Government Resource Review: Proposals for Business Rate Retention" together with 8 technical papers. A plain English guide to the proposals is attached at Appendix A and the LGA summary of the proposals is contained within Appendix B.

8.3 The proposals would introduce a change to the way local government is funded by allowing councils to retain future growth in local Business Rates. Legislation will be announced later this year so that the scheme can be introduced from 1 April 2013.

8.4 The Government's aims for reforming business rates are:

- To build into the local government finance system an incentive for local authorities to promote local growth over the long term
- To reduce local authorities' dependency 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 tax bases are still able to meet the needs of their areas
- Protection for businesses and specifically, no increases in locally-imposed taxation without the agreement of local businesses.

The Government will continue to set the business rate multiplier nationally.

8.5 The consultation paper sets out the proposed core components for a business rates retention scheme i.e. how the DCLG proposes Tax Increment Financing will work, how the proposals interact with wider Government initiatives to promote growth, including the New Homes Bonus and how it will work along with the elements of the existing Business Rates system which are not proposed to change.

8.6 The basis of the new Business Rate system is that the baseline will be initially set so that each authority's budget is equivalent to what it would have been under the current system. In future years local funding would grow or reduce with future local Business Rate levels. The Government proposes a system of 'clawing back' disproportionate gains through a levy to provide a safety net to Councils whose business rates income falls.

8.7 There are options to enable councils to carry out Tax Increment Financing, which is basically a method of borrowing against the value of future anticipated growth in business rates, and is intended to work as a way of funding infrastructure investments to unlock local economic growth and regeneration.

8.8 There will be no changes to the current system of business rate 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 service.

Council Tax Benefits

8.9 The Government claims that localising support for council tax will:

- Give local authorities a greater stake in the economic future of their local area and therefore enable stronger, balanced economic growth across the country.
- Provide local authorities with the opportunity to reform the system of support for working age claimants.
- Reinforce local control over council tax.
- Give local authorities a significant degree of control over how a 10% reduction in expenditure on council tax benefit is achieved.
- Give local authorities a financial stake in the provision of support for council tax.

8.10 The consultation notes that the new scheme will protect vulnerable people (including pensioners) who may struggle to pay council tax and that the Government will consider what support should be extended to these groups. The consultation does not however make any mention of other discounts.

8.11 In Mid Suffolk 61% of the current caseload is of pension age and for Babergh the figure is 56%. From this it can be seen that if the Government wishes to protect pensioners, the working age recipients will bear the 10% reduction in expenditure and will therefore see a larger than 10% decrease in their support. For Mid Suffolk this could be a 26% reduction and for Babergh 23%.

8.12 Any changes to the existing council tax support system will affect a significant percentage of households and has the potential to impact upon council tax collection rates. In Mid Suffolk 13% (5,400 claimants) of council tax payers are being assisted via council tax benefit and for Babergh this figure is 16% (6,100 claimants).

8.13 The Government also wants local authorities to build in incentives for people either returning to work or in work. This can only be achieved by reducing the awards to working age people not in work and would further exacerbate the position outlined in paragraph 8.11 above.

Proposed Responses

8.14 The consultation affects the future arrangements for the allocation of growth in Business Rates income and payment of Council Tax Benefits to those on low incomes. This will require the Financial Strategy and Forward Plans to be reviewed once the final detailed arrangements are announced.

8.15 The Local Government Association has published a response to the main consultation papers (Appendix B). It is recommended that Executive / Strategy Committees endorse these views. Members are invited to identify any additional views on the consultation.

8.16 There are some core principles behind the business rates proposals including improving local accountability and incentivising local economic growth, which it is felt should be generally welcomed. The consultation deals with the proposed framework and the detail (which has yet to be announced) and this will significantly shape the character and appeal of the proposals, including the extent to which individual councils benefit.

8.17 The LGA has also published a draft response to the 8 business rates technical papers. Officers from Ipswich, Babergh, Mid Suffolk and Colchester (via the shared Head of Finance) are currently considering these and initial key points are set out in Appendix C. Others may arise in due course and officers will incorporate other points that are made by other organisations such as SPARSE and the District Councils Network (DCN).

8.18 On Council Tax Benefits, the LGA's overall view is that, if done properly, Councils could design schemes to meet local circumstances although there are a number of risks. The LGA's view is that these are capable of being solved in the scheme design.

8.19 Given that further officer work is still required on the consultation papers and specifically the 8 business rates technical papers, authority is requested to delegate submission of the final response to the Director of Finance / Chief Financial Officer, in consultation with the Chairmen of the Strategy/Executive Committees and the Portfolio Holder for Finance and Resources.

9. Appendices

Title	Location
A – Plain English Guide – Business Rates Retention	Attached
B - Local Government Association's draft responses to the consultation documents	Attached
C – Additional key points	Attached

10. Background Documents

10.1 Local Government Resource Review – Proposals for Business Rates Retention and Technical Papers:

http://www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates

10.2 Local Government Resource Review – Proposals for localising support for Council Tax in England:

http://www.communities.gov.uk/publications/localgovernment/localisingcounciltaxconsult

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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.

- Councils can already raise additional revenues from the rating system through a Business Rate Supplement in order to fund a specific project which promotes economic development, or they can encourage Business Improvement Districts to form – where businesses themselves agree to pay an additional amount to fund improvements in the area. In both these examples there are protections for businesses. There must be a referendum of local businesses before a Business Improvement District forms and the Localism Bill is changing the law so that the same applies for any Business Rate Supplement proposal, rather than a ballot of businesses happening only when certain criteria are met. The Localism Bill is also amending the law to allow councils to introduce local business rates discounts, funded by the council.

- There will be no changes to the existing reliefs available to eligible business ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector.

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 (this is referred to as the “tariff” in the consultation document) and top up those authorities with too little, again in comparison to their current spending (this is referred to as the “top up” in the consultation document).

- 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 (this is referred to as the “levy” in the consultation document).

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

LGA 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.

Briefing

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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.

Proposed scheme for business rates retention

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

Consultation on Localising Support for Council Tax in England

2nd August 2011

Briefing

The Department for Communities and Local Government has today published its consultation *Localising Support for Council Tax in England*. The consultation will run for a 12 week period, with a deadline for responses of the 14th October.

The Government claims that localising support for council tax will:

- Give local authorities a greater stake in the economic future of their local area and therefore enable stronger, balanced economic growth across the country.
- Provide local authorities with the opportunity to reform the system of support for working age claimants.
- Reinforce local control over council tax.
- Give local authorities a significant degree of control over how a 10% reduction in expenditure on council tax benefit is achieved.
- Give local authorities a financial stake in the provision of support for council tax.

The consultation notes that the new scheme will protect vulnerable people (including pensioners) who may struggle to pay council tax and that the Government will consider what support should be extended to these groups. **The consultation does not however make any mention of other discounts.**

The Local Government Group would welcome views and comments on the questions contained in the consultation from member authorities. Feedback should be sent to lgfinance@local.gov.uk

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LG Group view

The Local Government Group has consistently argued that, if done properly, the **localisation of Council Tax Benefit (CTB) could enable councils to design schemes to meet local circumstances** as opposed to the current CTB scheme which is very "top-down" and carries heavy administration costs.

In order to make a localised scheme work, **councils will ultimately need greater flexibility in how their localised scheme functions in order to accommodate the 10% funding cut that is taking place in conjunction with localisation.**

Localisation does, however, create a number of risks:

- Currently CTB is based on actual as opposed to estimated eligibility. Therefore **an increase in the number of claimants will automatically lead to an increase in CTB** and exposes councils to increased expenditure. This has been the case during the recession; the latest

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expenditure statistics from CLG suggest that planned expenditure has risen by 10% in a year.

- **Any system where CTB becomes a discount is likely to increase take-up**, for example among pensioners, again leading to pressure on local authority budgets.
- **CTB is based on actual not assumed council tax**. So an increase in council tax over an assumed level could lead to further pressures on council finances.
- There are **particular issues in two-tier areas, where the district authority would have to take on the whole risk of CTB**. This is addressed in the consultation.
- **The localisation of CTB is being introduced in conjunction with a cut of around £500m – 10% in the total**. This will make implementation of local CTB replacement schemes much more challenging as decisions will need to be taken about where reductions are made.

The view of the LG Group is that the risk issues are capable of being solved in the design of the scheme. For example, an increase in the total number of claimants in any one area or nationwide could trigger a release of additional grant.

We also think that, irrespective of the £500m cut, the total sum of government funding for CTB replacement schemes should be made subject to reviews in line with the New Burdens procedure with the total rising in line with the total council tax yield.

Protecting those who receive 100% CTB and also pensioners provides considerable challenges. The LG Group has modelled the results from a small sample of 8 authorities (a London borough, 3 metropolitan authorities and 4 shire districts).

The results show that:

- **80% of total CTB is paid out to those who receive 100% CTB**;
- **35% of total CTB is paid to pensioners**;
- If both those on 100% CTB (the vast majority of whom will be in receipt of other benefits) and pensioners are excluded, the 10% cut would be restricted to 9% of the total paid out - which would clearly be financially impossible.

If councils were given greater flexibility over existing discounts the 10% reduction would be easier to manage and councils could minimise the impact on CTB recipients. There is, for example, an overlap between recipients of CTB and those in receipt of single person discounts - this is particular the case for pensioners.

Further Information

Establishing local schemes

Councils will be expected to design their own council tax benefit schemes and consult on these with their residents. These schemes must support the improved work incentives that Universal Credit aims to deliver and the consultation seeks views on how to achieve this.

LG Group view: *We would like to see the minimum of central criteria. The*

LG Group is prepared, in conjunction with advisers, to work on example schemes which could be recommended. We consider that the relationship with Universal Credit (UC) needs to be designed carefully. For example we think that information from the UC system ought to be available to local authorities for use in CTB replacement schemes, and that this is an essential element in the design of UC. However we would not like to see a requirement within the local CTB schemes that any change in entitlement to UC should automatically trigger a recalculation of the CTB replacement.

Joint working

The consultation makes reference to the benefits of councils working together in the design and administration of local schemes. This would mean billing authorities co-ordinating approaches whilst retaining individual responsibility but also going much further - for example creating a lead authority that would be responsible for developing a single scheme across a group of authorities or establishing a joint body made up of a number of authorities to develop a single scheme.

LG Group view: *Joint working between authorities may help reduce administration costs and we welcome the proposal that councils have flexibility in deciding whether to pursue joint schemes and the level of integration they seek to achieve.*

Managing risk

The consultation proposes that billing authorities should not be exposed to the totality of any risk and should instead be able to share this across precepting authorities within the local scheme.

LG Group view: *We agree that councils should be able to share the risk of any scheme across the authorities within it. There is however a need for more discussion on how risk is managed between central and local government.*

Administering local schemes

The consultation suggests that it is up to local authorities to administer council tax support in as fair and easy a way as is possible whilst minimising errors and the risk of fraud.

Fraud and error

The consultation proposes that under the new system local authorities will be responsible for the investigation of errors and fraud.

LG Group view: *We understand the Department for Work and Pensions will be launching the new Single Fraud Investigation Service in April 2013 and we seek views on the role this body will play in working with councils.*

Funding

The consultation proposes that the funding being paid to local authorities will take the form of an unring-fenced special grant.

There will be a separate consultation on the basis for allocating grants and the frequency of adjustments. The consultation does however include 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.
- Leaving the grant allocation unchanged for several years.

LG Group view: *We welcome the proposal that the grant should not be ring-fenced. We welcome views on how often the allocations should be adjusted.*

Administrative costs

The consultation notes that the net impact of housing benefit centralisation and localisation of support for council tax, including the transitional costs of moving to the new arrangements, should be managed in line with new burdens principles.

On joint working the consultation suggests that councils should consider starting to plan their schemes as soon as possible to ensure the April 2013 deadline is met.

LG Group view: *We welcome the proposal that councils will not be left out of pocket for implementing new local schemes, but a detailed discussion around the impact of this will need to take place, at the same time as councils have to manage the transition to universal credit.*

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

Appendix C

Additional Points for Response

Business Rates

- It is 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.
- Authorities will benefit only to the extent that Business Rates actually raised exceed the forecast level. 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.
- 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.
- 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 risks of each of the options to share Business Rates income need to be properly understood and produce a fair outcome for all billing and non billing authorities.

- There will need to be a transparent mechanism for a future 'reset' in any business rates retention system, in order to avoid resources becoming too divergent from core service pressures within individual local authority areas. The Government wants to try and achieve a balance between too short a period for reset (which limits the incentive) and too long a period (which increases the level of divergence).
- As county councils are considered to have significant scope to impact upon local growth, Government is proposing that county councils will benefit from growth in local business rates in their area. District councils would therefore share a fixed percentage of the business rates that they collect based on a "tier-split" which appears reasonable.
- At the start of the scheme, tariffs and top-ups will be used to balance funding across England, reflecting the size of each authority's taxbase relative to its baseline funding. In future years, these tariffs and top ups may be indexed to RPI or fixed in cash terms. Fixing tariffs/tops up in cash terms will tend to benefit tariff authorities at the expense of those receiving top ups. Babergh and Mid Suffolk are top up authorities, so would benefit from the top up being indexed rather than cash limited.
- CLG proposes applying a levy on 'disproportionate' income growth. It will principally be used to finance a 'safety net' that will manage negative business rate volatility, which is welcomed.

Council Tax Benefits

- Localising support for Council Tax has the potential to be successful in reducing costs and administration, **but**
- The potential for success will be severely tested by the 10% budget cut in conjunction with protection for Pensioners – the largest single group of recipients of Council Tax Benefit.
- That reduction in Council Tax Benefit budget is coupled with the overall reduction in Formula Grant from CLG and the potential to reduce council tax collection rates.
- Risks posed by the actions of precepting authorities – increasing their tax level – impacting upon the billing authority paying the assistance must be properly addressed.
- The scheme must be flexible enough to cope with changing demands and demographics, though with protection for recipients from sudden changes.
- There will need to be some "emergency flexibility" in the funding arrangements in the case of major case-load changes e.g. sudden and unexpected closure of a major employer to prevent unexpected and unmanageable in-year budget pressures.

- Billing authorities should have responsibility for defining and administering the schemes, but will need to consult with major precepting authorities who will be key partners in managing financial risk.
- Local authorities should continue to be free to offer discretionary support for council tax beyond the terms of the formal scheme, but this could be incorporated within the local scheme
- Additional constraints should not be placed on the funding that councils can devote to their schemes because they should be trusted to make sensible local arrangements at an affordable cost for their local residents.
- The Government's allocation of resources to the new arrangements should be adjusted upwards annually in line with council tax yield.
- The Government needs to set out clear proposals as early as possible and avoid last minute changes to enable new or amended IT systems to be put in place within the required timescale.
- The Government could do the following to help local authorities with the transition to the new arrangements:
  - Sensible agreed publicity to residents
  - Do not move the goal posts at the last minute
  - Agree clear funding well in advance and help with unexpected cost rises for the first year or two until councils gain experience of managing local schemes
  - Get IT linkages in place (e.g. HMRC PAYE link) in time
  - Update CIS to reflect Universal Credit in time
  - Provide "one off" costs grant.