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To: Corporate Policy Overview Committee 22nd September

Subject: Consultation on Local Government Resource Review (proposals for retention of business rates)

Classification: Unrestricted

Summary:

The Government has published proposals for consultation that would enable local authorities to retain a share of locally-generated business rates. These would replace the current system under which all business rates are pooled nationally and then redistributed through a central formula.

This report considers the implications of the Government's proposals for Kent. It sets out:

a) A summary of the proposals and the Government's rationale for change;

b) The implications of the proposals for KCC's overall resources;

c) The implications of the proposals for economic growth in Kent; and

e) The process for developing a response to the Government's consultation

Members are asked to note this report and agree any issues which should be considered for KCC's response.

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1. The current system and proposals for change

1.1. Last year, the Government announced a review of local government finance and published the terms of reference for a 'Local Government Resource Review' in March 2011. As part of this Review, the Government launched a consultation in July on proposals to pass control of National Non-Domestic Rates (referred to as business rates) to local authorities.

<u>The current system</u>

1.2. At present, business rates are collected by lower-tier authorities and paid into a national pool (approx. £20.8bn). This pool also includes business rates collected centrally, an adjustment to reflect historic under recovery of business rates compared to the estimated tax base, and an accumulated deficit on the amount collected and redistributed from previous years which collectively reduce the overall distributable amount to £19 billion in 2011/12. This is redistributed to local authorities through the Formula Grant together with £5.9bn of Revenue Support Grant (RSG) and a further £4.5bn to police authorities through Police Grant. KCC currently receives about 22% of its non-schools budget in Formula Grant.

1.3. The value of business rates collected reflects the strength of the local business base. However, Formula Grant is broadly distributed according to need to spend on services and the ability to raise Council Tax. There is therefore a significant imbalance between those authorities that are net contributors to the national pool and those that are net beneficiaries. At present, Kent and Medway make a relatively small net contribution compared to other net contributors:

Kent & Medway contribution to national business rate pool, 2011/12	
Gross business rates collected	£559.8m
Net collected after pro rata adjustments	£524.7m
NNDR reallocated through Formula Grant	£457.2m
Gross contribution	£102.6m
Net contribution	£67.5m

1.4. A more detailed overview of the current system is set out in Annex 1. It is complex, and this has led to a number of criticisms; in addition, the Government has criticised the system on localist grounds, taking the view that:

a) The current system is excessively centralised and denies councils control over locally generated resources; and

b) There is currently no financial incentive on local authorities to promote business growth in their areas, as they will not receive any of the business rate receipts from additional development (nor is there any financial penalty for a failure to deliver growth).

The Government's proposed changes

1.3. The Government's consultation document does not propose that business rates are fully localised, as this would mean that some authorities (in generally richer areas) would make significant gains, while others (in generally poorer areas) would lose out.

1.4. Instead, it is proposed that the new system would, in summary:

a) Set a baseline for each local authority, which would apply from 2013/14. It is proposed that this would be the 2012/13 damped Formula Grant, adjusted to the total Government funding identified for local government in Spending Review 2010 (SR 2010). The Government recognises that if the deficit reduction targets are to be achieved it must keep spending within the SR 2010 targets. The subsequent technical papers have confirmed more detail and that baseline would be calculated on the 2014/15 SR 2010 total with an additional supplementary grant in 2013/14.

b) Allow an element of redistribution to reflect need. The baseline would determine the amount of business rates that would be redistributed. Authorities which are expected to collect more business rates in 2013/14 than the baseline would pay the difference to central Government as a tariff. Those which are expected to collect less than the baseline would receive a top-up from the tariff pool. There may be some authorities where the business rates match the baseline, so no tariff or top-up would apply. The consultation is seeking views whether the tariffs and top-ups should be fixed in perpetuity or up-rated each year to reflect inflation. The consultation also seeks views on whether the calculations should be reset from time to time to reflect changes in needs. The tariffs and top-ups will require an assumed level of business rates and the consultation seeks views whether this should be based on a single year or the average over a number of years.

c) Allow local authorities to retain the future growth in business rates. Beyond the first year, local authorities would retain the growth in business rates over and above the assumed level in the baseline calculation (plus or minus the tariff or top-up). So there would be an incentive for authorities to promote the growth of the business rate tax base, although there would be a downside for those authorities that experience a decline in their tax base.

1.5. In addition, the consultation proposes options for a levy on local authorities to fund a 'shock pot', which could act as a form of 'insurance' for authorities that experience a sudden decline in their tax bases or are particularly deprived. This could be important in the event of a major industrial closure: even with significant discounts for example, Pfizer still pays around £3.4 million per year to Dover District Council.

1.6. There are no proposals to change the amounts that businesses pay (i.e. the business rate remains national and uniform) and the existing reliefs would remain. The consultation proposes that the quinquennial revaluation of rateable values still takes place every five years as at present, and that tariffs and top-ups should be adjusted in line with the review. The consultation is also proposing some simplifications to the billing process.

1.7. Although business rate billing is carried out by District authorities, the Government proposes that County Councils should be allocated a fixed percentage share of the business rates baseline of the District Councils in their areas. So KCC would be subject to gain or loss against the baseline in the same way as the Districts.

1.8. A number of technical papers have been published setting out the Government's proposals in greater detail. These are listed as background documents along with the consultation paper itself. A fuller summary of the consultation proposals are included in Annex 2.

1.9. The New Homes Bonus (NHB) grant will continue as expected including some funding which would otherwise have been available for Formula Grant. This NHB grant is due to build up over 6 years. The consultation proposes that the baseline is set according to the "steady state" position and any surplus funds in early years would be paid as an additional grant.

1.10. The existing arrangements that allow upper tier authorities to levy a supplemental business rate on larger businesses to promote economic development will remain (as will Business Improvement District). The government is considering other measures which would promote economic development including the power for local authorities to reduce business rates bills (this would have to be financed locally) and the power to borrow against future tax revenues to fund infrastructure improvements through Tax Increment Financing (TIF). These are explored in more depth in section 3.

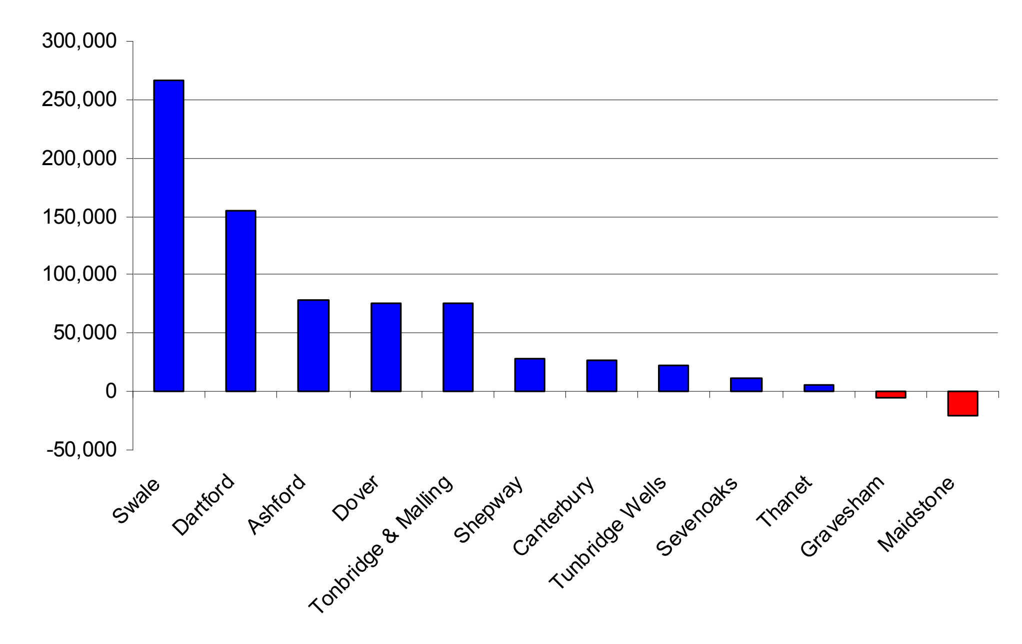
2. Implications for local government resourcing in Kent

2.1. Business rate localisation presents some major issues for the resourcing of local government services.

2.2. <u>There is clearly a negative correlation between business rate revenues and spending needs.</u> The areas of greatest deprivation generally exist alongside weak commercial markets. While each authority will be set its own baseline and the tariff and top-up system will set the existing redistribution in perpetuity (subject to any resetting), the system is designed to include an incentive to maximise revenue, and this only works if there is genuine potential for gain and loss. However, given that Kent is currently a relatively small net contributor to the national pool and overall has seen growth in commercial development over the past decade, this is perhaps less of a concern than in other parts of the country.

2.3. Within Kent, there are likely to be significant differences in performance at district level – so there will be considerable variation in business rate growth. The graph below illustrates the difference in net commercial property completions by district over the past ten years. Regardless of the efforts that are made to promote growth throughout the county, differences are likely to persist due to the availability of and demand for employment land. However, in some cases the location of a major site delivering business rate growth may not reflect its economic footprint: for example, while the future business rate gain at Ebbsfleet Valley will mainly be apportioned to Dartford, the costs and benefits of the development will extend to Gravesham as well.

Net commercial floorspace completion, 2001-2010 (sq m)



2.4. In addition, there is the possibility that some authorities may disproportionately benefit or lose out due to the size of their business base relative to the resident population. For example, authorities with large amounts of business stock and high in-commuting could benefit over neighbouring suburban areas with high levels of out-commuting. Kent as a whole is relatively self-contained with limited overall out-commuting, but there is considerable variance at district level.

2.5. A solution to this problem is to pool district and county retained rates, thus limiting the impact of local divergences and major shocks caused by closures and new developments. Potentially, pooling could take place on a regional basis, county-wide, or within a number of sub-county groupings (and there may be an interest from for example East

Kent or North Kent in this approach). KCC will need to have a dialogue with the districts on options for pooling.

3. Implications for economic growth

3.1. Business rate retention could have two potential impacts on Kent's economic growth agenda: firstly, through the *incentive* mechanism that it offers, and secondly through the opportunities it presents to *borrow* against future business rate receipts to fund infrastructure.

<u>The incentive effect</u>

3.2. Government assume that retained rates will incentivise local authorities to promote growth, either through the planning system or through investment in infrastructure and business development activity that could produce economic gain. For example, investment in superfast broadband via Broadband Delivery UK will yield business growth (especially in rural Kent), although the specific impact of broadband investment on business rate growth will need to be modelled in detail. The Localism Bill will also include powers for local authorities to reduce business rates if they wish, provided the discount is locally funded.

3.3. However, there are potentially negative impacts associated with strong business growth incentives, especially at very local level, where gains to one district through a particular development could mean planning and economic disadvantages for a neighbouring one. There may therefore be economic (as well as financial) benefits in pooling rates county-wide or across a number of districts.

3.4. Any incentive to business growth will apply to Kent's competitors for investors just as much as it will do to us, and rate retention may lead to increased competition for mobile investment. Kent is relatively well placed to respond to this, given KCC's long-standing commitment to support for inward investment via Locate in Kent, which last year helped to secure around 2,500 jobs in the county.

3.5. Some caution should be exercised in considering the economic effect of retained business rates however. While the Government's proposals do create a stronger financial incentive for local authorities to promote business growth, the issue in relation to many major sites is market demand, rather than constraints on supply.

<u>Opportunities to borrow against future receipts</u>

3.6. Kent has a number of locations with the potential for significant business expansion, notably in Kent Thameside and at Ashford. However, in some cases, the need for significant investment in infrastructure is a constraint on the ability to bring forward employment sites. This has become an increasing concern given the sharp reductions in the availability of central government capital investment previously made available through sources such as the Thames Gateway Programme and Growth Areas Fund.

3.7. Tax increment financing enabled by business rate retention could provide a mechanism for funding business critical infrastructure on key sites. KCC has undertaken preliminary work on the opportunities that this may present at key sites including Ebbsfleet Valley and Kings Hill and this could be reviewed further. TIF would be more risky than other forms of prudential borrowing as the authority would still be liable to finance debt even if the infrastructure improvements do not stimulate a growth in business rates.

4. General conclusions

4.1. There are a number of positive aspects to the consultation. In particular, the proposed model is clearer and gives a stronger incentive than the former Local Authority Business Growth Incentive (LABGI) scheme, and would mean less reliance on Government grants (something we have consistently been seeking). In addition, the proposals strike a compromise between full local rate retention and the need to ensure funding for local services in areas with weak business bases.

4.2. However, the proposals do present a challenge to KCC in ensuring a mechanism to mitigate local shocks and excessive local competition and in ensuring consistent business growth above the baseline, which will have implications for planning and economic development policy. We may also wish to give greater consideration to gaining a better understanding of the county's major rate paying firms as the proposals do nothing to address the criticism that there is no link between the amount businesses pay in local tax and levels of service.

4.3. We have a concern that the proposals crystallise the existing allocations based on the much criticised floor block model and we would rather the redistribution be based on an equitable model which is widely supported and understood. The proposal to set the baseline on damped allocations goes someway to addressing the issue but it is far from ideal.

4.4. There are also a number of contradictions within the proposals which need to be addressed e.g. the Government says that there should be no cap on the amount of business rate growth which can be retained but elsewhere under the shock pot they are considering what in effect is a cap. The consultation also has not taken the opportunity to consider more radical changes to business rates in light of the clearly inverse correlation between the tax raised and the need to spend on services (other than cementing the existing redistribution).

5. Responding to the Government's consultation

5.1. The consultation period closes on 24 October. The purpose of this report is for POSC members to identify any issues which should be addressed in KCC's response.

5.2. It is envisaged the final response will be agreed with Cabinet Members in order to comply with the consultation deadline.

6. Recommendations

6.1 Corporate POSC Members are asked to note the content of the consultation and agree any issues which should be addressed in KCC's response.

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Background Papers
Terms of Reference for the Review:
http://www.communities.gov.uk/documents/localgovernment/pdf/1913801.pdf

Government Consultation Paper
http://www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates
http://www.communities.gov.uk/publications/localgovernment/resourcereviewplainenglish

Technical Papers
http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpapers
http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpaper1
http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpaper2
http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpaper3
http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpaper4

http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpaper5
http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpaper6
http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpaper7
http://www.communities.gov.uk/publications/localgovernment/resourcereviewtechnicalpaper8

Annex 1

Overview of the Current System

Local authorities receive funding through three main sources:

- Council Tax
- Government Grants (this includes general grants and specific ring-fenced grants)
- Locally generated income such as fees & charges and contributions from other agencies

On average councils receive over 50% of their funding from central government grants. KCC receives just over 31% of its funding (excluding schools) in grants, the majority of which (70%) is Formula Grant. Grants are funded from departmental budgets approved as part of the Spending Review. In the case of Formula Grant in 2011/12 nationally £19bn is financed from redistributed Business Rates, £5.9bn is funded from Revenue Support Grant (RSG), and a further £4.5m is allocated to police authorities as Police Grant.

Business rates are collected by lower tier authorities and paid into a national pool. The business rates are largely determined on a national basis with each property allocated a rateable value by the Valuation Office Agency. The rateable values are updated every five years and should represent the annual rent that a tenant would be willing to pay on the open market.

In addition to the business rates collected locally there are a number of properties classified on the central list such as utility companies. Business rates for these properties are collected directly by DCLG and paid into the pool. The final distributable amount is recalibrated to reflect historic over estimates of the amount that can be collected and adjusted for any accumulated surplus or deficit from previous years. Table 1 below shows the calculations used for the 2011/12 Local Government Finance Settlement.

Table 1 – Determination of Distributable Amount	2009/10 Outturn £m	2010/11 Estimate £m	2011/12 Estimate £m
Local List			
Notional gross yield (based on taxbase x multiplier)	22.463	22.929	24.262
Less reliefs	2.330	2.554	2.577
Less collection costs and other adjustments	1.091	0.826	0.840
Net Yield from Local Lists	19.042	19.550	20.845
Central List	1.182	1.167	1.167
Recalibration		-0.586	-0.625
Accrued Surplus/Deficit	-1.625	-0.900	-2.284
Combined Total	18.600	19.216	19.102
Distributable Amount (used for settlement)	19.500	21.500	19.000
Surplus/Deficit	-0.900	-2.284	0.102

This table shows that up until 2010/11 the distributable amount (the amount allocated to local authorities through the Formula Grant) had been more than the actual business rates collected (after reliefs, costs of collection and other adjustments) and that in the 2011/12 settlement there is a large reduction for the accrued deficit. In future years there will be a larger amount of business rates available to distribute and it is likely that the total will exceed the overall amount for local government identified in the Spending Review.

The rate multiplier (pence in the £ charged on the rateable value) is determined by legislation which includes an annual uplift based on RPI with a revision every 5 years in line with the quinquennial review of rateable values to ensure that the overall yield remains the same in real terms before and after the review. There are a range of reliefs available for particular occupants e.g. charities, small businesses, etc. as well as transitional reliefs to limit the impact of the 5 year review.

We have calculated that in 2011/12 Kent (including Medway) was a gross contributor to the pool to the tune of £103m with a total of £560m collected and paid into the pool and £457m paid out through Formula Grant. Kent is a net contributor of £67.5m after reflecting the national adjustments (see below). In proportionate terms this makes Kent one of the smallest of the net contributors.

A list of all the gross and net contributors and beneficiaries from the current arrangements for 2011/12 is shown in table 2 below. This reflects the latest estimates which are lower than the estimates used in the Local Government Finance settlement (and thus vindicate the recalibration introduced into the settlement for the first time this year). It should be noted that the amounts collected by local authorities never equals the amounts allocated through Formula Grant because of business rates collected directly by HM Treasury (the Central List) and various other adjustments at a national level including surpluses/deficits from previous years.

The Local Government Finance settlement is usually announced provisionally in November and finalised in January. From 2008 there was a three year settlement which increased predictability significantly. The last major change to the Formula Grant system was introduced in 2006 when the four block model replaced the SSAs. This model has been widely criticised as it allocates resources according to relative rather than absolute need and is incredibly opaque (it has been suggested this was deliberate to enable allocations to be manipulated other than according to need). The damping mechanisms mean that the four block formula has never been fully implemented.

The consultation is not proposing any changes the way rates bills are calculated or paid. Properties would still be valued by the Valuation Office Agency and the multiplier set nationally. In effect this means that business rates are still a national tax even though its is collected and spent locally.

Table 2 - Regional Analysis of Business Rates Collected and Allocated in Formula Grant	NNDR Collected £m	NNDR in Formula Grant £m	Gross Contributor/ Recipient £m	NNDR Collected Scaled to £19bn £m	Net Contributor/ Recipient £m
South West Combined	1,016.089	1,012.733	3.356	952.460	-60.273
Larger Dorset	220.459	160.760	59.699	206.654	45.894
Wiltshire Unitaries	227.070	147.226	79.844	212.851	65.625
Gloucestershire	188.032	147.950	40.082	176.257	28.307
Larger Hampshire	638.769	466.235	172.534	598.769	132.534
Thames Valley Combined	977.198	508.363	468.835	916.005	407.642
Sussex Combined	497.757	382.310	115.447	466.587	84.277
Larger Kent	559.755	457.186	102.569	524.703	67.517
Surrey	436.498	180.078	256.420	409.164	229.086
Bedfordshire Unitaries	191.598	180.878	10.720	179.600	-1.278
Hertfordshire	451.756	231.482	220.274	423.467	191.985
Larger Essex	583.667	448.030	135.637	547.118	99.088
Larger Cambridgeshire	324.478	214.818	109.660	304.159	89.341
Suffolk	216.218	194.957	21.261	202.678	7.721
Norfolk	231.124	269.742	-38.618	216.651	-53.091
West Mercia Combined	348.743	333.064	15.679	326.904	-6.160
West Midlands Mets	891.635	1,373.888	-482.253	835.800	-538.088
Warwickshire	217.320	120.679	96.641	203.711	83.032
Larger Staffordshire	325.633	322.511	3.122	305.242	-17.269
Northamptonshire	266.150	185.139	81.011	249.484	64.345
Larger Leicetershire	313.086	313.266	-0.180	293.481	-19.785
Larger Derbyshire	255.290	329.902	-74.612	239.304	-90.598
Larger Nottinghamshire	306.581	394.905	-88.324	287.382	-107.523
Lincolnshire	180.530	224.098	-43.568	169.225	-54.873
Cheshire Unitaries	398.560	277.448	121.112	373.602	96.154
Merseyside Mets	384.839	771.356	-386.517	360.740	-410.616
Greater Manchester Mets	972.103	1,230.666	-258.563	911.229	-319.437
Larger Lancashire	402.725	547.577	-144.852	377.506	-170.071
Cumbria	169.909	176.749	-6.840	159.270	-17.479
South Yorkshire Mets	380.328	602.827	-222.499	356.512	-246.315
West Yorkshire Mets	728.577	896.345	-167.768	682.953	-213.392
Humberside Unitaries	299.712	364.306	-64.594	280.944	-83.362
Larger North Yorkshire	264.742	193.650	71.092	248.164	54.514
Cleveland Unitaries	179.902	267.217	-87.315	168.636	-98.581
Durham Unitaries	133.244	255.328	-122.084	124.900	-130.428
Northumbria Combined	440.079	690.478	-250.399	412.521	-277.957
Greater London	5,666.939	4,142.553	1,524.386	5,312.069	1,169.516
Total	20,287.098	19,016.700	1,270.398	19,016.700	

Annex 2

Summary of the Consultation Proposals

The new proposals include the following components:

- Establish a baseline for each authority
- Determine a series of top-ups and tariffs to equalise the difference between business rates collected/retained locally and baselines
- Provide an incentive effect in future years to enable individual authorities to retain a significant proportion of business rates' increases
- Introduce a levy to recoup any disproportionate increases from individual authorities – any proceeds could be used as a "shock pot" to assist authorities with declining business rates (or low growth)
- Make adjustments to the baselines for the quinquennial review of rateable values (next due in 2015)
- Options for resetting the baseline on a periodic basis
- Options for pooling

Setting the Baseline

Under the proposals the government intends to set a baseline to apply from 2013/14 which in total is consistent with the amounts identified in the Spending Review 2010. This immediately presents a challenge as the anticipated yield from business rates in 2013/14 and 2014/15 is more than the control totals for local government. The consultation proposes that any excess would be set aside to finance other grants to local government (including the anticipated growth in New Homes Bonus). For reasons that are not adequately explained the proposal is that the baseline for both years is set on the lower 2014/15 control total and the difference in 2013/14 would be paid as either RSG or un-ringfenced grant

Whilst this might seem somewhat unfair it is a previously identified consequence of SR2010 that as reductions in funding for local government roll out there would have been no RSG within Formula Grant and there would have been a surplus from business rates to replace other grants. The consultation is suggesting from 2015/16 there could be a realignment of local authority functions and responsibilities to more closely match business rates income (in other words additional responsibilities could be placed on local authorities with a potential mismatch between the need to spend and amount of finance raised).

A detailed technical paper on setting the baseline was published on 19th August (in total there are 8 technical papers on various aspects of the proposals published in August and at the time of writing this report their full impact was still being analysed).

The consultation proposes that the 2013/14 baseline for each authority should be the 2012/13 Formula Grant adjusted to the relevant control totals. The consultation seeks views on this approach together with options for the adjustment using either a simple pro rata or a slightly more refined approach to incorporate technical updates to the formula. The consultation favours using the damped Formula Grant allocations in the baseline to preserve stability of funding for individual authorities.

Tariffs and Top-ups
These will be necessary to adjust the amounts collected through business rates to reflect the baseline. Those authorities which are expected to collect more business rates in 2013/14 than the baseline would pay the difference to central government as a tariff. Those which are expected to collect less would receive a top-up from the tariff pool. There may be some authorities where business rates match the baseline and thus no tariff or top-up would apply.

The tariffs and top-ups could be uprated each year. The simplest option is to use RPI (which would be consistent with the uplift in the rate multiplier each year). Alternatively the tariff and top-up could be fixed in perpetuity. This would provide an incentive to promote business growth but could be detrimental to authorities with a low tax base and high needs e.g. Merseyside. The consultation seeks views on these options and more detail is included in the fifth technical paper.

The tariffs and top-ups will require an assumed level of business rate income. This could be based on one year's collection or an average of several years. It could also be adjusted for unusual circumstances. Measuring business rates for the baseline is covered in the second technical paper including options in two tier areas where a split between authorities will have to be established.

What is not clear is what would happen in 2013/14 if the business rates collected are more than the assumed amounts for the baseline. The government could retain any surpluses to fund other grants to local authorities, or if there scope for individual authorities to retain some business rate growth in 2013/14 over and above the SR2010 totals (this seems unlikely!). It is also not clear who bears the risk if collection rates are less than anticipated.

Incentive Effect
After the first year there would be an inbuilt incentive for authorities to promote growth in the business rate taxbase as they would keep the growth in excess of the assumed level in the baseline calculation. Of course there is a downside for authorities who experience a decline in their taxbase as they would have less funds available after taking account of the tariff/top-up.

Levy to recoup disproportionate increases
The consultation confirms there would be no cap on the amount of business rate growth which can be retained (something we welcome?). However, the consultation is suggesting options to impose a levy to fund a shock pot.

The options for the levy include a flat rate in the pound for all authorities, a banded approach for all authorities so that those with a higher taxbase pay a higher rate in the pound but the levy would still apply to all authorities or a third option would to allow each authority to retain a certain proportion of their growth against the baseline. The first two options are a sort of insurance scheme, the latter a profit share scheme (although how this is not a cap is not explained!). More detail on the levy is included in the fifth technical paper.

The consultation also considers the relationship with the Renewable Energy commitment to ensure that authorities receive the full benefit of business rates from these projects and it is proposed these businesses be discounted from the levy calculation. Renewable energy is covered by the eighth technical paper.

The consultation also considers how the proceeds of the levy should be applied. It proposes that some should be used to manage "significant negative volatility" (those authorities who suffer a decline in business rates due to appeals, property revaluations or business closures). The remainder is proposed to be available to protect authorities with high spending needs and low business rate growth (deprived areas). The application of these safety nets is covered in the sixth technical paper.

Adjusting for Revaluation
The amounts businesses pay is not proposed to change and thus there could be significant volatility every 5 years following the quinquennial review of rateable values. The consultation is suggesting that the tariffs and top-ups should be adjusted in line with the review to ensure that individual authorities do not gain or suffer from changes in the relative economic prosperity of different areas (the stated objective of localising business rates is to incentivise authorities to increase the local taxbase).

Businesses will continue to be entitled to transitional reliefs following the review of rateable values to keep changes manageable. The consultation proposes that the impact of transitional reliefs will be stripped out to prevent individual authorities gaining or suffering. The impact of revaluations and transitional reliefs is covered in the seventh technical paper.

Resetting the System
The consultation proposes that from time to time the baselines will need to be reset to ensure the redistribution reflects current needs. The consultation suggests this could either be done on an hoc basis or could be based on a fixed period. The consultation recognises that the longer the period the greater the incentive for business rate growth but a shorter period would enable greater flexibility to address the apparent mismatch between business rate income and spending needs. The consultation also considers options for a full or partial reset.

Pooling
The consultation leaves open the option for local authorities to voluntarily group together to form a pool. Pooling is seen as advantageous where authorities can act collaboratively to promote business growth and to manage fluctuations in business rates over a wider area.

The consultation particularly recognises the logic for districts to pool with their counties in two tier areas. The consultation is suggesting that a district would be precluded from pooling outside its county area or at least would have to get the county's consent to entering a pool outside the county area.

The arrangements for sharing business rates growth between counties and districts are not specifically covered in the consultation and are covered in third technical paper. This will be a key issue in two tier areas.

The consultation is proposing that police and fire authorities would not be included in the localisation of business rates as they play a lesser role in promoting business growth. Funding levels for 2013/14 and 2014/15 would be guaranteed as per SR2010 (and therefore presumably would be reflected in the tariff/top-up calculation although this isn't explicit in the paper). The future arrangements for police and fire authorities are also included in the third technical paper.

New Homes Bonus
This was a new grant introduced in 2011/12 to reward authorities for approving new homes. The government set aside £200m in 2011/12 (all of which was allocated) and £250m for each of the following 3 years. The NHB grant is scheduled to increase in each of the next 6 years and it was clear that any shortfall would be top-sliced from funds that would otherwise have been available for Formula Grant.

The consultation proposes that this underwriting of NHB grant from business rates would be retained under the new arrangements through the top-ups and tariffs arrangements as if the top slice from Formula Grant had remained. The consultation is suggesting that this adjustment should be based on the stable state after the NHB grant has been fully established. Any surplus in the early years of the NHB grant would be paid to authorities as RSG or other general grant.

Academies
Within the 2011/12 Local Government Finance settlement £148m was top sliced nationally from Formula Grant in 2011/12 (and £265m in 2012/13) to reflect the central services elements of spending on schools transferring to academies. The consultation recognises this top slice will need to be reflected in the new arrangements but has no firm proposals.

Central List
Not all properties are included on local lists and business rates for those not included are not collected by local authorities (they are collected centrally by DCLG). Properties on the central list include utilities. In total over £1.1bn is raised through the central list towards the £19bn of business rates included in the Formula Grant settlement for 2011/12.

The consultation is not proposing any change to the central list and business rates from these properties would still be collected directly by DCLG. The consultation refers to the spending totals for the last two years for local government as set our in SR2010 are less than the anticipated yield from business rates.

Administration of Rates
The consultation suggests a number of simplifications to the administration of business rates including publishing information online rather than in print, multi year billing and offsetting refunds. The existing reliefs on business rates would be retained and allowance to cover discretionary reliefs would be included in the tariff/top-up calculation. Administration of business rates is covered in the fourth technical paper.