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Local Government Finance Bill 2010-12

Bill No 265 2010-12

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The *Local Government Finance Bill 2010-12* was introduced on 19 December 2011 and will have its Second Reading on 10 January 2012. The Government has tabled a programme motion to allow the Bill to be taken in Committee of the Whole House over three days.

The Bill would introduce local retention of non-domestic rates, subject to various checks and balances, and would allow for the introduction of Tax Increment Financing by introducing possible new income streams against which councils would be able to borrow. The same provisions could also be applied to Enterprise Zones.

The Bill would provide a framework for the establishment of local systems of support for council tax payers, to replace Council Tax Benefit, from April 2013. There are also measures to amend council tax legislation, including removing exemptions for certain types of empty property.

The *Local Government Finance Bill* has been carried over into the 2012-13 session as Bill 4 of 2012/13. The Bill had completed its Committee Stage before the end of the 2010-12 Session and will have its remaining stages on 21 May 2012. Research Paper 12/14 considers the proceedings on the Bill before it was carried over.

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Research Paper 12/01

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Summary

Local government finance in England and Wales has long been seen as complicated. In order to simplify the system and to give local authorities incentives to promote future growth, the Government established the Local Government Resource Review in March 2011. The review is taking place in two phases. Phase one, which covered local retention of business rates, concluded in July 2011; phase two, to focus on community budgets, is due to conclude in 2013.

As part of the first phase of the review, the Government issued a consultation paper on the local retention of business rates, as well as a number of technical documents discussing the detail of their proposals. The review and the associated consultation paper received many responses; these have been used to create the business rate retention scheme (BRRS) provided for in the Bill. The Bill would introduce local retention of business rates, which has generally been welcomed, although there has been criticism that the proposals continue to give the Secretary of State considerable powers in terms of setting the share to go to local authorities and other elements of the system. 2013/14 would be year 1 of the BRRS.

The Government is also committed to introducing Tax Increment Financing (TIF) and reviving Enterprise Zones (EZ), which previously existed in the 1980's. The Bill would give powers to the Secretary of State to designate areas to which TIF or EZ would apply. Although TIF is not a new idea, having been developed in the US in the 1950's, it represents a new power for local authorities. It involves borrowing against future increases in income, in this case from business rates allowed for by the retention scheme.

As part of the 2010 Spending Review the Government announced an intention to localise support for council tax from 2013-14 and to reduce expenditure on this benefit by 10%. The *Welfare Reform Bill*, which is currently before Parliament, provides for the abolition of Council Tax Benefit. It is the Government's intention that future support with council tax payments for working-age taxpayers should be offered in the form of reductions to council tax, according to criteria set by local authorities. The Bill provides a framework for the localisation of support for council tax. These proposals have proved controversial; there has been criticism from a number of sources.

The Government has also introduced a number of policies designed to bring more empty homes back into use. As part of this policy commitment, the Bill would amend council tax legislation to allow local authorities to offer a discount of between 0 and 100% of the council tax bill for certain empty properties. The Bill would also introduce a discretionary 'empty homes levy' where local authorities could charge up to 150% of the council tax bill for properties that are empty for more than two years. This power would replace the automatic exemption periods for certain types of empty property.

1 Introduction

The *Local Government Finance Bill 2010-12* was introduced on 19 December 2011 and will have its Second Reading on 10 January 2012. The Government has tabled a programme motion to allow the Bill to be taken in Committee of the Whole House over three days.[1] The Bill is relatively short, comprising 16 clauses and 4 schedules.

The text of the Bill and its associated explanatory notes are on the UK Parliament website.[2] The Government also published several impact assessments to accompany the Bill. The Bill extends to England and Wales only, although in practice most of it applies only to England.

The Bill would introduce local retention of business rates, as well as powers for the Secretary of State to introduce Tax Increment Financing to allow councils to borrow against future increases in income, and to designate enterprise zones. The Bill would also replace Council Tax Benefit with a system of local support for council tax payers, and amend council tax legislation including changes to the rules relating to certain types of empty property.

Much of the Bill is enabling. The Secretary of State is given a number of regulatory powers under the Bill and therefore the detail of many of the provisions will not be available until after the Bill is enacted.

The Local Government Association has published a series of key messages about the Bill:

- What councils, their residents and local businesses want is a fair and simple funding system that gives councils greater financial autonomy, supports local services and encourages economic growth.

- Every day, local authorities deliver vital services that people rely on and they do the best job they can within their means, and have shown this despite a 28 per cent cut in Government funding.

- The proposals that the Government have published today go some way to addressing local government's concerns about business rates relocalisation, but many detailed points remain unresolved.

- The design of the new arrangements now incorporates more safeguards to help authorities that raise relatively low amounts of business rates, and is likely to deliver a more even level of incentive for growth across the full range of local authorities.

- The 'set-aside' arrangements remain in place, but now return a proportion of business rates income fully to local government.

- Additionally, the proposed 10 per cent cut in the grant for Council Tax Benefit (CTB) (worth £500 million) means councils will be forced to make tough decisions about the services they provide if they don't want to raise council tax, particularly for those who are least able to pay. The tight timeframe for implementing this places an even greater burden on councils and we urge the Government to give councils the necessary time to do this in the most considered, flexible and cost-effective way possible.[3]

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1 Available at http://www.publications.parliament.uk/pa/cm201012/cmagenda/ob120110.htm

2 See http://services.parliament.uk/bills/2010-11/localgovernmentfinance.html

3 Local Government Association, *Local Government Finance Reform*, 19 December 2011

2 Background

2.1 Decentralisation

The Bill continues the Government's decentralisation agenda, which formed part of the Coalition Agreement:

> The Government believes that it is time for a fundamental shift of power from Westminster to people. We will promote decentralisation and democratic engagement, and we will end the era of top-down government by giving new powers to local councils, communities, neighbourhoods and individuals.
>
> - We will promote the radical devolution of power and greater financial autonomy to local government and community groups. This will include a review of local government finance.[4]

The principle of decentralisation has general support, although there are differences about the way in which it should be implemented. On election as leader of the Labour Party, Ed Miliband was reported as saying that "we need more decisions to be made locally, with local democracy free of the constraints we have placed on it in the past, and free of an attitude which has looked down its nose at local government".[5]

The Communities and Local Government Committee in its report on *Localism* said that "The principle of localism is not controversial; it commands cross-party support, and we welcome the emphasis that the Government has put on decentralisation."[6]

The *Localism Act 2011* formed the first major legislative response to this agenda. It was given Royal Assent on 15 November 2011 and covers a number of different areas including providing a general power of competence to local authorities, introducing measures on community empowerment measures, local authority governance and standards of conduct as well as amendments to planning regime.

As part of its commitment to decentralisation, in March 2011 the Government established the local government resource review[7] to look at the ways in which local authorities are funded and to consider ways in which they could be given more powers over their finances to encourage local growth. The current Bill was introduced following the conclusion of part one of the local government resource review. More information on the review is given in Section 3 below.

2.2 Cuts to local authority funding

The Bill is being introduced at a time when local authority funding is being cut. Local authorities receive formula grant through the annual local government finance settlement. Formula grant comprises revenue support grant, redistributed business rates and for police authorities, police grant. The formula grant forms only part of the central Government provision as local authorities also receive special grants, which may or may not be ring-fenced for specific purposes. Special grants and the formula grant are collectively known as Aggregate External Finance (AEF).

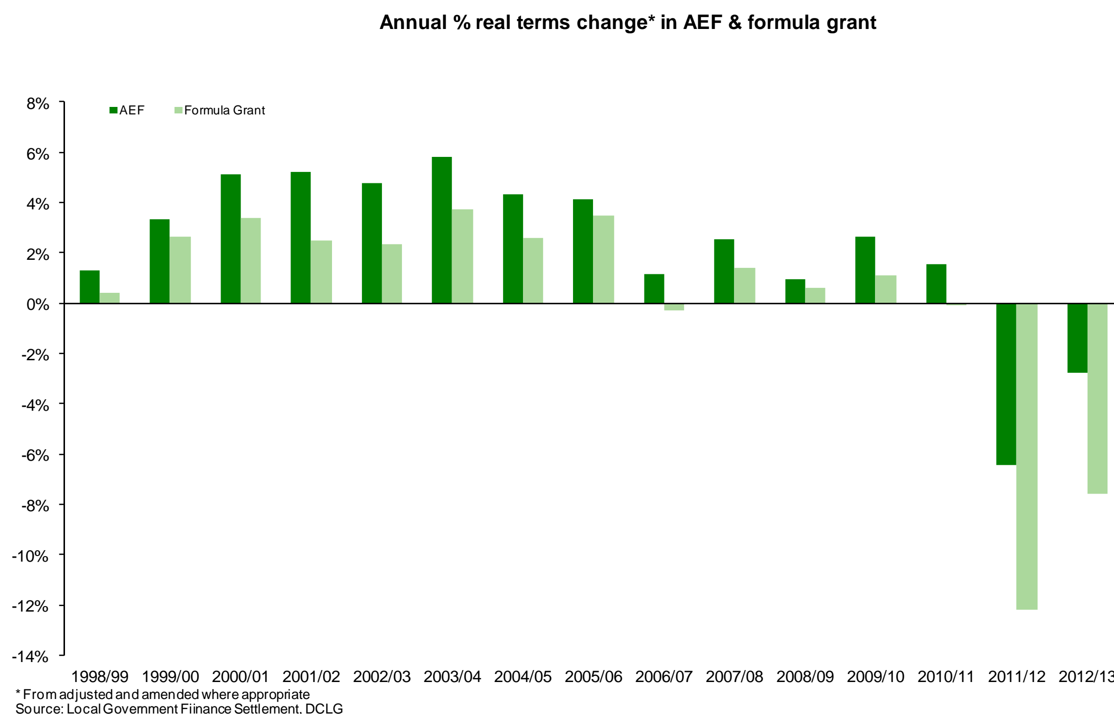
When formula grant figures are compared from one year to the next, the previous year's grant is adjusted to take into account changes to the functions and responsibilities of the

4 HM Government, *The Coalition: our programme for government*, May 2010
5 "Ed's localism pledge", *Municipal Journal*, 30 September 2010 p1
6 Third report of session 2010-12, HC 547, 2010-12, p3
7 See DCLG's Local Government Resource Review page for more information

authority. When comparing the amount of formula grant received over time it is essential to use the adjusted figures.

The following chart shows that the real terms reductions in formula grant and AEF in 2011/12 and 2012/13 are greater than in the previous thirteen years. AEF had seen annual increases in real terms, and whilst there have been occasional real terms reductions in formula grant, these were small in comparison with the 2011/12 reductions:

Annual % real terms change* in AEF & formula grant



* From adjusted and amended where appropriate
Source: Local Government Fiinance Settlement, DCLG

The Government wants to reduce the amount of revenue support grant so that local authorities are less reliant on central government funding.

3 Local retention of non-domestic rates

The Bill proposes that local authorities will be able to retain a proportion of future non-domestic rates (business rates) growth, subject to various checks and balances. This is called the Business Rates Retention Scheme (BRRS) in this paper.

3.1 Non-domestic rates: background

Current situation

Since 1990/91 business rates have been collected by billing authorities, paid into a central pool and then distributed to billing and non-billing authorities as part of their formula grant allocation.

Collecting business rates

Billing authorities (single tier authorities and district councils) collect business rates from ratepayers in their area. A ratepayer's bill is calculated by multiplying its rateable value (as

determined by the Valuation Office Agency) with the national rate or multiplier (as determined by the Government each year).[8] The BRRS will not change this approach:

> We maintain our commitment that moving to this new scheme will not change the way businesses pay business rates, nor increase the level of business rates they pay.[9]

During an oral evidence session of the Communities and Local Government Committee, the Secretary of State was asked why councils were not being given the power to determine the level of business rates; he explained as follows:

> It would have been very bad to have a massive row about the prospects of increased business rates. The row would have been on two levels. First, we are keen that there is an incentive scheme. For an incentive scheme to operate you should not be able artificially to increase the total pool just by increasing the multiplier. Second, there would have been enormous opposition from business groups to the extent that I do not believe we would have been able to have the reasoned discussion, which so far it has been, in the various technical papers that we have put out. I think that business, like councils, should be able to have predictability.[10]

Distributing business rates

Business rates are distributed from the central pool to: billing authorities; county councils; police authorities; and fire & rescue authorities. They make up a proportion of the 'formula grant', allocated through the Local Government Finance Settlement. In 2011/12 business rates accounted for 76% of the total formula grant available nationally less police grant, therefore 76% of each local authority's[11] formula grant was funded from business rates. The rest of the formula grant allocation comes from revenue support grant and for police authorities, police grant.

The formula grant is distributed by formula using a 'four block' model. In short, the four blocks cover:

- relative need;
- ability to raise income locally;
- per capita allocations; and
- guaranteed increases.

Those authorities with greater levels of deprivation tend to receive larger formula grant allocation per head.[12] There is more information on the allocation of formula grant in another Library Research Paper.[13]

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[8] *Business Rates: revaluation 2010*, House of Commons Library Standard Note (SN/PC/5299), 24 November 2009

[9] Department for Communities and Local Government [DCLG], *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response*, December 2011, p7

[10] Communities and Local Government Committee, *Minutes of Evidence : Local Government Resource Review*, 14 December 2011, Q4

[11] With the exception of police authorities

[12] *The Local Government Finance Settlement 2011-13*, House of Commons Library Research Paper (RP 11/16), 8 February 2011, Table 4 and Table 5

[13] *Ibid*

3.2 The Local Government Resource Review

The Conservative Party has for some time been considering changes to business rates. While in opposition it published *Control Shift*[14] which made a number of proposals relating to business rates. These included introducing a Business Increase Bonus that would allow any council in whose area the amount of business rates in a given year rises by more than the indexed rise in the national business rate to keep the difference for six years. This proposal has not in fact been pursued, in favour of local retention of business rates.

In September 2010, Eric Pickles, Secretary of State for Communities and Local Government, referred to plans for a review of local authority funding:

> There are also plans for a broader local government resource review that will examine the way councils are funded, to provide greater financial freedoms and decrease dependency on Whitehall funding, which has previously pushed up council tax in many local authorities due to so-called 'gearing' effects.[15]

The first phase of the Review concluded in July 2011; its terms of reference are included in the text box below. Phase 2 of the review will focus on community budgets; its terms of reference were published on 29 June 2011 and it is due to conclude in April 2013.[16] Eric Pickles referred to the potential impact on interested parties:

> 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. In developing the proposals, the Government is clear that businesses should not be subject to locally imposed increases in the burden of taxation that they do not support.[17]

The Communities and Local Government Committee, in their report on *Localism*, suggested that more radical reforms might be needed:

> 103. Greater financial self-sufficiency for councils is a crucial foundation for localism. If the Government truly wishes to promote far-reaching decentralisation, we expect that the more radical options for reforming local government finance will be considered as part of the resource review. In particular, the case for increasing and broadening the tax and revenue-raising powers of local authorities, and their ability to borrow, must be central to the review. Decisions reached on these matters must be justified in terms of localism.[18]

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[14] Conservative Party, *Control shift, returning power to local communities*, Responsibility Agenda Policy Green Paper No.9, Feb 2009

[15] DCLG Press release, *Pickles pledges – no council tax revaluation rises*, 24 September 2010

[16] Information on the review is available on DCLG's Local Government Resource Review page. A Library Standard Note (SN/PC/05955) on Community budgets is available

[17] HC Deb 17 March 2011 c17WS

[18] Communities and Local Government Select Committee third report of 2010-12, *Localism*, HC 547 2010-12, p45

Local Government Resource Review: terms of reference

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. The terms of reference include consideration of changes to the business rates system, in particular:

- 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;
- the extent to which these proposals can set local authorities free from dependency on central funding;
- 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;
- reviewing the scope for greater transparency and localisation of the equalisation process;
- the position of councils whose business rate yield would be significantly higher than their current spending;
- how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;
- how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;
- how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;
- examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers, and
- 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).

Changing the system: government approach and reasons for change

The Government considers that the funding of local government needs to change because:

1. the system in England is over-centralised,[19] with local authorities being over-dependent on central government for funding; and,

2. it does not provide a financial incentive for local authorities to work towards promoting economic growth in their local economy,[20] and does not recognise the influence authorities can have on their local economies.[21]

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[19] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention - consultation*, July 2011, p13

[20] DCLG, *Local Government Resource Review: Proposals for Business Rate Retention – consultation: Government Response*, para 1.2, Dec 2011

[21] *Ibid*, para 1.1, Dec 2011

Additionally the proposed BRRS would enable Tax Increment Financing (TIF), whereby authorities can borrow against future growth in business rates; see section 4 for further details.

The Government believes that over-centralisation and over-reliance on central government for funding leads to perverse incentives for authorities:

> 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.[22]

The Government believe that the current system does not provide an incentive for local authorities to promote economic development, and may provide a disincentive to do so:

> Currently business rates are collected at the local level, but receipts are pooled nationally and redistributed via formula grant. This means that local authorities do not face a financial incentive to promote business growth in their area as they will not receive business rates receipts from additional development. Rather, authorities actually face a fiscal 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 are generally reluctant to allow commercial development and promote economic growth.[23]

The Government's belief is that allowing authorities to retain some or all of the business rates they collect will reduce local government's financial dependency on central government[24] and incentivise local authorities to promote local economic growth:

> [..] Income from business rates could be an incentive for local authorities to do all they can to support and nurture local business and to build a secure and healthy local economy. It could help to radically shift the approach that local authorities and their partners take to growth in their area.[25]

The view that local authorities should be given greater access to their own funding streams is one that is popular within local government. The LGA and local authorities have long argued that they should be given greater financial autonomy:

> Since its inception the LGA has been campaigning for more local financial autonomy. We want local authorities to be able to raise their own revenue, to have access to a secure and growing taxbase and to have genuine financial accountability.[26]

There has however been dissatisfaction with some areas of the scheme, most notably in relation to central government retaining some business rates income outside of the BRRS in the form of the central share.

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[22] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention: A Plain English Guide*, Dec 2011, p1

[23] DCLG, *Local Government Finance Bill: Business rates retention scheme, impact assessment* Dec 2011, para.4

[24] HC Deb. 18 July 2011:c662

[25] DCLG, *Local Government Resource Review: Proposals for Business Rate Retention – consultation. Government Response,* para 1.2, Dec 2011

[26] LGA, *Local Government Resource Review: Response by the Local Government Association*, 2011

The Government's proposals

On 18 July 2011 the Government opened a consultation[27] on proposals for business rates retention as part of the review. On 19 August, it published eight technical papers[28] and an overview of these papers[29] to accompany the consultation. The *Plain English Guide* to the proposals notes that the core components of the proposed rate retention scheme are as follows:

> A baseline level with top ups and tariffs to create a fair starting point for all: Government would establish a baseline, which could be based on next year's Formula Grant allocations, for each council in the first year of the scheme (2013-14) so no council is worse off at the outset. Councils that collect more than that baseline would pay an individually set tariff to Government, while those below it would get an individually set top up grant from Government.
>
> An incentive so all councils can grow: Tariffs and top up grants would remain fixed during future years meaning councils would retain any business rate growth it generates. Councils such as those in local enterprise partnerships, or districts and counties, will be allowed to voluntarily pool business rates to enable the wider economic area to benefit from growth and reduce any volatility.
>
> A levy to recoup disproportionate gain: Government would create a levy to recoup a share of any disproportionate financial gain. It could vary according to each individual council's own circumstances and would be used to manage significant unforeseen falls in a council's business rates income.
>
> A reset button to ensure stability: This will allow the Government to adjust top ups and tariffs to balance out changes in local circumstance. A longer period between resets, for example 10 years, would create a greater incentive effect, while a shorter one would allow frequent reassessment of budgets. This reset could be fixed or decided by Government.
>
> No change for business: There will be no difference in the way business pay tax or the way the tax is set. Rate setting powers will remain under Central Government control and the revaluation process will stay unchanged. Rate relief to the needy will be unaffected. National discounts and rate relief will continue to be supported, meaning no adverse change to such groups as charities, amateur sports clubs, voluntary groups, those in hardship, and eligible rural or small firms.[30]

Announcing the consultation, Eric Pickles, Secretary of State for Communities and Local Government said "we will ensure that no one will be worse off when the new system is introduced than they would have been under the old system."[31] Responding, Caroline Flint, then Shadow Communities and Local Government Secretary, said

> The Secretary of State may just want to talk about year 1, but we want to talk about year 2 and year 3, and all the years after that. What will the funding system look like then? And will the Secretary of State be able to guarantee today that no council will be

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27 DCLG, *Local Government Resource Review: Proposals for Business Rates Retention – consultation*, July 2011

28 Technical papers were all published by DCLG on 19 August 2011 and are available on the DCLG website

29 DCLG, *Local Government Resource Review: Proposals for Business Rates Retention: Technical papers - An overview*, 19 August 2011

30 DCLG, *Local Government Resource Review: Proposals for Business Rates Retention, A Plain English Guide*, July 2011

31 HC Deb 18 July c663-4

> worse off in five years' time as a result of the reforms that he has announced this afternoon?[32]

The consultation closed on 24 October 2011. The Government's response[33] to the consultation was published on 19 December 2011, coinciding with the introduction of the Bill. The Government's response sets out how the scheme will operate and highlights areas central government will discuss further with local government in 2012; it was accompanied by the publication of a summary of responses to the consultation[34] as well as the *Plain English Guide*.[35]

Comments on the resource review and the Government's proposals

Hilary Benn, Shadow Communities and Local Government Secretary agreed that "the current system of local government finance and business rates – introduced by the last Conservative Government on its way to developing the poll tax – needs reforming. Labour supports a simplification that would give councils the power to encourage and benefit from growth in their area, but this is not the way to do it." He continued:

> The proposals don't sufficiently incentivise councils to get growth going – the Treasury will take an unfair chunk of the business rates councils raise locally. There is no guarantee that some councils won't lose out. And the system put in place to help areas with greater need and low growth – like rural communities or areas with high deprivation and unemployment – does not give them confidence that they won't be adversely affected. This comes on top of an unfair change to Council Tax Benefit that will hit the people in work on low incomes the hardest.
>
> This legislation is being pushed through by a Government that wants to pass the blame on to councils for its cuts which are going too far and too fast. Also, these changes are very significant and trying to rush them through by the summer simply isn't sensible.
>
> Eric Pickles should think again and work out a better system that will lead to good services for local people.[36]

Caroline Flint has written:

> ...any reform has to include a fairness mechanism that allows the hundreds of councils who rely on business rate distribution not just to survive, but to flourish. All parts of the country deserve the chance to build strong, healthy local economies, built on a thriving private sector. Moving to an immediate local retention of business rates, without any kind of phasing or fairness mechanism, at a time when the Government has no plan for growth and many areas are still struggling after the recession would be an enormous gamble. The Government is said to be promising an element of redistribution in the new system. This is vital and we will hold them to it. Because without it, the system cannot, in the short term at least, be fair. Less fortunate areas must not be allowed to wither and die by a thousand cuts at the expense of those that are already the most economically vibrant.[37]

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32 *Ibid*, c664

33 DCLG, *Local Government Resource Review: Proposals for Business Rates Retention Consultation - Government Response,* 19 December 2011

34 DCLG, *Local Government Resource Review: Proposals for Business Rates Retention Consultation - Summary of Responses*, 19 December 2011

35 DCLG, *Local Government Resource Review: Proposals for Business Rates Retention Consultation - Government Response Plain English Guide*, 19 December 2011

36 "Local government finance and business rates need reforming, but this is not the way to do it", Labour party website [online] 19 December 2011 (accessed on 21 December 2011)

37 Caroline Flint, "The Labour Party on business rates equalisation", *Rating in Brief*, Issue 24 Summer 2011

Responding to oral questions on 5 September 2011, Eric Pickles said that "we will be encouraging, though we will not be prescribing, local authorities to pool the business rates" and "if business rates go through the roof, they will be caught by the "disproportionate" rule and those sums will be taken away and distributed to poorer areas."[38]

A debate on business rates in the North East took place in Westminster Hall on 25 October 2011.[39] Concerns were raised by Julie Elliot opening the debate that

> In the north-east, councils rely on a small number of larger businesses to generate business rates, but that arrangement can be volatile and vulnerable to shocks, as we have seen in shipbuilding, coal mining, textiles and, more recently, steel making. We need an effective mechanism to manage economic risks and provide protection for areas of poor growth. I support the Government's view that some of the proceeds of the levy and the set-aside should be used to protect against volatilities.
>
> The Government must recognise that some places have greater economic potential than others. A council's ability to generate business rates is mainly the result of location, location, location, combined with some effort and a lot of luck. The Government must therefore take account of the issues I have outlined. In particular, they must take longer to consider the wider and unforeseen consequences of their proposals, put in place a regular review of the new system, create a mechanism to protect against volatilities and, most important of all, make sure the system is fair, equitable and based on need.[40]

Iain Wright expressed similar concerns:

> The Government's proposals on business rates discriminate against the north in favour of the south, against smaller authorities with less potential for growth in favour of larger, more metropolitan areas with a wider economic and tax base, against deprived areas with greater social and economic problems, in favour of their more affluent counterparts, and against manufacturing industry in favour of retailing. If the proposed changes to the redistribution of business rates were to take place while everything else in local government finance remained equal, they could at best be given serious consideration. However, we all know that the proposals are made in the context of the most radical, disruptive and damaging changes to local government finance for more than a generation.

Responding to these points, Andrew Stunnell said,

> I thought that there was general agreement and consensus that this country has the most centralised and complex local government finance system in the world, with the possible exception of Malta, which has a much simpler governance structure in any case. In all my time in local government—I served on three different local authorities in the north-west of England—I never liked the decisions of any Government on local government finance. I have seen a series of disastrous mistakes, resulting in more power and responsibility being taken away from local authorities and subjected to choices—sometimes arbitrary and, clearly on many occasions, not taking account of local services—made in Westminster and Whitehall.
>
> In the time remaining, I will explain some of our proposed scheme's features and talk about the consultation process. The aim of the proposals is to change the dynamic

[38] HC Deb 5 September 2011 c2-3
[39] HC Deb 25 October 2011 c1WH
[40] *Ibid*

> from a centrally controlled system to a locally controlled system. That is the purpose of the reform.
>
> The losses and gains come from changes in the business rate income that an authority might receive. I point out to Members who represent constituencies in the north-east that, over the five years from 2006, the total business rate income in England rose by 5% per year—not 5% overall, but per year—and by 5.1% in the north-east. In other words, the rise in business rates in the north-east during that five-year period was greater than that in England as a whole. Furthermore, a rise of 5% per year is significantly higher than RPI, CPI or, indeed, any rise in formula grant that any of those authorities gained. This is not a zero-sum reform. Beyond the CSR period, there is every prospect that the north-east will do well out of this system of having an increasing flow of business rates.
>
> A number of points have been made about whether or not this is an incentivising system. If, during that five-year period, the north-east was able to secure an annual rise of 5.1% in its business rate income without any incentive, it seems to me that, even if the incentive effect turns out to be quite weak, it is likely to be better than that, than RPI and than the increase in formula grant, which the previous Government, in their munificence, decided was appropriate for north-east authorities. It is important that we nail some of the misunderstandings that have arisen.[41]

The Local Government Information Unit (LGIU) welcomed the Bill. Commenting shortly after its publication, the LGIU said:

> The debate over local government finance has had a relatively low profile but it could affect radical changes to the political geography of this country. We welcome the ambition behind the plans after decades of consultation and debate which has more often than not led to dither and delay.
>
> Giving locally elected councils real powers and incentives to shape local economies is a crucial step towards re-energising local democracy and a long overdue recognition of the key role that local councils have in economic development, especially at this crucial time in the nation's economic recovery.
>
> The Government has listened to concerns about the equalisation of local rates with proposals for top-ups, tariffs and levies and we look forward to seeing details of the levels at which these will be set. It is essential for local government to have confidence that these proposals will provide them with a stable foundation at a time of financial uncertainty.[42]

The proposals were also welcomed by the British Chambers of Commerce (BCC), which said:

> Businesses have long said that they want local councils to treat them as constituents, not just tick-box consultees. The reforms will mean that councils need to 'think business first' if they want to raise more money to support local services. Simply put, councils need to grow their business base to increase their income, and that means approving viable planning applications, assisting companies that want to expand, and attracting new investors from home and overseas.[43]

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41 *Ibid*, c23WH

42 Jonathan Carr-West, Response to the Local Finance Bill – An end to dither and delay?, *LGIU Blog*, 20 December 2011

43 BCC press release, *BCC: Local Government Finance Bill will incentivise councils to promote local business growth*, 20 December 2011

The Local Government Association (LGA) was supportive of the general principle of business rates retention laid out in the government's consultation paper;[44] however they had concerns about the detail. The government's response to the consultation was met with the following:

> What councils, their residents and local businesses want is a fair and simple funding system that gives councils greater financial autonomy, supports local services and encourages economic growth. Every day, local authorities deliver vital services that people rely on and they do the best job they can within their means, and have shown this despite a 28 per cent cut in government funding. The proposals that the government have published today go some way to addressing local government's concerns about business rates relocalisation, but many detailed points remain unresolved.[45]

The *Local Government Chronicle* was critical of the proposals, considering that they did not give enough power to local authorities:

> With business rates reform it seems clear that the Government is only considering allowing councils to keep, rather than set the rates – it is retention of the rates, rather than full localisation. With a business lobby trenchantly opposed to measures that would let councils raise rates, it seems that has been a bridge too far.[46]

Writing for the *Local Government Chronicle*, the Chief Executive of Lewisham London Borough Council began his article '*Localising business rates: the case against'* by saying:

> We face the most radical reform of local government finance in two generations and yet we are reduced to adopting positions on "set asides", "reset periods", tariffs and damping.
>
> Aside from those few relatively resource rich areas facing exogenous pressures for growth, the much-hoped-for move to greater fiscal autonomy for English local government will seem hollow in five years. The LGA may have won major technical concessions from government but the significance of the change of direction in how English councils are to be funded cannot be overstated.[47]

The Local Government Group (LGG) published a consultation paper on the review in May 2011.[48] Following the consultation, the LGG published an analysis of local business reaction to the review in June 2011. It included the results of a survey undertaken as part of the consultation exercise:

> 66% preferred business rates to be retained by their council and distributed locally, compared to 20% who favoured them being sent to central government and redistributed according to a nationally determined formula.[49]

When the Government published the terms of reference of the second phase for the review, Sir Merrick Cockell, LGA Chairman, said:

> Now more than ever, we need to put in place a funding system that will support local public services and generate economic growth. Councils are dealing with the

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[44] LGA, *Local Government Resource Review. Response by the Local Government Association,* 2011 (accessed 15th December 2011)

[45] LGA, *Local Government Finance Reform: briefing*, 19 December 2011, p1

[46] "In praise of Nick Clegg...sort of", *Local Government Chronicle*, 29 June 2011

[47] "Localising business rates: the case against", *Local Government Chronicle* [online] 21 December 2011 (accessed on 21 December 2011)

[48] *LGA Members' briefing on the proposals for business rates re-localisation*, May 2011

[49] LG Group media release, *Businesses want rates to stay local*, 27 June 2011

> consequences of steep reductions in central government grant, and so it makes sense to move towards a system that gives them greater freedom and flexibility. The current system of funding local government is incredibly complex and does not meet the needs of all the people we serve. Local residents and businesses do not understand the relationship between the money they pay and how much the council has to spend on services. This undermines local accountability and democracy. It is important that any new system recognises the current imbalance in local economies and ensures that there is no localisation without a fair system that allows every community in the country to benefit from the nation's and their local area's economic growth. Reform must also ensure that those areas that do not have the capacity to raise huge amounts of funding through business rates do not lose out.[50]

Katja Hall, Chief Policy Director of the Confederation of British Industry (CBI), said:

> The CBI supports moves to allow local authorities to retain more of the tax they raise from businesses, as this could be the best incentive they have to be more pro-growth and supportive of businesses' role in the local economy. It's good to see that the Government has kept the needs of businesses and the economy at the front of its mind in its review of business rates. After all, rates are the third largest tax that a business will pay, and it's the Government's aim to have the most competitive tax system in the G20 by 2015.
>
> We are happy to see the uniform business rate retained, as the aim of driving growth through business rates would have been undermined if the Government had chosen to move away from this. Retaining the uniform business rate means that business rates remain predictable so that firms can invest with confidence and aren't hit by unexpected tax hikes.[51]

The Federation of Small Businesses (FSB) was less supportive:

> ... the FSB is concerned that the incentive system could actually deter local authorities from promoting and utilising the reliefs available to small businesses such as small business rate relief, rural rate relief and hardship relief. The current proposal suggests benchmarking the amount of relief a local authority currently grants at the start of the scheme, with councils then receiving the same amount each year after until the system is reset, regardless of how much extra they award to help small businesses. It would mean that a local authority would lose out on income if it increased the proportion of businesses that received rate relief or would make money if the number of businesses able to get reliefs fell.[52]

The think-tank *Localis* also raised concerns about fairness:

> Government proposals to allow councils to retain local business rates could mean that as much as £3.5bn of local authority-collected cash is retained by the Treasury. Finance chiefs at the LGA now understand that the so-called ‘set aside’ element of the Government’s proposals - designed to ensure local government stays within its spending limits - could have grown by some 75% on initial assumptions. A report due to be discussed at the LGA’s executive also shows the extent to which there could be winners and losers under the new system.

[50] Local Government Group media release, *LGA responds to local business rates announcement*, 1 July 2011
[51] CBI press release” Retaining some business rates should incentivise local authorities to be more pro-growth – CBI”, 18 July 2011
[52] FBS press release, *Ill thought through local development will damage regions*, PR/2011/62, 24 October 2011

> Tentative modelling shows that under a system where business rates are retained fully, around 40% of local authorities would experience real-terms grant cuts, while 10% could see funding grow at more than 2% above the rate of inflation. The report, drafted by the LGA's director of finance and resources Stephen Jones ... reveals that due to the inflation figures used in this year's Budget being higher than those used at the time of the spending review, the size of the 'set aside' by 2014-15 has grown from an initial £2bn to some £3.5bn.[53]

CivilSociety.co.uk reported that the National Association for Voluntary and Community Action (NAVCA) had given a cautious welcome to the Bill but nonetheless had expressed some concerns:

> Peter Horner, policy officer at Navca said that business rate retention "may increase inequality". "There is still a danger that many councils with the highest levels of deprivation could see their income fall. We are also concerned that the proposals do nothing to incentivise support for charities and may result in local authorities having less reason to ensure a strong and vibrant voluntary sector. Indeed there is no recognition of the significant contribution that charities can make to local growth through employment and training and by levering new investment," he said.[54]

3.3 Business rates retention: what does the Bill do?

The Bill would implement changes to how local government in England is financed, moving away from the formula grant system to a business rates retention scheme (BRRS) in 2013/14.

This section of the paper describes the clauses and Schedules in the Bill which relate to the main elements of the BRRS. Sections 3.7 describes how the BRRS will operate, and explains some of the terms in the Bill. There are 6 clauses and 3 Schedules on local business rates retention. Much of this part of the Bill is enabling. The detail of many of the provisions in the Bill would subsequently be specified in regulations under powers given to the Secretary of State in the Bill. The text-box on page 16 illustrates the various powers available in the Bill.

The Bill does not make changes to how business rates bills are determined: the Valuation Office Agency (VOA) will remain responsible for determining rateable values and the Government will continue to determine the business rates multiplier.[55]

On publishing the Bill, Eric Pickles, Secretary of State for Communities and Local Government, noted in a written ministerial statement that:

> The Government Response to the consultation on Business Rates Retention ... puts forward a strong scheme that I believe will provide a strong financial incentive for local authorities to grow their local economies with the necessary safeguards to ensure authorities with high need and low tax bases are still able to meet the needs of their areas. These reforms will also provide local authorities with the framework to implement Tax Increment Financing. Businesses will see no difference in the way they pay business rates or the way that they are set. Local charities, voluntary groups and small businesses will continue to be eligible for the same reliefs.

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[53] Localis news release, Size of Treasury's business rate 'clawback' could rise to £3.5bn, 17 October 2011

[54] Government plans for local authority rates share raises concern, *Civil Society.co.uk*, 21 December 2011

[55] For further details see: *Business Rates: revaluation 2010* House of Commons Library Standard Note (SN/PC/5299), 24 November 2009

> These reforms will boost local firms and local jobs as councils are given more autonomy over their own financial circumstances, and rewarded for building stronger relationships with business to strengthen the local economy. They have the potential to increase the aggregate income from business rates, compared to the status quo, due to greater enterprise and economic growth.[56]

Local retention of business rates: summary of the Bill's proposals

The Bill:

- requires the Secretary of State to keep and administer a non-domestic rating account;
- requires the Secretary of State to prepare a local government finance report each year setting out the central and local percentage shares of business rates and tariff and top-up payments to be made between the Secretary of State and authorities. Payments will be made to and from the non-domestic rate account;
- replaces the Secretary of State's *duty* to pay revenue support grant with a *power* to do so;
- replaces the *requirement* for the Secretary of State to pay a general grant to the Greater London Authority with the *power* to do so;
- retains the current business rates system in Wales;
- requires the Secretary of State to establish a levy account and make regulations regarding levy payments to the account and safety net payments from it. Calculations to determine levy and safety net payments will be carried out at the end of the year.
- allows authorities to pool together in the BRRS;
- enables transitional business rates relief to be taken into account in the BRRS;
- enables publication of information about business rate by electronic means.

Clause 1 gives effect to **Schedule 1**, amending the *Local Government Finance Act 1988*. Schedule 1 enables various aspects of the BRRS.

Central and local shares

Schedule 1, part 2 of the Bill legislates that the central and local share percentages for each billing authority will be set out in a local government finance report each year. The Secretary of State will be required to produce the report and lay it before the House of Commons before sending it to each authority. **Part 3** of **Schedule 1** places a duty on billing authorities to pay their central share following approval of the report by the House of Commons.

Main non-domestic rating account: tariffs and top-ups

Schedule 1, part 1 of the Bill requires the Secretary of State to keep and administer a non-domestic rating account.

Payments to and from the non-domestic rating account in connection with the BRRS are dealt with in **Schedule 1, part 5** of the Bill. The Secretary of State will be required to set out in the local government finance report the payments that are to be made from local authorities (tariffs) and the payments made to local authorities (top-ups). A duty will be placed on both the Secretary of State and local authorities to make the payments.

[56] HC Deb 19 Dec 2011 c135-7WS

Paragraph 13 provides for the Secretary of State to make amending reports to the local government finance report for a year. **Paragraph 14** provides for a revised set of calculations to be carried out and for authorities to be notified of the outcome. **Paragraph 15** deals with provisions for making payments following an amending report.

Levy

Schedule 1, part 6 of the Bill requires the Secretary of State to keep and manage a levy account. **Schedule 1, part 7** of the Bill gives the Secretary of State the power to make regulations about the calculation of levy payments. At the end of the year such calculations will be made to determine the amount authorities owe to the levy account.[57]

Schedule 1, part 7, paragraph 27 requires the Secretary of State to calculate the remaining balance on the levy account at the end of the year. **Paragraph 28** allows the Secretary of State to distribute all or part of the balance to one or more local authorities.

Safety net

Schedule 1, part 7 of the Bill allows the Secretary of State to make regulations about calculation of safety net payments. The Secretary of State will be able to make regulations setting out calculations to decide whether a safety net payment should be made to an authority and how much payment should be. As with the levy, this will be calculated at the end of the year. Payments will be made according to a schedule and in instalments of amounts agreed by the Treasury.

During the financial year, local authorities will be able to request that the Secretary of State calculates whether they are likely to receive a safety net payment at the end of the year (**Schedule 1, part 7, paragraph 27**); regulations will set out further details about when and why such requests may occur.

Pooling

Schedule 1, part 9 of the Bill enables the Secretary of State to designate authorities as a pool of authorities, if the authorities agree to enter into such an arrangement. Any agreements will stay in place until revoked by the Secretary of State, following consultation with those involved.

Transitional relief

Businesses are provided with transitional relief to reduce the impact of significant changes in their rateable value. This limits the percentage change to a business's bill following revaluation. **Schedule 1, part 8** enables the BRRS to operate outside of transitional relief. The Secretary of State will be able to make regulations to determine the amounts payable by billing authorities if transitional relief was not in place.

Revenue support grant

Clause 2 of the Bill brings **Schedule 2** into effect. This replaces the Secretary of State's duty to pay revenue support grant with a power to do so.

Greater London Authority

Clause 4 of the Bill replaces the Secretary of State's duty to pay general GLA grant to the GLA for each financial year with the power to do so.

[57] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention: Technical paper 4 - Business rates administration*, November 2011, para 4.5

Enterprise Zones

Schedule 1, part 10, paragraph 37 allows the Secretary of State to make regulations to designate one or more areas for which a proportion of business rates are to be disregarded from calculations relating to the BRRS. Enterprise Zones can be such areas.

Renewable energy

Schedule 1, part 10, paragraph 38 allows the Secretary of State to make regulations to designate one or more classes of hereditament[58] for which a proportion of business rates are to be disregarded from calculations relating to the BRRS. Renewable energy hereditaments could be one such class.

Additional grant

Clause 3 removes provision for the Secretary of State to pay additional grant to local authorities in England at sections 85 and 86 in the LGFA 1988.

Wales

Clause 5 gives effect to **Schedule 3**. Part 1 of this schedule retains the current business rates system in Wales; part 2 makes some minor amendments consequential to the introduction of the BRRS.

Provision of information about business rates

Clause 7 enables authorities to publish information about business rates by electronic means.

3.4 Design of the Business Rate Retention Scheme (BRRS)

Much of the detail of the BRRS is not set out in the Bill. This section describes how the BRRS would work. The key mechanics of the BRSS are shown in the text box over the page.

Funding the BRRS

Year 1 and year 2

The BRRS will be funded within the local share of business rates. Annually, in the local government finance report, the Secretary of State will define the proportion of business rates that will make up the local share.[59] During year 1 (2013/14) and year 2 (2014/15) the local share will be set at a level consistent with the expenditure control totals set out in the 2010 spending review (SR control totals). The Government has been clear that the BRRS must operate within SR control totals:

> 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.[60]

In 2013/14 and subsequent years the forecast income from business rates exceed SR control totals: to ensure that the BRSS operates within the SR control totals, each billing authority will retain a fixed percentage of the rates it collects (the local share) and will pay the

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[58] An hereditament is "a unit of property which is or would fall to be shown in a rating list" (Institute of Revenues Rating & Valuation, *Business rates: Your guide 2010*, IRRV, 2010, p85)

[59] Schedule 1, part 2

[60] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention Technical paper 1: Establishing the baseline*, August 2011

remainder to central government (the central share). The business rates that are paid to central government will be redistributed to local government through other grants.[61]

Local retention of business rates: key mechanics

The key mechanics of the BRRS are as follows:

- A proportion of the business rates collected by billing authorities will be paid into a central pool (the central share) with the remaining proportion retained by the authority (the local share). Proportions dictating the local and national share will be set by the Secretary of State.
- The BRRS will be funded from the local share. All billing authorities (single-tier authorities and district councils) and some non-billing authorities (county councils, fire and rescue authorities and the Greater London Authority) will be included in the BRRS.
- A local business rates baseline and a local funding baseline will be set in year 1 for authorities in the BRRS. The baselines will be used as the basis for redistributing business rates income between those authorities who collect more business rates than they need and those who collect too little.
- An authority whose local business rates baseline exceeds its baseline funding level will pay a tariff to government.
- An authority whose local business rates baseline is smaller than their local funding baseline will receive a top-up from government.
- Tariffs and top-ups will be fixed in real terms until a reset is reached. This allows authorities to retain growth in business rates income in future years.
- Authorities who experience disproportionate growth in business rates income will pay a levy. The levy will primarily be used to fund safety net payments to authorities whose business rates income does not increase sufficiently.
- Business rates growth in two-tier areas will be shared on a fixed basis, with around 80% going to the district council and 20% to the county council.
- The Greater London Authority (GLA) will be included in the BRRS. Discussions will take place in 2012 as to what proportion of London borough's business rates will be shared.
- Fire and rescue authorities will be funded within the BRRS and will receive a % share of the business rates baseline of each billing authority in their area.
- Police authorities will receive funding from business rates outside of the BRRS.
- It will be possible for the system to be reset in the future.

Discussion

The Government consultation paper developed the concept of the 'set-aside' to ensure that the BRRS operates within the SR control totals. The 'set-aside' represents a cash amount that was to be taken from total business rates income, equal to the difference between forecast business rates and SR control totals.

[61] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response*, December 2011, para 2.2

The set-aside did not prove popular with respondents to the Government's consultation[62] including the Local Government Association (LGA).[63] The LGA was concerned that the set-aside would give the Treasury, rather than local authorities, the growth in business rates and growth coming from higher-than-expected inflation:

> The Government's proposals to remove the set-aside are therefore doubly disadvantageous to local government. Firstly they allow the Treasury, rather than the sector, the benefit of a major slice of business rates revenue. Secondly they give the Government the benefit of extra yield attributable to higher than forecast inflation, without any recompense for local authorities which now face funding cuts that are, in consequence, larger in real terms than the 28% figure set out in the Spending Review.
>
> We recognise the decisions that the Government has taking in Spending Review 2010 but do not consider that it is necessary or desirable that the Treasury, rather than local government, should benefit from any forecast real growth in business rates yield. The benefit of above-inflation growth should be fully available as an incentive to local government. The less the sector benefits from the initial years of the scheme, the less the sector as a whole is likely to agree that the very real risks are balanced by incentives.[64]

The Government's response to the consultation amended the concept of the set-aside. The local share has been introduced, a movement away from the fixed cash amounts of the set-aside to proportional shares. This change was made to ensure that:

> […] local authorities benefit from growth in the local share of business rates from the outset of the scheme. And it will ensure that not only the rewards of positive growth but also the risks of negative growth are shared with central government. The share of business rates that is paid to central government will be returned in full to the local government sector through other grants.[65]

Whilst the term 'set-aside' has been removed in the Government's response to the consultation, LGA concerns remain:

> The Government has proposed to localise a percentage share of business rates from the outset in 2013, rather than take it in cash terms depending on centrally forecast levels of business rate growth.
>
> The remainder will be retained by central government and will constitute the set aside, which will be used to fund other grants to local authorities [...]
>
> [...] Local Government will not have access to the full real terms growth in business rates in 2013-14 and 2014-15 through the mechanism of the 'set-aside' even though they will now use proportional shares rather than a government forecast. The LGA will continue to call for local government to have full access to the growth from business rates.[66]

This view was echoed by Labour's Shadow Communities and Local Government Secretary:

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[62] DCLG, *Local Government Resource Review - Proposals for Business Rate Retention –consultation summary of responses,* December 2011, p20.

[63] LGA, *Local Government Resource Review. Response by the Local Government Association,* 2011 (accessed 15th December 2011)

[64] *Ibid*

[65] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 2.5

[66] LGA, *Local Government Finance Reform: briefing*, 19 December 2011, pp. 1-2.

> The proposals don't sufficiently incentivise councils to get growth going – the Treasury will take an unfair chunk of the business rates councils raise locally.[67]

After year 2

The Government will continue to set the local share beyond the SR period and can alter this share:

> The Government will retain the ability to alter the local share of business rates where it is necessary specifically to maintain affordability and protect the interests of the taxpayer and the wider economy.[68]

The LGA remain critical of any set-aside arrangement, and are particularly critical of such an arrangement continuing after the current spending review period.

> The Government's proposals indicate that the set-aside will continue beyond 2015. There is little rationale for this, as the main justification for the set-aside was to ensure that the scheme functions within the spending control totals issued in 2010 and therefore works alongside the deficit reduction programme. Continuing the set aside beyond this point reduces the incentive to grow business rates and acts a form of central government control in a system which is designed to do the opposite. The set-aside is a tax on local authorities which the LGA opposes strongly.[69]

The Secretary of State has discussed the possibility of providing a greater proportion of business rates collected to authorities after the current SR period:

> […] I hope that in the next spending round we can better match the level of non-domestic rates and the level of local government expenditure. I cannot get this in before 2013 and by that time we shall be starting negotiations on the next set of spending rounds.[70]

Negotiations for the next spending round will be set against continued reductions in public spending. The 2011 Autumn Statement shows that the government's desire "to achieve cyclically adjusted current balance by the end of a rolling five year period" is forecast to be achieved in 2016/17, two years later than forecast in March 2011.[71] This has been interpreted by some as necessarily leading to further reductions in local government spending.[72] Tony Travers, Director of LSE London, has warned in a recent article for the Local Government Chronicle that authorities will face continued reductions in spending over the decade:

> [...] Public sector austerity will last until at least 2017-18 - unless the eurozone implodes, when cuts might have to continue until beyond 2020.

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67 "Local government finance and business rates need reforming, but this is not the way to do it", Labour party website [online] 19 December 2011 (accessed on 21 December 2011)

68 DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 2.11

69 LGA, *Local Government Finance Reform: briefing*, 19 December 2011, p 2.

70 Communities and Local Government Committee. *Minutes of Evidence : Local Government Resource Review*, 14 December 2011, Q16

71 House of Commons Library Standard Note SN/EP/06139, *The 2011 Autumn Statement*, 29 November 2011, pp7-8

72 "Editor's blog: digesting the autumn statement", *The Guardian* [online], 2 December 2011 (accessed on 3 January 2011)

> Council expenditure at the end of the current decade will probably be at the level, in real terms, it was 20 years previously. This may be a bleak midwinter message, but it is an entirely realistic one. Bad times are here to stay.[73]

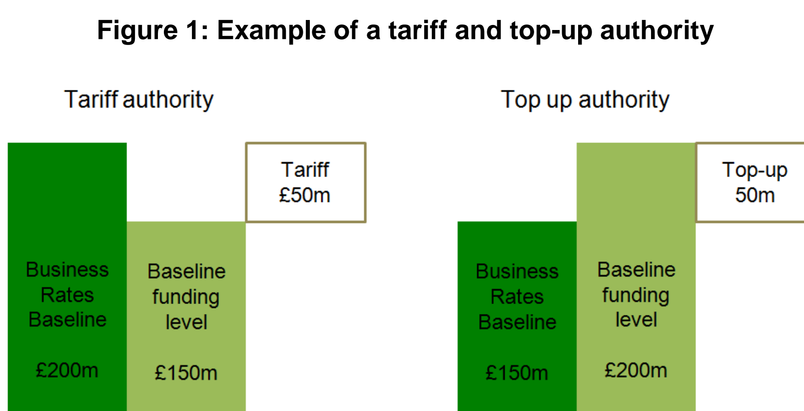
Baselines, tariffs and top-ups

Baselines

Some authorities collect more business rates than they need to fund the services they provide, whereas some collect too little to fund their services. To redistribute business rate income between authorities the BRRS will establish baselines of the business rates collected and the funding required by authorities.

In year 1 of the BRRS two baselines will be set for local authorities: an individual business rates baseline and an individual baseline funding level. Based on these an authority will either pay a tariff or receive a top-up. If an authority's business rates baseline exceeds their funding level they will pay a tariff to government. If an authority's business rates baseline is smaller than their funding level they will receive a top up from government. An example of a tariff and top up authority are shown in figure 1.

Figure 1: Example of a tariff and top-up authority



Tariffs and top-ups will be fixed after year 1 in real terms, and will be uprated by the RPI business rates multiplier, so that:

> a major part of top up authorities' income within the scheme is not eroded in real terms, and tariff authorities are under a strong incentive for physical growth.[74]

This policy has support from the LGA.[75]

Individual authority business rates baseline

An authority's business rates baseline will be established on the basis of its rates income over a number of years. The data used and the number of years the average will be taken over is yet to be decided.[76] For single tier authorities (except London Boroughs)[77] this

[73] T Travers, *"Bad times are here to stay"*, Local Government Chronicle [online], 15 December 2011 (accessed on 22 December 2011)

[74] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response*, December 2011, p5

[75] LGA, *Local Government Finance Reform: briefing*, 19 December 2011, p2

[76] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response*, December 2011, para 2.19

[77] The Government intends to roll in the revenue elements of the GLA general grant and fire funding from year 1 of the scheme: therefore the GLA will receive a % share of business rates in the future scheme. This share is yet to be determined.

calculation will determine their baseline: for two tier authorities a second stage will be required.

The Government is proposing that all two-tier authorities will split business rates income according to the same ratio: around 80% will be held by district councils and the remaining 20% or so will go to county councils, after any adjustments.[78] Such a split would make all district councils tariff authorities and all county councils top up authorities.

The Government reasons that such a two-tier split will:

- keep the incentive in line with that offered in the New Homes Bonus;[79]
- reflect district council's planning responsibilities;[80] and
- offer greater stability to county councils:

> Our intention is that the level of tier split pursued would result in all district councils becoming tariff authorities, with the majority of these being highly geared with a strong incentive to grow their economies. County councils, which have fewer direct levers to promote growth, would be lower geared top up authorities. As a result they will experience greater income stability with a major part of their income being an index-linked top-up grant, protecting their ability to provide upper-tier services such as adult and childrens social care and transport, but will see less gain from business rates growth in their district councils.[81]

Individual authority baseline funding level

Establishing baseline funding levels ensures that in year 1 each local authority should receive at least enough funding to provide their services, based on what they would have received from the formula grant.

Authorities' funding baseline in year 1 (2013/14) will be determined by applying the 2012/13 formula grant process to the 2013/14 and 2014/15 SR control totals,[82] whilst making some updates to datasets and formulae.[83] Baseline funding levels will include the 2011-12 council tax freeze grant but will exclude the 2012/13 transition grant for freezing council tax in 2012/13.[84]

Damping (the process whereby the Government provides a minimum floor increase for all authorities formula grant allocations by scaling back those seeing the greatest growth) will be applied as it was felt that failure to do so would result in early instability in the system:

> In line with our objective of ensuring a stable starting point for all authorities, we have decided to use numbers after floor damping. Removing damping would have a significant detrimental effect on those authorities below the floor, with some local authorities experiencing very significant turbulence in their budgets. This could

[78] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response*, December 2011, para 3.50
[79] Allocations from the New Homes Bonus are split between district council and county council on an 80:20 ratio.
[80] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response*, December 2011, para 3.48
[81] *Ibid*, para 3.51
[82] *Ibid*, p5
[83] *Ibid*, para 2.37
[84] *Ibid*, p5

> destabilise the system from the outset, putting some authorities into a very difficult funding position and jeopardising the sustainability of the scheme.[85]

Gearing

An authority's level of gearing will influence how the BRRS benefits an authority. Gearing refers to the relationship between an authority's business rates baseline and its baseline funding level.

If two authorities' business rates income increase by the same proportion, it may not necessarily follow that the revenue available to them will increase by the same proportion. This is because the revenue funding available to each is likely to differ. This is what the government refers to as the gearing effect:

> Due to the gearing effect i.e. the differences in the relationship between an individual authority's business rates base and its baseline funding level, some authorities with existing large tax bases in relation to their funding levels will experience increases in their income that is out of proportion to the growth in their business rates base.[86]

In the table below, business rates income in year 2 of the BRRS increases by 10% in Authority A and Authority B. This leads to an 8% increase in the revenue available to authority A and a 40% increase in the revenue available to Authority B. This is a result of Authority B having a higher level of gearing than Authority A. This example does not include uprating of tariff or top-up payments by RPI or any levy payments on disproportionate growth.

Table 1: Example of gearing in two hypothetical authorities

	Authority A	Authority B
Year 1		
Business rates baseline	£200m	£200m
Funding baseline	£250m	£50m
Year 2 (10% increase in business rates income)		
Additional revenue:		
total	£20m	£20m
% of funding baseline	8%	40%

The Government has noted that the risk and rewards of the BRRS to authorities depends on their gearing:

> All other things being equal, highly geared tariff authorities will gain more from any increase in their business rates than lower geared top up authorities, with the most highly geared tariff authorities gaining most of all. Equally, highly geared tariff authorities will lose more from any reduction in business rates than lowly geared top up authorities.[87]

To prevent highly geared authorities from gaining disproportionately from business rates growth, the Secretary of State will introduce a levy to be paid on their business rates growth. The levy is discussed more fully below.

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[85] *Ibid*, para 2.31

[86] *Ibid*, para 3.13

[87] *Ibid*, para 3.40

Indication of levels of gearing

As a result of the tier split all district councils will be tariff authorities and all county councils will be top up authorities. In the case of single-tier authorities it is not possible to state with any great certainty how many will be tariff and how many will be top-up authorities; however, in 2011/12 forecast business rates contributed to the central pool exceeded formula grant allocations in 40 of the 125 single-tier authorities.[88]

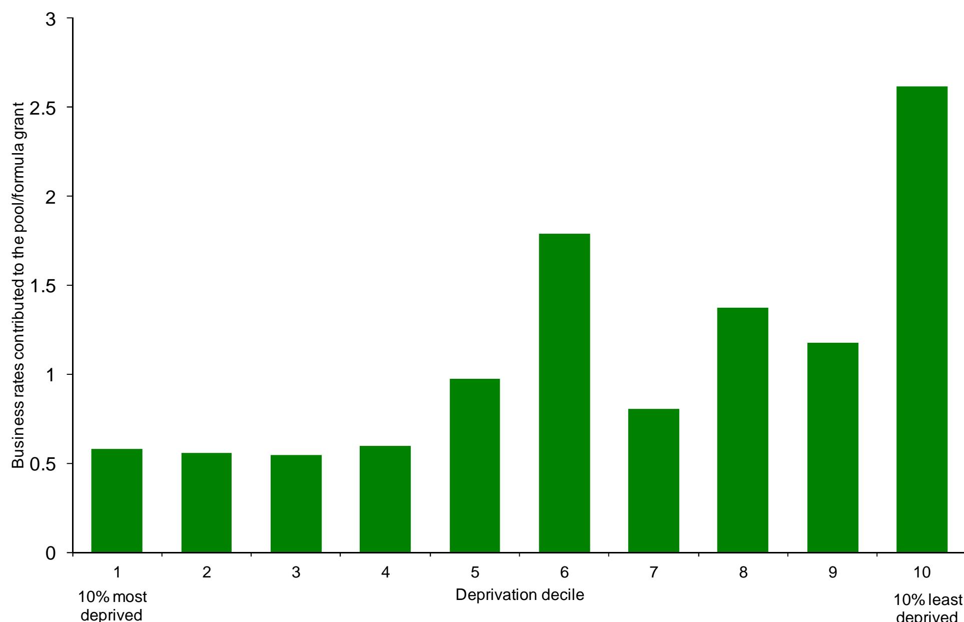
An assessment of gearing for individual authorities can be carried out using 2011/12 formula grant and forecast contributions to the business rates pool. This approach does not look to estimate the level of gearing in year 1 of the BRRS, for instance it does not include any allowance for the central share or tier split, both key elements of the BRRS; it simply provides indicative figures of the level of gearing by considering the relationship between the business rates collected by an authority and its formula grant allocation.

Table A1 in the appendix shows, for each billing authority in 2011/12, the ratio of forecast business rates contributed to the pool to formula grant received. Analysis by deprivation of single tier authorities and region is shown below.

Deprivation

Figure 2 below shows the ratio of forecast business rates contributed to the pool to formula grant in single tier authorities, by deprivation of authority. The four most deprived deciles have very similar ratios close to 0.5, with subsequent groups having higher ratios of 1 or over in most cases. For district councils, less deprived authorities have higher gearing; however with all district councils being tariff authorities the levy should ensure that such authorities do not gain disproportionately.

Figure 2: Ratio of forecast business rates contributed to the pool and formula grant in single tier authorities, by deprivation of local authority, 2011/12[89]



Regions

Table 2 shows the ratio of forecast business rates contributed to the pool to the formula grant received in 2011/12, by region and type of authority. This suggests that amongst single tier

88 This includes London boroughs who will be sharing some of their business rates income with the GLA.

89 *Ibid*

authorities those in London, the East, South East and South West are likely to have higher gearing. In the case of district councils this is more likely to be the case in the South East, the East and West Midlands.

Table 2: Ratio of forecast business rates contributed to the pool to formula grant received, 2011/12[90]

Region	Single tier	District councils
London	1.3 : 1	..
East	1.1 : 1	5.6 : 1
East Midlands	0.6 : 1	4.2 : 1
North East	0.6 : 1	..
North West	0.7 : 1	3.8 : 1
South East	1.2 : 1	6.7 : 1
South West	1.1 : 1	4.9 : 1
West Midlands	0.6 : 1	5.7 : 1
Yorkshire and the Humber	0.7 : 1	4.8 : 1

Notes:

"..." there are no district councils in London or the North East

The incentive

As tariffs and top-ups are fixed in real terms in year 1, authorities will potentially be able to increase their funding through increases in business rates income:[91]

> The principle of fixing tariffs and top ups ensures that in future years, a significant proportion of additional business rates will be retained by the local authorities in which they were generated. There is also a corresponding disincentive for authorities to see their rates base fall.[92]

The Government believe that this will incentivise authorities to develop their local economies:

> 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.[93]

Who might benefit?

In its early years the requirement that the BRRS operates within the SR control totals means that local government will benefit from growth above forecast levels:

> In the first two years, the Government has committed to manage the scheme within the expenditure control totals published for local government in the Spending Review, in

90 *Ibid*

91 DCLG, *Local Government Finance Bill: Business rates retention scheme. Impact assessment*, December 2011, p2

92 DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 3.9

93 DCLG, *Local Government Finance Bill: Business rates retention scheme, impact assessment*, Dec 2011, p1

> line with its deficit reduction commitments. Local government will keep any business rates growth above forecast levels.[94]

The Secretary of State has suggested that core cities may benefit from the scheme:

> I think some of the core authorities will do quite well, for example Liverpool and Manchester. I do not think Sheffield is a core authority but it should do okay, because we are talking about relative growth. Authorities that will not do so well will tend to be those slightly in the middle.[95]

Others have suggested that the BRRS may not favour all types of development, and may be less beneficial to certain types of authority:

> As Leaders [in Yorkshire and Humber] we recognise the need to work with our local businesses and encourage more business investment in our areas. However, this new arrangement could severely affect many of the Local Authorities in Yorkshire and Humber, which do not have the right types of businesses - such as big business parks or large-scale shopping centres and hypermarkets - that pay high Business Rates. The Government's proposals are also likely to favour urban over rural areas, and retail development over manufacturing growth. As a region with such great advanced manufacturing potential and with such great expanses of countryside, we could easily lose out.
>
> The Government's proposals take little, if any, account of differences between Councils and between local areas – instead they assume that we can all develop businesses and fund public services in the same way as places like Westminster and the City of London, which just isn't the case.[96]

An article in the Financial Times reported that the Special Interest Group of Municipal Authorities (SIGOMA) had suggested that benefits may differ between regions of England:

> Regional imbalances between north and south could be entrenched because of plans to "localise" business rates set out by Eric Pickles, communities secretary, a group of city councils has warned.
>
> SIGOMA, which represents 45 mainly northern city authorities, has warned that the gap between more prosperous and less well-off authorities will widen as a result of the policy.[97]

Business rates growth: 2005/6 – 2009/10

Future growth in business rates income will play a vital role in determining to what level an authority benefits from the BRRS. Reliable forecasts of business rates income by local authority are not available; however, past business rates yields are available. An index of business rates yield from 2005/06 to 2009/10 for each billing authority is shown in the appendix (Table A2). This time period has been used as it represents the longest period between rateable value revaluation in recent years.

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[94] *Ibid*, p2

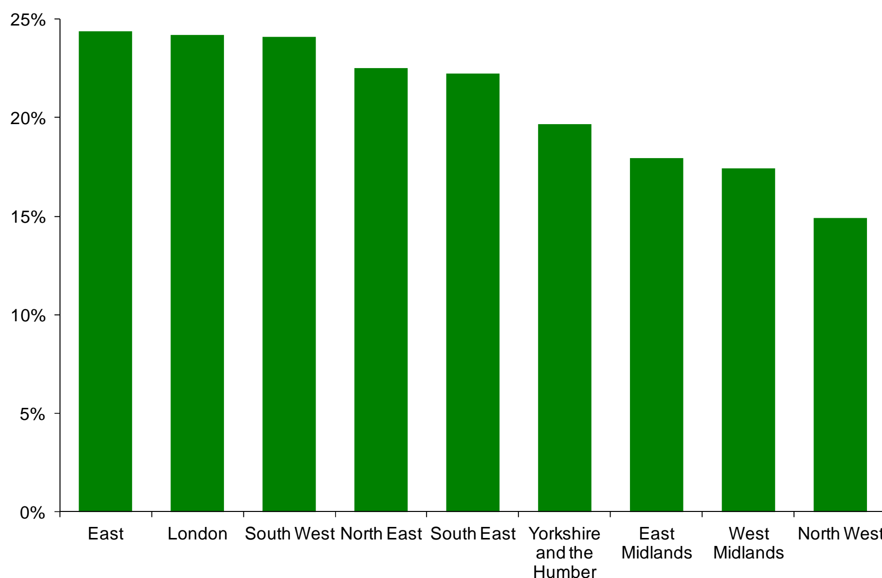
[95] Communities and Local Government Committee, *Minutes of Evidence : Local Government Resource Review*, 14 December 2011, Q34

[96] Local Government Yorkshire and Humber press release, *Leaders voice concerns over Business Rates proposal,* 21 July 2011

[97] *Plan to localise business rates attacked,* Financial Times Online, 3 January 2012 (accessed on 3 January 2012)

Figure 3 below shows that increases in business rates yield between 2005/06 and 2009/10 were highest in the East of England, London and the South West, and lowest in the North West.

Figure 3: % increase in business rates yield between 2005/06 and 2010/11, by region



As discussed previously, gearing plays a role in determining the extent to which an authority can benefit from the BRRS. A highly geared authority that experiences strong business rates growth is likely to do well from the BRRS, subject to levy arrangements.

Disproportionate growth: the levy

A levy will be put in place to recoup disproportionate growth from those authorities who are highly geared. The levy will primarily be used to fund safety net payments.

A proportionate levy will be applied; during 2012 the government will discuss with local authorities what levy ratio to set.[98] The ratio will determine what % increase in retained income an authority should receive for a 1% increase in business rates income. The principles of the levy were discussed by the Secretary of State in the House:

> If business rates go through the roof, they will be caught by the "disproportionate" rule and those sums will be taken away and distributed to poorer areas […][99]
>
> […] The only top-slicing that will take place is with regard to disproportionate gains, and I am pretty confident that Kensington and Chelsea and Westminster councils will see enormous increases in their rates. It is only right that we take that money away and see that it is distributed to other parts of the country, such as to Barnsley.[100]

The levy has generally been met with approval: 84% of respondents to the Government's consultation agreed that there should be a levy on disproportionate benefit and 79% of

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[98] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 3.19

[99] HC Deb 5 Sep 2011 c3

[100] HC Deb 5 Sep 2011 c3

respondents supported the approach being adopted.[101] The LGA has been supportive of a proportionate levy.[102]

Some notes of caution about the levy have been sounded, mainly focused on ensuring that it does not dampen the incentive. For example South East Councils in their response to the consultation said:

> In an area like the South East that is a net contributor to national coffers a careful balance is needed to ensure that the process of equalisation does not act as a disincentive to councils.[103]

This was a view shared by other respondents to the consultation:

> Respondents noted that, whilst it was important to ensure that the levy was able to generate sufficient funds to ensure that the safety net was fully resourced, it was equally important that the incentive does not act to inhibit the incentive effect or be set in such a way as to act as a cap on growth.[104]

Use of the levy

The levy will be used to finance a safety net for local authorities who see lower or negative growth in business rates income. If sufficient funds build up in the pot to guarantee the safety net, in future years additional levy income will be redistributed back to local government.[105]

Safety net

A safety net will be introduced to provide financial support to those authorities whose business rates income does not grow to a level set by the Government.

Not necessarily through any fault of their own, some local authorities will experience low or negative growth. To support such authorities the Government is to introduce safety net payments. A payment will be made if an authority's income drops below a certain level determined by the Government. In general the safety net has won support,[106] although some feel further assurances about the level of protection offered are required.[107]

To determine whether an authority should receive a safety net payment, its income will be assessed against its baseline funding level, uprated by RPI. If an authority's income is below its uprated funding level by more than a set percentage, a safety net payment will be received. The Government will consult during 2012 on the percentage level that will trigger the safety net payment.[108]

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[101] *Ibid*

[102] LGA, *Local Government Finance Reform: briefing*, 19 December 2011

[103] South East England Councils. *South East England Councils - Response to Local Government Resource Review: Proposals for Business Rates Retention*, 24 October 2011, para x.

[104] DCLG, *Local Government Resource Review – Proposals for Business Rates Retention consultation: Summary of responses*, December 2011, p9

[105] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 3.30

[106] See London Councils. *Local Government Resource Review: proposals for business rate retention consultation*, October 2011, p10

[107] Association of North East Councils Press Release, *North East Councils' Reaction to Government Announcement on Local Government Resource Review*, 19 December 2011; and, LGA. *Local Government Resource Review. Response by the Local Government Association,* 2011, para 14 (accessed 15th December 2011)

[108] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 3.23.

Resets

The Government will be able to reset the system in the future, thus providing the ability to realign local authorities' income with the funding required to run services. The longer the period between resets the stronger the incentive for local authorities to work towards increasing their business rates income. The Government proposes that there will be ten years between resets:

> We recognise that certainty in the new scheme is an important consideration for authorities. The central proposition of the rate retention scheme will ensure a sustainable system where the strong incentive effect bites on those who have the most levers for growth with a levy and safety net which support those authorities who need protection. For this central proposition to work effectively and for there to be a genuine incentive effect, the reset period has to be long one. As such, to provide certainty for local authorities about the rewards of growth they can expect to see, our aspiration is that the reset period should be 10 years. However, in exceptional circumstances, a reset could be required within this period.[109]

The LGA advocates a different approach to resets:

> In our response [to the Government's consultation] we supported resets triggered on the basis on evidence from local government and a process managed by local government: there will be disappointment that the Government has apparently not considered this option.[110]

A similar approach was promoted by the Chair of the Association of North East Councils, in a press release:

> Cllr Watson said he was also concerned that the aspiration for a ten year 'reset' period for top ups and tariffs would prove difficult, given the current economic uncertainties, advocating instead that there should be built into the new arrangements, regular assessments of impacts, fluctuations, demographic profile and changes in needs and resources.[111]

However, the majority of respondents to the Government's consultation supported fixed timings of resets.[112]

Revaluation

Business's rateable values are revalued every five years by the VOA, on a common date, as required by the Local Government Finance Act 1988.[113] Revaluation should not lead to the total national business rates income rising: the business rates multiplier is adjusted to ensure that the yield remains the same. However, revaluation reflects changes in the property market value across the country with the result that some business rates bills will rise and some will fall.[114]

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[109] *Ibid*, para 3.37
[110] LGA. *Local Government Finance Reform: briefing*, 19 December 2011, p3.
[111] Association of North East Councils. *North East Councils' Reaction to Government Announcement on Local Government Resource Review*, 19 December 2011
[112] DCLG, *Local Government Resource Review – Proposals for Business Rates Retention consultation: Summary of responses*, December 2011, p13
[113] *Business rates: revaluation 2010*, House of Commons Library Standard Note (SN/PC/5229), 24 November 2009
[114] *Ibid*

The government will adjust tariffs and top-ups in the BRRS to ensure that individual authorities do not lose out as a result of a revaluation.[115]

3.5 Fire and police authorities

Fire and rescue authorities

Fire and rescue authorities will be funded through the BRRS. Fire and rescue authorities will receive a percentage share of the business rates baseline of all billing authorities in their area.[116] The share will be taken before the business rates income is split between district and county councils.

The Government's consultation discussed funding single purpose fire and rescue authorities and those run by county councils separately, but the Government's response rejects this:

> [...] in the new rates retention scheme all fire and rescue authorities will be funded though a percentage share of each district or borough council's billing authority business rates baselines (pre-tier split), subject to the tariffs and top ups required to bring them to their baseline funding level. The potential risk of a reduction in business rates income in the area covered by a fire and rescue authority will be mitigated by the fact that such authorities are receiving a percentage of the business rates income of all unitary and district councils in their area which should mitigate the risks of financial loss.
>
> We recognise that single purpose fire and rescue authorities do have fewer direct levers for growth. As such, we will ensure that the percentage share of billing authority business rates that single purpose fire and rescue authorities receive reflects this and provides them with a degree of protection within the scheme.[117]

Police authorities

Police authorities will be funded outside of the BRRS:

> The Government confirms that it will provide a fixed allocation of business rates for the remaining years of the 2010 Spending Review to support Home Office grant funding of police bodies. The allocation will be consistent with the 2010 Spending Review settlement, subject to any revisions following the Autumn Statement 2011.
>
> The way in which the police are funded will be fully reviewed in time for changes to be made following the end of the current Spending Review period (2015).[118]

Whilst the Government's consultation response does not provide detail about how this will be distributed, the consultation suggests that distribution will be decided by the Home Secretary.[119]

3.6 Other areas

The BRRS will introduce further new elements to local government funding and amendments to the previous funding regime. In its consultation and consultation response the government discussed other areas including:

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[115] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 4.9

[116] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 3.63

[117] *Ibid*

[118] *Ibid*, para 3.57-3.58

[119] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention: Technical paper 3 - Non-billing authorities*, August 2011, para. 2.4

- the incentive for authorities to pool together;
- how transitional relief will be dealt with;
- the future of revenue support grant;
- funding of the New Homes Bonus.

These and other areas are discussed below.

Pooling

The Government is keen that authorities join together in pooling arrangements for the BRRS. The Government believes pooling would:

- encourage joint working between authorities; and
- spread the risk of volatility in business rates.

Pooling will be voluntary but the Government expect some basic requirements from those who wish to pool, as follows:

> - all local authorities to be included in the prospective pool agree with the proposal;
> - there is a formal pooling agreement setting out how the pool will operate;
> - pooling proposals have been signed off by the Chief Executive and the s151 officer of each local authority; and
> - pooling proposals meet any legislative requirements that may be in place.[120]

Further financial incentives for authorities to pool will not be offered: respondents to the consultation felt that incentives would take money out of the scheme and might force authorities into forming pools which they may not have formed without the incentive.[121] However some, such as London Councils, feel that further incentives to pool should be introduced.[122] The government has reserved the right to consider this again in the future.[123]

Transitional relief

Businesses are provided with transitional relief to reduce the impact of significant changes in their rateable value. This limits the percentage change to a business's bill following revaluation.[124]

Transitional relief will operate outside of the main BRRS:

> The consultation document proposed that transitional relief should be taken outside of the main rates retention scheme which would necessitate a system of separate

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[120] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 4.29

[121] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention Consultation - Summary of Responses*, p26

[122] London Councils. *Local Government Resource Review: proposals for business rate retention consultation*, October 2011, p4

[123] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 4.31

[124] For further details see: *Business Rates: revaluation 2010* House of Commons Library Standard Note (SN/PC/5299), 24 November 2009, p3

transitional adjustments for its impact on the rates revenue collected by billing authorities. We proposed to do this by comparing the rates income of a billing authority excluding transitional relief, with the rates income of a billing authority inclusive of transitional relief.

Where a billing authorities' income inclusive of transitional relief was less than their rates income exclusive of transitional relief, the authority would receive an additional payment from central government. Where the income inclusive of transitional relief was more than their income exclusive of transitional relief they would need to pay the balance to central government. All payments would need to be apportioned between billing and major precepting authorities on the basis of the tier-split share.

Most respondents to the consultation agreed with the proposals to take the transitional relief scheme outside of the business rates retention scheme although some had concerns that this adds complexity to the rates retention proposals. They were also content with the proposed system for adjustments and the proposals.

Although this adds an element of complexity to the system, by requiring a separate system of transitional adjustments to ensure tariffs and top-ups are not affected by transitional relief, it ensures a more balanced approach for local authorities, smoothing out the repercussions of transitional relief across the whole period.[125]

Revenue support grant

Revenue support grant currently provides part of the funding for formula grant (along with redistributed business rates and police grant (for police authorities)).[126] The Bill replaces the Secretary of State's current duty to pay revenue support grant with a power to do so. The revenue support grant will become more like a section 31 grant[127] and could be used to fund new burdens and function changes that arose between resets.[128]

New Homes Bonus

The New Homes Bonus (NHB) will be funded within the SR control totals. The Government will, when setting the local share, ensure that the NHB is fully funded within the control totals. For details of the operation of the New Homes Bonus please see: *The New Homes Bonus Scheme*, House of Commons Library Standard Note (SN/SP/5724), 8 December 2011.

Renewable energy

Overview

Local authorities will keep all business rates from renewable energy project developments in their area. All income will be retained by the local planning authority, which is generally the billing authority.[129,]

Developments considered to be 'renewable energy projects' are defined as:

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[125] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 4.16-4.19

[126] In the case of police authorities formula grant also includes police grant.

[127] Section 31 of the *Local Government Act 2003* allows a Minister of the Crown to pay a grant to a local authority in England towards expenditure incurred or to be incurred by it.

[128] DCLG, *Local Government Resource Review – Proposals for Business Rate Retention – consultation. Government Response,* Dec 2011, para 2.53

[129] National park authorities determine applications for renewable energy projects in their area: as national park authorities are not part of the business rates retention scheme income generated from new renewable energy projects in national parks will be retained by the billing authority in which any renewable energy project sits. see *Ibid*, para 4.61. London boroughs will retain income from renewable energy projects, including where the Mayor has decided the application; see *Ibid*, para 4.62

- onshore wind power
- offshore wind power
- hydroelectric power
- biomass
- biomass conversion
- energy from Waste combustion
- anaerobic digestions, landfill and sewage gas
- advanced thermal conversion technologies – gasification and pyrolysis
- geothermal heat and power
- photovoltaics[130]

This list will be kept under review.

Further details regarding: new energy from waste plants;[131] renewable energy technologies on existing properties;[132] determining which properties qualify;[133] and allocation of revenues in two-tier areas[134] are discussed in the government's response to the consultation.

GLA and London boroughs

The GLA will be included in the BRRS. From April 2013 revenue elements of Greater London Authority (GLA) general grant and fire funding will be funded through retained business rates.[135] The GLA will receive a percentage share of business rates generated in London boroughs. The Government "will discuss this further with the Greater London Authority and London borough councils before determining what this share should be".[136]

New burdens, boundary changes and mergers

New burdens

New burdens and functions arising between resets are to be funded through section 31 grant[137] or revenue support grant. At reset this funding will become part of the baseline resources for rebalancing the system.[138]

Boundary changes

Tariff and top-ups will not be altered if there is a boundary change including only a small number of properties. In the case of larger boundary changes, tariffs and top-ups may be adjusted in the authorities concerned.[139]

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[130] *Ibid*, para 4.46
[131] *Ibid*, para 4.51
[132] *Ibid*, para 4.52 - 4.54
[133] *Ibid*, para 4.55-4.57
[134] *Ibid*, para 4.58 – 4.62
[135] *Ibid*, para 2.7
[136] *Ibid*, para 3.65
[137] Section 31 of the *Local Government Act 2003* allows a Minister of the Crown to pay a grant to a local authority in England towards expenditure incurred or to be incurred by it.
[138] *Ibid*, para 2.52-2.54
[139] *Ibid*, para 2.56

Mergers

A new tariff or top-up will be created for authorities involved in a merger. The tariffs and top-ups of the authorities involved in the merger will be summed to calculate the new figure.[140]

Enterprise Zones/Tax Increment Financing

Tax Increment Financing is discussed in detail in section 4 of this paper. Growth in business rates income in enterprise zones will be outside of the BRRS. Business rates income in the zones will not be included in levy calculations and in resets of the BRRS.[141]

Academies

The Government is proposing to remove education funding from formula grant and passing this to Department for Education (DfE). The DfE will then administer a grant to local authorities and to academies separately. Consultation will be carried out on this in spring 2012.[142]

3.7 The position in Wales

The Bill's provisions on BRRS do not apply to Wales. However, the Welsh Assembly Government plans a review of business rates policies. At a Plenary debate in the National Assembly for Wales on Wednesday 13 July on business rates the Assembly passed a motion that it:

> 1. Notes that small businesses are essential to the Welsh economic recovery and play a role in local economies across Wales;
>
> 2. Acknowledges that placing lead responsibility for business rates policy in the portfolio of the Business, Enterprise, Technology and Science Minister sends a clear signal about the impact that business rates can have on Welsh businesses.
>
> 3. Notes that the Welsh Government will review business rates policies to implement fair and proportionate rates for Welsh businesses to meet the Government's economic and social objectives.
>
> 4. Calls on the Minister for Business, Enterprise, Technology and Science to regularly assess the impact of her policies on small businesses.[143]

3.8 Other changes to non-domestic rates

Non-domestic rates: Definition of relevant person

The *Technical reforms of council tax consultation paper* suggested closing a loophole in council tax legislation because:

> the legislation defines a 'relevant person' in terms which fail to cover the case where a freeholder retains part of a building for letting for short periods totalling 140 days or more per year, in which case it should be subject to non-domestic rates. It achieves this objective by reference to the intentions of the 'relevant person' who is defined by subsection (2C). The loophole arises because the legislation defines a 'relevant person' in terms which fail to cover the case where a freeholder retains part of a building for such purposes.

140 *Ibid*, para 2.57
141 *Ibid*, para 3.77
142 *Ibid*, para 2.9
143 Available at http://www.senedd.assemblywales.org/ieListDocuments.aspx?CId=153&MId=348&Ver=4

> In the Curzon Berkeley case, the Claimant's argument was that they could not be the 'relevant person' in respect of self-contained parts of a building where Curzon Berkeley were the freeholders and which they operated as Service Apartments. Accordingly, they did not fall to be assessed to non-domestic rates. In his judgement, James Goudie QC (sitting as a Deputy High Court Judge) found that this was a plain case of a drafting mistake (there being no explanation as to why, in the circumstances of this case, a long leaseholder was defined as a 'relevant person' but a freeholder was not).
>
> The Government now proposes that section 66(2C)(a) should be amended along the following lines:–
>
> 'Where the property in question is a building or a self-contained part of a building and is not subject as a whole to a relevant leasehold interest, the person having the freehold in the whole of the building or self-contained part'. This would be achieved by amending Section 66(2C)(a) of the *Local Government Finance Act 1992*.[144]

Clause 6 of the Bill – definition of domestic property – would achieve this from 1 April 2013.

Provision of information about non-domestic rates

Clause 7 of the Bill would allow local authorities to publish information about non-domestic rates online, instead of in paper form, unless the ratepayer requests a paper copy. This mirrors provisions in **clause 12** that would apply the same requirements to council tax.

4 Tax increment financing: borrowing against additional income streams

4.1 Background

Tax increment financing (TIF) works by allowing local authorities to borrow money for infrastructure projects against the anticipated increase in business rates income expected as a result of those infrastructure projects. The Core Cities Group (CCG) has published detailed research on the concept. A report published in 2008 in conjunction with Price Waterhouse Coopers explained TIF:

> TIF is a financing tool designed to forward fund key infrastructure improvements, and works by deploying the projected future tax gains of those improvements to finance the infrastructure itself. For example, when a public project such as a road, school, or hazardous waste clean-up is carried out, there is an increase in the value of surrounding real estate, and often new and additional investment in the area. This increased site value and investment creates more taxable property, which in turn increases potential tax revenues.
>
> These increased tax revenues are the 'tax increment'. Tax Increment Financing dedicates this increased revenue to finance debt issued to pay for the initial infrastructure development. Typically, TIF is designed to channel funding toward improvements in distressed or underdeveloped areas where development could not otherwise occur. In other words, TIF creates funding for public projects that may otherwise be unaffordable to localities.[145]

According to the report, the benefits of introducing these measures included allowing "cities to 'participate in the growth dividend' (ie. allow local authorities to capture incremental value

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[144] *Ibid*, p20. The issue results from the Curzon Berkeley case, *R (on the application of Curzon Berkeley Ltd) v Bliss (VO)* [2002] RA 45

[145] A report by the Core Cities Group and PricewaterhouseCoopers, *Unlocking City Growth: Interim Findings on New Funding Mechanisms*, , 2008, pp26

in the form of tax revenues generated from new development). In order to do this, cities require the power to retain, for a long-term period, local tax revenues."[146]

The CCG's *Rough Guide to TIFs*, published in conjunction with the British Property Federation, notes other benefits:

> The UK TIF model is based on reinvesting a proportion of future business rates from an area back into infrastructure and related development. It applies where the sources of funding available for a scheme to deliver economic growth and renewal cannot cover the cost of infrastructure required by the scheme. Often this will be a regeneration project, and although UK TIF could be used more widely, it will not be suitable for all schemes. A lead agency – a local authority, private sector partner or some combination – raises money upfront to pay for infrastructure, on the basis that the increased business rate revenues generated by the scheme can be used to repay that initial investment. The upfront funding may be borrowed from public or private sources, or it may be provided by the developer from capital available to it.
>
> The Treasury may enjoy the wider fiscal benefits of the scheme – higher stamp duty revenues resulting from rising property values, higher income and corporate tax revenues due to more economic activity, and lower health, security and benefits costs as the community enjoys the social benefits of regeneration. The full increased revenue from business rates in the designated area will also be available to the Treasury after the funding cost for the infrastructure has been paid off. It's a neat solution where the risks can be clearly allocated to the lead agency or the private sector partner and controlled.[147]

The Labour Government had announced in the March 2010 budget that:

> The Government will support investment in infrastructure in our cities and other centres of growth through an Accelerated Development Zone (ADZ) pilot programme. The pilot schemes will be introduced in locations across England in 2011-12. Combined authorities, as they are agreed, and selected local authorities, will receive capital grant funding to a total of £120 million to help support projects that deliver key infrastructure and commercial development to unlock growth. The Government will assess the impact of the investment on business rates growth within the defined ADZ area to further understand the case for introducing Tax Increment Financing.[148]

This was not implemented but, after the 2010 General Election, the current Government confirmed its commitment to the introduction of TIF in the *Local growth: realising every place's potential* White Paper. The Paper also gave an indication of how the system could be developed:

> Depending on responses to the proposals outlined above, in particular the retention of locally raised business rates, we anticipate that TIF would, at least initially, be introduced through a bid-based process. Lessons from a set of initial projects will inform future use of the power. This will help minimise the risks to both local and central government associated with the introduction of TIF, with Government and local

[146] *Ibid*, pp5-6

[147] *A Rough Guide to Tax Increment Financing*, by the Core Cities Group and the British Property Federation, 2010

[148] *Budget 2010, Securing the recovery: Economic and Fiscal Strategy Report and Financial Statement and Budget Report*, HC 451, 2009-10, HM Treasury, March 2010, p62

> authorities working together to understand the risks involved and develop a shared approach to implementation.[149]

4.2 The Bill

Speaking at the Liberal Democrat conference on 20 September 2010, Nick Clegg, Deputy Prime Minister, announced that the Government would introduce TIF:

> These new borrowing powers, known as Tax Increment Financing (TIF), will allow Local Authorities to borrow against predicted growth in their locally raised business rates. They can use that borrowing to fund key infrastructure and other capital projects, which will support locally driven economic development and growth.
>
> TIF will operate within a carefully designed framework of rules, which the Government will work closely with Local Authorities to design. More information on how TIF will operate will be set out alongside the Spending Review.[150]

A DCLG paper, *Regeneration to enable growth: What Government is doing in support of community-led regeneration*, said:

> To maximise the impact of incentives we are removing the barriers that thwart local ambition and limit agencies' room for manoeuvre. We will sweep away outdated planning rules imposed by Whitehall, and introduce powers to allow authorities to implement Tax Increment Financing, thereby enabling them to fund key infrastructure and capital projects by borrowing against future income from business growth.[151]

The DCLG consultation paper, *Local government resource review: proposals for business rates retention*, published on 18 July 2011, included information on the plans for TIF. The *Plain English guide* to the proposals noted that TIF:

> will allow councils to pay for future infrastructure developments by allowing them to borrow against projected rate growth. Councils are not currently permitted to retain their rates so cannot borrow against them. Rate retention would remove this barrier. The consultation sets out two options. An open structure that lets councils invest and take on the risks alone or one with stronger Government controls that guarantees revenue and disregards the levy or reset processes.[152]

The consultation ran until 24 October 2011 and the Government's response was published on 19 December 2011.[153]

The consultation suggested two options for the implementation of TIF. Option one would see local authorities, within the existing prudential borrowing rules, able to borrow against their income within the business rate retention scheme. Option two would allow a limited number of Tax Increment Financing schemes to be permitted in which the business rates growth would not be subject to the levy or reset for a defined period of time.

Responses to the consultation were generally in favour of TIF, although there was no clear preference for either of the options, as noted by the Government's response to the consultation:

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[149] CM 7961, HM Government, October 2010
[150] *More financial freedom for local authorities*, HM Treasury press release, 20 September 2010
[151] DCLG, January 2011
[152] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention, A Plain English Guide*, July 2011
[153] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention Consultation - Government Response*, 19 December 2011

> Some respondents to the consultation preferred option one, as they saw that the unfettered access of option one would be more in line with the localism agenda. There were also concerns that exempting option two Tax Increment Financing schemes from the levy and reset would reduce the resources available to the wider sector.
>
> 3.74 However, some respondents argued that option one Tax Increment Financing would not deliver a business rates funded Tax Increment Financing for large scale developments, only for small scale projects that can be completed, and borrowing repaid, within a reset period. This is because the levy and the reset would cause a level of uncertainty that could not be tolerated for longer term projects with repayments of 20 years of more.[154]

The Government therefore decided to go ahead with both options:

> 3.75 We believe it is important that authorities have a number of avenues open to them to build their local economies and unlock growth potential. Therefore the Local Government Finance Bill will enable the delivery of both Tax Increment Financing options as well as the policy guarantee that Enterprise Zones can retain the rates uplift from within the zone for 25 years.
>
> 3.76 However, because option two Tax Increment Finance schemes could reduce the resources available to the wider sector, the Government will limit the number of Option two Tax Increment Finance schemes that can proceed. We will publish further details of how we manage this process in the new year, alongside a technical document which sets out more details.[155]

The Bill allows for the two options as outlined in the consultation paper. Option one is provided for by simply allowing local authorities to retain an element of their business rate income, thereby creating a new funding stream which can be used to offset against future borrowing. This would be implemented by the elements of the Bill on local retention of business rates.

The second option is provided for in **paragraph 37** of **Schedule 1** of the Bill. This would create additional funding by allowing the Secretary of State to designate an area which would not be subject to future levies and resets, thereby creating an area which is in effect outside the local retention of business rate system. This in turn should bring a steady and consistent future income stream and additional headroom against which the local authority could borrow.

In order to establish TIF under option two, the Bill allows for the Secretary of State to issue regulations to designate the TIF area. These would include issuing a map of the area, and calculations relevant to the likely future income stream available to that area.

TIF has not been introduced in Wales although there have been calls from the Welsh Liberal Democrats to do so. This part of the Bill does not extend to Wales.

The same part of the Bill allows the Secretary of State the same powers in relation to enterprise zones – see section 5 below.

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[154] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention Consultation - Government Response*, 19 December 2011

[155] *Ibid*

The *Prudential borrowing scheme*

Any borrowing undertaken by local authorities using the powers available in the Bill would need to meet the requirements of the Prudential Code developed by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA's *Councillor's Guide to local authority finance* notes:[156]

> The key objectives of the Prudential Code developed by CIPFA are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. As part of this framework, the Prudential Code sets out the factors that must be used:
>
> These indicators include forecasts of and actual figures for:
>
> - Capital expenditure;
> - Capital financing requirement – a measure that reflects an authority's underlying need to borrow;
> - External debt – gross borrowing and other long-term liabilities;
> - Operational boundary for external debt – based on an authority's working estimate of most likely, ie prudent but not worst-case scenario;
> - Authorised limit for external debt – the intended absolute limit that has to be set by the full council.

4.3 Views on Tax increment financing

TIFs, if successful, can lead to increased regeneration and long term benefits. However, there are a number of issues that need to be considered when establishing TIFs. The *Rough Guide to TIFs* lists a number of *Frequently Asked Questions*, which include:

> *Isn't this just more borrowing?*...UK TIF is about identifying schemes which are low risk but would deliver important benefits in terms of jobs, economic growth and physical and social regeneration if they could be funded. It is not borrowing in the unsure hope that money will be found at a later date, but investment with clear returns to support it...
>
> *Won't schemes just displace existing business from nearby areas?* There may be some displacement in some schemes and this can be factored in to calculating the additional revenues, and what will be payable as a TIF. It's something to be thought about carefully in each scheme, but business needs opportunities to grow and thrive, and it's better it moves a short distance than leaves the area altogether because its needs can't be met. But schemes will need to show some new business growth and will only be allowed to access incremental business rates which are truly additional.
>
> *How can you be sure the rates are additional?* There will need to be a pragmatic agreement on an overall formula that is negotiated for schemes. This will not be an entirely scientific exercise, as modelling financial outcomes in alternative scenarios inevitably involves assumptions and some guesswork. However, it is not impossible to do and there are precedents that can help. The lead agency will be asked to take the risk on this, which in most cases will be relatively small.[157]

Chris Murray of the Core Cities Group (CCG) has been quoted in the *Local Government Chronicle* as saying that "TIF should not be regarded as unusually risky and ministers should resist political pressure to impose restrictive limits on the scheme, such as a cap on the

[156] CIPFA, 2009, p218
[157] Core Cities Group and the British Property Federation, *Rough Guide to Tax Increment Financing*

amount councils can borrow, which would only deaden its impact" and that the Treasury should put in place a "sensible process that works for everyone...It's cities and businesses taking on the risk – they assess that risk and borrow what they are certain can be paid back. This is not borrowing to prop up failure but borrowing for investment and is the same kind of borrowing."[158]

Boris Johnson, Mayor of London, is in favour of the scheme.

> The GLA and London Councils would like to explore further with government the potential for Tax Increment Financing to fund specific projects. This would enable boroughs to boost economic development by investing upfront in enabling infrastructure. The freedom and responsibility to generate and manage local revenue streams will provide a significant incentive to investment, leveraging private sector funding. TIF would be a timely and proportionate response to the impact of the recession. The pay back would be substantial. Introducing TIF would ensure that London can lead the way out of recession by generating and sharing in the "growth dividend". TIF is also an important practical response to the localism agenda.[159]

Writing in the *Evening Standard*, Business reporter Russell Lynch raised a number of doubts about the scheme:

> What if the expected increment fails to emerge? Best-laid plans can come unstuck — witness National Express handing back the East Coast Main Line to the Government after revenues collapsed in the downturn. But the council will still have to service the extra debt, at a time when the LGA forecasts that authorities may face a £20 billion funding gap by 2014-15.
>
> If central government does not stand behind TIF schemes with some kind of guarantee, then the debt financing could be pricey. According to ratings agency Standard & Poor's, the "common pitfalls" of TIF bonds include volatility in commercial real estate values during a downturn, particularly for warehouses and hotel properties, falling house prices and construction risk. Investors will want paying for that.
>
> Perversely, more prosperous areas may attract cheaper financing, because there is less of a risk that the benefits of development will fail to materialize — leaving poorer areas in dire need of investment paying through the nose for funding. The onus will also be on authorities to prove that proposals will produce genuinely "additional" tax revenues rather than just sucking it away from the surrounding area.
>
> Other obvious hurdles are the UK's planning system — hardly an aid to rapid infrastructure development in recent years — and a lengthy legislative process to ensure councils can retain the growth in business rates brought about by the scheme. TIF may not get off the ground for two years at least.[160]

An article in *Estates Gazette* welcomed the proposals but had concerns about the Government's "cautious approach":

> The Government acknowledges that, in practice, the new business rates retention scheme needs to be able to deliver certainty to local authorities, developers and funders to enable TIF schemes to come forward. However, it is proposing to guarantee that local authorities will be allowed to retain all the additional NNDR generated (for a defined period|) only if TIF schemes allowed across the country are subject to

[158] Allister Hayman, "Boring but important: TIF, a primer", *Local Government Chronicle*, 21 September 2010
[159] Greater London Authority, *Investing for recovery: A new deal for London*, December 2009
[160] Russell Lynch, "Yet more borrowing? Nick Clegg should be careful", *Evening Standard*, 28 September 2010

> government control...the Government's cautious approach is disappointing, but perhaps not altogether surprising. Public sector borrowing needs to be reduced to help eliminate the deficit, but there is a concern that a TIF 'free-for-all' could lead to local authorities competing with each other to attract the same businesses to their areas.[161]

The New Local Government Network (NLGN) commented on the two options in its report, *The Devil in the detail: designing the right incentives for local economic growth*:

> NLGN believe both options are lacking as they share the drawback of potentially restricting TIF schemes going ahead even where there may be a sound business case. We therefore propose an alternative approach to enable local authorities and developers to take maximum advantage of TIF.
>
> Since our alternative levy schedule features a flat rate marginal levy – unlike a tailored levy, this offers certainty to local authorities in what proportion of business rates growth in their area could be used to service debt without having to exempt TIF business rates revenues from the levy: business rates income would not be at risk of reduction from ever-increasing levy rates. We thus recommend not exempting TIF projects' business rates income from the levy but exempting the resulting business rates growth from the reset process for a defined period of time (approximately 25 years). The certainty provided should increase the number of TIF projects coming forward without putting substantial strain on the levy pot.
>
> We recognise this creates a potential risk that a pool of rich local authorities (e.g. London boroughs) will tactically avoid reset by implementing TIF projects. However, local authorities take on a lot of risk when they participate in TIF schemes – they are faced with significant costs if the projects are unsuccessful and don't raise the necessary business rates to service the debt – this makes the possibility of local councils manipulating the reset process through implementing an excessive number of TIF projects unlikely.[162]

The Centre for Cities, which has actively campaigned for TIF, also commented on the two options in its response to the review and expressed is preference for option two:

> Government must first and foremost recognise that TIF will not be right for every city. TIF is best used where there is insufficient infrastructure to unlock economic potential, and it should be used where there is sufficient growth potential. An Option 2 TIF is the only viable TIF option under the proposed design of the reforms. The ring-fencing of funds is necessary to provide the certainty and stability of income required for borrowing against revenues. Ring-fenced TIF will, however, require some sort of rationing to prevent national debt from being too high and the pot of national business rates from falling too low.
>
> We propose a light touch approach to TIF rationing in which the amount of TIF borrowing is capped as a proportion of business rates revenues within a LEP. Authorities, then, must present their business case to the LEP and be approved. This structure will ensure a sufficient national pot of business rates, maintain an acceptable level of national debt, vet local projects to ensure economic viability, and provide enough local freedom for places to support growth as they see fit.[163]

The Local Government Association (LGA) has said:

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[161] Christopher Brigstocke & Mark Simpson, "TIF – born to run?", *Estates Gazette*, 26 November 2011
[162] By Lily Sommer and Daria Kuznetsova, NLGN, 2011, pp28-9
[163] See *Local Government Resource Review: Submission from the Centre for Cities*, 24 October 2011

> In our response to the consultation the LGA urged the Government not adopt a hard rationing approach or create a costly and bureaucratic bidding process for Tax Incremental Finance schemes but instead set out a national framework with a small number of key tests.
>
> We will await detail to be set out in a separate consultation document.[164]

The British Chambers of Commerce are in favour of the proposals:

> Chambers of Commerce have long supported the concept of Tax Increment Financing (TIF), where major local infrastructure is unlocked by using future income to repay an upfront loan. We are pleased that the Government has committed to TIF, and to giving key schemes the long-term certainty required to get off the ground and spark local development. Since businesses and councils have waited too long for this power, TIF must be introduced without delay.[165]

4.4 Tax increment financing in other countries

United States

TIF is widely used in the US to finance regeneration plans. In fact, Arizona is the only state that does not have a TIF law. A report prepared for the Calgary City Council when it passed its own TIF Act gives more background:

> The 1949 Housing Act provided federal funds to cities for urban redevelopment in the post-war period. The Act offered funds to local public agencies to assemble, clear, and resell or lease land for predominantly residential uses to private developers or public housing agencies. In the early 1950s many State legislatures created housing authorities to act as urban renewal agencies, to manage these federal funds. The earliest urban renewal projects were often characterized as "slum clearance" and generated the most controversy because of the widespread displacement of residents and businesses and the demolition of heritage buildings.
>
> The Housing Act required a local match for federal urban renewal funds. In 1951, the State of California enacted implementing legislation so that TIF could be used as a local financing tool to match federal urban renewal funds. In the 1950s TIF was primarily used for purpose of financing the redevelopment of blighted communities. The use of TIF grew rapidly in the 1970s and 1980s when there was a fundamental shift in the way urban renewal was being planned and implemented. Instead of focusing on land clearance and housing renewal, plans expanded into a revitalization tool to improve both the built and social environment of decayed urban areas.[166]

There has been some criticism of TIFs in the US. For example, a study in *Land Lines Journal* noted:

> Policy makers should use TIF with caution. It is, after all, merely a way of financing economic development and does not change the opportunities for development or the skills of those doing the development planning. Moreover, policy makers should pay careful attention to land use when TIF is being considered. Our evidence shows that commercial TIF districts reduce commercial property value growth in the non-TIF part of the same municipality. This is not terribly surprising, given that much of commercial property is retailing and most retail trade needs to be located close to its customer

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[164] Local Government Association, *Local government finance reform*, 19 December 2011

[165] BCC press release, *BCC: Local Government Finance Bill will incentivise councils to promote local business growth*, 20 December 2011

[166] *The U.S. Experience with Tax Increment Financing (TIF): A Survey of Selected U.S. Cities*, Calgary City Council, March 2005, p2

> base. That is, if you subsidize a store in one location there will be less demand to have a store in a nearby location.[167]

Scotland

Legislation was passed by the Scottish Parliament in December 2010 to approve the use of TIF for six projects. The Scottish Futures Trust has been asked by the Scottish Government to lead on implementation of TIF, and their website includes guidance on TIF proposals:

> Any TIF proposals should be supported through the development of a Business Case by a local authority, which should detail the justification, including the financial and economic cases, for utilising TIF to deliver investment within the proposed area, the basis for the selection of the chosen enabling infrastructure and why it's believed this infrastructure will deliver the growth and additionality envisaged. The TIF Business Case also details how the project will be delivered and also how risk is allocated and managed.

It also notes progress so far:

> From a practical perspective, SFT has worked closely with City of Edinburgh Council ("CEC") and a number of local authorities to develop the TIF model for Scotland. In September 2010, the Cabinet Secretary for Finance and Sustainable Growth followed SFT's recommendation to approve in principle CEC's business case for a TIF project in the waterfront area of Edinburgh (further details are contained in the [News] section). Full approval was granted in March 2011. This represents the first establishment of TIF in the UK, allowing Scotland to progress with this exciting model for funding regeneration ahead of the rest of the UK.
>
> In December 2010 enabling legislation was passed for up to six TIF pilot projects to be developed across Scotland.[168] This includes the Edinburgh waterfront development as well as the two further pilot projects already identified: Ravenscraig (North Lanarkshire Council) and the Buchanan Quarter (Glasgow City Council). SFT is in dialogue with other Local Authorities to seek to bring forward further business cases to be considered as the remaining three pilots. It is estimated that the first three pilots will bring c.£250 million of public sector investment and further unlock more than £1.5bn of private sector investment.[169]

4.5 Enterprise Zones

The Bill

Paragraph 37 of Schedule 1 of the Bill also allows the Secretary of State to designate areas as enterprise zones.[170] The Government's response to the *Local Government Resource Review - Proposals for Business Rate Retention – consultation* noted that:

> The Government's Enterprise Zone policy already guarantees that any uplift in rates revenues from 2013-14 will be kept by the Local Enterprise Partnership for 25 years, and will be disregarded from the calculation of the levy and in any resetting of the rates retention system. This provides the certainty of revenue required for long term

[167] "Tax Increment Financing: A Tool for Local Economic Development", by Richard F. Dye and David F.Merriman, *Land Lines*: January 2006, Volume 18, Number 1

[168] The *Non-Domestic Rating Contributions (Scotland) Amendment Regulations 2010*, SSI 2010/391

[169] Scottish Futures Trust, *Tax Increment Financing*, accessed 5 January 2011

[170] Further information on EZs is available in Library Standard Note, SN/EP/5942, *Enterprise Zones*, last updated 22 November 2011

> borrowing, akin to option two Tax Increment Finance schemes, without the need for any further approvals or consent from Government.[171]

As with TIF, the Bill allows the Secretary of State to issue regulations to designate an area, which would include issuing a map of and calculations relevant to the area and the likely future income stream available to the authority. The text box below summarises the powers in the Bill.

TIF/Enterprise Zones

Under **paragraph 37** of **Schedule 1**, the Secretary of State can designate one or more areas in which a proportion of non-domestic rates are to be disregarded from any calculations under provisions relating to:

- Payments to be made and received by local authorities (Schedule 1, para 11 and 14)
- Requirement to make levy payments (Sch 1, para 21)
- Safety-net payments (Sch 1, para 24 and 26)
- Distribution of remaining levy account balance (Sch 1, para 28)

The Chancellor, George Osborne, made a speech at the Conservative Party spring forum on 5 March 2011 announcing new plans for Enterprise Zones (EZs) "across parts of Britain that have missed out in the last ten years".[172] Further details were set out in the *2011 Budget* and accompanying *Plan for Growth*.[173] There will be a total of 24 EZs in England. 11 of these were assigned to specific Local Enterprise Partnerships (LEPs) at the time of the Budget. A further 10 were to be awarded to LEPs following a competitive bidding process. The Government increased this to 11 on the basis of the "strength of applications".[174] A further two were announced separately in direct response to planned redundancies at BAE Systems.[175]

All EZs will be subject to specific measures on business rates, planning and broadband. Other policies may apply to particular EZs depending on local circumstances. In relation to business rates, businesses that move into an EZ before April 2015 will benefit from a business rate discount of up to 100% over a five year period. This is worth up to £275,000 per business in total. This provision, intended to apply from April 2012, was included in the *Localism Act 2011*. In addition, all business rates growth within EZs for 25 years from April 2013 would be retained by the LEP and reinvested in the area. The current Bill would give the Secretary of State the power to introduce regulations to enable this to take place.[176]

As central Government will fund business rate discounts for EZs, their size and scope is limited by the funding available. The Government expects this funding to increase considerably over the next few years: £20 million in 2012-13, £40 million in 2013-14, £65 million in 2014-15 and £80 million in 2015-16.[177] EZs will vary considerable in size: for

[171] Para 3.77
[172] George Osborne, *We're building a better future for Britain*, Cardiff, 5 March 2011
[173] HM Treasury and BIS, *The Plan for Growth*, March 2011, p33
[174] HM Treasury and DCLG press release, *The Government announces 11 new Enterprise Zones to accelerate local growth, as part of the Plan for Growth*, 17 August 2011
[175] HC Deb 10 Oct 2011 c3-4WS
[176] DCLG, *Local Government Resource Review: Proposals for Business Rates Retention*, July 2011
[177] HM Treasury, *Budget 2011 Red Book*, HC 836, March 2011, table 2.1 line 11

example, Humber Waterside EZ will be 375 hectares while Daresbury Science and Innovation Zone will be 28 hectares.[178]

EZs are part of the Government's plans to reduce burdens on the private sector to drive growth and job creation. The *Enterprise Zone Prospectus* list four key principals guiding the new EZs:[179]

1. Opportunity – "focusing on areas of genuine economic opportunity"
2. Long-term viability – attempting to ensure the "long-term success of the area beyond the initial period of Government business rate subsidy"
3. Strategic fit – LEPs will develop and implement EZs which suit their local area and with tying EZs to their wider economic priorities
4. Minimising displacement – LEPs "will have a vital role in targeting the business growth that is genuinely additional"

By taking this approach, the Government hopes to overcome some of the criticisms of previous EZs (see below).

In his response to the Conservative spring forum in March 2011, Shadow Chancellor Ed Balls said:

> All we've heard from this Conference is the reheated rhetoric and warmed up policies of 30 years ago – a VAT rise, deep spending cuts, knee-jerk deregulation and enterprise zones which didn't work when they were tried in the 1980s.[180]

Enterprise Zones in the 1980s

The previous incarnation of EZs was announced by Geoffrey Howe in his 1980 Budget. In total 38 EZs were designated between 1981 and 1996. Twenty-three were designated in two rounds between 1981 and 1984. Following this, designation occurred on an ad hoc basis.[181]

A number of benefits were available to both new and existing industrial and commercial enterprises in EZ for a ten-year period from the date on which the EZ was designated. These included:

- Exemption from rates on industrial and commercial property;
- Exemption from Development Land Tax;
- 100% allowances for corporation and income tax purposes for capital expenditure on industrial and commercial buildings;
- Employers were exempt from industrial training levies and from the requirement to supply information to Industrial Training Boards;

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[178] HM Treasury and DCLG press release, *The Government announces 11 new Enterprise Zones to accelerate local growth, as part of the Plan for Growth*, 17 August 2011

[179] *Ibid*, p3

[180] Ed Balls, *George Osborne is the real enemy of enterprise and growth in Britain today*, 7 March 2011

[181] Kieran Larkin & Zach Wilcox, *What would Maggie do? - Why the Government's policy on Enterprise Zones needs to be radically different to the failed policy of the 1980s*, Centre for Cities, February 2011

- A greatly simplified planning regime; developments that conformed with the published scheme for each zone did not require planning permission. Those controls remaining in place would be abandoned more speedily.[182]

The most authoritative study was one commissioned by the Department of the Environment in 1995, which covered 22 of the 25 EZs designated between 1981 and 1984.[183] The key findings included:

- Around 126,000 jobs were created, of which up to 58,000 were additional. Additionality was highest amongst manufacturing and lowest for retailing and distribution activity.

- The cost per additional job created was around £17,000 (£26,000 at current prices), assuming a ten year job life

- More than £2 billion (1994/95 prices) of private capital was invested in property on the EZs, a public to private leverage ratio of about 1 to 2.3.

Two recent think-tank reports have also considered EZs. A report from the Centre for Cities suggests that employment and skills support to increase productivity are a key component of successful EZs. This contrasts with the emphasis on capital spending and property redevelopment that characterised 1980s EZs. It also suggests tailored packages of support for individual areas and EZs in more prosperous cities as well as struggling areas.[184]

A further report was produced by the Work Foundation. It agrees that the 1980s programme was largely ineffective and argues that the new generation of EZs should be larger (avoiding competition within local areas), include investment in skills and infrastructure, and be "governed in a way that is …compatible with localism".[185]

4.6 Other measures

Paragraph 38 of **Schedule 1**, as well as allowing for TIF and EZ areas to be designated, would allow the Secretary of State to designate certain hereditaments for which a proportion of non-domestic rates are to be disregarded from any calculations. In practice this will enable the Secretary of State to designate a specific type of property, thereby taking it outside the system in a similar way to TIF and EZ, and could be used to meet the Government's renewable energy commitment.

Paragraph 39 of **Schedule 1** allows for regulation made under paragraph 37 (TIF/EZ) or 38 (classes of hereditament) to make provisions for payments from a billing authorities to a major precepting authorities,[186] to take account of the designated area or class of hereditament.

5 Council Tax Reduction Schemes

As part of the 2010 Spending Review the Government announced an intention to localise support for council tax from 2013-14 and to reduce expenditure on this benefit by 10% (amounting to a saving of £420m per annum in England).

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[182] P.Bruinvels and D.Rodrigues, *Investing in Enterprise*, 1989, p161

[183] *Final Evaluation of Enterprise Zones*, PA Cambridge Economic Consultants, HMSO 1995

[184] Kieran Larkin & Zach Wilcox, *What would Maggie do? - Why the Government's policy on Enterprise Zones needs to be radically different to the failed policy of the 1980s*, Centre for Cities, February 2011

[185] Andrew Sissons and Chris Brown, *Do enterprise zones work?*, The Work Foundation, February 2011, p.3

[186] For example, a county council which does not have the functions of a district council; a police authority in England whose police area is listed in Schedule 1 to the Police and v) the Greater London Authority.

The *Welfare Reform Bill*, which is currently before Parliament, provides for the abolition of Council Tax Benefit. The Government intends that future support with council tax payments for working-age taxpayers should be offered in the form of reductions to council tax, according to criteria set by local authorities. **Clause 8** and **Schedule 4** to the Bill provide a framework for the localisation of support for council tax.

The Government issued a consultation paper, *Localising Support for council tax England*,[187] in August 2011. It published a summary of responses, together with the Government's response to the consultation exercise[188] and an impact assessment,[189] alongside the *Local Government Finance Bill.* The Communities and Local Government Select Committee held an inquiry into localisation issues in the Government's welfare reform programme and published its report in October 2011.[190] The Committee's conclusions are referred to in section **5.5** (below).

5.1 Council Tax Benefit – the existing system

Entitlement – an overview

Council Tax Benefit (CTB) is an income related benefit which may be claimed by an eligible individual who is liable to pay council tax in respect of their sole or main residence.

CTB is a national benefit with policy and rules set by central Government but it is administered by local authorities in England, Scotland and Wales. Administration is linked 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 CTB is reserved to the UK Government.

The amount of CTB 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 of any partner. The means test for CTB follows the rules for other income related benefits such as Income Support and income-based Jobseeker's Allowance, 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 CTB. 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 CTB subject to an income taper. Claimants lose 20 pence in CTB for each additional pound of income that exceeds their applicable amount.

In CTB there is a lower capital limit – £6,000 for people of working age and £10,000 pension age – above which an assumed income from capital is taken into account. CTB 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 CTB, more commonly known as the 'Second Adult Rebate', may be awarded to the claimant if they would be better off with this than with CTB under the main

[187] Consultation closed on 14 October 2011.

[188] DCLG, *Localising support for council tax in England: Government's response to the outcome of consultation,* 19 December 2011

[189] DCLG, *Local Government Finance Bill: Localising support for council tax – impact assessment*, December 2011

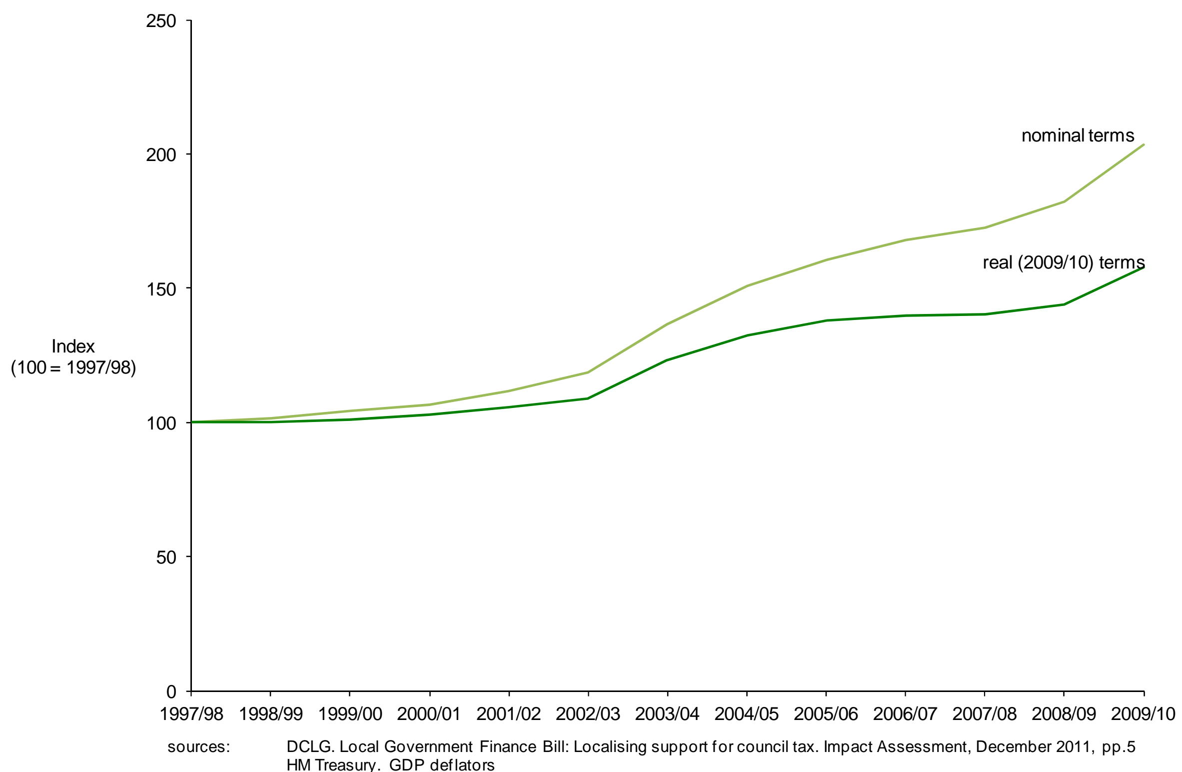
[190] HC 1406, October 2011

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 (aged 18 or over) who has no responsibility to pay council tax and is not on the list of disregarded persons. The amount of the rebate is based on the gross income of the non-dependant person 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% of council tax liability.

Funding

The cost of CTB is currently met by the Department for Work and Pensions (DWP) out of their Annually Managed Expenditure and is paid to local authorities as a reimbursement of their expenditure according to nationally-set criteria. Local authorities are reimbursed at 100% 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 DWP during the year. Expenditure on CTB more than doubled between 1997-98 and 2009-10 in nominal terms and increased by over half in real terms:

Figure 4: Index of CTB expenditure, nominal and real (2009/10) terms
Index: 100 = 1997/98



sources: DCLG. Local Government Finance Bill: Localising support for council tax. Impact Assessment, December 2011, pp.5
HM Treasury. GDP deflators

The key factor behind this increase is a rise in council tax levels:

> Between 1997-98 and 2009-10, both Council Tax Benefit expenditure and average Area Band D council tax have more than doubled. Even if the number of Council Tax Benefit claimants were to remain unchanged, Council Tax Benefit expenditure increases if average council tax levels increase because Council Tax Benefit depends on the overall council tax liability.[191]

[191] DCLG, *Local Government Finance Bill: Localising support for council tax – impact assessment*, December 2011, p5

***Key statistics: September 2011*[192]**

Number of recipients

At September 2011 there were 5.9 million CTB recipients in Great Britain. The total number of recipients has increased by 6% since September 2009.

Average claim

The average weekly award is £15.73. The average weekly award is higher for passported[193] recipients (£16.77) and lower for non-passported recipients (£13.65).

Recipients over 65 years

2.2 million (38%) of CTB recipients are aged 65 or over; 3.7 million (62%) are aged under 65.

Households with dependent children

1.6 million (29%) recipients are families with dependent children; of these 1.1 million are single parent families.

Passported status

1.9 million (33%) of recipients are standard claims (non-passported); the remaining 3.9 million (67%) are passported. The passported benefit of recipients is broken down as follows:

- 1.3 million receiving Income Support;
- 0.6 million receiving Job-seeker's Allowance;
- 0.3 million receiving Employment and Support Allowance; and,
- 1.7 million receiving Pension Credit.

5.2 The rationale for localising support

The rationale for localising assistance with council tax payments was set out in the August 2011 consultation paper, *Localising Support for council tax England*:

- To give local authorities a greater stake in the economic future of their local area, and so support the Government's wider agenda to enable stronger, balanced economic growth across the country.
- To 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.
- 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 and decision-making, including the Government's proposals for local referendums on council tax levels.
- 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.

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[192] DWP, *Housing Benefit and Council Tax Benefit caseload,* December 2011

[193] Recipients of certain means tested benefits are "passported" through to receipt of full CTB.

> 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.

- To 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.[194]

5.3 The Bill

Clause 8 provides for a new section 13A in the *Local Government and Finance Act 1992* which will mean that, in respect of dwellings in England, a person's liability to pay council tax will be reduced in accordance with the billing authority's Council Tax Reduction Scheme. Liability may be reduced "to such an extent as the billing authority thinks fit." Billing authorities will be able to apply a reduction in particular cases or by determining a class of case. Liability for council tax may be reduced to nil.

Billing authorities will be the default lead authorities for council tax support schemes although they will, under their existing powers,[195] be able to collaborate with other billing authorities to develop joint schemes, or develop schemes on behalf of one or more other authorities, or allow an upper-tier authority to develop a scheme on behalf of one or more billing authorities. They will be required to have a Council Tax Reduction Scheme in place by 31 January 2013 with a view to implementation in the 2013-14 financial year. The Secretary of State will have the power to amend the commencement date by order.

The framework within which billing authorities must devise their Council Tax Reduction schemes is contained in Part 1 of Schedule 4 to the Bill. This Schedule provides that the following matters *must* be included in an authority's scheme:

- a description of the classes of person entitled to a council tax reduction;
- details of the reductions which are to apply to those classes (different classes of persons may be entitled to different reductions);
- the procedure under which a person may apply for a council tax reduction; and
- an appeals procedure covering decisions over entitlement to a reduction and the amount of any reduction due.

Authorities must conduct a consultation exercise before preparing their Council Tax Reduction Schemes. Consultation must involve any major precepting authority[196] and such other persons "likely to have an interest in the operation of the scheme." A draft scheme must be published. Regulations may prescribe the procedure to be followed for the preparation of Council Tax Reduction Schemes.

The Secretary of State will be able to prescribe (by regulation) classes of persons that must be covered by a scheme and the reductions that must apply to them. The Government intends to use this power to ensure that reductions are provided for pensioners.[197]

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[194] DCLG, *Localising Support for council tax England,* August 2011
[195] Section 101 of the *Local Government Act 1972*
[196] A precepting authority is one with the power to instruct another local authority (the billing authority) to collect an amount from council tax on its behalf.
[197] Bill 265-EN, para 77

Responses to the consultation exercise gave "broad support" to the retention of support for pensioners through a national "rules-based" approach. Regulations will define eligibility and rates for pensioners that will be "broadly similar" to existing provisions.[198] The Government has said that it does not intend to use its power to prescribe support for groups other than pensioners.[199]

The Schedule sets out the type of considerations an authority might take into account in deciding which classes of person are entitled to a reduction, including:

- capital and income levels of the person liable to pay council tax;
- capital and income levels of other residents in the dwelling;
- the number of dependents of the person liable or other residents; and
- whether the person has applied for a reduction.

A reduction may take the form of:

- a discount calculated as a percentage of the amount of council tax due;
- a fixed discount set out in the scheme or calculated in accordance with the scheme;
- an amount of council tax to be paid (lower than that payable if not for the reduction scheme) which is set out in the scheme or calculated in accordance with it; or
- the whole amount of council tax (so the amount payable is nil).

The Secretary of State will retain a power to prescribe (by regulation) "other requirements for schemes". This may cover matters such as classes of persons which must or must not be included; the minimum/maximum level of reductions; and matters relating to the application procedure.

The Secretary of State will (by regulation) prescribe a default scheme which will take effect if a billing authority fails to make a scheme on or before 31 January 2013. This default scheme will retain the criteria and allowances currently in place for CTB.[200] Authorities will have an incentive to avoid the imposition of a default scheme as "this will limit their ability to adjust awards to manage the funding reduction."[201]

Authorities will be able to revise or replace their schemes in preparation for the start of each financial year. They will not be able to make in-year revisions. Transitional arrangements must be put in place where revisions result in a reduction/removal of assistance for a class or classes of persons. 55% of respondents to the consultation exercise agreed that it should be possible to adjust schemes annually.[202]

Two or more authorities will be able to work together to deal with deficits in the billing authority's collection fund. Arrangements may involve one billing authority making payments

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198 DCLG, *Localising support for council tax in England: Government's response to the outcome of consultation,* 19 December 2011, paras 2.4-2.5

199 *Ibid*, para 3.9

200 *Ibid*, para 3.17

201 *Ibid*, para 3.18

202 *Ibid*, para 3.15

to another or variations in payments or instalments due. Additional information on risk sharing arrangements can be found in section **5.4** (below).

The Secretary of State will be able to require billing authorities to provide information. Authorities will be required to have regard to guidance issued by the Secretary of State in exercising their functions.

There is provision for the Secretary of State to make transitional arrangements for the commencement of schemes – this includes treating a person who was/is in receipt of CTB as having made an application for a council tax Reduction.

5.4 Additional features of Council Tax Reduction Schemes

As noted above, the Bill creates a framework within which Council Tax Reduction Schemes must be devised. More detailed information on aspects of the operation of these schemes, such as funding and risk sharing, are set out in *Localising support for council tax in England: Government's response to the outcome of consultation*. The following sections summarise the Government's thinking.

Funding

It is the Government's intention that grants will be paid to the billing and major precepting authorities (using existing powers), thus reducing each authority's council tax requirement and off-setting partially or fully the reduction on the council tax base as a result of the new discounts on offer. Provisional allocations will be published to enable local authorities to begin planning and consulting on their schemes. Options for the distribution of grant for the first two years are under consideration – a technical consultation on the detail of the funding methodology is expected in spring 2012. The Government is "minded" to base grant allocations on previous shares of expenditure but will take account of what provision might be needed for authorities facing the greatest pressures. Consideration will be given to a new basis for distributing grant (other than previous expenditure) from 2015-16.

55% of respondents to the consultation exercise expressed a preference for annual allocations of grant. The Government has said it will set allocations annually for the first two years.

There will be no restrictions on the amount that authorities can put towards schemes – 69% of respondents to the consultation exercise argued against the application of restrictions. Billing authorities will retain their existing powers to offer discretionary support.

Risk sharing

The localisation of support for council tax payments will mean that local authorities must be able to cope with variations in demand for assistance. Billing authorities may collect less or more council tax than estimated at the start of the financial year, resulting in a surplus or deficit on the collection fund (into which council tax and business rate revenues are paid) at year end.

The Government is proposing that any deficit or surplus should be shared between the billing and major precepting authorities at the beginning of the following financial year:

> This deficit is either absorbed as a reduction in the council tax requirement the following year, or through a general increase in council tax. Over three quarters (76%)

of respondents to the consultation agreed that billing authorities should normally share risks with major precepting authorities.[203]

The Government is minded to allow billing authorities to vary the amount of precept to be paid to the major precepting authorities in year "to reflect any fluctuations in collection rates." Currently the timing of these payments can be adjusted but the amount payable cannot be changed. Such a move might assist in protecting billing authorities from in year financial pressures.

Administration and transitional arrangements

Council taxpayers will receive a demand for council tax which will set out how it has been calculated, including information used to calculate the amount of any council tax reduction. The notice will include information on how to appeal against the amount of council tax demanded. Consultation responses favoured appeals to a body independent of local authorities. The Government also favours a single appeals process and has said that it will work with the Valuation Tribunal for England and the Ministry of Justice to determine the impact of the appeal arrangements.[204]

Currently individuals who are subject to immigration control or who are not habitually resident in the UK are not eligible for CTB. The Government believes that this should continue to apply when local schemes are in place and "will consider how best to give effect to this."[205]

The Government does not intend that localisation of support should place additional pressure on local government finances. The transitional costs of moving to local arrangements (together with the centralisation of Housing Benefit through the Universal Credit system) will be assessed. A one-off transition to local schemes in April 2013 was supported by 71% of respondents to the consultation exercise.

Respondents also identified assistance that the Government could provide in the form of model schemes; engagement with IT suppliers; publicity; data; and support and guidance. In the short term the Government intends to look at ways in which implementation of local schemes can be made easier by using the existing components of CTB calculations as the building blocks of local schemes for working age claimants "enabling schemes to be brought in with potentially limited changes to systems and data requirements."[206] Decisions over the level of support for working age claimants will rest with local authorities but the Government has highlighted the "strong financial and delivery benefits" that could be gained from retaining the current approach to calculating support for pensioners and enabling support for working age claimants to be based on the same factors.[207]

Data sharing and fraud

The Government intends to seek powers to facilitate information sharing between the Department for Work and Pensions (DWP) and local authorities, and between local authorities in order to reduce complexity for claimants and administration costs.

Specifically, it is proposed that:

- the Secretary of State (primarily the Department for Work and Pensions) be empowered to provide relevant information to a billing authority;

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[203] *Ibid*, para 4.4
[204] *Ibid*, para 6.6
[205] *Ibid*, para 6.7
[206] *Ibid*, para 10.4
[207] *Ibid*, para 10.10

- a billing authority be empowered to provide relevant information to the Secretary of State (primarily the Department for Work and Pensions); and
- a billing authority be empowered to provide relevant information to another billing authority.[208]

In the first year of operation local authorities are expected to use data held on entitlement to CTB and Housing Benefit to aid the design of their schemes. In future years, access to information held by the DWP will be necessary to aid authorities in modelling changes to their schemes as centralisation of benefit administration (with the introduction of Universal Credit) will reduce the amount of information held at a local level. The Government is considering how it will provide information to authorities to facilitate scheme design.

Sharing data with local authorities for the purpose of administering social security benefits is well established. Delivering assistance through a reduction in council tax will mark a change in the purpose of data sharing – the Government has said it "will need to ensure the implications of this are fully understood in developing proposals for how data sharing will operate."[209] As far as possible, the Government intends to use existing infrastructure for data sharing over secure networks with a view to minimising costs.

Consultation responses expressed strong support for an extension to local authority powers to investigate CTB fraud to cover the new local Council Tax Reduction Schemes. Given that this would mean an increase in local authority powers in relation to council tax, the Government is considering how best to respond.[210]

5.5 Comment

Funding & financial risk

A great deal of concern around localisation of council tax support is focused on the fact that authorities will be expected to deliver schemes of support with a reduced and cash-limited budget. The impact assessment[211] identifies a key risk around future need for council tax support:

> If demographic changes or economic circumstances mean that eligibility for council tax support increases significantly then the consequence of switching from Annually Managed Expenditure to Departmental Expenditure Limits will be that authorities bear more of the risk of a shortfall in funds.[212]

The Chartered Institute of Housing (CIH) opposes localisation of support for this reason:

> CIH is opposed to the localisation of Council Tax Benefit (CTB) as proposed in the consultation. We are extremely concerned that localisation will mean that funding for CTB is switched from Annually Managed Expenditure (AME) to Departmental Expenditure Limits (DEL). Although this is a technical change it is a very significant one: it means that spending will no longer rise to meet the demand from changes in the caseload as it rises and falls in line with the economic cycle. Funding for CTB will change from being a demand led system to one that is cash limited. In other words

[208] *Ibid*, para 7.3
[209] *Ibid*, para 7.9
[210] *Ibid*, para 8.4
[211] DCLG, *Local Government Finance Bill: Localising support for council tax – impact assessment*, December 2011
[212] *Ibid*, p2

> CTB awards will be squeezed precisely at the point at which there is the most need for help amongst low income households.[213]

The Local Government Association (LGA) supports localisation in principle but argues that councils are not being given discretion to influence the distributional impact of the council tax in line with local priorities:

> On the contrary, it creates an almost impossible problem for councils by linking localisation to a 10% funding cut and severely limiting councils' discretion in how they pass that cut on to current Council Tax Benefit claimants by mandating the protection of current and future pensioners. For some councils, spending on non-pensioner, non-vulnerable claimants is less than a 10% spending cut would amount to: it is not clear how those councils are expected to be able to implement the policy at all.[214]

The House of Commons Scrutiny Unit estimated the impact of a 10% cut to CTB with protection for over 65s using DWP figures[215]:

> This simplified illustration is based on the average of monthly 2010–11 figures and assumes no changes to recipient numbers:
>
> Annual CTB bill of £4.817 billion, with 5.8 million recipients:
>
> - CTB recipients over 65: 2.2 million at average claim £835.33 per year = £1.857 billion
> - CTB recipients under 65: 3.6 million at average claim £825.33 per year = £2.960 billion
>
> If total CTB bill to be cut by 10% to £4.335 billion:
>
> - CTB recipients over 65: 2.2 million at average claim £835.33 per year = £1.857 billion
> - CTB recipients under 65: 3.6 million at average claim £691.02 per year = £2.478 billion
>
> Non-pensioners would therefore face an average cut of 16% in their council tax support. Protection for other vulnerable groups, for example those who currently receive 100% Council Tax Benefit, would exacerbate this effect.[216]

The LGA and other respondents asked for consideration to be given to the relief offered in the form of council tax exemptions and discounts and questioned what flexibilities councils might be given in these areas. LGA concerns around funding are echoed in the responses of the District Councils' Network (DCN) and London Councils. Research by the latter concluded that London would have faced a shortfall in funding of £400m in the five year period up to 2009-10, had the proposals been implemented at that time.[217] The DCN and others have called for the annual refresh of grant to include an uplift to reflect changes to council tax levels:

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[213] CIH *response to Localising support for council tax*, October 2011

[214] LGA *response to localising support for council tax,* October 2011

[215] *House of Commons Scrutiny Unit* based on DWP figures at: http://research.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_jul11.xls

[216] HC 1406, October 2011, Table 1, p20

[217] London Councils, *council tax changes won't benefit Londoners*, 14 December 2011

> This would provide some protection against increased financial pressures and help provide stable schemes for those already faced with cuts in local support.[218]

When asked by the Communities and Local Government Select Committee whether councils would be expected to pass on the 10% reduction to claimants or find the money from other budgets, the Minister, Grant Shapps, said:

> ...that is old-school thinking in a sense, because it says that a local authority has no control over what happens in its authority boundaries, what economic activity is like, whether there is growth in the area, whether those business rates are kept, and the New Homes Bonus and the rest of it. [...] What we propose here is a way of achieving a 10% reduction and, at the same time, through giving local authorities a stake in the economic activity, and therefore in the welfare of their citizens, the opportunity to reduce that bill, not by unfairly not paying people who are vulnerable and need it— the White Paper makes very clear that they will be protected—but ensuring that there is a definite interest in starting up that new industrial estate, business park and getting economic activity going so there are jobs [...] if somebody is in work they will not be receiving the [CT] benefit because they will not need to. [...] The culture of 'Let them rot in the houses while we pay them benefit' must come to an end. We have to do this more intelligently and involve the local authorities in the economic activity and success of their areas. Bluntly, I do not think that is worth 10%; it is actually worth a lot more to local authorities, because suddenly they get something back for making sure they are looking after their residents.[219]

The Select Committee was not persuaded by these arguments:

> We have seen little evidence to support the hope that new and better-paying jobs for individuals, immediately sufficient to off-set the 10% reduction in the benefit budget, will inevitably follow from these incentives; the means of economic growth are never solely in the gift of individual local authorities. We have commented in a previous report that councils would have welcomed more involvement in the development of the Work Programme to improve their capacity to tackle worklessness. It is not at all clear that the supposed incentives of the new council tax support system will make local authorities feel that they are partners with central government in the achievement of economic development.[220]

Dan Paskins of the New Policy Institute modelled the effect of a 10% cut in council tax support on the basis of a uniform cut across all authorities. Based on an average cut per dwelling, he found:

- A range of effects from £37 per dwelling in the London borough of Haringey, to £8 per dwelling in parts of Surrey and Northern Scotland, and £5 in the city of London. The average is £18.
- Five of the ten hardest hit local authorities are in London's deprived north eastern quarter,[221] with just three outside the capital (Hartlepool, Knowsley and Liverpool).
- Five of the ten hardest hit local authorities were also amongst the top ten most deprived areas on the (English) 2007 Indices of Multiple Deprivation (Hackney, Newham, Liverpool, Islington and Knowsley), and all have higher than average

[218] District Councils' Network, *Response to localising support for council tax*, October 2011
[219] HC 1406, October 2011, para 41
[220] HC 1406, October 2011, para 44
[221] London's Poverty Profile 2010

levels of child poverty. Two of the least affected areas, Hart and Wokingham, were the two least deprived areas in the Indices of Multiple Deprivation.

- The hardest hit Welsh and Scottish authorities are both outside of the top ten: Glasgow City (20th) and Blaenau Gwent (32nd) in the South Wales Valleys. The overall lower levels of council tax in Wales and Scotland are the reason for these relatively low positions since in terms of the proportion of dwellings in the area receiving CTB, these two authorities rank 5th and 14th.[222]

He found a quite different picture when modelling an average cut per recipient:

- The effect varies between £128 per recipient in the London borough of Richmond to £52 per recipient in the neighbouring borough of Wandsworth. The average is £84.

- In this list, the recipients who would be hardest hit live in the more prosperous outer London boroughs on the western side of the capital, along with several of the immediately adjacent local authority areas outside of London.

- With the notable exceptions of Wandsworth and Westminster, the local authority areas at the bottom of this list are in parts of Scotland (outside of the central belt) and parts of Wales.[223]

The Government's impact assessment states that authorities will have some discretion over how savings are to be realised in order to cope with the 10% funding cut.

> As well as being able to choose – through the design of their scheme – whether some awards should be reduced, thereby increasing the amount of council tax the authority collects from some current welfare claimants, authorities may also choose to realise the saving in other ways. This could be through reconfiguring funding for other services through efficiency savings, using reserves, or using flexibility over council tax.[224]

The impact assessment contains modelling information on potential budget pressures for local authorities and sets out various scenarios which assess the impact on claimants and work incentives of the 10% cut in funding.

A further area of risk for local authorities in a fixed funding environment, in addition to demographic changes, localised job shocks and the impact of a general economic downturn, is that of increased take-up. The DWP estimates that in 2008-09 between 57-66% of eligible pensioners actually claimed CTB compared with 74-88% of working age claimants.[225] A system where relief is delivered through automatic entitlement may increase take-up rates, leading to further pressures on local authority budgets.

The Select Committee recommended that the Government provide some means of flexible funding "to ensure that increased take-up does not result in local authorities either rationing support or raiding other budgets in-year to fulfil the terms of their council tax support scheme." The Committee concluded that fixed grant funding will act as a disincentive to councils to improve take-up rates for council tax support.[226]

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[222] NPI, *Council Tax Benefit: The effect of a 10 per cent cut*, 2010
[223] *Ibid*
[224] DCLG, *Local Government Finance Bill: Localising support for council tax – impact assessment*, December 2011
[225] *Ibid*, para 64
[226] HC 1406, October 2011, para 48

Responses from local government organisations also raised the challenges they may face in collecting council tax from residents who have never had to pay it before:

> The 10% reduction in Council Tax Benefit cost will be passed on to existing working age claimants who are not defined as 'vulnerable'. All local authorities have difficulty collecting council tax from residents on minimal levels of income. There are similarities with the Community Charge where full rebate was removed for poorer residents and local authorities had to collect from people who had never had to pay before. Evidence shows that arrears levels are highest where residents are on minimal levels of income. The current proposals will result in an increase in council tax payers being taken to court and more use of bailiff powers to collect outstanding council tax. A potential solution to this problem would be to legislate to allow recovery powers for council tax to be expanded to other welfare benefits so that arrears can be deducted at source.[227]

While representative bodies of local authorities acknowledge that there is scope for risk sharing across local authority boundaries, the overriding view is that there is a need for further debate around the sharing of risk between central and local government. The increase in claimant numbers in recent years is cited as evidence of the volatility of expenditure on this area. There is a view that if the overriding objective is to reduce the budget, a simpler way to do this would be to retain a national scheme that delivers the necessary savings but which would achieve consistency across council boundaries.[228]

Localism in practice

Respondents questioned the level of central direction that will dictate the design of local schemes of support. The need to protect pensioners and work incentives at the same time as delivering a 10% reduction in expenditure will, it is argued, act as considerable constraints on scheme design.

London Councils commented on what it views as an "absence of true localism" within the proposals:

> London Councils is a strong supporter of devolution and localism. It believes that boroughs should be at the heart of their local economies and communities and elected members with their democratic mandate are best placed to respond to the needs of their local communities. Whilst we believe that local government should strive for, and be given, greater devolved power and flexibility, new burdens and responsibilities must be transferred in a manner that is transparent, fair and "fully and properly funded."
>
> London Councils is concerned that these proposals do not meet these fundamental requirements. With so many of the scheme parameters fixed and protection dictated by central government for a number of groups, there will be little scope for local authorities to have truly responsive and local schemes. The consultation has a very narrow focus with many of the existing discounts and exemptions within the current council tax system excluded from the debate. London Councils believes that any consultation on council tax support should address each and every feature of the current system rather than the narrow range of features the Government has chosen to consider. Given these limitations, it remains very difficult to envisage how any local scheme will be truly local and differ significantly from the current national scheme and the status quo.[229]

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[227] Association of North East Councils, *Response to localising support for council tax*, October 2011
[228] District Councils' Network, *Response to localising support for council tax*, October 2011
[229] London Councils, *Response to localising support for council tax*, October 2011

The Chartered Institute of Public Finance and Accountancy (CIPFA) called for authorities to have maximum discretion to manage eligibility and other criteria in order to enable them to mitigate some of the risks involved in localising council tax support with a reduced budget.[230]

The Communities and Local Government Select Committee expressed scepticism over the level of local control that councils will actually have:

> We agree that it is desirable for local authorities to be able to—in the Minister's phrase—"control their destiny", but the Government should not pretend that control over diminished resources, within centrally-imposed constraints, is unproblematic. Nor can it be considered a great advance for the policy of localism. The proposals for the localisation of council tax support seem to us to provide an illusion of delegation with a minimum of real discretion, virtually guaranteeing that the funds available to support working-age unemployed people will be squeezed.[231]

Links with Universal Credit

The decision to localise support for council tax instead of including it as part of Universal Credit has been questioned. During the Commons Committee stages of the *Welfare Reform Bill* Stephen Timms, for the Opposition, described the omission of CTB from Universal Credit as a "serious blow to the prospects for effective welfare reform."[232] Baroness Hollis moved an amendment to the Bill in Grand Committee[233] and at Report Stage (House of Lords) to provide for the inclusion of assistance with council tax payments within Universal Credit. Amongst other arguments, she stressed that having a separate system to determine help with council tax payments would undermine the work incentives within Universal Credit:

> Finally, what you will get in CTB will, of course, be determined by your income. Families facing the means test of universal credit will now find that they also face a second means test-that of CTB. How on earth will the value of moving into work be calculated, which is what universal credit is all about, when people face two means tests, two tapers-one with national rules and one with 400 separate local rules-that are layered on top of each other? As the noble Lord, Lord German, rightly said in Committee,
>
> "if you believe in a universal credit, and you have a postcode lottery for what that amount of money might mean to you, how on earth are you going to be able to judge whether or not work is beneficial for you?".-[*Official Report*, 6/10/11; col. GC 381.]
>
> Exactly so; I could not have put it better.
>
> UC was designed to bring all working-age benefits together into one so that every one of us would know what we would get and why work paid. Under the localism agenda, Council Tax Benefit-a social security benefit-is being plucked out of UC, thereby destabilising it and balkanising the system.[234]

Lord Freud, responding for the Government, said that the time had passed for the inclusion of CTB within Universal Credit.[235] Baroness Hollis pressed her amendment to a division where it was defeated by 182 votes to 152.

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[230] CIPFA, *Response to* DCLG *consultation on localising support for council tax*, October 2011
[231] HC 1406, October 2011, para 43
[232] PBC 28 April 2011 c557
[233] HL Deb 6 October 2011 cc369-73GC
[234] HL Deb 12 December 2011 c1061-62
[235] HL Deb 12 December 2011 c1067-68

The Communities and Local Government Select Committee considered the implications of keeping support for council tax separate from Universal Credit. Dr Peter Kenway of the New Policy Institute told the Committee that if localised schemes for council tax support were to preserve the 65% withdrawal rate of Universal Credit they would need to be designed by the Department of Work and Pensions.[236] Professor Paul Gregg of the University of Bristol was questioned on the impact of a separate taper for council tax support by the Public Bill Committee on the *Welfare Reform Bill:*

> ***Professor Gregg:*** Yes, this is a bit ugly. The first point of it being outside and subject to a second taper is that you have a supplementary taper system on top, which is unhelpful. The second is that one of the key features of the universal credit is the idea of simplicity, relative transparency and a single system, and potentially we will have 150-odd different variants set by local authorities for the Council Tax Benefit. That jars with the fundamental logic of a universal credit. Taking part of the system, sticking it outside and making it highly diverse does not fit well with the idea of simplification and transparency. I think that that is a mistake and that you should try and get it inside. At the very least, you should have the same definitions of income, so that things can be transparent and to minimise the extra complexity that might arise out of having highly diverse local variations in a system.
>
> **Q 167 Stephen Timms:** But what about if you were to fix the taper rate for local authorities at 65% or the same—
>
> ***Professor Gregg:*** You would still have a problem of trying to integrate it with the universal credit. Does it come before the rest of the universal credit in terms of the taper? That is not easy when you have something assessed separately. That is occurring in other areas too, where you have things potentially outside, but there is a certain logic of replicating as much of the universal credit system as within the Council Tax Benefit system to try and reduce the complexity. Obviously, the simplest one would be to get it inside and subject to the same rules as the rest of the system.[237]

The idea that support for council tax should be part of the Universal Credit is not supported by all respondents. For example BenX, a group made up of a number of local authorities with a particular interest in benefits reform, has said:

> ...if Council Tax Benefit were to be included with Universal Credit, a complicated process for paying direct to Local Authorities would need to be put in place, or if paid direct to the customer, Local Authorities would have to collect 100% of council tax, which would lead to soaring arrears.[238]

Work incentives

In addition to the potential impact on work incentives of keeping support with council tax payments outside of Universal Credit, respondents commented on the likelihood of the 10% cut failing mainly on the “working poor”:

> The proposals do not fit well with the Government’s wider objectives to make work pay, especially the policy to take the lowest paid out of tax. Under the CTB reform proposals cuts will be made to benefits payable to individual households, but pensioners and ‘vulnerable’ households will be protected from these cuts. This means the whole of the 10% saving which local authorities must make will fall on the unprotected group – who are mainly the working poor. If we assume that ‘vulnerable’ includes all those currently

[236] HC 1406, October 2011, para 35
[237] PBC 24 March 2011 c96
[238] HC 1406, October 2011, Ev 21

> on passport benefits then those households who are not protected will face at least a 40% cut in their CTB. In many cases the gains made by the working poor from the recent £1000 increase in the personal allowance for income tax will be completely wiped out by the reduction in CTB. We firmly believe that taxation should be based on the ability to pay. Therefore the criteria for relief should be set on a national basis rather than being determined by where you live.[239]

London Councils has questioned the extent to which local authorities are able to create stronger incentives to get people back to work:

> Government has removed many of the direct levers local authorities have over employment programmes. The Government has centralised the commissioning and delivery of mainstream employment programmes such as the Getting Britain Working initiatives and the Work Programme. In the latter, large private sector providers have been commissioned to deliver programmes across large areas. In London, each Contract Package Area covers 16 and 17 London boroughs respectively. Local flexible funding from Government, such as Working Neighbourhoods Fund, has ceased.
>
> London boroughs remain committed to increasing employment locally and many still run local employment schemes using their own funding. However, these are much smaller in scale than the mainstream government initiatives over which local government has no direct influence. Should the Government go ahead with localising Council Tax Benefit, London Councils would like to discuss how boroughs can have more direct influence over mainstream employment programmes.[240]

The Association of North East Councils said:

> The consultation also appears to be based on the fundamental assumption that local authorities need an incentive to help get people back into work and that reducing levels of benefit offers the best mechanism to do so. This is a very simplistic view which does not fully acknowledge the complex reasons why people are not in work and the limits on local authorities in being able to address this matter. Some areas have difficulty in attracting investment due to location or other infrastructure issues, which in turn has an impact on the number of local job opportunities.[241]

Timescale

The Communities and Local Government Select Committee's report said that "the timescale of the change is the aspect of the reforms that attracted perhaps the most widespread criticism in submissions."[242]

The gap between the announcement in the 2010 Spending Review and the publication of the consultation document in August 2011 was criticised. Reference has been made, during consideration of the *Welfare Reform Bill* in Parliament, to the problem of legislating to enable the abolition of CTB before any information on what might replace it is available.

The Select Committee emphasised the need for a robust replacement to CTB and recommended that consideration be give to a delayed introduction:

> 56. Consultation at a stage in the process where responses are genuinely able to determine outcomes is of course to be welcomed. But it is regrettable that so much time was allowed to pass between the initial announcement about localisation of

[239] CIH *response to Localising support for council tax*, October 2011
[240] London Councils, *Response to localising support for council tax*, October 2011
[241] Association of North East Councils, *Response to localising support for council tax*, October 2011
[242] HC 1406, October 2011, para 49

> council tax support and the publication of a document that invites views but gives very little additional detail about the changes ahead. **By the time the Department's response to the consultation is published, there will be little more than a year for local authorities to design and implement their council tax support schemes, which is an extremely challenging timeframe. Too much time has been lost. The Government needs to consider that, even if local authorities prove technically capable of establishing new schemes to the original timescale, it might not be wise to press ahead so hastily. Reform of Council Tax Benefit will affect a huge number of households, and it is vital that the systems used to deliver it are robust.**
>
> 57. Furthermore, it is unnecessarily risky to introduce a new system for council tax support at the same time as the introduction of Universal Credit and localisation of the discretionary Social Fund. Failure or delays in any part of the new welfare system could leave the most vulnerable households in a precarious position. **We recommend that the Government delay the introduction of the new council tax support system by a year or more, if consultation with local authorities indicates that this would reduce the risks inherent in introducing many complex changes concurrently.**

Some respondents believe that the proposed timescale is unachievable and have asked for a deferred implementation date (the legislation does provide for the proposed commencement date to be amended). The challenge of getting an appropriate IT system in place in time was referred to in several responses to the consultation exercise:

> The timescale is also very tight for getting an IT system in place. IT suppliers have already indicated that they need a minimum of 12 months to bring in any changes. To achieve this legislation must be brought in by the end of December 2011. However if all authorities opted for their own scheme, software suppliers would not be able to cope with the demand and implementation of 1 April 2013 would not be met. In reality existing systems would still need to interface together and would need parameters to be amended depending on the type of scheme introduced.
>
> Development cannot start with any great certainty until model schemes have been published and that is not scheduled until early 2012. It would appear that the timescales available are not sufficient to fully develop a system to administer schemes.[243]

CIPFA commented on the impact of uncertainty around local authority investment:

> The timescale for localisation means that council tax localisation will impact on local authority resources at the same time as relocalisation of business rates which, taken together, transfer significant resource risk from central to local government. The uncertainty over resources will have an impact on local authority investment at a time when it is vital to local growth.[244]

Scotland & Wales

In *Localising Support for council tax England* the Government advised that the Devolved Administration Governments would be expected to bring forward their own proposals:

> 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

[243] Association of North East Councils, *Response to localising support for council tax*, October 2011
[244] CIPFA, *Response to* DCLG *consultation on localising support for council tax*, October 2011

> 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.

The Convention of Scottish Local Authorities (COSLA) believes there are advantages to devolving CTB to local authorities – the key associated risks are viewed as financial:

> Most of the risks posed by devolving CTB are financial and come from the UK Government's cuts agenda around welfare reform. COSLA is particularly concerned about how the financial package for devolution is to be calculated; how the 10%cut will be calculated and how future liability might be addressed. However, we do not believe that these issues are insurmountable. Our concerns are explained in more detail below.
>
> · 10% cut to CTB if devolved
>
> The UK Government have not yet been clear about how the 10% cut will be calculated. This is an important point for COSLA. Indiscriminate cutting of budgets act as a disincentive to local fiscal responsibility. Since 2008/09 Councils have frozen CT and therefore the CTB bill has not risen. The UK Government have thereby financially benefitted from this policy by around 3% year-on-year savings. Applying a blanket 10% cut to CTB in a devolved settlement for Local Schemes will not reflect this and could place a greater than 10% cut on the CTB actually received by Scottish claimants.
>
> · The UK Government must provide for current and future liability in a devolved setting
>
> If CTB is devolved, the transfer of finance needs to match the transfer of responsibility. Currently, Local Authorities estimate that 65% of those eligible actually take up CTB. Demand for benefit is likely to grow in the immediate future by virtue of economic and employment predictions and therefore this must be reflected in the transfer of resource in future years.[245]

During the House of Lords Report stage of the *Welfare Reform Bill* Lord German asked several questions about the impact on the devolved Administrations. Lord Freud responded thus:

> I shall turn to the specific questions raised by my noble friend Lord German, which were reinforced by the noble Lord, Lord McKenzie, about the move of Council Tax Benefit to both English local authorities and the devolved Administrations. CTB is not being devolved. Under Clause 33, it will be abolished and funding made available for local schemes in England. The devolved Administrations will be funded through the Barnett formula to bring forward new schemes within their existing competence. If a future Government so decided, Clause 11, which covers housing costs, is sufficiently broad to give legislative cover to include support for council tax costs in universal credit.
>
> Scotland and Wales already have the executive powers to establish schemes based on applying discounts to council tax. I can assure my noble friend that social security remains absolutely reserved as a UK matter and that localisation funding does not affect this.[246]

[245] Written evidence submitted by COSLA to the Communities and Local Government Select Committee (LWR 16), June 2011

[246] HL Deb 12 December 2011 c1068

6 Council tax reform

6.1 Background: the *Technical reform of council tax consultation paper*

In the *Spending Review 2010*[247] the Government promised to "provide greater flexibilities to local authorities to manage pressures on council tax" from 2013-14, to run concurrently with changes to the Council Tax Benefit system. The *Technical reforms of council tax consultation paper* was accordingly published on October 2011. It sought views on the Government's proposals to meet this promise, with the consultation period ending on 29 December 2011. The current Bill was therefore presented in advance of the final deadline for consultation paper responses.

The consultation sought views on proposals that would:

- allow local authorities to charge full council tax on second homes;
- abolish the temporary exemption allowed when a property becomes empty or is undergoing major structural repairs, instead allowing authorities to set a discount of between 0 and 100 per cent on them;
- include mortgagees in possession of empty dwelling in the hierarchy of liability for council tax (section 6 of the *Local Government Finance Act 1992*); and
- give billing authorities the power to charge an 'empty homes premium' in respect of dwellings which have been empty for two years or more, as an incentive for owners to bring them back in to use.[248]

Second homes

The consultation paper proposed that local authorities would be given the power to levy the full council tax on second homes, while retaining the authority's discretion to allow up to a 50% discount. The consultation paper explained:

> On second homes, Government is minded to extend the range of discount available to billing authorities to allow them to levy up to full council tax on second homes, thereby placing them on the same basis as normal homes. Representations favouring change along these lines have been made from time to time, most recently by South Hams District Council in Devon, and by Cornwall Council. A second home owner is taking up a unit of the local housing stock; and the original purpose of giving local authorities discretion over second homes discount was to give them a tool they could use to encourage or discourage second home ownership in their areas. The Government's present proposal will make that tool somewhat more powerful. Moreover, authorities with a high level of second home ownership will be able to levy tax from a base which is not 'damaged' by that fact – they will, if they wish, be levying tax on the same base as an authority for which second home ownership is not a significant issue.[249]

The paper noted however that if local authorities removed the discount, it would prove much more difficult to determine which properties in the authority's area would be second homes. The previous requirement to offer at least a 10% discount meant that the authority would have information as to which properties in the areas were second homes.

The paper also explained that in these cases,

[247] HM Treasury, *Spending review 2010*, p69
[248] DCLG, *Technical reforms of council tax consultation paper*, 2011, p11
[249] *Ibid*, p13

> For second homes, the rules governing the calculation of an authority's council tax base for formula grant purposes currently require an arbitrary assumption that a discount of 50 per cent is given in all cases. The tax base used for the calculation of council tax in each area, on the other hand, reflects the actual rates of discount that authorities have chosen to adopt. The effect is that any extra council tax revenue which an authority generates by giving a discount of less than 50 per cent on second homes is not set off by any reduction in its formula grant.[250]

The proposals in the Bill however do not implement this proposal. Instead, subject to the outcome of the consultation, the Secretary of State would be able to issue regulations under existing legislation to make this change.

6.2 Empty properties: exemptions

The Bill would allow local authorities discretion over any discount to be offered on certain empty properties.

At present, Class A exemption applies to dwellings which are unoccupied and where major repair or structural alterations are required. Such properties may be exempt for up to 12 months. Class C exemption applies to dwellings which are unoccupied and substantially unfurnished. Such properties may be exempt from council tax for up to six months.[251] *Substantially unfurnished* is not defined in the legislation; many local authorities regard a dwelling as substantially unfurnished if there are insufficient furnishings to enable someone to live in the dwelling, but in any case judgment has to be made on each individual case. After six months the property becomes defined as 'long term empty' and therefore subject to council tax.

Currently, local authorities may reduce or remove altogether the discount on these properties, once any statutory period of exemption has ended, but they are not permitted to retain the extra revenue obtained. The reason given was that the then Government wanted to ensure that decisions taken by local authorities on whether or not to reduce the discount would be made solely on housing grounds (for example whether it is likely to make owners bring such properties back into use) and not on financial grounds.[252]

The consultation proposals on empty homes result from the Government's commitment to bring empty property back in to use, as stated in for example the *Programme for Government.*[253] The proposals in the consultation relating to Class A dwellings were:

> It is reasonable that council tax payers should get some relief in respect of vacant dwellings that are, for a time, uninhabitable for one good reason or another. When council tax was introduced, the system provided for an open-ended period of exemption in such circumstances. It continued while the state of the dwelling warranted it. However, in 2000 the law was changed to limit the period of exemption to a maximum of one year, after which the dwelling (if still vacant) is to be treated as a long term empty property. Billing authorities' discretion over the rate of discount then applies, so such properties do not necessarily attract any discount at all.
>
> This limitation has generally encouraged owners to bring dwellings back into use in a reasonable time; and that remains the Government's aim. It is, however, a central prescription. There is no scope for billing authorities to use discretion about what is reasonable in terms of foregoing council tax in respect of such properties. In pursuit of

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[250] *Ibid*
[251] As set down in the *council tax (Exempt Dwellings) Order 1992*, SI 1992/558
[252] HC Deb 3 May 2006, c 1678-9W
[253] HM Government, *The Coalition: Our programme for government*, 2011, p12

> the broader goals of localism, Government is therefore minded to abolish the exemption, but replace it with a discount which billing authorities have discretion to set at 100 per cent, or any lower percentage which seems reasonable to them having regard to local circumstances.
>
> If authorities choose to levy council tax in circumstances in which, under the current rules, they could not, Government would wish them to be able to retain the additional revenue locally. Under the present system, in the calculation of council tax bases for formula grant purposes, a discount of 100 per cent would therefore be assumed (following the approach taken to second homes in this context). The Government acknowledges that proposals discussed in the concurrent consultation *Local Government Resource Review: Proposals for Business Rates Retention* may have a bearing on how this objective will be achieved in practice.[254]

In relation to Class C properties, the consultation paper proposed:

> Class C exemption, of course, applies for a shorter time than Class A, and in different circumstances. Government is aware that the potential impact of converting it into a discount will fall on people who have moved home without selling or letting their properties; and, possibly, on developers who have vacant new properties on their books.
>
> At the moment, taxpayers are entirely relieved of liability for six months, and (in areas where long term empties attract zero discount) then have to pay the tax in full. There is no compelling reason why the first six months should be treated so generously. We therefore seek views on whether a change towards giving billing authorities discretion to have regard to local circumstances is reasonable, and if so, what degrees of discretion should be provided to billing authorities.[255]

The paper said that this would potentially impact on "people who have moved home without selling or letting it their properties; and, possibly, on developers who have vacant new properties on their books." It also suggested that local authorities would be able to keep any extra revenue generated by reducing the discount on class C properties, which is likely to be an incentive to councils to take such action.

Clause 9 of the Bill would allow the Secretary of State to prescribe in regulations a new class of dwelling. This would be for the purpose of allowing billing authorities to make a determination that any discount under Section 11(2)(a) shall not apply, or shall be such percentage (which may be 100%) as it may specify. In practice, this means that a local authority would have the discretion to charge up to 100% of the full council tax for certain empty properties; or to offer a discount. It would also remove the exemptions for such properties.

The change from exemptions prescribed by law to discounts to be set locally are intended to allow local authorities greater freedom in deciding whether the owner of an empty property should continue to receive a discount. The Government has indicated that it would wish local authorities to retain any additional revenue.

Commenting on the proposals, Empty Homes, formerly the Empty Homes Agency, said:

> We think that local authorities should have the discretion to offer a class A exemption/discount for any period up to twelve months. We do not favour giving local

[254] DCLG, *Technical reforms of council tax consultation paper*, 2011, p14-5
[255] *Ibid*, p16

> authorities the discretion to extend the period of exemption/discount beyond twelve months.
>
> We agree that decisions on the level of discount should be delegated to local authorities. We agree that local authorities should be able to keep any additional revenue generated through these changes and that the formula for rate support grant should not be adjusted to recover it.
>
> We think that additional revenue should be reinvested by local authorities in measures aimed at bringing more empty homes into use.[256]

The *Financial Times* noted a potential benefit to social housing:

> Other proposals under consideration include reducing the tax discount on empty properties, which can be as high as 100 per cent in some areas, a move that would have the added benefit of freeing up more social housing. It would not be applied to those who had moved out of their homes due to illness or to properties that were left vacant after a death.[257]

But it also referred to two possible difficulties:

> The National Landlords Association had warned the government against penalising landlords for the periods that allowed them to "maintain, repair and improve" their properties. "At a time of severe housing shortage, it is imperative that empty homes are brought back into use but this should not be at the expense of improvements which would otherwise be possible within the private rented sector," said David Salusbury, NLA chairman...
>
> Sir Merrick Cockell, chairman of the Local Government Authority, welcomed the move to give councils "greater local decision-making". But he said it would be hard for them to pass on the benefit of smaller discounts as they had just seen a 10 per cent cut in council tax benefit.[258]

The Empty Homes Network raised several issues:

> Class A
>
> As with other exemptions, the question must be “what behaviour is this tax-break designed to encourage?”. About the only justification we can see for this is that it may make it easier for potential occupiers to live elsewhere and therefore upgrade their future home to a higher standard than might be the case if they were in occupation. Arguably, such a tax concession should be accompanied by a requirement that the home is upgraded to higher environmental standards.
>
> Class C
>
> We are not aware of any research-based evidence that this tax break produces beneficial behaviours. Moreover, the failure to levy a normal rate of tax would seem, prima facie, to tend in the opposite direction by making it easier to leave a home vacant. The removal of the exemption can have two different beneficial effects with regard to empty homes.

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[256] Empty Homes, *Response to “Technical reforms of council tax”*, 2011
[257] Helen Warrell, “Second home tax discount to be scrapped”, *Financial Times*, 31 October 2011
[258] Jim Pickard, “Councils to decide on second home tax perk”, *Financial Times*, 1 November 2011, p1

> Firstly and most obviously it will generate much-needed revenue for local authorities, some of which can be fed back into empty homes initiatives. Currently, empty homes work is being undermined in many areas where practitioners are losing their jobs as a result of the cuts. Even if the exemption is replaced with a 50% discount, there can be no local authority where the additional revenue would not easily cover the cost of an effective empty homes initiative.
>
> Secondly, the arrival of a bill can be expected to provide a wake-up call to owners of empties. The effect may be disproportionate to the amount of money involved: the very fact that a bill arrives can spur an owner into action. This should mean not only fewer short-term empties but also fewer long-term empties because more homes are likely to be brought back into use before they become long-term empty.[259]

6.3 Long-term empty properties: the ‘empty homes premium’

The consultation paper proposed that local authorities would be given the discretion to charge more than 100% of council tax on properties that had been empty for more than two years, a proposal that stemmed from the Government’s commitment to bring empty properties back into use. The consultation paper said:

> At present, billing authorities have discretion to reduce the discount they give when a non-exempt dwelling is unoccupied and substantially unfurnished, or indeed to determine that there shall be no discount at all. If authorities do not exercise their discretion, the discount applicable is 50 per cent. This measure was introduced via the Local Government Act 2003, and affected tax liabilities from 1 April 2004 onwards. The policy aim was to encourage owners to bring empty properties back into use more quickly.
>
> However, it remains the case that a distressing number of dwellings are being left empty, at a time when there is an overall housing shortage. There are over 300,000 long-term empty homes across England. As well as being an unused resource when 1.7 million people are on social housing waiting lists, long-term empty properties attract squatters, vandalism and anti-social behaviour, and are a blight on the local community.
>
> Government is therefore seeking views on whether the billing authorities should be given the option to levy an ‘empty homes premium’ on the council tax payable in respect of dwellings that have been left empty for a long time (two years or more, for example). In areas where authorities have already resolved not to discount the council tax payable in respect of empty dwellings, this might mean that they could levy substantially more than 100 per cent of the council tax which would be payable if a dwelling were occupied.
>
> There would obviously be concerns that would have to be very carefully addressed before such a change in the council tax regime were implemented. It must be seen to operate fairly, for example, and must make sense in the context of broader local strategies for dealing with empty homes. Issues of collectibility, and avoidance, would need to be considered.[260]

Clause 10 of the Bill would give billing authorities the power to charge up to 150% of the full council tax in respect of a property that has been unoccupied and substantially unfurnished

[259] Empty Homes Network, *Technical reforms of council tax - EHN Consultation Response*, 20 December 2011
[260] *Ibid*, p18

for more than two years. This provision was called an 'empty homes premium' in the consultation paper.[261] The paper accepts that,

> there would obviously be concerns that would have to be very carefully addressed before such a change in the council tax regime were implemented. It must be seen to operate fairly, for example, and must make sense in the context of broader local strategies for dealing with empty homes. Issues of collectability, and avoidance, would need to be considered.[262]

The Bill would allow the Secretary of State to make provision for exceptions by prescribing classes of dwelling, taking into account the physical characteristics and the circumstances of any person liable, for which a billing authority will not be able to charge extra council tax.

Empty Homes has welcomed the move:

> We firmly believe that council tax incentives have an incentive effect on owners of empty property. Indeed this principle appears to be behind most of the discounts and exemptions applying to empty homes. In our view it is logical that taking this principle further, as proposed by the empty homes premium will have even greater impact.
>
> There are two points of principle here. Leaving homes empty is a cost to the community. Although it is sometimes argued that empty homes cost less because there are no users of local services living there, the evidence shows that these savings are more than outweighed by the additional costs they create. Each empty home restricts housing supply and puts further pressure on the rest of the housing stock, particularly affordable homes. It is no coincidence that the areas of the country with the most oversubscribed housing registers are also those with the greatest number of empty homes.
>
> Empty homes also create costs to neighbours who frequently have to endure vandalism anti-social behaviour, occasionally arson and reductions in their own property value. There are also additional costs to public services. Empty homes are eight times more likely to catch fire than occupied homes, are often magnets for petty crime, and dilapidated buildings need to be made safe and secured by local authorities. It is in our view reasonable that these additional costs are passed onto the owners of the buildings that create the problems by way of higher council tax charges.
>
> The most important reason for introducing an empty homes premium is that it will encourage owners to bring their properties back into occupation. Currently council tax incentives have some impact, but the loss of discounts or exemptions have a limited value. Surveys carried out by and for us show that the average level of disrepair to an empty home is between £8,000 and £20,000. This is between five and twelve times the average level of council tax. In other words council tax is a small lever. Empty homes premium would increase the size of the lever.[263]

The Empty Homes Network were also in favour of the proposals:

> The New Homes Bonus offers a good incentive for local authorities to help bring empties back into use but also to accept misreporting of empties as occupied or to promote the conversion of an empty home into a second home by introducing furniture as mentioned earlier. There are currently no incentives that support robust recording of

[261] DCLG, *Technical reforms of council tax consultation paper*, 2011, p11
[262] *Ibid*, p18
[263] Empty Homes, *Response to "Technical reforms of council tax"*, 2011

> empty homes as empty. The Empty Homes Premium would for the first time provide such an incentive.[264]

The Council for Mortgage Lenders raised concerns about repossessed properties, believing that they:

> should be exempt from any 'empty homes premium'. As explained above, firms are actively incentivised to sell stock in their possession as soon as possible. It is therefore extremely rare for a property to be in possession for longer than two years. However, this may occur where a property has a title defect or similar legal issue that prevents a sale. In such a case, a mortgagee in possession will most likely need to keep the property vacant to effect that sale.[265]

6.4 Unoccupied dwellings

Class L exemption applies to unoccupied dwellings taken into possession by a mortgage lender. The consultation paper notes:

> The Government's position on Class L exemption is somewhat different from that on Classes A and C. There would be no point in amending the law to provide that owners of dwellings who have had them repossessed by a mortgagee – a bank or building society – should nevertheless be liable for council tax. The tax would very probably be uncollectible. However, these are units of accommodation which, in other hands, would usually generate council tax.
>
> One way forward would be to amend council tax legislation so that, in the 'hierarchy of liability', mortgagees in possession rank higher than 'owner' but lower than 'resident' of any description. The hierarchy of liability is defined in section 6 of the Local Government Finance Act 1992...
>
> This seems fair, since they effectively have control of the properties until they are sold or let, and there is no good reason why other taxpayers should have to make up the shortfall in council tax revenue suffered by local authorities when properties are repossessed.[266]

The paper suggests the abolition of Class L exemption by including mortgage lenders who are in possession of a property into the hierarchy for council tax liability (Section 6 of the *Local Government Finance Act 1992*).

Clause 11 of the Bill would make mortgagees in possession of empty dwelling liable for council tax in respect of them (Class L in the 2003 Order would therefore be removed as it would be unnecessary). The consultation paper notes that the Government do not intend to amend the law to make the owners of dwellings who have had them repossessed by a mortgagee liable for the council tax on the property. Instead, the consultation paper suggested that council tax legislation could be amended to make a mortgagee in possession rank higher than an owner but lower that a resident in the hierarchy of liability as defined in section 6 of the Local Government Finance Act 1992. Making this change would mean that class L would no longer be necessary and the institutions that had repossessed dwellings would therefore become liable for the council tax.

The Building Societies Association recognised "the desire to collect council tax where possible and so a review of the current exemptions is sensible." They were however,

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[264] Empty Homes Network, *Technical reforms of council tax - EHN Consultation Response*, 20 December 2011

[265] Council of Mortgage Lenders, *Technical reforms of council tax Response by the Council of Mortgage Lenders to the Department for Communities and Local Government consultation*, 29 December 2011

[266] *Ibid*, pp17-18

concerned that there has not been a detailed analysis of the impact of the proposal to collect council tax on repossessed homes and we do not agree with the rationale to remove the Class L exemption. As the property remains empty whilst in possession, we do not see why Council tax would be payable, as the lender themselves would make very limited use of the provisions and services funded by council tax.

It is not known from the proposals as to how the local authority will be made aware that the lender is now liable for council tax and at which point the lender becomes liable. It is not known whether the lender themselves will be required to notify the local authority or vice versa. It is also not known how this notification process will work.

The Government will need to consider carefully how the billing arrangements should be managed and a detailed cost benefit analysis must be undertaken prior to pressing ahead with this proposal. The BSA is very concerned that this alone could result in significant costs to local authorities as well as to lenders.[267]

The Empty Homes Network is in favour of the change, although they felt that it would be unfair if the cost of council tax could subsequently be collected from the legal owner:

Our answer would depend on whether the costs of the council tax could subsequently be recovered from the legal owner. If so, we would think this would unfair, as council tax debts could accrue through inactivity by the mortgagee-in-possession, over which the legal owner would have no control.

If the council tax debt had to be absorbed by the mortgage lender then we would regard this as an appropriate change because:

- the mortgagee-in-possession would have an incentive to bring the home into beneficial use or sell it sooner rather than later

- lenders would have further incentives to lend money responsibility to avoid incurring costs of this nature.[268]

The Council of Mortgage Lenders opposed the measure because of the likelihood that costs could be passed to the customers of the mortgage company:

If a mortgagee in possession was liable for the council tax and the associated administrative costs, these costs would inevitably be passed onto that firm's customers. Where a firm's terms and conditions allow, these will invariably be debited to the borrower's account – either by deducting from the proceeds of sale or, as would happen in the vast majority of cases in the current market, added to the shortfall. Preliminary discussions with the FSA suggest that debiting such costs to a borrower could be deemed acceptable [269]

6.5 The Impact Assessment

The *Impact Assessment* published with the Bill explained the impact of these proposals, as well as providing statistics on the number of properties in each Class, as follows:

Under the new proposals, local authorities will have discretion about the extent to which they ... levy tax on empty dwellings which are currently exempt. The council tax foregone in England in 2011-12 (calculated using 2011-12 council tax levels) as a

[267] Building Societies Association, *Technical Reforms of council tax: Response by the BSA*,
[268] Empty Homes Network, *Technical reforms of council tax - EHN Consultation Response*, 20 December 2011
[269] Council of Mortgage Lenders, *Technical reforms of council tax Response by the Council of Mortgage Lenders to the Department for Communities and Local Government consultation*, 29 December 2011

result of the status quo is estimated to be around £420 million, broken down as follows (rounded to nearest £5m)...

- Exemption A: approx £40m
- Exemption C: approx £320m
- Exemption L: approx £15m

12. It is unlikely that authorities would think it appropriate to use their new flexibilities to reduce these discounts to zero. Moreover, the proportion of the tax base that is attributable to second homes and empty dwellings varies very considerably from authority to authority, and the value of the flexibilities will vary similarly. That said, if authorities exercise the flexibilities to maximize revenue, the extra revenue generated would relieve pressure on council tax to the equivalent of approximately £20 per Band D equivalent in England.

13. The following table shows the number of dwellings receiving each of the discounts and exemptions, as at 13th September 2010:

Exemption/Discount Number of dwellings[270]

...

Exemption A 33,000

Exemption C 266,000

Exemption L 12,000

14. These policies will have no general impacts on business. However, if billing authorities exercise their new discretion to charge council tax, albeit discounted, on empty dwellings which would currently be exempt, there may be some impact on businesses involved in house-building and renovation. For example, a new dwelling would give rise to a council tax liability from the moment it is completed or deemed to be completed whereas, in current law, that liability would not have arisen for six months. However it is our view that the proposed changes on empty homes will incentivise owners to refurbish them faster and therefore bring them back into use more quickly.[271]

The impact of the changes is also assessed in the Impact Assessment:

Impact on individual claimants

31. The proposals set out under paragraphs 1 (a), (b) and (c) give additional flexibility to authorities to set discounts on certain properties. Authorities will use this to maximise their revenue (or minimise a general increase in council tax). Affected taxpayers will face higher bills than they otherwise would have (or where exemptions previously applied, a tax liability will arise where there was none before).

32. Some people may consider it unfair that others in similar circumstances will receive a different level of discount just because they are in a different local authority to them. However that is a consequence of relinquishing central control.

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[270] Source: Data are from DCLG's Local Authority council tax Base 2010 England returns, rounded to the nearest thousand. Data by authority are available here: http://www.communities.gov.uk/documents/statistics/xls/1877003.xls

[271] DCLG, *Local Government Finance Bill: Technical reforms to council tax impact assessment*, December 2011

The impact on different council tax payer groups

...

b. Owners of unoccupied, unfurnished dwellings which are awaiting, undergoing or have just undergone major repair or structural alteration currently have no liability to pay council tax for up to 12 months. This is Class A exemption. Once these changes are enacted they will be liable to between 0% and 100% of the full bill.

c. Owners of other unoccupied, unfurnished dwellings currently enjoy an exemption (Class C) of up to 6 months. They too will become liable to pay between 0% and 100% of a full bill once these flexibilities are in place.

d. Owners of empty dwellings that have been repossessed by a mortgagee currently have no liability to council tax. This is Class L exemption. Mortgagees are never liable. The changes being contemplated would make the mortgagees liable for council tax in preference to the owners. Class L exemption would become otiose.

Impact on administration costs

34. The loss of exemptions, and higher bills for those people affected may increase enforcement costs, but the impact will be small, and heavily dependent on the extent to which authorities use the new flexibilities.

35. There may also be transitions costs for changing the systems that local authorities will apply these changes.

Savings to Government

36. No direct savings to Central Government. The additional council tax raised will be in the range of zero to about £420 million per annum.[272]

6.6 Information to be supplied with demand notices

Clause 12 of the Bill would allow local authorities to publish information on council tax online instead of in paper form, unless the council tax payer requests a paper copy. The consultation paper suggested that if a local authority follows this line it might be possible to offer some reduction in the council tax as overall costs would be reduced.[273] This mirrors provisions in **clause 6** to apply the same requirement to information about non-domestic rates.

[272] *Ibid*
[273] *Ibid*, p22

Table A1: Ratio of forecast business rates contribued to the central pool to formula grant received, English billing authorities, 2011/12

	Forecast contribution to the business rates pool (£ million)	Formula grant (£ million)	Ratio of business rates contributed to formula grant received
District councils			
Adur	14.6	3.5	4.2 : 1
Allerdale	23.3	8.2	2.8 : 1
Amber Valley	27.8	7.2	3.8 : 1
Arun	28.5	7.6	3.7 : 1
Ashfield	29.7	8.7	3.4 : 1
Ashford	40.1	6.4	6.3 : 1
Aylesbury Vale	44.2	9.4	4.7 : 1
Babergh	21.0	4.7	4.5 : 1
Barrow-in-Furness	21.3	7.0	3 : 1
Basildon	74.5	11.8	6.3 : 1
Basingstoke and Deane	67.8	6.6	10.2 : 1
Bassetlaw	36.8	9.3	4 : 1
Blaby	37.1	5.1	7.2 : 1
Bolsover	19.1	6.3	3.1 : 1
Boston	17.7	5.9	3 : 1
Braintree	37.6	7.7	4.9 : 1
Breckland	26.1	9.3	2.8 : 1
Brentwood	28.5	3.9	7.2 : 1
Broadland	26.5	6.5	4.1 : 1
Bromsgrove	24.6	3.8	6.4 : 1
Broxbourne	34.8	5.2	6.7 : 1
Broxtowe	23.7	6.6	3.6 : 1
Burnley	26.5	9.1	2.9 : 1
Cambridge	85.5	9.5	9 : 1
Cannock Chase	30.4	6.7	4.5 : 1
Canterbury	46.9	10.5	4.5 : 1
Carlisle	36.3	7.0	5.2 : 1
Castle Point	13.7	4.7	2.9 : 1
Charnwood	41.2	9.7	4.2 : 1
Chelmsford	70.1	7.4	9.5 : 1
Cheltenham	50.4	6.1	8.3 : 1
Cherwell	63.7	8.6	7.4 : 1
Chesterfield	33.4	7.6	4.4 : 1
Chichester	38.8	4.8	8.1 : 1
Chiltern	20.1	3.3	6.2 : 1
Chorley	23.4	6.7	3.5 : 1
Christchurch	17.0	1.9	8.8 : 1
Colchester	55.8	9.3	6 : 1
Copeland	35.8	5.7	6.3 : 1
Corby	29.7	4.7	6.3 : 1
Cotswold	26.0	4.3	6.1 : 1
Craven	16.1	3.2	5 : 1
Crawley	104.4	7.6	13.7 : 1
Dacorum	56.5	6.7	8.5 : 1
Dartford	75.7	5.9	12.9 : 1

	Forecast contribution to the business rates pool (£ million)	Formula grant (£ million)	Ratio of business rates contributed to formula grant received
Daventry	36.6	5.0	7.3 : 1
Derbyshire Dales	16.0	3.6	4.5 : 1
Dover	31.9	8.1	3.9 : 1
East Cambridgeshire	16.0	5.6	2.9 : 1
East Devon	26.8	6.0	4.5 : 1
East Dorset	19.6	2.6	7.5 : 1
East Hampshire	25.3	4.2	6.1 : 1
East Hertfordshire	40.4	6.1	6.6 : 1
East Lindsey	31.3	14.1	2.2 : 1
East Northamptonshire	19.9	5.5	3.6 : 1
East Staffordshire	48.9	7.1	6.9 : 1
Eastbourne	29.2	7.6	3.9 : 1
Eastleigh	51.5	5.8	8.8 : 1
Eden	17.1	3.7	4.6 : 1
Elmbridge	48.9	5.2	9.4 : 1
Epping Forest	31.4	7.4	4.2 : 1
Epsom and Ewell	21.8	3.2	6.9 : 1
Erewash	23.7	7.4	3.2 : 1
Exeter	67.9	9.3	7.3 : 1
Fareham	38.0	4.6	8.2 : 1
Fenland	20.8	8.0	2.6 : 1
Forest Heath	19.6	4.5	4.3 : 1
Forest of Dean	10.6	5.8	1.8 : 1
Fylde	22.5	4.4	5.2 : 1
Gedling	20.1	7.0	2.9 : 1
Gloucester	46.7	7.5	6.2 : 1
Gosport	14.3	5.2	2.8 : 1
Gravesham	20.1	6.5	3.1 : 1
Great Yarmouth	26.1	8.6	3 : 1
Guildford	73.7	6.5	11.3 : 1
Hambleton	24.4	4.7	5.2 : 1
Harborough	33.8	4.2	8.1 : 1
Harlow	42.7	6.4	6.7 : 1
Harrogate	54.2	8.4	6.4 : 1
Hart	25.0	3.0	8.5 : 1
Hastings	19.8	7.8	2.5 : 1
Havant	28.7	7.4	3.9 : 1
Hertsmere	41.8	6.3	6.6 : 1
High Peak	22.1	5.3	4.2 : 1
Hinckley and Bosworth	27.1	6.0	4.5 : 1
Horsham	36.8	4.6	8 : 1
Huntingdonshire	53.4	10.5	5.1 : 1
Hyndburn	19.7	7.9	2.5 : 1
Ipswich	51.2	7.8	6.5 : 1
Kettering	29.8	5.5	5.5 : 1
King's Lynn and West Norfolk	37.1	12.4	3 : 1
Lancaster	38.3	13.1	2.9 : 1
Lewes	21.0	4.3	4.9 : 1

	Forecast contribution to the business rates pool (£ million)	Formula grant (£ million)	Ratio of business rates contributed to formula grant received
Lichfield	29.9	4.7	6.3 : 1
Lincoln	36.6	8.2	4.5 : 1
Maidstone	52.1	6.5	8 : 1
Maldon	12.3	3.4	3.7 : 1
Malvern Hills	15.0	4.1	3.6 : 1
Mansfield	26.4	8.2	3.2 : 1
Melton	11.5	3.0	3.8 : 1
Mendip	27.5	6.3	4.4 : 1
Mid Devon	12.9	4.8	2.7 : 1
Mid Suffolk	19.0	5.0	3.8 : 1
Mid Sussex	38.1	4.8	7.9 : 1
Mole Valley	34.9	2.9	11.9 : 1
New Forest	54.6	8.9	6.1 : 1
Newark and Sherwood	30.1	8.4	3.6 : 1
Newcastle-under-Lyme	29.4	8.3	3.5 : 1
North Devon	28.0	6.5	4.3 : 1
North Dorset	13.4	3.7	3.7 : 1
North East Derbyshire	13.3	5.9	2.2 : 1
North Hertfordshire	36.5	6.0	6.1 : 1
North Kesteven	20.5	7.0	2.9 : 1
North Norfolk	21.1	7.1	3 : 1
North Warwickshire	39.7	4.3	9.2 : 1
North West Leicestershire	44.1	5.5	8 : 1
Northampton	101.2	14.2	7.1 : 1
Norwich	71.0	12.3	5.8 : 1
Nuneaton and Bedworth	31.8	7.7	4.1 : 1
Oadby and Wigston	11.0	3.6	3.1 : 1
Oxford	76.2	13.4	5.7 : 1
Pendle	17.4	8.9	2 : 1
Preston	59.7	11.7	5.1 : 1
Purbeck	14.8	2.4	6.1 : 1
Redditch	34.1	4.7	7.3 : 1
Reigate and Banstead	46.2	5.1	9 : 1
Ribble Valley	12.2	3.2	3.8 : 1
Richmondshire	12.1	3.4	3.6 : 1
Rochford	14.3	3.7	3.9 : 1
Rossendale	12.6	4.7	2.7 : 1
Rother	15.4	5.0	3.1 : 1
Rugby	38.2	5.3	7.2 : 1
Runnymede	41.0	4.4	9.3 : 1
Rushcliffe	22.8	5.6	4.1 : 1
Rushmoor	41.0	5.4	7.6 : 1
Ryedale	14.7	3.6	4.1 : 1
Scarborough	29.1	9.0	3.2 : 1
Sedgemoor	31.3	7.8	4 : 1
Selby	29.8	5.3	5.7 : 1
Sevenoaks	31.4	4.9	6.4 : 1
Shepway	26.7	7.5	3.6 : 1

	Forecast contribution to the business rates pool (£ million)	Formula grant (£ million)	Ratio of business rates contributed to formula grant received
South Bucks	27.8	2.5	11.3 : 1
South Cambridgeshire	62.7	6.0	10.4 : 1
South Derbyshire	19.1	6.0	3.2 : 1
South Hams	25.5	4.2	6.1 : 1
South Holland	23.0	7.4	3.1 : 1
South Kesteven	37.2	8.3	4.5 : 1
South Lakeland	36.1	5.1	7.1 : 1
South Norfolk	23.2	6.9	3.3 : 1
South Northamptonshire	19.6	4.6	4.3 : 1
South Oxfordshire	39.8	6.0	6.6 : 1
South Ribble	31.9	5.4	5.9 : 1
South Somerset	38.7	7.7	5 : 1
South Staffordshire	19.3	5.3	3.7 : 1
Spelthorne	39.9	4.3	9.3 : 1
St Albans	58.8	5.7	10.3 : 1
St Edmundsbury	41.5	5.2	7.9 : 1
Stafford	42.4	6.5	6.5 : 1
Staffordshire Moorlands	16.0	6.1	2.6 : 1
Stevenage	43.1	5.3	8.1 : 1
Stratford-on-Avon	47.6	5.4	8.8 : 1
Stroud	23.1	5.5	4.2 : 1
Suffolk Coastal	39.5	6.3	6.3 : 1
Surrey Heath	35.1	3.7	9.6 : 1
Swale	36.4	9.6	3.8 : 1
Tamworth	29.9	5.2	5.7 : 1
Tandridge	19.5	3.2	6 : 1
Taunton Deane	35.9	6.0	6 : 1
Teignbridge	27.0	7.5	3.6 : 1
Tendring	23.2	10.9	2.1 : 1
Test Valley	42.7	5.7	7.5 : 1
Tewkesbury	31.3	4.2	7.4 : 1
Thanet	30.0	10.5	2.8 : 1
Three Rivers	24.7	4.7	5.3 : 1
Tonbridge and Malling	48.6	4.9	9.9 : 1
Torridge	9.5	5.3	1.8 : 1
Tunbridge Wells	45.2	5.1	8.9 : 1
Uttlesford	36.4	3.2	11.4 : 1
Vale of White Horse	52.8	5.6	9.4 : 1
Warwick	60.0	7.8	7.7 : 1
Watford	63.4	6.1	10.5 : 1
Waveney	24.4	9.1	2.7 : 1
Waverley	33.9	4.5	7.6 : 1
Wealden	27.0	6.2	4.3 : 1
Wellingborough	29.3	5.6	5.2 : 1
Welwyn Hatfield	51.7	5.7	9 : 1
West Devon	9.7	3.4	2.8 : 1
West Dorset	26.6	6.6	4 : 1
West Lancashire	28.3	7.4	3.8 : 1

	Forecast contribution to the business rates pool (£ million)	Formula grant (£ million)	Ratio of business rates contributed to formula grant received
West Lindsey	14.2	6.5	2.2 : 1
West Oxfordshire	27.7	4.7	5.9 : 1
West Somerset	9.4	2.5	3.7 : 1
Weymouth and Portland	14.2	4.3	3.3 : 1
Winchester	47.3	4.6	10.2 : 1
Woking	41.7	5.0	8.3 : 1
Worcester	36.5	5.6	6.6 : 1
Worthing	29.1	5.7	5.1 : 1
Wychavon	36.9	6.1	6 : 1
Wycombe	66.7	7.7	8.7 : 1
Wyre	22.5	7.7	2.9 : 1
Wyre Forest	26.4	6.2	4.2 : 1
Single tier authorities			
Barking and Dagenham	50.7	106.0	0.5 : 1
Barnet	102.2	99.5	1 : 1
Barnsley	47.0	109.6	0.4 : 1
Bath and North East Somerset	55.2	43.5	1.3 : 1
Bedford	56.7	54.9	1 : 1
Bexley	60.5	66.6	0.9 : 1
Birmingham	379.5	691.2	0.5 : 1
Blackburn with Darwen	42.1	82.6	0.5 : 1
Blackpool	45.5	86.4	0.5 : 1
Bolton	82.6	128.0	0.6 : 1
Bournemouth	59.4	60.9	1 : 1
Bracknell Forest	52.5	26.1	2 : 1
Bradford	128.6	273.9	0.5 : 1
Brent	95.4	165.9	0.6 : 1
Brighton and Hove	95.0	112.4	0.8 : 1
Bristol	183.5	185.2	1 : 1
Bromley	77.5	67.3	1.2 : 1
Bury	48.7	67.8	0.7 : 1
Calderdale	54.1	82.4	0.7 : 1
Camden	408.6	184.8	2.2 : 1
Central Bedfordshire	73.8	50.6	1.5 : 1
Cheshire East	123.3	70.3	1.8 : 1
Cheshire West and Chester	137.6	96.6	1.4 : 1
City of London	672.9	100.3	6.7 : 1
Cornwall	137.7	217.0	0.6 : 1
Coventry	105.9	158.3	0.7 : 1
Croydon	107.4	123.3	0.9 : 1
Darlington	31.0	41.3	0.8 : 1
Derby City	80.8	113.1	0.7 : 1
Doncaster	78.1	144.9	0.5 : 1
Dudley	88.5	128.1	0.7 : 1
Durham	102.2	235.5	0.4 : 1
Ealing	124.8	145.4	0.9 : 1
East Riding of Yorkshire	76.2	102.5	0.7 : 1

	Forecast contribution to the business rates pool (£ million)	Formula grant (£ million)	Ratio of business rates contributed to formula grant received
Enfield	95.3	131.0	0.7 : 1
Gateshead	80.2	105.9	0.8 : 1
Greenwich	56.9	166.0	0.3 : 1
Hackney	74.5	224.9	0.3 : 1
Halton	44.0	67.0	0.7 : 1
Hammersmith and Fulham	173.1	124.5	1.4 : 1
Haringey	58.4	153.2	0.4 : 1
Harrow	45.8	70.1	0.7 : 1
Hartlepool	25.5	52.0	0.5 : 1
Havering	67.3	56.5	1.2 : 1
Herefordshire	42.7	60.2	0.7 : 1
Hillingdon	307.6	85.9	3.6 : 1
Hounslow	134.3	90.7	1.5 : 1
Isle of Wight	31.9	63.6	0.5 : 1
Isles of Scilly	1.2	2.6	0.5 : 1
Islington	148.5	164.9	0.9 : 1
Kensington and Chelsea	232.8	108.3	2.2 : 1
Kingston upon Hull	89.2	155.9	0.6 : 1
Kingston upon Thames	74.5	39.4	1.9 : 1
Kirklees	99.1	159.2	0.6 : 1
Knowsley	36.5	118.3	0.3 : 1
Lambeth	105.1	220.8	0.5 : 1
Leeds	335.5	315.1	1.1 : 1
Leicester City	98.5	189.8	0.5 : 1
Lewisham	45.6	186.6	0.2 : 1
Liverpool	173.5	340.0	0.5 : 1
Luton	61.0	91.2	0.7 : 1
Manchester	287.0	354.3	0.8 : 1
Medway	74.5	86.1	0.9 : 1
Merton	75.8	66.6	1.1 : 1
Middlesbrough	39.1	86.3	0.5 : 1
Milton Keynes	132.5	88.5	1.5 : 1
Newcastle upon Tyne	131.7	171.4	0.8 : 1
Newham	81.6	219.9	0.4 : 1
North East Lincolnshire	61.1	74.1	0.8 : 1
North Lincolnshire	73.2	63.1	1.2 : 1
North Somerset	53.2	57.2	0.9 : 1
North Tyneside	53.7	90.5	0.6 : 1
Northumberland	68.1	129.1	0.5 : 1
Nottingham	117.1	184.8	0.6 : 1
Oldham	55.0	122.4	0.4 : 1
Peterborough	86.1	78.7	1.1 : 1
Plymouth	81.3	112.3	0.7 : 1
Poole	55.3	30.7	1.8 : 1
Portsmouth	75.4	91.3	0.8 : 1
Reading	92.2	55.8	1.7 : 1
Redbridge	49.9	101.1	0.5 : 1
Redcar and Cleveland	45.9	68.0	0.7 : 1

	Forecast contribution to the business rates pool (£ million)	Formula grant (£ million)	Ratio of business rates contributed to formula grant received
Richmond upon Thames	74.8	30.8	2.4 : 1
Rochdale	58.9	115.5	0.5 : 1
Rotherham	64.6	123.2	0.5 : 1
Rutland	8.8	8.1	1.1 : 1
Salford	77.5	135.6	0.6 : 1
Sandwell	86.9	186.5	0.5 : 1
Sefton	65.6	126.3	0.5 : 1
Sheffield	190.6	283.7	0.7 : 1
Shropshire	69.6	95.3	0.7 : 1
Slough	85.6	57.2	1.5 : 1
Solihull	99.4	54.3	1.8 : 1
South Gloucestershire	119.0	62.0	1.9 : 1
South Tyneside	27.0	90.1	0.3 : 1
Southampton	95.4	104.9	0.9 : 1
Southend-on-Sea	44.2	64.0	0.7 : 1
Southwark	181.5	232.8	0.8 : 1
St Helens	45.6	91.0	0.5 : 1
Stockport	88.6	86.8	1 : 1
Stockton-on-Tees	69.4	76.9	0.9 : 1
Stoke-on-Trent	79.3	130.1	0.6 : 1
Sunderland	79.3	158.1	0.5 : 1
Sutton	47.6	55.3	0.9 : 1
Swindon	98.7	54.1	1.8 : 1
Tameside	54.0	106.7	0.5 : 1
Telford and Wrekin	62.9	70.9	0.9 : 1
Thurrock	98.8	61.1	1.6 : 1
Torbay	34.8	62.4	0.6 : 1
Tower Hamlets	306.8	229.7	1.3 : 1
Trafford	146.3	70.6	2.1 : 1
Wakefield	111.3	139.8	0.8 : 1
Walsall	64.5	137.1	0.5 : 1
Waltham Forest	49.9	125.9	0.4 : 1
Wandsworth	96.4	152.7	0.6 : 1
Warrington	93.7	57.4	1.6 : 1
West Berkshire	72.0	32.4	2.2 : 1
Westminster	1,382.8	186.6	7.4 : 1
Wigan	73.5	135.0	0.5 : 1
Wiltshire	128.4	104.2	1.2 : 1
Windsor and Maidenhead	72.2	20.3	3.6 : 1
Wirral	63.6	158.8	0.4 : 1
Wokingham	51.0	20.7	2.5 : 1
Wolverhampton	66.9	145.0	0.5 : 1
York	84.4	49.8	1.7 : 1

Sources:

DCLG. Local Government Finance Settlement 2011/12

DCLG. National Non-Domestic Rates to be collected by local authorities in England 2011-12 (Forecast)

Table A2: Index of business rates yield, English billing authorities, 2005/06 - 2009/10
Index: 2005/06 = 100

	2005/06	2006/07	2007/08	2008/09	2009/10	% change 2005/06 - 2009/10	rank (where 1 is the largest % change and 326 is the smallest)
District councils							
Adur	100	101.2	100.2	111.1	108.0	8.0%	307
Allerdale	100	104.1	110.3	120.6	123.8	23.8%	125
Amber Valley	100	103.4	109.4	121.3	115.6	15.6%	262
Arun	100	105.4	106.8	114.8	116.1	16.1%	253
Ashfield	100	115.8	118.3	130.8	134.5	34.5%	22
Ashford	100	110.4	106.7	125.4	117.7	17.7%	231
Aylesbury Vale	100	110.9	113.8	125.5	125.9	25.9%	98
Babergh	100	110.6	113.4	124.6	128.7	28.7%	57
Barrow-in-Furness	100	105.5	106.1	111.8	109.9	9.9%	304
Basildon	100	111.3	113.4	122.9	123.7	23.7%	129
Basingstoke and Deane	100	101.0	101.7	116.4	117.1	17.1%	240
Bassetlaw	100	93.2	94.4	96.5	86.6	-13.4%	322
Blaby	100	108.3	111.5	123.5	125.6	25.6%	102
Bolsover	100	114.6	126.8	141.4	142.4	42.4%	9
Boston	100	103.8	107.4	122.7	123.1	23.1%	144
Braintree	100	105.3	109.0	122.8	123.1	23.1%	145
Breckland	100	107.0	111.6	116.9	122.5	22.5%	160
Brentwood	100	108.1	109.4	123.1	126.8	26.8%	86
Broadland	100	118.2	124.0	127.5	135.0	35.0%	19
Bromsgrove	100	105.5	109.9	126.3	126.4	26.4%	92
Broxbourne	100	110.3	112.9	132.0	144.0	44.0%	8
Broxtowe	100	102.5	102.9	118.0	122.5	22.5%	158
Burnley	100	101.7	105.5	114.9	114.4	14.4%	276
Cambridge	100	110.4	111.0	119.6	120.5	20.5%	185
Cannock Chase	100	104.2	101.6	107.1	107.4	7.4%	308
Canterbury	100	107.4	109.3	117.7	119.6	19.6%	197
Carlisle	100	107.6	110.5	117.8	119.5	19.5%	198
Castle Point	100	107.5	110.8	122.2	125.1	25.1%	110
Charnwood	100	108.2	111.6	122.0	121.1	21.1%	176
Chelmsford	100	109.5	111.3	123.7	124.7	24.7%	114
Cheltenham	100	107.5	112.8	123.8	121.8	21.8%	166
Cherwell	100	113.8	118.3	127.1	130.5	30.5%	40
Chesterfield	100	106.7	106.7	114.3	115.0	15.0%	269
Chichester	100	113.2	110.2	122.0	125.1	25.1%	108
Chiltern	100	108.3	109.7	123.3	120.8	20.8%	180
Chorley	100	106.4	109.0	114.6	124.6	24.6%	117
Christchurch	100	106.6	110.4	122.1	125.5	25.5%	104
Colchester	100	106.2	109.2	117.8	126.5	26.5%	90
Copeland	100	106.7	130.6	135.0	97.5	-2.5%	320
Corby	100	101.7	107.3	113.4	114.3	14.3%	277
Cotswold	100	108.8	114.0	126.3	125.1	25.1%	109
Craven	100	102.4	105.8	111.3	111.7	11.7%	298
Crawley	100	109.9	106.2	116.2	124.4	24.4%	121
Dacorum	100	99.2	104.3	123.1	121.0	21.0%	177
Dartford	100	109.3	121.4	129.7	129.3	29.3%	51
Daventry	100	105.8	107.0	120.4	122.6	22.6%	153
Derbyshire Dales	100	104.0	109.2	117.8	117.2	17.2%	239
Dover	100	119.1	122.7	136.4	105.7	5.7%	310
East Cambridgeshire	100	110.8	118.5	130.8	131.3	31.3%	33
East Devon	100	106.5	108.2	119.5	124.7	24.7%	115
East Dorset	100	110.1	113.6	122.1	123.3	23.3%	137
East Hampshire	100	106.6	107.0	121.3	118.8	18.8%	214
East Hertfordshire	100	109.8	111.6	120.4	122.7	22.7%	151
East Lindsey	100	106.0	111.3	119.2	120.3	20.3%	187
East Northamptonshire	100	104.6	108.0	120.0	119.4	19.4%	202
East Staffordshire	100	101.2	106.1	116.2	119.2	19.2%	206
Eastbourne	100	108.4	110.4	117.8	118.1	18.1%	225
Eastleigh	100	108.5	114.5	124.3	126.1	26.1%	95
Eden	100	107.1	114.4	113.3	119.4	19.4%	203
Elmbridge	100	109.9	120.9	129.4	129.0	29.0%	55
Epping Forest	100	112.7	111.8	121.5	123.5	23.5%	130
Epsom and Ewell	100	109.1	110.3	120.9	124.9	24.9%	111
Erewash	100	103.1	106.6	110.6	113.4	13.4%	287
Exeter	100	106.5	112.6	125.7	127.7	27.7%	71
Fareham	100	107.2	112.0	123.3	102.5	2.5%	313
Fenland	100	105.4	114.0	124.6	128.7	28.7%	58

Index: 2005/06 = 100

	2005/06	2006/07	2007/08	2008/09	2009/10	% change 2005/06 - 2009/10	rank (where 1 is the largest % change and 326 is the smallest)
Forest Heath	100	107.7	113.5	122.4	129.7	29.7%	45
Forest of Dean	100	105.8	113.1	123.5	117.5	17.5%	236
Fylde	100	111.5	116.4	125.9	127.6	27.6%	74
Gedling	100	103.3	106.4	119.4	123.5	23.5%	132
Gloucester	100	111.3	111.4	121.1	118.9	18.9%	210
Gosport	100	108.4	102.6	123.5	121.2	21.2%	174
Gravesham	100	102.7	104.2	113.4	111.9	11.9%	295
Great Yarmouth	100	102.2	104.1	110.9	108.3	8.3%	306
Guildford	100	113.6	114.5	124.3	129.5	29.5%	48
Hambleton	100	107.0	109.6	121.5	121.5	21.5%	172
Harborough	100	113.9	113.1	115.2	123.7	23.7%	128
Harlow	100	96.0	101.6	117.4	115.0	15.0%	268
Harrogate	100	107.6	111.2	121.9	123.2	23.2%	140
Hart	100	93.2	101.7	110.9	117.6	17.6%	234
Hastings	100	103.4	101.9	107.3	114.1	14.1%	278
Havant	100	109.4	118.7	130.1	130.9	30.9%	36
Hertsmere	100	123.3	125.5	141.8	141.2	41.2%	12
High Peak	100	101.0	104.8	113.7	116.0	16.0%	254
Hinckley and Bosworth	100	104.1	108.2	115.0	113.7	13.7%	283
Horsham	100	100.7	107.6	117.5	118.0	18.0%	227
Huntingdonshire	100	110.4	114.3	123.4	125.2	25.2%	107
Hyndburn	100	101.3	97.4	118.3	111.2	11.2%	301
Ipswich	100	105.2	106.3	118.2	118.3	18.3%	223
Kettering	100	115.4	122.8	138.7	139.1	39.1%	13
King's Lynn and West Norfolk	100	110.9	113.2	124.5	126.8	26.8%	85
Lancaster	100	75.8	91.8	83.6	97.7	-2.3%	319
Lewes	100	107.5	112.4	123.3	125.5	25.5%	103
Lichfield	100	103.4	110.4	121.0	118.0	18.0%	226
Lincoln	100	106.3	106.3	114.6	114.8	14.8%	271
Maidstone	100	108.5	109.8	120.3	122.4	22.4%	161
Maldon	100	128.2	132.9	143.5	144.7	44.7%	7
Malvern Hills	100	108.8	111.9	131.0	131.3	31.3%	34
Mansfield	100	111.6	111.4	125.9	127.0	27.0%	84
Melton	100	101.8	101.4	116.5	118.7	18.7%	218
Mendip	100	104.4	109.2	122.7	119.5	19.5%	201
Mid Devon	100	106.8	111.7	121.7	121.6	21.6%	170
Mid Suffolk	100	124.0	130.5	139.4	148.2	48.2%	4
Mid Sussex	100	115.9	118.7	128.8	127.7	27.7%	70
Mole Valley	100	104.6	109.1	123.2	127.1	27.1%	83
New Forest	100	114.3	119.0	125.1	129.5	29.5%	47
Newark and Sherwood	100	109.3	114.6	118.5	124.9	24.9%	112
Newcastle-under-Lyme	100	109.1	109.8	121.6	115.2	15.2%	265
North Devon	100	106.6	110.9	118.3	122.0	22.0%	164
North Dorset	100	114.1	115.9	125.2	133.2	33.2%	27
North East Derbyshire	100	110.6	113.7	125.5	122.3	22.3%	162
North Hertfordshire	100	110.7	109.8	119.6	119.9	19.9%	191
North Kesteven	100	107.6	110.2	125.7	122.6	22.6%	156
North Norfolk	100	106.6	105.8	117.6	122.6	22.6%	155
North Warwickshire	100	105.9	117.1	128.6	123.3	23.3%	135
North West Leicestershire	100	106.0	108.8	121.2	118.9	18.9%	211
Northampton	100	99.8	100.0	108.7	109.6	9.6%	305
Norwich	100	125.4	117.5	125.6	128.9	28.9%	56
Nuneaton and Bedworth	100	110.0	107.6	116.8	119.1	19.1%	207
Oadby and Wigston	100	106.6	106.2	114.4	114.0	14.0%	280
Oxford	100	115.2	118.7	126.9	129.1	29.1%	53
Pendle	100	105.4	106.1	122.0	121.3	21.3%	173
Preston	100	106.7	112.9	121.6	123.2	23.2%	138
Purbeck	100	110.7	104.8	119.8	127.9	27.9%	68
Redditch	100	105.7	107.3	120.1	117.9	17.9%	228
Reigate and Banstead	100	104.9	101.2	115.6	113.4	13.4%	286
Ribble Valley	100	102.4	102.2	115.2	122.7	22.7%	150
Richmondshire	100	105.2	107.6	122.3	131.8	31.8%	30
Rochford	100	109.3	112.8	123.4	120.7	20.7%	183
Rossendale	100	106.5	115.4	126.1	120.3	20.3%	186
Rother	100	106.8	108.8	117.4	117.5	17.5%	235
Rugby	100	108.0	106.1	108.0	111.0	11.0%	302
Runnymede	100	100.9	99.6	112.4	113.9	13.9%	281
Rushcliffe	100	102.2	101.2	103.7	85.3	-14.7%	323

Index: 2005/06 = 100

	2005/06	2006/07	2007/08	2008/09	2009/10	% change 2005/06 - 2009/10	rank (where 1 is the largest % change and 326 is the smallest)
Rushmoor	100	92.4	108.7	129.0	127.6	27.6%	73
Ryedale	100	106.0	113.5	118.6	115.2	15.2%	264
Scarborough	100	106.3	112.0	119.7	119.3	19.3%	205
Sedgemoor	100	108.3	110.0	122.5	123.2	23.2%	141
Selby	100	96.4	90.5	89.0	68.9	-31.1%	324
Sevenoaks	100	108.1	111.9	120.6	122.9	22.9%	148
Shepway	100	88.0	95.4	98.2	96.1	-3.9%	321
South Bucks	100	107.2	98.2	116.5	119.7	19.7%	196
South Cambridgeshire	100	109.7	114.9	123.2	130.4	30.4%	41
South Derbyshire	100	111.2	122.5	130.1	141.5	41.5%	11
South Hams	100	107.8	112.0	125.1	128.3	28.3%	62
South Holland	100	96.3	97.1	100.3	97.8	-2.2%	318
South Kesteven	100	106.3	108.4	115.0	118.7	18.7%	216
South Lakeland	100	102.4	105.3	111.0	115.7	15.7%	260
South Norfolk	100	116.2	125.3	131.2	138.9	38.9%	14
South Northamptonshire	100	107.9	109.1	111.3	115.7	15.7%	259
South Oxfordshire	100	107.3	110.9	113.2	118.8	18.8%	213
South Ribble	100	108.5	113.2	122.2	124.3	24.3%	122
South Somerset	100	105.9	107.0	113.8	116.6	16.6%	247
South Staffordshire	100	106.9	102.4	117.8	117.1	17.1%	241
Spelthorne	100	106.9	96.2	109.4	111.7	11.7%	299
St Albans	100	110.9	115.0	121.8	126.5	26.5%	91
St Edmundsbury	100	110.8	114.0	124.4	134.6	34.6%	21
Stafford	100	109.2	117.6	130.4	127.4	27.4%	79
Staffordshire Moorlands	100	105.5	102.0	114.2	114.0	14.0%	279
Stevenage	100	113.9	116.8	125.0	134.2	34.2%	23
Stratford-on-Avon	100	105.9	112.9	123.2	117.2	17.2%	238
Stroud	100	107.6	111.9	122.1	125.8	25.8%	99
Suffolk Coastal	100	102.7	104.3	115.9	103.3	3.3%	312
Surrey Heath	100	102.7	104.9	123.8	115.8	15.8%	257
Swale	100	109.2	113.6	136.7	123.3	23.3%	136
Tamworth	100	105.7	107.6	113.2	115.1	15.1%	266
Tandridge	100	109.5	111.6	121.8	123.5	23.5%	131
Taunton Deane	100	107.0	106.5	113.1	116.6	16.6%	246
Teignbridge	100	109.3	115.2	122.5	128.5	28.5%	59
Tendring	100	107.1	107.2	107.5	112.7	12.7%	290
Test Valley	100	107.6	116.1	128.3	127.5	27.5%	76
Tewkesbury	100	135.0	141.3	154.7	187.0	87.0%	1
Thanet	100	114.9	122.9	131.9	132.1	32.1%	29
Three Rivers	100	109.4	114.2	124.4	123.0	23.0%	147
Tonbridge and Malling	100	110.0	112.4	122.4	135.0	35.0%	20
Torridge	100	105.7	118.0	127.2	133.2	33.2%	25
Tunbridge Wells	100	109.0	113.2	128.2	126.7	26.7%	87
Uttlesford	100	105.7	120.2	131.8	142.2	42.2%	10
Vale of White Horse	100	101.7	155.2	175.5	181.0	81.0%	2
Warwick	100	104.6	106.2	114.9	119.0	19.0%	209
Watford	100	105.1	108.8	118.0	116.6	16.6%	248
Waveney	100	107.6	110.0	122.3	126.4	26.4%	93
Waverley	100	104.8	107.3	114.6	116.6	16.6%	250
Wealden	100	107.6	116.1	120.5	125.7	25.7%	100
Wellingborough	100	99.4	104.1	115.3	111.9	11.9%	296
Welwyn Hatfield	100	109.2	114.7	122.1	127.5	27.5%	75
West Devon	100	104.5	109.3	121.3	125.9	25.9%	96
West Dorset	100	108.8	110.7	118.6	121.1	21.1%	175
West Lancashire	100	109.8	117.0	117.6	122.6	22.6%	152
West Lindsey	100	105.6	113.4	127.1	122.9	22.9%	149
West Oxfordshire	100	109.4	115.2	124.0	127.2	27.2%	82
West Somerset	100	82.9	82.4	74.2	27.0	-73.0%	326
Weymouth and Portland	100	112.7	111.3	123.0	115.9	15.9%	255
Winchester	100	107.9	115.9	127.7	133.2	33.2%	26
Woking	100	96.3	109.9	122.5	122.5	22.5%	157
Worcester	100	108.7	107.7	114.6	112.7	12.7%	291
Worthing	100	109.5	114.8	120.9	119.8	19.8%	194
Wychavon	100	105.4	107.6	118.7	113.4	13.4%	288
Wycombe	100	103.1	102.6	119.6	120.1	20.1%	190
Wyre	100	110.7	114.6	122.6	129.5	29.5%	46
Wyre Forest	100	106.8	104.7	114.7	113.3	13.3%	289

Index: 2005/06 = 100

	2005/06	2006/07	2007/08	2008/09	2009/10	% change 2005/06 - 2009/10	rank (where 1 is the largest % change and 326 is the smallest)
Single tier authorities							
Barking and Dagenham	100	106.6	103.1	115.6	117.7	17.7%	232
Barnet	100	107.4	109.9	116.1	119.5	19.5%	199
Barnsley	100	104.3	107.1	119.1	116.9	16.9%	244
Bath and North East Somerset	100	104.7	100.5	109.1	111.8	11.8%	297
Bedford	100	107.2	109.1	116.8	101.5	1.5%	316
Bexley	100	104.5	108.2	117.1	117.1	17.1%	242
Birmingham	100	104.1	107.7	115.9	116.9	16.9%	245
Blackburn with Darwen	100	107.5	111.8	118.1	115.1	15.1%	267
Blackpool	100	105.5	106.8	116.5	114.7	14.7%	272
Bolton	100	107.8	111.8	119.6	124.6	24.6%	118
Bournemouth	100	114.2	118.7	128.3	128.0	28.0%	67
Bracknell Forest	100	103.3	107.1	116.2	117.8	17.8%	229
Bradford	100	106.5	108.8	117.3	117.3	17.3%	237
Brent	100	104.2	114.4	139.0	130.3	30.3%	42
Brighton and Hove	100	109.5	116.0	126.3	127.6	27.6%	72
Bristol	100	111.7	113.6	127.5	133.8	33.8%	24
Bromley	100	107.1	108.9	116.5	118.6	18.6%	219
Bury	100	107.5	105.4	120.9	122.6	22.6%	154
Calderdale	100	104.9	109.5	120.5	120.6	20.6%	184
Camden	100	111.7	115.1	127.8	131.5	31.5%	31
Central Bedfordshire	100	108.6	111.0	124.5	127.4	27.4%	78
Cheshire East	100	104.9	60.6	66.4	66.3	-33.7%	325
Cheshire West and Chester	100	106.1	94.7	102.6	101.6	1.6%	315
City of London	100	107.4	82.7	101.4	115.3	15.3%	263
Cornwall	100	110.8	114.6	124.0	127.8	27.8%	69
Coventry	100	104.7	106.8	115.5	118.6	18.6%	220
Croydon	100	102.6	110.1	121.3	120.9	20.9%	179
Darlington	100	111.9	112.2	121.2	123.1	23.1%	142
Derby City	100	99.7	107.6	124.8	122.5	22.5%	159
Doncaster	100	112.4	114.7	126.1	124.0	24.0%	123
Dudley	100	108.0	108.1	115.9	118.5	18.5%	221
Durham	100	109.0	113.7	125.5	127.2	27.2%	80
Ealing	100	111.3	114.5	129.1	125.6	25.6%	101
East Riding of Yorkshire	100	103.5	106.3	115.0	114.9	14.9%	270
Enfield	100	109.9	117.6	126.9	129.0	29.0%	54
Gateshead	100	110.8	111.4	119.7	118.7	18.7%	217
Greenwich	100	109.8	116.6	126.6	126.7	26.7%	88
Hackney	100	104.4	104.7	123.2	119.8	19.8%	193
Halton	100	117.4	118.4	133.6	128.2	28.2%	63
Hammersmith and Fulham	100	115.9	121.1	124.8	176.6	76.6%	3
Haringey	100	99.2	109.2	110.9	114.6	14.6%	273
Harrow	100	111.9	119.4	124.5	129.3	29.3%	52
Hartlepool	100	83.1	95.1	79.3	101.8	1.8%	314
Havering	100	110.9	119.9	130.1	125.4	25.4%	105
Herefordshire	100	106.4	110.0	115.4	119.7	19.7%	195
Hillingdon	100	109.3	107.5	125.3	131.3	31.3%	35
Hounslow	100	101.6	97.9	119.7	124.5	24.5%	119
Isle of Wight	100	109.5	111.3	120.5	123.8	23.8%	126
Isles of Scilly	100	110.4	118.4	132.3	138.6	38.6%	15
Islington	100	107.9	99.6	118.2	112.2	12.2%	294
Kensington and Chelsea	100	109.8	110.1	117.4	125.3	25.3%	106
Kingston upon Hull	100	109.7	109.6	121.1	130.9	30.9%	37
Kingston upon Thames	100	106.8	112.0	118.3	121.7	21.7%	168
Kirklees	100	105.6	109.5	118.1	115.6	15.6%	261
Knowsley	100	115.9	112.0	135.4	133.0	33.0%	28
Lambeth	100	109.8	112.0	125.9	124.7	24.7%	113
Leeds	100	107.7	111.0	122.8	124.6	24.6%	116
Leicester City	100	103.5	107.4	119.4	120.2	20.2%	188
Lewisham	100	106.8	110.5	120.2	121.8	21.8%	165
Liverpool	100	107.7	118.1	123.8	135.7	35.7%	17
Luton	100	112.7	122.7	132.8	130.7	30.7%	38
Manchester	100	118.0	120.3	127.5	130.5	30.5%	39
Medway	100	109.0	106.4	112.8	112.3	12.3%	293
Merton	100	106.6	111.4	123.1	129.8	29.8%	44
Middlesbrough	100	106.6	112.7	125.5	125.9	25.9%	97
Milton Keynes	100	113.5	111.6	123.5	131.4	31.4%	32
Newcastle upon Tyne	100	106.3	107.7	113.3	118.2	18.2%	224

Index: 2005/06 = 100

	2005/06	2006/07	2007/08	2008/09	2009/10	% change 2005/06 - 2009/10	rank (where 1 is the largest % change and 326 is the smallest)
Newham	100	107.3	110.1	123.5	129.4	29.4%	50
North East Lincolnshire	100	105.6	107.5	114.8	113.6	13.6%	285
North Lincolnshire	100	117.3	115.4	127.5	129.5	29.5%	49
North Somerset	100	108.6	114.2	123.1	122.0	22.0%	163
North Tyneside	100	126.1	130.1	149.8	146.4	46.4%	5
Northumberland	100	102.8	108.1	119.2	123.2	23.2%	139
Nottingham	100	106.0	108.5	118.3	121.5	21.5%	171
Oldham	100	104.8	107.8	117.1	120.9	20.9%	178
Peterborough	100	112.5	112.6	123.5	123.4	23.4%	134
Plymouth	100	109.8	115.6	124.9	123.1	23.1%	143
Poole	100	109.4	112.9	121.9	124.4	24.4%	120
Portsmouth	100	107.8	110.0	119.8	123.9	23.9%	124
Reading	100	106.5	97.4	113.4	114.6	14.6%	275
Redbridge	100	104.4	107.1	115.1	117.8	17.8%	230
Redcar and Cleveland	100	117.3	116.3	107.1	99.1	-0.9%	317
Richmond upon Thames	100	104.4	109.3	118.2	119.3	19.3%	204
Rochdale	100	104.5	104.5	122.3	117.0	17.0%	243
Rotherham	100	112.9	110.3	126.3	130.3	30.3%	43
Rutland	100	106.6	111.8	110.7	128.0	28.0%	66
Salford	100	110.8	107.0	117.4	120.1	20.1%	189
Sandwell	100	104.6	108.1	122.9	121.6	21.6%	169
Sefton	100	103.4	110.4	152.4	121.7	21.7%	167
Sheffield	100	105.3	105.7	120.2	120.7	20.7%	182
Shropshire	100	106.8	109.5	115.2	116.3	16.3%	252
Slough	100	97.7	98.4	116.3	118.4	18.4%	222
Solihull	100	110.3	110.8	121.0	128.3	28.3%	61
South Gloucestershire	100	106.0	109.2	120.6	123.0	23.0%	146
South Tyneside	100	111.0	123.1	132.5	136.7	36.7%	16
Southampton	100	106.1	110.0	122.5	126.6	26.6%	89
Southend-on-Sea	100	110.7	103.9	115.3	118.7	18.7%	215
Southwark	100	104.5	127.9	137.3	145.2	45.2%	6
St Helens	100	105.0	104.8	112.8	111.3	11.3%	300
Stockport	100	107.2	109.6	118.6	115.7	15.7%	258
Stockton-on-Tees	100	110.0	112.6	120.7	123.7	23.7%	127
Stoke-on-Trent	100	106.3	108.3	115.3	114.6	14.6%	274
Sunderland	100	109.3	116.3	122.3	128.2	28.2%	64
Sutton	100	109.3	116.4	124.9	128.1	28.1%	65
Swindon	100	105.1	108.8	116.8	118.9	18.9%	212
Tameside	100	104.2	109.7	120.2	119.8	19.8%	192
Telford and Wrekin	100	99.6	106.4	113.3	112.6	12.6%	292
Thurrock	100	115.5	112.9	129.2	120.7	20.7%	181
Torbay	100	106.6	107.8	115.3	116.6	16.6%	249
Tower Hamlets	100	111.4	115.7	128.1	135.2	35.2%	18
Trafford	100	107.6	109.6	123.8	123.5	23.5%	133
Wakefield	100	104.6	94.7	110.1	110.7	10.7%	303
Walsall	100	97.6	99.4	104.3	105.5	5.5%	311
Waltham Forest	100	104.2	107.6	117.8	128.4	28.4%	60
Wandsworth	100	109.5	117.4	126.0	126.2	26.2%	94
Warrington	100	106.2	106.7	118.6	113.7	13.7%	282
West Berkshire	100	100.3	76.4	110.8	106.1	6.1%	309
Westminster	100	105.1	107.0	113.8	117.6	17.6%	233
Wigan	100	106.0	109.4	118.9	119.5	19.5%	200
Wiltshire	100	111.7	120.0	127.9	127.2	27.2%	81
Windsor and Maidenhead	100	95.5	102.0	112.8	115.8	15.8%	256
Wirral	100	106.0	107.4	115.1	119.1	19.1%	208
Wokingham	100	96.9	97.8	106.2	113.7	13.7%	284
Wolverhampton	100	104.1	104.1	116.5	116.4	16.4%	251
York	100	109.8	118.6	123.2	127.4	27.4%	77

Source: DEP2011-1557