

DERBYSHIRE COUNTY COUNCIL

CABINET

24 July 2012

Report of the Director of Finance

LOCALISATION OF SUPPORT FOR COUNCIL TAX

TECHNICAL REFORMS TO COUNCIL TAX

BUSINESS RATES RETENTION

(FINANCE AND MANAGEMENT)

1 Purpose of the Report

To provide Members with:

- i. details of the Government's intended method for distributing funding to support localised council tax support schemes from April 2013;
- ii. details of the Government's response to the recent consultation on Technical Reforms to Council Tax;
- iii. an update of the Government's proposals for the retention of business rates.

2 Information and Analysis

Council Tax benefit Localisation

Proposals for Funding Distribution

From April 2013 funding for localised council tax support will be distributed on the basis of previous shares of subsidised council tax benefit expenditure. Funding will be distributed in line with shares of annual subsidised council tax benefit expenditure, within areas it will be distributed. In each billing authority area the funding will be distributed between the billing authority and major precepting authorities according to 2012/13 shares of council tax. Both the total funding available and each billing authority's share will be based on information which has yet to be published. Revised forecasts for subsidised council tax benefit expenditure will be published in the Autumn.

Funding allocations will be made through the business rates retention scheme.

Given the potential effect, the government is consulting upon a “floor and ceilings” system of relief to protect individual councils from significant budget pressures as a result of the move to localised support for council tax. This is intended to ensure that no council will face a budget pressure in 2013-14 above a yet to be specified percentage.

Statement of Intent

The document provides five policy statements of intent on areas where the Government intend to issue regulations. These are:

- Requirements to prepare a scheme - these sets out the steps councils will have to go through to prepare a scheme.
- Transitional arrangements - this will provide for an application for council tax benefit before 1 April 2013 which has not yet been determined to be treated as an application for council tax support without requiring a fresh application.
- Prescribed requirements for the pensioners, the default scheme and for all schemes - a small number of requirements will apply to all schemes, they affect some people subject to immigration controls, other than refugees, who are not currently eligible to receive council tax benefit.
- Adjusting the council taxbase - the Government will amend the current regulations which govern the council taxbase to take into account the new council tax reduction schemes.
- Risk sharing of financial pressures - this covers the sharing of financial pressures between counties and districts.

Technical Reforms of Council Tax

The Local Government Finance Bill proposes a series of small, but potentially significant, changes to the council tax system, particularly around second homes and empty properties. In October 2011, the Government published a consultation paper on options in relation to the council tax liabilities of second home owners and of the owners of empty properties in England. It has now published a summary of the responses to the consultation together with an indication of their policy intentions. The key developments are as follows:

- The proposal to remove the discount for second homes and allow councils to decide to levy a full council tax charge received overwhelming support and therefore the Government now intends to amend secondary legislation to allow billing authorities to levy up to full council tax on second homes from 2013/14.

- The Government will abolish Class A exemption for dwellings undergoing major repairs and replace it with a local discount scheme.
- For vacant dwellings, the Government has confirmed its intention to abolish Class C exemption and enable billing authorities to give a discount which can be set at 100% or any lower percentage given local circumstances, in respect of vacant properties that currently fall with Class C.
- Currently, mortgagees (usually bank or building societies), do not become liable for council tax when they take possession of a dwelling under the mortgage and the owner is exempt under Class L of the regulations.
- Government sought views on whether 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). The Government will use Clause 10 of the Local Government Finance Bill to introduce an empty homes premium. The premium will not become payable until a dwelling has been empty and unfurnished for at least two years, and the maximum premium which an authority will be able to adopt will be 50%.
- The Government will introduce a legal right for council tax payers to pay their bills in twelve equal instalments, and councils will be required to inform individuals of this right. However, the Government recognises that local councils were overwhelmingly against this proposal, primarily because of the implications on their cash flow. Therefore, the default position will remain at ten months.
- Councils are currently required to provide information with their council tax bills. This duty will be discharged, but information will have to be provided online instead and a hard copy made available to any resident who requests one.
- There will be an amendment to legislation so that domestic scale solar photovoltaic installations on domestic properties under the paramount control of a third party provider will be treated as part of those properties and therefore not be liable to non-domestic rates.
- The Government will undertake a broader review of how an annex to a family home should be treated within the council tax system.

Business Rates Retention

In August 2011, the Government launched a consultation on proposals to enable local councils to retain a proportion of their business rate income, with a key intention to enable councils to benefit locally from any increase in business rates as a result of economic development activities.

Details of the first consultation were reported to Cabinet on 11 October 2011.

On 17 May 2012, the Government published further technical documents relating to the Local Government Finance Bill, which include five papers containing information on the technical workings of the proposed scheme. The information does not provide forecasts of the individual financial positions for councils, however they do provide information on how the scheme will operate.

The County Council will be a 'top-up' authority in that less business rates are currently collected in Derbyshire than are actually received via Government to support council spending.

Central and Local Shares

The Government will retain some business rates to ensure the scheme operates within existing 2010 Spending Review control totals. However, the central and local share of business rates income will be set as a percentage so that the risks/benefits associated with projected business rate income levels are shared between central and local government.

The Government are proposing a 50%/50% central/local share. This percentage will remain fixed until any reset of the system, however at each five yearly business rate revaluation, tariffs and top-ups will be adjusted to ensure that an authority's retained income is not affected. The Government does not intend to reset the system until 2020.

The creation of a 50% central share will mean that the amount local councils are able to keep locally in business rates will be lower than the amounts predicted in the Spending Review 2010 for 2013/14 and 2014/15. The Government now intends to provide Revenue Support Grant (RSG) allocations for both years to ensure that the overall level of funding to local government is not reduced. Previously, it was their intention to abolish RSG on the introduction of the business rates retention scheme.

In addition, the Government has announced a list of ten specific grants that it intends to roll into the rates retention system, of which the 2011/12 Council Tax Freeze Grant, Early Intervention Grant, Learning Disability Health Reform Grant and a proportion of the Lead Local

Flood Authority Grant are all currently paid to the Council as a general grant.

The amount of RSG for 2013/14 and 2014/15 will be set out in the 2013/14 Local Government Finance Report (LGFR). In future years, the total amount of grant funding will be determined through spending reviews and the Government will set out the basis for its distribution in the annual LGFR.

Safety Nets and Levies

A safety net provides support when an authority's income drops by more than a set percentage below its spending baseline. If the authority's income drops below their threshold they will receive a safety net payment to bring their income up to the threshold.

The Government proposes setting the safety net threshold between 7.5% and 10% below the spending baseline. The Government will be discussing the safety net threshold with local government over the coming weeks before publishing its proposed level in the summer consultation.

The Government proposes to set a proportionate levy, with a 1:1 ratio, meaning that for every one per cent increase in business rates base, an authority would see no more than a corresponding one per cent increase from business rates growth.

Pooling Prospectus

Local councils can, if they wish, work together and pool business rate income. The government has confirmed that any decisions to work together and pool business rate resources will be entirely voluntary and there will be no specific additional financial incentive to encourage pooling. Local councils, themselves, will determine whether they wish to work in a pool and if so, the geographical coverage of the scheme. The only restriction is that the Government will have the right to consider whether the operation of pools could impact on the operation of the safety net and levy mechanisms and will have the right to refuse pooling arrangements if there is no clear rationale for the proposed pool.

Renewable Energy Projects

Business rates income from new renewable energy projects, as defined by the Government, will be excluded from calculations in the rates retention scheme. As a result 100% of the business rate income from such projects would be able to be retained. In two-tier areas it will be the authority which acts as the local planning authority to give approval for the renewable project which would retain the income. In National Parks the relevant billing authority will benefit, as National Park Authorities are not part of the business rates scheme.

The Valuation Office Agency (VOA) will be responsible for attributing the proportion of the rateable value relating to energy generation in circumstances where a renewable energy project forms part of a property used for other purposes. Similarly the VOA will apportion the rateable value from the renewable energy element of Energy from Waste plants. Only properties placed on the valuation list from April 2013 will be treated as renewable energy projects for the purposes of the rates retention scheme.

The Economic Benefits of Local Business Rates Retention

The Government committed to the publication of an analysis on the economic impact of the business rates retention scheme in its Impact Assessment of the proposals, published in December 2011. The analysis is based on estimates which calculate the size of the incentive for each billing authority to expand its commercial floorspace. The paper states that the projected economic benefits of the new business rates retention scheme could add, on average, an additional £10 billion to national Gross Domestic Product over the next seven years. The range of scenarios modelled produce figures between £1.7bn and £19.9bn.

3 Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

4 Key Decision

No

5 Call-in

Is it required that call-in be waived in respect of the decisions proposed in the report? No

6 Background Papers

Localising Support for Council Tax – Statement of Intent – Department for Communities and Local Government

Localising Support for Council Tax – funding arrangements consultation - Department for Communities and Local Government

Technical Reform to Council Tax – Department for Communities and Local Government.

Business Rates Retention Scheme: The economic benefits of local business rates retention - Department for Communities and Local Government

Business Rates Retention Scheme: Pooling Prospectus - Department for Communities and Local Government

Business Rates Retention Scheme: Renewable Energy Projects – A Statement of Intent - Department for Communities and Local Government

Business Rates Retention Scheme: The central and local share of business rates – A Statement of Intent - Department for Communities and Local Government

Business Rates Retention Scheme: The Safety Net and Levy - Department for Communities and Local Government

7 OFFICER'S RECOMMENDATION

To note:

- i. the details of the Government's Statement of Intention and consultation on funding arrangements for Council Tax Benefit Localisation.
- ii. the Government's proposals for technical reforms to the council tax system.
- iii. the details of the further technical documents published by the Government in respect of the Business Rates Retention scheme.

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