Agenda Item 6

SOUTH EAST ENGLAND COUNCILS
ALL-MEMBER PLENARY MEETING

Date: 19 November 2010

Subject: **Local Government Finance: Tax Incremental Finance, Business Rates & New Homes Bonus consultations**

Report by: Heather Bolton SEEC Head of Communications & Public Affairs

Recommendations:
SEEC members are asked to:
i) Contribute views and officer support to help prepare a SEEC response to consultation on business rates and Tax Incremental Finance.
ii) Contribute views and officer support to help prepare a response on newly announced consultation on the proposed New Homes Bonus.

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1. Introduction

1.1 The Government's Local Growth White Paper outlines proposals for some radical changes to local government financing. It launches consultation on the future of the business rates system and promises future legislation to introduce Tax Increment Financing.

1.2 Business rate consultation closes on 1 December 2010, with responses expected to feed in to Government's Local Government Resource Review scheduled to start in January 2011.

1.3 Since the SEEC All-member Plenary agenda was agreed, consultation has also been announced on the Government's proposed New Homes Bonus This consultation closes on 24 December 2010.

2. Business rates

2.1 Currently business rates collected by English councils are pooled for redistribution across the country. The Government wants to consider alternative systems for two primary reasons:
- To give councils greater incentive to support economic and business rate growth
- To help set councils free from dependency on central funding.

2.2 The Government has been considering a Business Increase Bonus. This is an incentive scheme, which would reward councils where business rate growth exceeds a threshold, allowing them to keep the increase up to a certain level for six years.

2.3 More radical options are now also under consideration – for example allowing councils to retain locally raised business rates. This option would aim to set councils free from reliance on central funding. However such a system would need consideration of key questions, including:

- How to fund councils where locally-raised funding is insufficient to meet budget requirements
- How to allocate funding to upper tier councils who do not collect business rates
- The position of councils who raise more in business rates than they spend
- How to handle significant variations in need and business rate yield in different parts of the country
- How to retain genuine incentives and rewards for growth
- How greater retention of business rates could give councils in London and major urban conurbations access to business rate funds to support activities of economic significance.

2.4 The impact of these issues on the South East needs to be carefully considered. For example:

- Would the South East be considered to have 'major urban conurbations' to compete with cities such as Birmingham and Manchester?
- How re-allocation of business rates could best be structured to ensure fair funding for the South East compared to other areas of the country?

3. Tax Increment Finance

3.1 Tax Increment Financing (TIF) would allow local authorities to borrow money up front (eg for regeneration projects) against predicted growth in locally raised business rates. New legislation would be needed to introduce TIF, probably by 2013 or 2014. Currently local authorities can borrow against their overall revenue, but this does not include business rates. Government anticipates that TIF would initially be introduced through a bid-based process.

3.2 There are some perceived pros and cons of TIF. Advantages could include:

- A new source of funding for projects that otherwise may be unaffordable
- The ability to finance infrastructure in advance of housing developments
- A potential confidence boost for an area, making it more attractive to investors.

Disadvantages could include:

- Risk to councils if tax revenues do not materialise as expected
- An increase in net public sector debt
- It may be difficult to prove uplift in business rates is <u>additional</u>, not simply caused by businesses relocating from one area to another.

3.3 As an example of potential TIF projects, Greater Birmingham has three proposals: a tram scheme between Wednesbury, Brierley Hill and Stourbridge; a public transport interchange in Wolverhampton; and regeneration of the former MG Rover car factory in Longbridge. The council has identified a £318 million funding gap across the three projects, which could be filled through TIF borrowing. The council says that infrastructure investment could “unlock significant commercial and residential development … sufficient to repay the debt”.

4. Specific business rate/TIF consultation questions

The business rate/TIF consultation poses four questions:

1. Would you favour a business rates retention model as a more radical alternative to Business Increase Bonus?
2. How would such a model change your approach to Tax Increment Finance, if at all?
3. Do you have any specific issues, concerns or proposals in relation to a business rate retention model or Tax Increment Finance?
4. How should Government support local authorities to introduce Tax Increment Finance?

5. New Homes Bonus

5.1 The Government’s aim for the New Homes Bonus is to create a powerful, simple, transparent and permanent incentive, which rewards local authorities that deliver sustainable housing development.

5.2 The scheme will incentivise local authorities to increase housing supply by rewarding them with a New Homes Bonus, equal to the national average for the council tax band on each additional property and paid for the following six years as non-ringfenced grant. There will be an additional payment for affordable homes. Rewards are also proposed for bringing empty homes back into use and providing affordable homes in the form of Gypsy and Traveller pitches. Payments would be calculated by measuring the change in dwellings on council tax valuation lists.

5.3 Government states that currently the amount of grant relating to an additional council tax band D property would be about £1,439 per annum or £8,634 over six years. Grant for an additional band E property would be about £1,759 per annum or £10,553 over six years. These amounts would be reviewed if council taxes rise. There would be a flat rate enhancement of £350 per annum for each additional affordable home. Over six years an affordable home would receive an enhancement of £2,100.

5.4 As ‘a starting point for negotiation’ the Government’s consultation proposes splitting payment of the New Homes Bonus in the following way in two tier areas:

- 80 per cent to the lower tier
- 20 per cent to the upper tier.

5.5 The full consultation document includes tables showing in detail how the New Homes Bonus would be calculated.

6. New Homes Bonus consultation questions

6.1 The consultation document sets out 13 questions:

1. Do you agree with our proposal to link the level of grant for each additional dwelling to the national average of the council tax band?

2. The Government proposes an affordable homes enhancement of £350 for each of the six years - what do you think the enhancement should be?
3. Do you agree with the proposal to use PPS3 and also include pitches on Gypsy and Traveller sites owned and managed by local authorities or registered social landlords to define affordable homes?
4. Do you agree with the proposal to reward local authorities for bringing empty properties back into use through the New Homes Bonus? Are there any practical constraints?
5. Outside London: Do you agree with the proposal to split the payment of the New Homes Bonus between tiers: 80 per cent to the lower tier and 20 per cent to the upper tier, as a starting point for local negotiation? If not, what would the appropriate split be, and why?
6. Do you agree with the proposal to use the data collected on the Council Tax Base form as at October to track net additions and empty homes?
7. Do you agree with the proposal for one annual allocation based on the previous year's Council Tax Base form, paid the following April?
8. Do you agree that allocations should be announced alongside the local government finance timetable?
9. Do you agree with the proposal to reward local authorities for affordable homes using data reported through the official statistics on gross additional affordable supply?
10. How significant are demolitions? Is there a proportionate method of collecting demolitions data at local authority level?
11. Do you think the proposed scheme will impact any groups with protected characteristics?
12. Do you agree with the methodology used in the impact assessment?
13. We would welcome your wider views on the proposed New Homes Bonus, particularly where there are issues that have not been addressed in the proposed model.

15 November 2010