Consultation response

Shelter response to Department for Communities and Local Government on Business Rates Retention: Technical consultation

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Until there's a home for everyone

In our affluent nation, tens of thousands of people wake up every day in housing that is run-down, overcrowded, or dangerous. Many others have lost their homes altogether. The desperate lack of decent, affordable housing is robbing us of security, health, and a fair chance in life.

Shelter believes everyone should have a home.

More than one million people a year come to us for advice and support via our website, helplines and national network of services. We help people to find and keep a home in a place where they can thrive, and tackle the root causes of bad housing by campaigning for new laws, policies, and solutions.

Introduction

From April 2013, there will be a radical reform of the way local authorities are funded. A Business Rates Retention scheme will replace the current Formula Grant funding system. This will enable local authorities to keep a proportion of locally collected business rates. The Government's intention is for business rates to be shared between central and local government on a 50/50 basis:

- The local share of business rates will be retained in full by local government - set at a level sufficiently large to maintain a strong incentive for growth upon all local authorities. In addition, councils will keep all of the growth upon their share of business rates, subject only to the levy on disproportionate benefit (see below). The idea is that the more a council grows its business rate base, the better off it will become.

- The central share of business rates will be paid by each billing authority to the Secretary of State. It will be used by central government in its entirety to fund the local government sector.

The Government's rationale for this split is that some of the reward of positive growth, but also some of the risk of negative growth, will be borne by central government. The Government's intention is that the 50/50 split will not be reset until 2020 at the earliest, except in exceptional circumstances. A reset would involve reviewing baseline funding levels for each local authority to take account of changes in relative need and resource. The length of the reset period or the way it will be done will not be set in regulation.

Some wealthier authorities earn more in business rates than they used to receive from the current Formula Grant, while others earn much less. So the Government proposes to level the playing field through a mixture of *top-ups* and *tariffs*. Government will calculate a funding level for every local authority for 2013/14:

- Should a local authority receive more in business rates than its funding level then Government will retain the difference (referred to as a *tariff* or *levy*).

- A *safety net* will guarantee that no local authority will see its retained rates income fall below a certain percentage of its index linked baseline funding. The *safety net top-up* will be funded by the levy. In the early years of the scheme, the Government will hold back some Revenue Support Grant to ensure that the *safety net top up* will be guaranteed regardless of the amount of levy income.

In addition to locally retained business rates, each authority within the rates retention scheme will also receive Revenue Support Grant. Taken together, an authority's retained rates at the outset of the scheme and its Revenue Support Grant will ensure that it receives its share of the spending control total in any given year.

A number of specific grants will be transferred to the Business Rates Retention scheme from 1 April 2013, including Homelessness Prevention Grant and Council Tax Support Grant.

Homelessness Prevention Grant

Shelter's response to this consultation is limited to the following question.

Question 24: Do you agree with the proposed methodology for rolling in Homelessness Prevention Grant?

The Homelessness Prevention Grant is used to fund a range of homelessness prevention services, including rent deposits, mediation, and reconnection services. Local authorities' statutory homelessness duties (such as processing homeless applications) are funded from Revenue Support Grant.

The Government is proposing that, from April 2013, Homelessness Prevention Grant will be transferred (after floor damping) into the start-up funding allocation of the Business Rates Retention scheme. £160 million per year will be transferred, comprising £80 million per year in 2013-14 and 2014-15. On 2 September, DCLG published details of the distribution of this £160m funding.

From 2015, Homelessness Prevention Grant funding will be part of the Business Rates Retention scheme.

Shelter does not agreed with the proposed methodology for rolling Homelessness Prevention Grant into the Business Rates Retention scheme for the following reasons:

Homelessness prevention should receive national, needs-based funding

Homelessness is a national issue, and a symptom of a failing national housing system. We therefore strongly welcome the Government's continued commitment to the funding of homelessness prevention services. Rolling homelessness prevention funding into the Business Rate Retention scheme could undermine this national commitment. We believe that the funding of homelessness services is too important an issue to be rolled into Business Rates Retention. We believe that this funding should continue to be allocated by Government to local authorities. It should be calculated on the basis of current and projected need within each district, such as the numbers of people approaching local housing authorities for assistance in keeping their current home or finding somewhere to live. If the local/central government split remains at 50/50 from 2015 to 2020, there will be a limited amount of money for councils to spend on homelessness prevention, regardless of any rising demand.

Some local authorities will have less money in the baseline settlement

The baseline calculation will be based on all potential local business rate income for business premises, both in use and empty, with an adjustment for losses or rate reliefs that councils must provide. This suggests that areas with lots of empty or failing business will start with a lower base but with some central government adjustments. There will be an estimate of what the council should repay to central government based on the Business Rates Retention scheme share which will be payable in advance to central government based on forecasts. This could mean that some councils will have less money to spend at the commencement of the Business Rate Retention scheme.

Risks to homelessness services in areas of low growth

The business rates retention pot will only grow where there is business growth in an area. Therefore the scheme is likely to favour areas with potential high growth, such as London and South East England. There are many local authority areas which are likely to have low business growth due to recession, loss of local industry or location. As a result, they will retain a lower level of business rates and have less to spend on local services. Such areas may well have a higher need for homelessness services because of higher levels of unemployment or lower earnings, but with a reduced funding pot to support it. We believe the scheme needs to be really clear on how the *safety net* funding will operate to ensure funding for homelessness services in areas of lower business growth.

Homelessness prevention losing out to competing local priorities

Rolling Homelessness Prevention Grant into Business Rates Retention could mean that councils will be forced to choose between the funding the equally important services to protect vulnerable people and prioritise statutory service provision. With councils already under significant financial pressure, homelessness prevention may not be regarded as a priority and there is a risk this funding may be diverted, as has been the case with Supporting People funding in many areas. Because Council Tax Support Grant will also be rolled into the Business Rate Retention scheme, there is a real worry that some councils may choose to spend their retained business rates on reduced council tax. This will mean even less funding for homelessness prevention services. There could be difficulties for two-tier authorities, where cuts to district-level homelessness prevention services could have a knock-on effect on first-tier statutory provision, such as social services department duties to support children in need within homeless families.

Need for local transparency and accountability

There needs to be transparency about how much local authorities allocate to Homelessness Prevention Grant and how this is spent. Without this, it is difficult for local people to ascertain how much money their local council is spending on homelessness prevention in order to hold it to account for the provision of services. If Homelessness Prevention Grant is rolled into the Business Rates Retention scheme then the level of funding Government expects each local authority to spend on homelessness services should continue to be visible, post 2015. In our view, it should remain a separate, identifiable funding stream within the Business Rates Retention scheme. We also urge the Government to require local authorities to collect, publish and monitor information on:

- how much funding they allocate to homelessness prevention within the BRR scheme
- how this is being spent

Conclusion

Local spending on homelessness prevention must reflect the needs of the area. The number of households found to be homeless increased by 9% in England in 2011/12 to nearly 78,000. But at this time of rising demand, homelessness services are already facing significant cuts. The rolling of Homelessness Prevention Grant into the Business Rates Retention scheme must not result in a further reduction of funding for local homelessness services.

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