BUSINESS RATES RETENTION

Cabinet – 13 September 2012

Report of the:	Deputy Chief Executive and Director of Corporate Resources
Status:	For Information
Also considered by:	Services Select Committee – 25 September 2012
Key Decision:	No

Executive Summary: Every local authority currently receives a major part of their Government funding through the Formula Grant which uses an extremely complex formula to allocate funding. From 2012/13 this will be replaced by the Business Rates Retention Scheme which will be one of the most significant changes ever made to the funding provided by Government to local authorities.

The effect of this change could be significant as experts are predicting large reductions to the funding received from the Government.

This report supports the Key Aim of effective management of Council resources.

Portfolio Holder	Cllr. Ramsay
Head of Service	Group Manager – Financial Services – Adrian Rowbotham

---

Recommendation to Cabinet: That the report be noted.

Recommendation to Services Select Committee: That the report be noted.

Introduction

1 The Department for Communities and Local Government (DCLG) launched the original business rates consultation on 18 July 2011 and subsequently published eight 'technical papers' to supplement and provide further detail. On 19 December 2011, the government set out its response to the consultation and how the business rates retention scheme will operate.

2 The legislative framework required to introduce the business rates retention scheme formed part of the Local Government Finance Bill with the intention that the new scheme will be implemented from 2013/14.

3 On 17 May 2012, DCLG released further information regarding the design of the scheme and on 17 July 2012 issued a consultation paper which brings all of the previous publications together.

Why the Government wants to change the system

4 The local government finance system is one of the most centralised in the world with local authorities getting more than half of their income from a central government grant. Under the existing system, all businesses pay business rates to their local authority. Although the local authority collects the bills, it does not keep the money. It goes into a treasury pot and is then redistributed back to local authorities via an extremely complex formula.

5 The current system fails to reward local authorities for increasing new business in their area as they do not receive any of the additional business rates collected.

The new scheme

6 The scheme will set an initial “baseline” so that all councils receive funding broadly equivalent to their 2012/13 Formula Grant, whilst ensuring that the overall level of Government funding for local government in England does not exceed the estimate set out in the 2010 Spending Review.

7 This baseline figure will be compared with the actual level of business rates collected locally.

8 Where a local authority on average collects more than the baseline it will pay a ‘tariff’ to central government, where it collects less it will receive a ‘top-up’. As a billing authority, this council will pay a ‘tariff’.

9 Once underway the scheme allows local authorities to keep 50% of the additional funds they generate (split between the billing and major precepting authorities). Without adjustment this scheme would be weighted towards richer authorities who for a comparatively small investment in growth with a large amount of business property can gain large increases in their revenue.

10 To encourage enterprise in local authorities whatever their resources, the scheme will include a ‘levy’. For example if a local authority grows its business rates by 2% which would result in its funding level increasing by 4%, the ‘levy’ will only allow it to keep 2%.

11 The extra funding received from the ‘levy’ will be given to other local authorities who have had a reduction in business rates as a ‘safety net’ so that the reduction in their funding is reduced.

12 The initial effect of this extremely complex new scheme is very hard to predict as technical experts have come up with a wide range of forecasts that may have a significant impact on the Council’s 10-year budget. The longer term impact is also uncertain as the level of business growth in the local authority area is likely to be limited.

Key Implications

<u>Financial</u>

13 The estimated effect of the change to the Business Rates Retention Scheme is included in the 'Financial Prospects and Budget Strategy 2013/14 and Beyond' report.

Community Impact and Outcomes

14 The change to the Business Rates Retention Scheme is likely to affect the level of funding this council receives from Government which may result in savings being made as part of the new 10-year budget.

Legal, Human Rights etc.

15 None.

Conclusions

16 The change to the Business Rates Retention Scheme is a major change to Government funding. The effect on the funding for this council in 2013/14 and 2014/15 is unknown as various technical experts have estimated funding reductions of between 13% and 30%.

17 Changes in funding levels in the longer term will be affected by the level of business growth or reduction within the local authority area.

Risk Assessment Statement

18 The risks associated with the change to Business Rates Retention are the uncertainty of the level of funding to be provided to this council and the timing of the announcement. These risks affect the Budget Strategy.

Appendices	None
Background Papers:	Department for Communities and Local Government – Localising Council Tax Support documents: http://www.communities.gov.uk/localgovernment/localgovernmentfinance/businessrates/
Contact Officer(s):	Adrian Rowbotham Ext.7153

Dr. Pav Ramewal
Deputy Chief Executive and Director of Corporate Resources