Department for Communities and Local Government

A Plain English Guide to Business Rates Retention

Local Government Finance Bill

July 2012

This document/publication is also available on our website at www.communities.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

July, 2012

ISBN: 978-1-4098-3597-4

Why are we changing the system?

Government wants to give councils more freedoms and flexibilities. This is since we want to reduce Whitehall interference and give more power to local people. We also want to give councils stronger incentives to create and support local jobs and local firms.

The local government finance system is one of the most centralised in the world with councils getting more than half of their income from a central government grant. Under the existing system all businesses - shops, offices, warehouses and factories - pay a tax to their local council (called business rates). Although the local council collects the bills, it doesn't keep the money. It goes into a Treasury pot and is then redistributed back to local authorities, via an extremely complex formula.

There are a number of problems with the current scheme. It fails to reward local authorities for increasing new business in their area. No matter how many new businesses start up in their locality, councils don't get a penny extra. They could even lose out for having to stump up the cost of providing additional services to new companies. Instead of encouraging businesses, the system encourages a 'begging bowl' mentality with councils looking to be rewarded for being worse off. It's a system in need of reform.

Government's proposals will shift more financial power from Whitehall to the town hall allowing councils far greater influence over the money they earn. Overall, councils will now get to keep 50 per cent of what they earn giving them a real incentive to go for growth and encourage enterprise and job creation. It has been estimated that these reforms could boost economic growth by £10 billion over the next seven years. If economic activity increases, the total amount of money raised from business rates will grow too. This means there will be more money 'in the pot' both for prosperous councils and to support less well-off areas.

They will also have much greater flexibility to pool their business rates to encourage growth across their areas. And the scheme also enables local authorities to borrow money against future business rate growth to fund infrastructure projects in their area.

Meanwhile, councils that struggle to increase their business will have protection for basic services. And all local authorities will now have much greater certainty about their budgets over a longer period of time - allowing them to plan ahead.

How will the new scheme work in practice?

Instead of business rates going straight into the Treasury coffers without touching the sides of the local authorities, town halls will now get to keep a proportion of their hard earned cash.

But the reality is that some wealthier authorities earn more in business rates than they used to receive from the current formula grant. While there are other authorities who earn much less. So Government is levelling the playing field through a mixture of “top-ups” and “tariffs”.

In the first instance, 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 pocket the difference (the “tariff”). This will be used entirely to "top up" local authorities who receive less than their funding level. Government intends that this will be fixed for seven years.

Once underway the scheme allows councils to keep 50 per cent of the additional funds they generate. But without adjustment the scheme would be weighted towards richer authorities. This is because, for a comparatively small investment in growth, councils with a large amount of business property can gain large increases in their revenue. Whereas hard-pressed councils who put a lot in would get comparatively little out.

For example, in an authority with business rates income of £100 million and funding level of £50 million, a 5 per cent increase in business rates income produces a 10 per cent increase in income compared to its funding level. A town hall with a different rate base (£10 million) and the same funding level (£50 million), would find the same 5 per cent increase in rates income only produces a 1 per cent increase in income compared to its funding level.

So Government is evening up the odds to encourage enterprise in councils whatever their resources. Where a council's increase in revenue outstrips the increase in its funding level. Government will again take the difference through a levy. So if an authority grows its rates by 2 per cent and its funding level growth is 4 percent, it will get to keep 2 per cent of that growth.

However, this money will still be ploughed back into local authorities. In this case it will be used as a shock absorber to protect other authorities that see their income drop to a particular level, for example, as a result of big business going under. Government is consulting on where between 7.5 per cent and 10 per cent this level should be set.

What do these proposals mean for you?

Local residents - should see greater investment in local services as authorities see their business rates revenue increasing. Equally, spending is protected even if it suffers a significant decrease in its business rates revenue.

Businesses will see no change in the way their business rate bills are calculated. But they will have more influence on council’s decisions, including their budget as the council’s income is directly linked to the successful of businesses in its areas.

Charities and voluntary groups which currently receive tax relief on their bills will see no change, as such relief will continue.

Councils will have much greater incentive to grow businesses in their areas and much greater certainty about their future funding - allowing them to plan ahead, manage risk, budget for the long term and plan for worst case scenarios. They will also want to work more closely with the Valuation Office Agency (the body which helps calculate the amount of business rates that firms should pay) to ensure local firms are having their properties valued correctly and paying the right amount of tax.

Developers will find a more conducive atmosphere with councils actively seeking to encourage appropriately-sited and well-planned non-residential development. This is especially true of new renewable energy projects that start paying business rates from year one.

The *police authority* will not be affected by fluctuations in business rates in your area.

All *single purpose fire and rescue authorities* will be funded through a two percentage share of each district or borough council's business rates income. They will receive a top-up to bring their funding up to their funding level.

More information about business rates

Information on how business rates bills are currently calculated can be found at http://www.businesslink.gov.uk/bdotg/action/layer?r.i=1080387285&r.l1=1086951342&r.l2=1087348731&r.l3=1081626979&r.l4=1080387124&r.s=m&r.t=RESOURCES&topicId=1081626979. This will not change.