

Subject:	Business Rates Retention Scheme	Status:	For Publication
Report to:	Cabinet	Date:	5 th September 2012
Report of:	Head of Finance	Portfolio Holder:	Finance & Resources
Key Decision:	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	General Exception <input type="checkbox"/>	Special Urgency <input type="checkbox"/>
Community Impact Assessment:	Required:	No	Attached: No
Biodiversity Impact Assessment	Required:	No	Attached: No
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1.	RECOMMENDATION(S)		
1.1	That Members note and consider the report.		
1.2	That Members are updated as and when further information is received as to the final impact on Council finances		

2. PURPOSE OF REPORT

- 2.1 The purpose of the report is to update Members on central government proposals for changes to the financing of local government and specifically the retention of business rates as from 1st April 2013.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **A clean and green Rossendale** – creating a better environment for all.
 - **A healthy and successful Rossendale** – supporting vibrant communities and a strong economy.
 - **Responsive and value for money local services** – responding to and meeting the different needs of customers and improving the cost effectiveness of services.

4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- Financial risk and reward, associated with business rates, transferring to local authorities (and Fire & Rescue Services)
 - Public and local business understanding that local authorities will continue to charge business rates under a national framework and according to statutory guidelines.
 - Opportunity cost in relation to the cost Business Rates in light of the Council's recent review (June 2012) of its accommodation needs.

5. BACKGROUND AND OPTIONS

5.1 Background

With effect from the 1st April 2013 the current arrangements for the collection of business rates will be replaced by a local business rates retention scheme.

Under the existing arrangements the Council acts an agent of central government in both the billing and collection of business rates. The council pays over on account an estimate of the business rates to be collected; with an adjusting payment either to or from Central Government at the year-end dependent upon the actual business rates collected.

Rossendale is effectively cushioned and insulated from the adverse fluctuations in the business rates tax base and their collection resulting from: economic factors, rating appeals and other non-collection issues (liquidations, etc). Any such adverse or indeed favourable fluctuations currently fall on Central Government not the local authority.

Business rates form an integral part of all local government financing, effectively going into a central pool for redistribution to all local authorities as part of their individual annual general revenue support settlement.

5.2 Key Principles local business rates retention scheme

In introducing the local business rates retention scheme, Central Government has stated that it is seeking to:

- Financially incentivise local councils to increase their business rates base.
- Reduce the dependence of local authorities upon central government funding.
- Ensure that local authorities with high need and low tax bases are still able to meet the needs of their area, whilst maintaining a degree of re-distribution of resource.
- Share business rates 50:50 between billing authorities and central government.

The balance of business rate after central government has taken its 50% share will be split 77.5:22.5, between billing and precepting authorities (Lancashire County Council [20%], Fire & Rescue [2.55]). Police authorities are specifically excluded from the local business rates retention scheme

5.3 Operation of the local business rates retention scheme

The local business rates retention scheme goes live on the 1st April 2013; Central Government have announced that they will establish a “fair starting” point at the outset of the scheme. Effectively this will be a determination of the authorities “spending baseline” power. Spending baseline is based on the current formula grant distribution. In the case of Rossendale Borough Council our best estimate is £2,284,000.

5.4 Tariff and Top up Authorities

Local Authorities will be split between Tariff and Top up Authorities.

A tariff authority is an authority whose **forecasted** business rates are greater than its spending baseline power. Rossendale is a tariff authority. All district authorities will be tariff authorities. The difference between the **forecasted** business rates and the baseline spending power is paid over to central government. Tariffs will be *uplifted each year by RPI*, if business rates do not grow by at least RPI, a tariff authority such as Rossendale will suffer a loss in income. There is therefore now a critical financial requirement and incentive for local authorities to ensure an annual uplift in its local business rates tax base and the collection of that tax, or see a further decline in annual financial resources available to support local services.

A top up authority is an authority whose forecasted business rates collection is less than its baseline spending requirement. Lancashire County Council is a top authority. The vast majority of 2nd tier authorities and unitary authorities will be top up authorities. Top-ups will be uplifted by RPI.

5.5 Levy

Under the new arrangements local authorities will share the benefits and risks of growth or decline in their business rates tax base. The extent of the reward local authorities will receive from growth in their business rates will depend upon their individual levy.

The levy is in place to limit dis-proportional increases to baseline spending power as a result of business rate growth. Without the levy in place authorities with disproportionate business rates compared to their spend requirements could benefit excessively from growth in their business rates.

Central Government's intention is to give an individual levy to eliminate any such dis-proportional gain. For the purpose of this report it is assumed that a 1% gain in business rates (above RPI) will result in a 1% increase in baseline spending power.

The levy for RBC based on our current assumptions is 56.24% (1 – (baseline spending £2.284m / forecast business rates base £5.22m))

5.6 The Safety Net

The levy payments in addition to removing dis-proportional increases to baseline spending power as a result of increases to business rates also acts as a source of funding to mitigate the impact of business rate reductions suffered by authorities.

It is currently envisaged that in order to be a recipient of a safety net payment, authorities will have to experience a decline in their business rates of 7.5% to 10%, only the loss in excess of 7.5% will be met. For RBC a 7.5% decline is estimated to amount to £171k (£2,284k x 7.5%)

5.7 Renewable Energy

Members should note that under current proposals Business Rates from new renewable energy projects will be retained in full by the relevant local authority and would be disregarded in any re-set of tariffs and top ups and in the calculation of any levy.

5.8 Pooling

Central Government has offered local authorities the option of working together to combine their respective tax bases to form a single pool in order to share the risks and rewards of the new scheme.

At this stage Officers are investigating the advantages and disadvantages of being part of a wider pan-Lancashire scheme. Clearly any conclusion on this option would be one for Members. At this stage Rossendale has simply made an expression of interest with no binding commitments.

5.9 National Parameters

Central Government will still retain and dictate key elements associated with the billing of Business Rates, such as the setting of Rateable Values for properties and the amount payable in the pound by local businesses.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

- 6.1 Financial implications are noted above.
- 6.2 Our current assumptions are based on our best estimates of the national picture and their impact on Rossendale finances.
- 6.3 Rossendale will have to keep pace with the retail Price Index in growing its tax base. Any fall below this puts further pressure on Council budgets (subject to the safety net noted in 5.6 above)
- 6.4 The Council's Medium Term Financial Strategy assumes a further decline in the Government's Rate Support Grant to this Council. The rate support grant will be largely replaced by the new funding arrangements noted above.

7. MONITORING OFFICER

- 7.1 There are no material matters arising

8. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

- 8.1 There are no material matters arising

9. CONSULTATION CARRIED OUT

- 9.1 Management team
- 9.2 Lancashire County Council and other Lancashire Unitary and District Councils

10. CONCLUSION

- 10.1 The new proposals will mean a fundamental change to the way that this and other local authorities are financed. This will mean a change in the Council's approach to the management of business rates and business economic growth as measured by property values. This will require a change across a number of council departments:

- Regeneration: encouraging new business into Rossendale
- Planning: facilitating new business development
- Capita: increasing collection rates for Business Rates
- Service Assurance Team: responding to Valuation Office business rate reassessments.

Background Papers	
Document	Place of Inspection
Central Government guidance	www.communities.gov.uk