Business Rates - Consultation

The Government has launched a consultation on the future of non-domestic rates which – if implemented – will have a profound effect on the funding of all upper and lower tier authorities.

For some local authorities the proposals will mean a significant increase in resources and a strong incentive to develop local business, for others there will be reduced resources and a substantial increase in risk.

This is not a scheme for the relocalisation or retention of business rates, authorities will not be allowed to determine for themselves how much any business is charged, or which business is charged, or when. Nor are there any changes in what the proceeds can be spent on.

What has been relocalised, in a sense, is part of the growth in business rates, but with this comes risk. The extent of this risk will not be known until the detailed 'safety net' proposals are published.

The main driver for this scheme is to provide an incentive on authorities to boost economic growth, but with many business decisions having little to do with local government and more with the effects of Central Government policy . This scheme gives local authorities credit for any rate gains and penalties for losses however they have occurred. If your area's large factory closes then you will suffer the effects for years, and at a time when your deprivation levels have suddenly increased.

Eight technical papers have recently been received to inform authorities of the full details and these have yet to be assessed.

<u>Key Elements</u>:

- An end to the annual finance settlement, the last being for 2012/13
- A business rate baseline set for every authority from 2013/14
- Authorities collecting more in rates than they presently receive in Formula Grant will be required to pay a tariff to Government
- Authorities collecting less will continue to be subsidised
- Authorities exceeding their business rate baseline in any year will keep some of the excess
- Authorities failing to meet business rate baseline will see a reduction in overall resources
- Voluntary pooling arrangements to allow neighbouring authorities to smooth out volatility
- Continuation of centrally set exemptions to business rates
- Continuation of existing set of reliefs & authority reimbursements for reliefs
- A complete 'reset' possible of the baseline, tariffs and top ups at set intervals.

Preparing for the Change:

<u>Setting the Initial Baseline</u>:

The scheme revolves around setting a fair starting point for all authorities and so a baseline is expected to be set based on a "re-balancing" of resources around the 2012-13 formula grant. Authorities that currently collect more business rates than they receive in grant will pay a tariff while authorities which collect less will receive a top-up.

A key issue around this set up is the damping within the current system as this would favour those who would have lost out in a proper settlement calculation allowing their top ups to continue as part of the new arrangements. Melton, who currently have their grant reduced to pay these top ups would have this reduction 'set' as part of the new arrangements.

Updating the Business Rates Tariffs & Top-Ups:

There are three options within the consultation

1. Uprate the tariff/top up by RPI. As business rates are also increased by RPI this would mean that changes in the business rate results in an offsetting change in funding, so for increased spending power real physical growth in an authorities tax base would have to occur.
2. No uprate to tariffs/top-ups. Business rates would still increase by RPI so authorities with a top-up would see their amounts fall and those paying a tariff would see an increase in resource.
3. There is also a proposal to charge a levy to authorities whose growth rate exceeds expectations and use the proceeds to help those authorities whose growth rates are significantly lower and more volatile than expected.

The proposals give authorities a clear planning & development incentive:

- Gives protection to local businesses against increases
- Gives authorities an incentive to promote growth. (There are concerns that this could lead to conflicts of interest between authorities planning decisions and their potential gains from developers.)
- Reduces dependency on Central Government by allowing as many authorities as possible to be self-sufficient
- Redistribution to help authorities with a low tax base but high need

Adjusting for Revaluation:

The proposal is that the tariffs/top-ups are adjusted at the 5 yearly Valuation Office's revaluation in order to smooth any significant volatility.

Resetting the System:

In order to achieve a strong incentive effect the tariffs/top-ups should remain fixed, however Government would want the option to re-set the system under certain circumstances. The 2 options in the consultation are for fixed term resets and for judgement based resets on the basis of an objective assessment. Also either a partial or full re-set could be undertaken.

Voluntary Pooling:

The consultation suggests that groups of authorities might voluntarily choose to pool their business rates in order to smooth volatility, they also recommend that districts align themselves with their Counties.

Transition & Cash Flow Issues:

Authorities will have to change their financial plans to accommodate more risky income, with any 'safety net' systems operating in arrears (due to the need for audited figures) a major business closure might put pressure on a small authority's cash-flow early in a financial year.

Rather than make a fresh adjustment each year to New Homes Bonus rewards, the governments plan is to top slice enough from the business rates collections to cover the bonus immediately and return any spare funds to government.

There are no changes to business rate supplements or business improvement districts.

What this means for Melton

Until the eight technical papers are analysed, a clear outcome for Melton cannot be predicted with any degree of confidence due to the anticipated variables in the calculation. However, very crude modelling does show that in real terms Melton would have to use all of its New Homes Bonus to support the revenue budget if it wished to provide funding at existing levels.

What Happens Now?

The consultation document was released in July 2011 and contains 33 consultation questions for return by 24 September 2011. The technical papers, once received, will be used as a tool to assess Melton's position financially and a report taken to PFA in September.