Local Government Resource Review: Proposals for Business Rates Retention

Regeneration Scrutiny – 22 September 2012

James Walsh
Assistant Director (Finance)

Walsall Council

Introduction

- The consultation seeks views on the Government's proposals to change the way local government is funded by introducing retention of business rates.
- At this point this is very much a work in process as we go through the 200 plus technical pages
- There is many variables as to how the new scheme will work, therefore difficult to predict impact on Walsall
- Scrutiny's view on key issues to respond on are welcome

What’s changing and when

- Distribution of business rate tax revenues, rather than changes to the system of business rate taxation.
- Businesses will see no difference in the way they pay or the way the tax is set, as rate setting powers will remain under the control of central Government (they will set the multiplier) and revaluation process will be unchanged
- It is intended to legislate the system later on this session and introduce from April 2013.

CLG Reasons for Change

- Current system is one of the most centralised in the world with local authorities, on average, raising only 47% of their revenue spending locally.

- Dependence on central distribution of funds means that local authorities do not face a financial incentive to promote business growth in their area, as they will not receive any of the business rates receipts from additional development

Principles for the reform

- To build into the local government finance system an incentive for local authorities to promote local growth over the long term
- To reduce local authorities dependence on central government, by producing as many self sufficient authorities as possible. Idea that local need will eventually be fully funded from business rates
- To maintain a degree of re-distribution of resources to ensure that authorities with high need and low tax bases are still able to meet the needs of their areas
- Protection for businesses and specifically, no increase in locally-imposed taxation without the agreement of local businesses

Current system (1)

- Authority estimates it's business rate yield (income) for the coming financial year
- Government calculate how much grant the authority will receive (NNDR)
- Grant is paid monthly and a balancing figure is paid to / received from Government based on the actual yield
- The rates multiplier for calculating the amount of tax payable for a business is set by Government
- Any growth in the rate yield is absorbed back into the overall business rates allocation held by Government – no benefit to the local authority
- Walsall collects less income than it receives from the pool so is a net gainer

Proposed new system (1)

- Government will determine a base line for each authority (their resource need) which is expected to be the 2012/13 damped Formula Grant
- Base line will remain fixed but Government can re-set the baseline if there is a need to in the future.
- All revenue received for business rates will be kept by the Authority. However:
- Those authorities who pay more into the pool than they receive from Formula Grant will pay a tariff
- Those authorities who receive more from the pool than they collect in rates will receive a top-up grant

Proposed new system (2)

- In estimating the baseline, Government will estimate what each local authority will collect and also estimate a level of annual growth in rates income. Where actual growth is higher than estimated, then the authority will be allowed to retain a proportion of this
- However, Government will apply a levy (charge) and clawback some of that growth (what councils will be allowed to keep is not yet known)
- The income from the levy would be used to fund negative growth in individual authority business rates, to provide stability in the system (a safety net)

Money flows under the new scheme

Central Government

Top up or tarriff

Possible safety net if negative growth

Possible levy if high levels of growth

Billing Authority

How this effects Walsall ?

- Walsall is expected to collect £68.5m in 2011/12 but receive £105m in grant, so is a net gainer from the pool
- This will mean Walsall will receive a “top up” grant equivalent to what they would have received under the current system
- The Enterprise Zone is excluded from the scheme, therefore ALL growth in rates will be retained (and will not be subject to a levy)
- New Homes Bonus will be funded from business rates (top sliced)
- The top up will be fixed for future years and is not yet certain at this stage if it will be increased in future years to take account of inflation.
- Top up is expected to be calculated assuming 100% collection rates. Walsall currently has a 99% collection rate
- Work is being undertaken to respond to the consultation which needs to be completed by 24 October 2011

Questions Unanswered?

- Will the 2013/14 baseline be adjusted (reduced) and how?
- Growth predictions: will business rate growth keep up with council resource needs? Nationally growth rates 2005-9 0%
- If growth does occur, will Government allow local authorities to keep growth without cuts to other grants or moving other burdens (and therefore cost pressures) to them?
- Pickles has confirmed recently that the local authority sector will not gain collectively until 2015, therefore if an individual LA gains, is this at the expense of more deprived authorities?
- Will grant receive an RPI linked increase, real increase in cash?