

OUTLINE OF THE NEW ARRANGEMENTS FOR BUSINESS RATES RETENTION

1. Introduction

- 1.1 The following is a simplified summary of the principles of the new system and how it will work in practice. In principle it will apply to both authorities acting alone or to pools containing a number of authorities.
- 1.2 The government has stated that it wishes to provide a stable starting point at the outset of the business rates retention scheme, whereby authorities will not be worse off than they would have been had the previous system continued. They have also made clear that the introduction of a new system must not jeopardise the national deficit reduction programme and should operate within spending review totals.
- 1.3 In two-tier areas, the District Councils and the County Council and Fire Authority will be included in the system, with districts (referred to as “billing authorities”) collecting the rates and then passing a proportion of this amount to the others. There are then separate calculations applicable to each individual authority to determine how much of the business rates attributable to them can be retained.
- 1.4 The rest of this note explains how what the government considers to be a stable starting point is to be arrived at and how an individual authority will calculate their retained amount, going through the process step-by-step.

2. Setting the Baselines

- 2.1 The baseline position will be established for 2013/14. The purpose of the process is to determine whether authorities should pay a tariff to the government, because their rates income is more than the funding they theoretically require or receive a top up from government, if their rates income is insufficient and how much these amounts will be. These will then continue to be used for future years (subject to indexation increases) until the system is “reset”, which the government does not intend to do for at least seven years from commencement (i.e. not before 2020).
- 2.2 The first step is to calculate a baseline figure for the amount of business rates income attributable to each authority.
 - 2.2.1 The Department for Communities and Local Government (DCLG) will calculate the total amount of business rates that will be collected nationally, based on an Office of Budget Responsibility forecast.
 - 2.2.2 DCLG will deduct 50 per cent of this amount. This represents the “central share” of business rates, which will be used, in its entirety, to fund local government through Revenue Support Grant and other specific grants.
 - 2.2.3 After deducting the 50 per cent “central share” DCLG will divide the remainder (the “local share”) between billing authorities, such as Newcastle. This will be by means of a “proportionate share” representing the amount of the total attributable to individual authorities. This share will be based on each billing authority’s historic business rates collection averaged over a number of years. The amount so calculated will be known as the “billing authority business rates baseline”.

APPENDIX A

- 2.2.4 The billing authority business rates baseline is then split between the billing authority (Newcastle) and the County and Fire Authority, on the basis of respective percentages of 80/18/2. This gives a business rates baseline applicable to Newcastle alone of 80 per cent of the total.
- 2.3 The next step is to calculate a funding baseline for each authority.
- 2.3.1 DCLG will calculate a “baseline funding level” for each authority. This will be done by applying the 2012/13 formula grant process (with a small number of amendments) to the total local share and then arriving at an amount attributable to each authority.
- 2.4 Having calculated the business rates baseline and the baseline funding level for each authority, these are then compared to determine whether an individual authority’s business rates baseline is greater or less than its baseline funding level.
- 2.4.1 If an authority’s business rates baseline exceeds their baseline funding level, this means that their income from business rates is more than the funding which they are entitled to according to the system. They are, therefore, required to pay the excess amount to the government. Authorities in this situation are referred to as “Tariff Authorities” since they pay a tariff upon the rates collected.
- 2.4.2 If an authority’s business rates baseline is less than their baseline funding level, this means that their income from business rates is less than the funding which they are entitled to according to the system. They, therefore, will receive a “top-up” payment from the government to bring their income up to the required funding level, and are referred to as “Top-up” Authorities”.
- 2.4.3 Once the Tariff or Top-up amounts have been calculated for 2013/14 these amounts, increased annually by the retail price index percentage, will continue to be used in future years to determine how much of the rates collected will be retained by the authority.
- 2.4.4 Modelling using the data available clearly shows that Newcastle will be a Tariff Authority, as will all the district councils in Staffordshire. The County Council, Stoke City Council and the Fire Authority will be Top-up Authorities.

3. Running the System

- 3.1 The following shows how a district council, such as Newcastle, will calculate the amount of rates it will retain when the system is in operation.
- 3.1.1 **Step 1** is to ascertain the amount of business rates collected in the year.
- 3.1.2 **Step 2** is to deduct the central share (50 per cent) from the amount collected.
- 3.1.3 **Step 3** is to deduct from the amount collected less the central share, as calculated at Step 2, the proportion attributable to the County Council and Fire Authority, i.e. 20 per cent. This gives the amount of rates attributable to the Borough Council.
- 3.1.4 **Step 4** is to deduct the amount of the Tariff from the rates attributable to the Borough Council. This gives the “business rates income” of the Council.
- 3.1.5 The government has decided that the growth in business rates income should be subject to a levy which will fund safety net payments to authorities in need of support owing to reductions in their business rates yield. This will prevent authorities which have greater potential for economic growth and hence growth in business rates income from benefitting disproportionately

APPENDIX A

from the rates retention system whilst compensating those which have little prospect of growth or face a decline in the value of rateable properties, through closures, etc.

- 3.1.6 Business rates income growth will be calculated by deducting the amount of the baseline funding level from the business rates income calculated at Step 4.
- 3.1.7 Levy rates will be calculated by applying the following formula: 1 minus the authority's baseline funding level for the year divided by its business rates baseline. If the result is a positive amount, a levy is payable. If it is negative amount no levy is payable. The amount of levy payable is calculated by applying the levy rate to the amount of business rates income growth. The levy is then paid to the government. **Using this formula means that all Tariff authorities may pay a levy whilst no Top-up authority will do so.**
- 3.1.8 Safety Net payments will be made to any authority whose business rates income calculated at Step 4 is less than 91.5% of its baseline funding level. The payment will consist of the amount required to bring the business rates income up 91.5% of the baseline funding level. For this purpose the baseline funding level will be updated by the retail price index each year. Clearly an authority cannot pay a levy and at the same time receive a safety net payment - one or the other will apply.
- 3.1.9 **Step 5**, therefore, is to calculate whether a levy is payable or a safety net payment due and the amount due to be paid or received.
- 3.1.10 Authorities will be required to pay estimated amounts in respect of the Central Share and the amount of the Tariff to the government at predetermined intervals during the year. They will also be required to pay the County Council and Fire Authorities their shares of the rates collected at similar intervals. Payment dates are likely to be similar to those currently applicable to payments into and out of the present NNDR Pool. Levy payments will be calculated and paid after the end of the year, as will any safety net payments due to authorities.