

BACKGROUND PAPER – 100% BUSINESS RATE PILOT

Business rates retention – how it works

(New arrangements from 2013/14)

Background

Prior to the 2013/14 financial year local authorities could be regarded as merely the collecting agents for central government in respect of National non-Domestic Rates ('NNDR' or 'Business Rates'). In broad terms, providing local authorities operated the collection process in line with government protocol there was very little correlation between collections and the share of Business Rates received by an authority (which were allocated from a national pool). From 2013/14 however, an element of localisation has been introduced into the process, and local authorities now have a stake in Business Rates collection.

How the new scheme works - general

The new scheme is quite complicated in operation. How much an authority receives from each incremental collection of Business Rates depends on whether it is a 'tariff' or 'top-up' authority, the proportion of its 'funding baseline' to its Business Rate baseline (all of which are set by the government), and whether Business Rate collections exceed the baseline amount. Charnwood is a tariff authority (which means that Business Rates collections are expected to exceed the required funding) and on this basis, collecting Business Rates of £1,000 would be allocated as follows:

	£
Total amount collected	1,000
The first 50% of all collections is allocated to central government	(500)
This leaves a local share of	<hr/> 500
Of the local share, 20% is attributable to Leicestershire County Council (18%) and Leicestershire & Rutland Fire Service (2%)	(100)
The remaining £400 is therefore attributable to Charnwood	<hr/> 400
However, Charnwood is a tariff authority. Collections significantly exceed our assessed need and typically we have to pay tariff over to the government of around 78% on these amounts. On our £400 the levy would therefore be £313.	(313)
This leaves for Charnwood just £87 – or 8.7% of our original £1,000	<hr/> 87 <hr/>

This amount is part of the £4.01m assessed need (2017/18 figure, net of s31 grants) and

therefore fully incorporated into the Council's budget; this is *not* additional funding and simply replaces other funding streams.

How the new scheme works – growth in Business Rate collections

The scheme is designed to offer local authorities an incentive to grow business rates (this has to be in real terms; the baselines are adjusted for inflation). However, we are not allowed to keep all of the growth; the government still keeps its share and we would also have to pay a 'levy' on the balance.

Usually, projections suggest that Business Rate collections will exceed the government baseline. If the £1,000 we collect happens to be an amount over and above the baseline then, as before, the government will keep the first £500. The Fire Authority get their proportion (as before, £90 and £10 respectively). We would no longer be required to pay the 'tariff' but generally we would need to pay a 'levy' to the government of 50% of the remaining amount – half of £400 in the example above – ie. £200. However, we have also taken maximum advantage of the new regulations by entering into a 'pooling' arrangement with other Leicestershire local authorities which means that the levy (ie. the other £200) can be retained within Leicestershire (within the local economic partnership, or LEP) rather than paid over to the government. In summary, for each incremental £1,000 we collect over and above our baseline target:

- £500 goes to the government
- £90 goes to the County
- £10 goes to the Fire Service
- £200 is retained by Charnwood
- £200 is paid over to the LEP

These incremental amounts are likely to be small in reality – in total for 2017/18 (end Q1) we're projecting gross collections might exceed our target by around £650,000, which would give us additional revenue of around £130,000 and allow us to contribute a similar amount towards the pool from which the LEP would benefit.

Summary

Unfortunately the calculations are somewhat complex. The key messages are that:

- Only a very small proportion of business rates collected actually end up with the Council
- The amounts we do collect are not new money – the new arrangements merely replace the Council's previous income streams
- We hope that Business Rate collections will exceed our baseline targets; however, this is not certain – our baseline is unfortunately quite challenging due to the vacation of the Astra Zeneca site immediately after the baseline was originally calculated