

**RIBBLE VALLEY BOROUGH COUNCIL** DECISION  
**REPORT TO SPECIAL POLICY AND FINANCE COMMITTEE**

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Agenda Item No 7

meeting date: 12 FEBRUARY 2013  
title: BUSINESS RATES RETENTION SCHEME  
submitted by: DIRECTOR OF RESOURCES  
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1. PURPOSE

- 1.1 To briefly set out the implications of the Business Rate Retention Scheme and the impact on our budget for 2013/14.

2. BACKGROUND

- 2.1 The current system of Business Rates in summary is:

- ❖ Billing Authorities collect NNDR acting as an agent for the Government
- ❖ Billing Authorities are paid a 'Cost of Collection Allowance' from the Government for doing so
- ❖ All monies paid over to a central pool
- ❖ No real incentive to collect extra NNDR – all appeals and write offs stood by the pool
- ❖ All local authorities get money back (NNDR redistributed) on a £ per head basis.

- 2.2 Local Government have been asking for many years for Business Rates to be returned to them in order to fund services alongside the council tax. The Government eventually agreed to maintain a system of centrally determined business rates but with an incentive to reward councils for growth in their areas.

3. NEW BUSINESS RATES RETENTION SYSTEM

- 3.1 All authorities will have an incentive to increase Business Rates collected by sharing the extra money raised.

- 3.2 This year's local government finance settlement is the first under the new arrangements. It will provide each local authority with its starting position under the business rates retention scheme. This includes the following calculations, which will be fixed until the first reset that the Government intends will take place in 2020:

- ❖ Individual authority start-up funding assessment
- ❖ Baseline funding level
- ❖ Individual authority business rates baseline
- ❖ Tariffs and top-ups

***How will the new system work***

- 3.3 As you will already appreciate the new system is extremely complicated and therefore in order to explain how the process will work, I set out below our figures under the scheme.

### **Stage 1 – calculating the baselines**

- 3.4 Firstly the Government calculates the **business rates baseline** for each Billing Authority.
- 3.5 Billing authority business rates baselines have been calculated by distributing the local share of the Estimated Business Rates Aggregate between all billing authorities on the basis of proportionate shares. Proportionate shares are based on a billing authority's historic business rate collection as a percentage of the total historic business rate yield. These have been calculated using the average of business rates collected for 2010-11 and 2011-12, with a number of adjustments.
- 3.6 From this starting point the Government take a 50% central share before determining the billing authority business rate baseline. These are then split between the billing authority and its major precepting authorities. These splits, known as major precepting authority shares, determine the individual authority business rate baselines.

<b>Business Rates Baselines Calculations</b>		
		<b>2013/14</b> <b>£</b>
TOTAL Business Rates for our Area		13,366,047.86
<i>our proportionate share of national total Ribble Valley's Share ie Billing Authority Business Rates Baseline</i>	50%	6,683,023.93
Individual Business Rates Baselines: splits:		
RVBC	80%	5,346,419.15
LCC	18%	1,202,944.32
LCFA	2%	133,660.48

### **Stage 2 – calculating the Tariff or Top-up**

- 3.7 As part of the Grant Settlement the Government have issued each authority with their **baseline funding level**.
- 3.8 Whether a local authority is a tariff or a top-up authority is determined by comparing each individual local authority's baseline funding level and individual authority business rate baseline. A local authority must pay a tariff if its individual authority business rate baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up if its baseline funding level is greater than its individual authority business rate baseline.
- 3.9 Tariff and top-ups are a one-off distribution of resources at the outset of the scheme. They ensure that, if business rates income is at the individual authority business rate baseline level, then that authority will receive its baseline funding level in 2013-14 and later years. Tariff and top-ups will be fixed until the system is reset but, like business rates, will be updated each year by the increase in RPI in September.

<b>Tariffs and Top-ups</b>	
compares <i>baseline funding level</i> with <i>business rates baseline</i>	
	<b>2013/14</b>
	<b>£</b>
RVBC Individual Business rates baseline	5,346,419.15
RVBC Start-up baseline funding level	<u>1,183,184.21</u>
Tariff =	4,163,234.94

3.10 You will see from the above that we are therefore a tariff authority and will make a payment of £4,163,234.94 to the Government.

**Stage 3 – calculating how much business rates will be collected**

3.11 Each year we make an estimate of how much business rates we will collect and return this information to the Government. This is known as the NNDR 1 return. In the past the business rate element of our formula grant was fixed as part of our grant settlement and therefore the completion of the NNDR1 return was only important as far as cash flow calculations were concerned.

3.12 Our provisional NNDR 1 return for 2013/14 had to be returned to the Government and copied to the Major Precepting Authorities (LCC and Fire) by 7/1/13. The final return was made on 31/1/13. Annex 1 shows our NNDR1 return for 2013/14.

3.13 From next year however the significance of this return is that we are estimating how much business rates we can expect to receive and whether this is higher or lower than our baseline funding level.

3.14 You will see from our return that our share of the estimated net yield to be collected for next year is £5,440,750.

**Stage 4 – Calculating the Levy Rate**

3.15 To ascertain ultimately how much of any extra business rates we will retain over our baseline the Government firstly calculate our levy rate.

3.16 Our calculation is shown below.

<b>Calculation of Levy Rate</b>			
<b>Levy Rate</b>	=	1 - $\frac{\text{Baseline Funding Level}}{\text{Business Rates Baseline}}$	
		1 - $\frac{1,183,184.21}{5,346,419.15}$	= 0.77869595
			= <u>0.77869595</u>
<i>this figure is limited to 50p in the £, and a negative number equates to no levy payment</i>			
			0.50
<b>Our Levy therefore</b>	=		<u>0.5</u>

- 3.17 You will see that our levy is 78p in the £ however the Government have limited the levy to 50p in the £.
- 3.18 This means that for each £1 of growth, the Government will receive 50p as the central share, the levy will be 25p (this pays for the safety net – see later in the report) and the remainder i.e. 25p is **retained locally**. Ribble Valley will retain 20p, the Fire Authority 0.5p and LCC 4.5p.
- 3.19 We are now in a position to compare our share of the business rates income with our baseline funding and determine how much, if any, growth we can retain.

**Stage 5 – calculating how much of the business rate income will be retained**

- 3.20 The table below shows our starting point ie our share of the estimated business rates yield from the NNDR1 return and how this compares with our baseline funding level. You can then see how much of a levy we will have to pay on the growth above our baseline funding level.

<b>Calculation of any growth to be retained</b>	
<b>Our share of NNDR1 Business Rates Yield</b>	5,440,749.60
<b>less Tariff Payment</b>	4,163,234.94
= retained Rates Income	1,277,514.66
Baseline Funding Level	1,183,184.21
<b>Levy due on growth above baseline</b>	94,330.45
Less Levy at rate above (50p in £)	47,165.23
= growth retained	47,165.23

- 3.21 This shows that **based on our provisional NNDR1 return** we expect to retain business rates income of:
- ❖ Our baseline funding level £1,183,184
  - ❖ Plus our share of growth £47,165
  - ❖ Total Business rates income expected for Ribble Valley = £1,230,349

**Stage 6 – Safety Net Payments**

- 3.22 The Government have stated that the safety net will provide local authorities with protection against significant decreases in their business rate income. Income from the levy will be used in full to fund the safety net, which will be fixed at a threshold of 7.5 per cent. This will ensure that no local authority's income within the business rates retention scheme will drop below 92.5 per cent of its baseline funding level.
- 3.23 For Ribble Valley this means that our safety net threshold is:

<b>Safety Net Threshold</b>	
Baseline Funding Level * 0.925	1,094,445

- 3.24 This means that our share of the business rates yield will be protected at this level.

### ***Stage 7 – What this means for our Budget for 2013/14***

- 3.25 As shown above we anticipate (if our projections on NNDR1 were to prove correct) that we will receive our share of business rates income of £1,230,349.
- 3.26 **However** given this is the first year of the new system and there are many uncertainties surrounding issues such as appeals and growth estimates this figure should be treated with caution. The very worst case scenario is that we would receive business rates at our safety net threshold level of £1,094,445. The difference between these amounts is £135,904. I would suggest that we earmark from reserves/balances an amount equivalent to this in order to provide some protection to our budget funding against business rates volatilities.
4. CONCLUSION
- 4.1 We will obviously be monitoring very closely our business rate income in 2013/14 and how this compares with our baseline funding level and growth estimate. We will keep the Budget Working Group up to date with this important information.
5. RECOMMENDATION
- 5.1 Committee consider the new Business Rate Retention Scheme when determining the Revenue Budget for 2013/14.

DIRECTOR OF RESOURCES

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5 February 2013