APPENDIX I

BUSINESS RATES RETENTION – HOW THE SYSTEM WOULD WORK

1. The first step would be to establish a *baseline funding* level for each local authority based on 2012-13 formula grant allocations (after damping). An authority whose *business rates baseline* (calculated from the amount of rates they actually collect) is higher than their *baseline funding* would pay the difference to central government in the form of a *tariff*. An authority whose *business rates baseline* is lower than their *baseline funding* would receive the balance as a *top-up* from central government. For future years tariffs and top-ups could be linked to RPI or they could be fixed in cash terms.

2. One problem with the proposals is that there is a gearing effect (applying to both options) which results in high tariff authorities benefiting disproportionately from growth. The Government intends to address this through a *levy*. The amount an authority would pay as a levy would depend on how far its business rates income exceeded its baseline funding. Technical Paper 5 seeks views on three different options for calculating the levy: a flat rate, using bandings or in proportion to income otherwise retained.

3. Whichever option is chosen, it is proposed that a proportion of the levy would be used to fund *safety-nets* to protect authorities against the inherent volatility of the business rates system. Two different safety-nets are proposed:

   - an annual safety net – to protect those authorities that see their retained income decline by more than a set percentage from year to year; and
   - a baseline safety net – to protect authorities whose retained income would otherwise drop below their *baseline funding* by more than a set percentage.

   Whereas the annual safety net would be short term and apply for one year only, the baseline safety net could apply for a number of years.

4. The Government expects that the total business rates collected in 2013-14 and 2014-15 will be greater than the expenditure control totals set out in the Spending Review 2010. The difference will be *set aside* apparently to fund other grants for local government and any new burdens. After that there will be a “top-slice” to fund a series of adjustments including New Homes Bonus, grants to police authorities and, possibly, grants to single purpose fire and rescue authorities. This means that the *business rates baseline* for each authority (as referred to in 1, above), will not be the amount actually collected by the authority, but will be reduced by a contribution to the *set aside* and by further contributions to fund the adjustments.

5. The Government intends that the current 5-yearly revaluation cycle will continue unchanged with the next valuation list coming into force on 1st April 2015. The Government’s approach to revaluations is that, after adjusting for inflation, the total national business rate take would be the same in the year after the revaluation as it was the year before. This would be achieved by adjusting the *national non-domestic rating multiplier* (usually downwards because the overall rateable value tends to increase as property values increase).

6. For individual authorities the effect can be positive or negative. Although many authorities may see their business rates income go up, others may see them go down. At present this has no effect on income, but under the Government's proposals the effects could be very significant. In order to take account of this, the Government are proposing that at a revaluation the tariff or top-up for each local authority could be *reset* so that the amount of retained income for each authority will, after inflation, be the same in the year after the revaluation as it was in the previous year. This means that there would be no rewards for growth (apart from an RPI increase) in the first year following a revaluation.