Business Rates Retention Scheme

1. From April 2013 the current Formula Grant system is being replaced by a Business Rates Retention Scheme. Business rates are currently collected by district councils and paid into a central pool which is then redistributed as part of Formula Grant. Under the new scheme business rates will be split between a local share (retained by local government) and a central share (returned to central government). The aim of the scheme is to provide an incentive for local authorities to promote and facilitate growth in their area – through being able to keep a proportion of the growth. The central share will be paid into the central pool as now, and used to fund local authorities through Revenue Support Grant or other specific grants.

2. A system of tariffs and top-ups will be used to redistribute business rates from areas which collect more than their assessed need (based on Formula Grant) to areas that don't collect enough to meet their assessed need. The top-ups and tariffs will increase with inflation. This gives top-up authorities a guaranteed increase in part of their resources from year-to-year and means that a tariff authority will lose resources unless its business rates growth keeps pace with inflation. In addition there will be a levy on 'disproportionate growth' which will be used to provide 'safety net' payments to those authorities experiencing little or negative growth (subject to a threshold).

3. The government will set a baseline position to determine the tariff or top-up for each authority. There will be a funding baseline - based on the current Formula Grant system, and a business rates baseline based on historic contributions to the business rates central pool. These baseline starting positions will determine the levy on disproportionate growth and the level of safety net protection offered.

4. On 17 May 2012 the government published Statements of Intent documents outlining details of various aspects of the Rates Retention Scheme and a Pooling Prospectus.

5. The Statement of Intent on Central and Local Shares indicated that a 50%:50% split of business rates will be used from April 2013 and a number of existing specific grants will be included within the Rates Retention system. This is a lower local share than had been anticipated and means that less business rate growth will be retained by local authorities. On the plus side however it means that local authorities will take less of the risk of fluctuation in business rates. The local share percentage will be fixed until a reset of the system. A reset involves reviewing the baseline funding levels for each local authority to take account of changes in relative need and resource. The government does not intend to reset the system until 2020 at the earliest, except in exceptional circumstances. However, at each five-yearly business rates revaluation, tariffs and top-ups will be adjusted to ensure that an authority's retained rates income is not affected. Longer term, the government remains committed to its aspiration for 10 year reset periods.

6. The specific grants that will be included in the Rates Retention system include:

- 2011/12 Council Tax Freeze Grant

- Council Tax Support Grant
- Early Intervention Grant (excluding funding for free education for two year olds)
- A proportion of lead Local Flood Authorities Grant
- Learning Disability and Health Reform Grant
- A proportion of Sustainable Drainage System Maintenance Costs funding.

Latest figures indicate the total amount of grant to be transferred into the County Council's funding baseline is £67.7m (including £23.1m for the new Council Tax Support Grant). As well as transferring some grants into the baseline the government is consulting on removing Local Authority Central Spend Equivalent Grant (LACSEG) from the funding baseline – see paragraphs 17 – 21 of the main report.

7. The Statement of Intent on The Safety Net and Levy proposed a 1:1 ratio for the levy, so that for every 1% increase in an authority's rates above the business rate baseline the authority gets to keep no more than a 1% increase in their funding baseline. This means that top-up authorities will not pay a levy because a 1% increase in business rates will never be more than a 1% increase in funding. The government proposes to set the safety net threshold to between 7.5% and 10% below the funding baseline.

8. The Pooling Prospectus set out details of how the pooling of business rates in an area would operate. The locally retained element of the business rates (i.e. 50% of the total collected) in the agreed area would be put into the pool. It would then be for pools to decide how to distribute the aggregate income within the pool. There would be a single levy figure applied to the pool based on aggregate growth across all areas. This allows benefits from investment in economic growth to be shared across a wider area. Pooling also allows local authorities to manage fluctuations in business rates income across an area, e.g. as a result of a major business closing. However, pooling means that eligibility for safety-net payments is calculated at a pool-wide level. The councils within the Oxfordshire area are currently exploring whether there is a benefit to forming a business rate pool. The City Council has now announced that it will not join a pooled arrangement, but the remaining councils are continuing with developing the option.

9. On 17 July 2012 the government published the Business Rates Retention – Technical Consultation. The consultation covers establishing the start-up funding allocation and baseline funding levels (formula updates and transfers in/out of spending control totals), setting up the business rates retention scheme and operation of the scheme following implementation in 2013/14. The consultation closes on 24 September 2012.

10. The consultation sets out the government's intention to split the local share of business rates in two-tier areas: 80% districts/20% county councils with fire and rescue responsibilities. As a consequence the County Council is a top-up authority and the district councils in Oxfordshire are tariff authorities. This means that the County Council will not pay a levy. Conversely, the district councils will pay a significant proportion of any business rate growth as levies, on average (based on current assumptions) 86% of any growth will be paid as a levy.

11. It is proposed that billing authorities (district councils) will be required to notify precepting authorities a provisional forecast of business rate income for the forthcoming financial year by mid-December, with final forecasts notified by the end of January. Estimated surpluses/deficits on collection for the year will be provided alongside forecasts for the next financial year (e.g. estimated surpluses/deficits on collection for 2013/14 will be provided in December 2013/January 2014) to be taken into account in setting the following year's budget. This is a similar arrangement to Council Tax surpluses/deficits.