Rural Services Network briefing

Business rates retention
Note 1: Proposed changes to local government finance

This is one of four briefing notes about the Government's proposals radically to overhaul local government finance by introducing 100% Business Rates retention (by the Sector). Their prime purpose is to aid understanding of the proposals and rural issues arising. They are based upon research commissioned from Pixel Financial Management.

The announcement

In its 2015 Spending Review, Government announced that the system for local government revenue funding would change and that local government would be allowed to retain 100% of its business rates income by the end of the current Parliament i.e. by 2020.

Existing rates retention

This is a major departure from the present system where, since 2013/14, local authorities have been able to retain up to 50% of the business rates they collect and also 50% of any growth in business rates collected in their area. (Note that, in practice, there is still significant redistribution of the retained shares – 'equalisation' – to address the fact that some local authority areas have much larger rates bases than others.)

Future proposal

Under the proposed system <u>all</u> business rates income (currently £26 billion per year) will be retained by the local authority sector. It is important to note that this means retained by the sector as a whole and not retained by individual local authorities. Central Government will continue to operate a formula which determines local needs and redistributes the money between local authorities.

Government grants

The Revenue Support Grant (RSG) which central Government currently pays to local authorities (from its share of business rates) would disappear completely under a system of 100% retained business rates. It is possible, though as yet unclear, that the New Homes Bonus would also be dropped. Rural Services Delivery Grant is technically part of RSG so it may disappear too.

New burdens

Under the current system roughly £12 billion per year of business rates income is kept by central Government to fund local authority services not forming part of RSG funding. When, in future, this sum is retained by local authorities, new burdens of a broadly similar value will be passed across to the sector. So the sector will not initially, at least, have more funding: over the longer term that will depend whether business rates grow faster or slower than local authority service demands and costs.

What is not known?

There are a great many unanswered questions and Government has yet to work out the detail of 100% business rates retention. We don't know, for example, how needs will be calculated, whether they will be regularly recalculated, what the new burdens will be or even when the new system will be implemented. A consultation paper is expected in summer 2016 and there may have to be legislation. It appears that 2018/19 is the earliest possible date for its implementation.

The next three notes look at particular aspects of business rates and the issues that arise for rural local authorities from a funding system dependent on them.

RSN asks of Government

The Rural Service Network view is that Government should consider the following:

- That any assessment of needs on which equalisation is based must be fair and must recognise rural as well as urban needs;
- That there ought to be a frequent review of needs and equalisation (at least every 5 years) to account for changing circumstances.

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