Business rates retention
Note 2: Rateable values and gross rates payable

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

Definitions

Rateable value (RV) is the business rate that is payable annually on any particular business hereditament (usually, though not always, a building or part of a building). Gross rates payable (GRP) is the annual income a billing local authority i.e. a district or unitary council, is forecast to get by collecting business rates in its area.

Levels of GRP

GRP per head of population is much lower in rural than in urban authority areas. Taking the three categories of local authority classified as rural, GRP per head in 2014/15 was: £317 in R80* authorities; £310 in R50* authorities; and £366 in SR* authorities. This compares with an England average of £506. In short, urban authorities have a significantly larger rates base.

[*R80 =80% of Council's area is classified as Rural; R50 =50%; SR (Significant Rural) = less than 50% but a significant amount]

Growing business rates

A reason Government is introducing 100% business rates retention is to incentivise local authorities to support economic growth. The playing field will not be level, though, since local authorities with the highest GRP levels have more opportunities to grow their business rates income. Put another way, a 1% growth in business rates income is worth more (in cash terms) to an urban authority than to a rural one.

This explains why the data shows that GRP has grown fastest since 2010/11 in rural authorities, if it is measured in percentage terms, but has still grown more in urban authorities, if it is measured in straight cash terms.

Levels of RV

Rateable value (RV) per square metre of business hereditament is much higher in urban than in rural local authority areas. In the most urban authorities it is double what it is in the most rural authorities (R80) – £88 and £44 respectively in 2014/15. This is compounded by the average business size being smaller in rural areas.

The result is that economic development activity would be less well rewarded in rural than in urban local authorities. Rural authorities would have to grow roughly twice

the volume of new business space in order to generate the same financial reward for themselves through retained business rates.

RSN asks of Government

To address these issues the Rural Service Network view is that Government should consider the following:

- Providing an additional financial incentive for those local authorities with the least opportunities to grow their business rates income;
- Introducing banded targets* for business rates growth which could be based on past performance and adjusted for any major development sites.

[*Banded Targets would mean that authorities with high levels of business rates growth would have a higher baseline (and therefore more challenging) than those with lower growth. For instance authorities with the highest growth might see their baseline increase by 2% a year, and would, therefore, have to get more than 2% growth before they were able to retain growth. There could be (say) 7 bands. This approach was used for the Local Authority Business Growth Incentive some years ago]

Briefing note number one provides an overview of the proposed business rate changes, whilst notes three and four look at further specific aspects of business rates and the rural issues that arise from a funding system dependent on them.

RURAL SERVICES NETWORK

Version: May 2016