**Appendix 9**

**BUSINESS RATES RETENTION – POLICY STATEMENT (Announced 21 November 2012)**

The policy statement provides early confirmation of the government's policy decisions on the business rates retention scheme following the technical consultation that took place in the summer, and ahead of the provisional local government finance settlement which will constitute the government's formal response to consultation.

The following key issues are covered in the statement:

o **Strengthening the incentive,** where the Government has changed the approach to the levy to increase the rewards for growth. The maximum levy will now be 50p in the pound. Based on the latest data available the council will pay a levy of between 10p and 15p in the pound so this change will not impact upon the future finances of the council.

o **Limiting risk,** where the Government has fixed the safety net at 7.5%, the most generous level within the range consulted upon, which will effectively guarantee authorities 92.5% of their original baseline funding under the scheme. This guarantee will be maintained in real terms, since baseline funding levels will be uprated by the Retail Price Index (RPI) for the purpose of calculating eligibility for the safety net. Meanwhile, the Government has reiterated the 50:50 central-local share split. Based on the latest forecasts the council is unlikely to require funding support from the safety net in the medium term however this level was strongly supported in our response to the consultation. However, the Government have agreed to work with the local authorities to model potential safety payments in 2013/14 and if this shows that the current top slice of £245m is overstated then a reduction will increase the amount of RSG the council receives next year.

o **Establishing start-up funding assessments and baseline funding levels**, where the Government is confirming the approach set out in the technical consultation, with changes to respond to consultees' views in three key areas. The Government will:

- o limit the funding held back for New Homes Bonus (NHB) payments to the £500 million and £800 million required in 2013-14 and 2014-15 respectively, rather than the full £2 billion;
- o apply floor damping at authority level rather than service tier level in 2013-14; and
- o roll 50% of the London transport funding allocation net of the one off top up payment in relation to rail fares into the rates retention scheme by 2014-15, together with 50% of London's Bus

Service Operators Grant every year across the entire reset period.

The impact of the first change is neutral as a higher holdback would have been offset by a temporary grant. The Government will review the figures for the settlement in the light of actual NHB payments for 2013/14. Again if the holdback has been over-stated (it is more than double the level of 2012/13) then a reduction will increase the amount of RSG the council receives next year. The second change is impossible to quantify and the third change is only likely to have a significant impact for councils within London.

o **Volatility and appeals,** where the Government is confirming its proposals to supplement the support provided to authorities experiencing business rates volatility through the general safety net with a downward adjustment to the estimated business rates aggregate to ensure it provides a realistic assessment of authorities' 2013-14 business rates. In addition, the Government will make a further downward adjustment to the estimated business rates aggregate to provide for the impact of future appeals losses, in response to consultees' concerns about this issue. The issue of the financial impact of successful appeals is probably the biggest risk facing the council as it is likely to face more appeals on average than other councils because of the significant increase in rateable values in 2010. Appendix 2 shows how successful appeals have resulted in a significant decrease in rateable value since the start of this year. It is disappointing that it has proved impossible to find a solution that takes account of the impact on individual councils however, a reduced national aggregate is welcome as it should increase the amount of RSG the council receives.

o **Proportionate shares,** where the Government is moving from a calculation based on five years' worth of historical data (2007/08 – 2011/12), to a calculation based on two years' worth of data (2010/11 – 2011/12). This approach balances the need to smooth the effects of volatility with the benefits of using the most recent data available and was proposed by the council in it's response to the consultation. The change of methodology has a beneficial impact for the council of just under £0.5m in 2013/14.

o **Pooling,** where the Government has extended the original deadline for expressions of interest, and made a number of amendments to the Local Government Finance Bill during Lords Report stage to simplify the arrangements for designating a pool and the operation of a pool once established. The council is not considering pooling with other local councils for 2013/14.

o **Major precepting authorities,** where the Government can confirm its proposals for sharing business rates between billing authorities and any major precepting authorities in their area, with 20% flowing to county councils, 2% to single-purpose fire and rescue authorities and 40% to the Greater London Authority. The council is not a major precepting authority.

o **Mandatory and discretionary reliefs,** where the Government can confirm that any changes in the cost of existing mandatory and discretionary reliefs between resets will be shared 50:50 between central and local government, in line with the general principle of the rates retention scheme that both risks and rewards should be shared. For the avoidance of doubt, there is no change to the mandatory rate reliefs which eligible ratepayers (e.g. charities) actually receive. This just clarifies the position and was strong supported in our response to the consultation.