

BUSINESS RATES SYSTEM

1.1 *The business rates retention system*

From April 2013, the Government is changing the way in which local government is funded through the introduction of the business rates retention scheme. Local government will now be able to benefit directly from supporting local business growth as they will be able to keep a proportion of any increases in business rates revenue.

1.2 This year's local government finance settlement is the first under the new arrangements. It will provide each local authority with its starting position under the business rates retention scheme. This includes the following elements, which will be fixed until the first reset that the Government intends will take place in 2020:

- Individual authority start-up funding assessment
- Baseline funding level
- Individual authority business rates baseline
- Tariffs and top-ups

The system also retains elements of the existing system such as the revenue support grant (RSG) and specific grants.

1.3 Each authority has an individual start up funding assessment for 2013/14 based on 2012/13 formula grant with adjustments for various grants transferred in or out. This determines a baseline funding level which will then be split between a RSG element and a business rate element.

1.4 As part of the system the government determines the amount of business rates that it expects billing authorities to collect known as the Estimated Business Rates Aggregate (EBRA) having adjusted for volatility in forecast information and losses due to successful appeals. The Government has announced that local government will be able to retain 50% of this as its local share. For London boroughs of this local share 20% is passed over to the GLA leaving boroughs a retained element of 30% (other types of authorities have different splits). The other 50% of EBRA known as the central element is paid over to central government who then use this to fund the revenue support grant element of the system.

1.5 Each authority has a business rates baseline calculated by information taken from 2010/11 and 2011/12 which determines how much each authority is expected to collect through its business rates.

The individual authority start-up funding assessment

1.6 The system of distributing Formula Grant known as the Four Block Model was used between 2006/07 and 2012/13 to allocate funding. For 2013/14 the

model has been used as the basis to determine the start-up funding assessment for each authority.

1.7 The Four Block Model consists of the following elements:

- A Relative Needs Block (RNB) calculated using Relative Needs Formulae (RNF) – unlike Formula Spending Shares which were used under the previous system, this does not provide an assessment of total need to spend. It is simply a way of equalising for differences in need;
- A Relative Resource Amount (RRA) - again, unlike the former system in which the resource adjustment was based on an Assumed National Council Tax (ANCT), this adjustment is based on relative resource need and not the amount a council might be expected to raise in council tax if it set its council tax at the ANCT;
- A Central Allocation (CA) – this is an amount that is distributed per head of population and is used to distribute the balance of Revenue Support Grant and National Non-Domestic Rate income left after the calculations of the RNB and RRA allocations;
- A Floor Damping Block (FDB) – this is a self-financing block which is used to provide a limit to the level of decrease/increase in grant for all authorities (although this varies between types of authority) by scaling back gains by authorities that have grant increases above the floor.

1.8 For 2013/14 the government has made data and technical changes to the way the model operates and has determined a revised local government spending control total for allocating monies. As part of this it has held back monies centrally for a number of items including capitalisation, the business rates safety net and the New Homes Bonus. It has also transferred out from the model the Central Education Services within the Local authority Spend Equivalent Grant (LACSEG) which will now be administered and distributed as a separate unringfenced grant to local authorities and academies. A number of grant have also been transferred into model:

- 2011/12 Council Tax Freeze Grant
- Council Tax Support Grant
- Early Intervention Grant – excluding funding for two year olds
- Homelessness Prevention Grant
- A proportion of the Lead Flood Authorities Grant
- Learning Disability and Health Reform Grant

The government has also updated a number of datasets including the 2011 Census figures in its 2011-based population projections. It has also made technical changes to the Relative Needs Formulae to take account modelled usage figures for concessionary travel and amended the sparsity indicators. In addition it has also altered the relative weightings for Relative Resource Amount and Central Allocation elements of the model.

1.9 The government has also amended the floor bands within the model. banded floors were introduced to reflect that some areas of the country are much

more reliant on central government grant than others. These tend to be more deprived communities, with more significant social challenges and less ability to raise council tax receipts and so have a greater reliance on central government for their funding. Local authorities vary considerably in the proportion of their budget requirement that is financed by formula grant or council tax. So for social services authorities and shire district councils, the government set four floors. Authorities within these groups would be divided into four bands according to the extent to which they relied on formula grant to finance their budget requirement. The highest floor – representing the smallest reduction – would apply to the most dependent band of authorities and the lowest floor to the least dependent. The table below details the bands applicable to Brent as a social services authority for 2013/14. Brent continues to be included in Band 1.

Band	
1 - Most Dependent	2.7%
2	4.7%
3	6.7%
4 – Least Dependent	8.7%

1.10 The effect of the changes on Brent's formula is detailed in Table 1.1

Table 1.1 Make-up of Brent's Formula Funding

	2013/14 £m
Grants Rolled In	15.210
Relative Needs Amount	124.016
Relative Resources Amount	(28.866)
Central Allocation	43.587
Damping	(2.495)
Central Education Functions within LACSEG	(6,214)
Total Formula Funding	145.238

The main change in formula funding for Brent is that the Authority has moved above the floor for damping. The main reason for this is revised population figures following the 2011 Census where Brent's population has increased by 59.1k from 252.1k to 311.2k. Brent has also gained from the changes in concessionary travel but this was offset by the sparsity changes. Overall Brent's reduction in formula funding is 2.08% which is much lower than the average of 4.12% for this class of authority.

1.11 The effect of including the rolled in grants now gives Brent's start-up funding as detailed in Table 1.2

Table 1.2 Brent's Start-up Funding

	2013/14 £m	2014/15 £m
Total Formula Funding	145.238	151.604
Council Tax Freeze Grant	2.575	2.575
Early Intervention Grant	11.678	10.933
Homelessness Grant	1.563	1.563
Lead Flood Authority Grant	.134	.134
Learning Disability & Reform Grant	7.823	8.018
Council Tax Support (rolled into formula funding for 2014/15)	24.121	
Total Start-up Funding	193.132	174.827

- 1.12 For 2013/14 Brent's Start-up Funding will be £193.132m of which government has determined that proportionate share funded by the Revenue Support Grant (RSG) will be £115.976m. The remaining £77.156m will be met by business rates.
- 1.13 In 2014/15 Brent's proportionate share funded by the Revenue Support Grant (RSG) will be £95.306m which is a reduction in funding of £20.672m as the impact of the cuts in the December Autumn Statement take effect.

Baseline Funding Level

- 1.14 This is the amount of local authority start-up funding which is provided through the local share of the estimated business rates aggregate (EBRA) at the outset of the scheme. It will form the baseline against which tariffs and top ups will be calculated. The government has determined based on the business rate figures for 2010/11 and 2011/12 that Brent's expected business rates baseline for 2013/14 is £102.077m. This will be split as follows in table 1.3

Table 1.3 – Business Rates Baseline

	£m
Retained Element – Brent (30%)	30.623
GLA Element (20%)	20.415
Central Government Element (50%)	51.039
Total	102.077

Through this process government can now determine whether Brent will receive a top up to its business rates or have to pay over a levy to central government.

- 1.15 If for an authority its start-up funding less its RSG, less its retained business rates element is greater than zero then it will receive a business rates top up otherwise it will have to pay a levy. The position for Brent is detailed in Table 1.4

Table 1.4 – Government Funding 2013/14

	£m
Revenue Support Grant	115.976
Retained Business Rates - Brent	30.623
Business Rates Top Up	46.532
Start-up Funding	193.132

For 2013/14 Brent will receive a Business Rates Top Up of £46.532m. For 2014/15 the Business Rates Top Up will increase by RPI (assumed level – 3.067%) to £47.960m and continue to be increased by RPI for future years.

- 1.16 In table 1.4 the business rates baseline has been used to determine the initial level of Business Rates Top Up Brent will receive. In practice it is up to Brent to estimate 2013/14 level of business rates and to budget for the retained business rates element.