



Hampshire
County Council

Policy and Resources Select Committee

Business Rates Retention

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Business Rates at Present

- Collected by billing authorities
- Pooled nationally
- Redistributed through formula grant
- No financial incentive for councils to grow business rates

Tariff Authorities

Funding Baseline	£100m
Business Rates Baseline	£120m
Tariff	£20m

- Tariff increases by RPI each year
- Business rates increase by RPI each year plus growth or decline
- Funds from tariff go to top up authorities

Top Up Authorities

Funding Baseline	£100m
Business Rates Baseline	£80m
Top up	£20m

- Top up increases by RPI each year

County Councils

- Original proposals made HCC a tariff authority
- Government then decided to split business rates in two tier areas 80:20 between districts and county
- All county councils will be top up authorities



Protections and Exclusions

- Make the system very complex
- Protections
 - Levy on disproportionate benefit
 - Safety net
 - Resetting
 - Pooling
 - Exemptions for Enterprise Zones and Tax Increment Financing projects
- Exclusions
 - Top slicing: police, new homes bonus
 - Central share
 - Revaluation, transitional relief
- Further details in Appendix 1



Business Rates in Hampshire

- 2011/12 forecast rates = £437m
- 2011/12 formula grant = £247m
- If rates retention had been in operation:
 - HCC 20% share = £88m
 - HCC top up = £98m
 - District 80% share = £349m
 - District share after tariff = £62m
- See Appendix 2 for further details



Impact of Rates Retention on Hampshire County Council: 1

- Many details still to be announced by Government
- Funding cut between 2013/14 and 2014/15

Formula Grant Assumptions (based on MTFs)		
2012/13	2013/14	2014/15
177.2	162.4	150.5

Possible Position in 2014/15	£m	
Funding baseline	150.5	
Funded by:		
Retained business rates (increase by RPI each year +/- growth/decline)	78.0	52%
Top up (increases by RPI each year)	72.5	48%

Impact of Rates Retention on Hampshire County Council: 2

- Baseline £150.5m

Change between 14/15 and 15/16		Growth or decline in rates					
		-3%	-1%	0%	1%	3%	5%
RPI increase to rates and top up	0%	-£2.3m	-£0.8m	£0.0m	£0.8m	£2.3m	£3.9m
	1%	-£0.9m	£0.7m	£1.5m	£2.3m	£3.9m	£5.4m
	2%	£0.6m	£2.2m	£3.0m	£3.8m	£5.4m	£7.0m
	3%	£2.1m	£3.7m	£4.5m	£5.3m	£6.9m	£8.5m
	4%	£3.6m	£5.2m	£6.0m	£6.8m	£8.5m	£10.1m



Impact of Rates Retention on Hampshire County Council: 3

Historic growth in Hampshire's business rates above RPI (%)

2006/07	2007/08	2008/09	2009/10
1.65	0.45	5.40	-2.53



Impact of Rates Retention on Hampshire County Council: 4

- Large top up makes HCC fairly insulated from business rates volatility
- Having many districts spreads out risk: see Appendix 3
- All funding increases by RPI each year
- Larger central share = larger top up

2014/15 with 25% and 35% central shares	25%		35%	
	£m		£m	
Funding baseline	150.5		150.5	
Funded by:				
Retained business rates	78.0	52%	67.5	45%
Top up	72.5	48%	83.0	55%

Impact of Rates Retention on Hampshire County Council: 5

Possible results of rates retention versus 2% annual increase in formula grant (£m)					
	14/15	15/16	16/17	17/18	18/19
2%	150.5	153.5	156.6	159.7	162.9
Rates retention	150.5	155.7	161.8	172.9	177.6

Impact of Rates Retention on Hampshire County Council: 6

- Economic uncertainty: good growth not guaranteed
- Hampshire has enjoyed growth in times of prosperity, albeit unsteadily
- Before cuts, HCC's formula grant often only increased by about 2% each year
- Likely to benefit from switch to rates retention
 - RPI increases to funding
 - Some gains from business rates growth
- BUT, resets may impact on HCC's long term funding stability

