Illustration of Business Rates Retention Scheme

- This presentation provides a simple illustration of the Business Rates Retention Scheme and impact of a reset.

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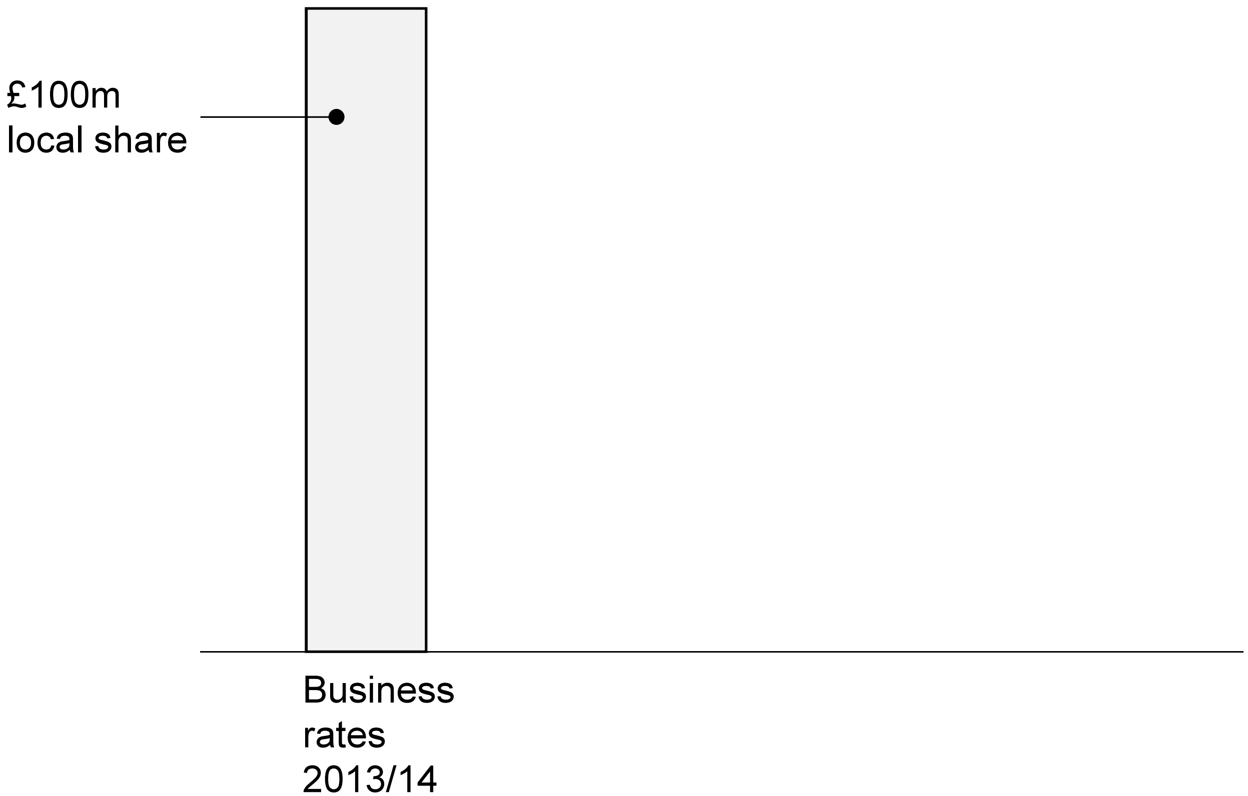
- To illustrate, assume LBTH was expected to collect £100m in business rates revenue at the outset of the scheme.

Illustration of the business rates retention scheme

Diagram not to scale.



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- The baseline funding level (BFL) is the share of local authority funding that is met through the BRRS. It is based on MHCLG's assessment of each authority's relative funding need and its assumed ability to generate council tax revenue.
- In this example, the BFL is £50m for LBTH.

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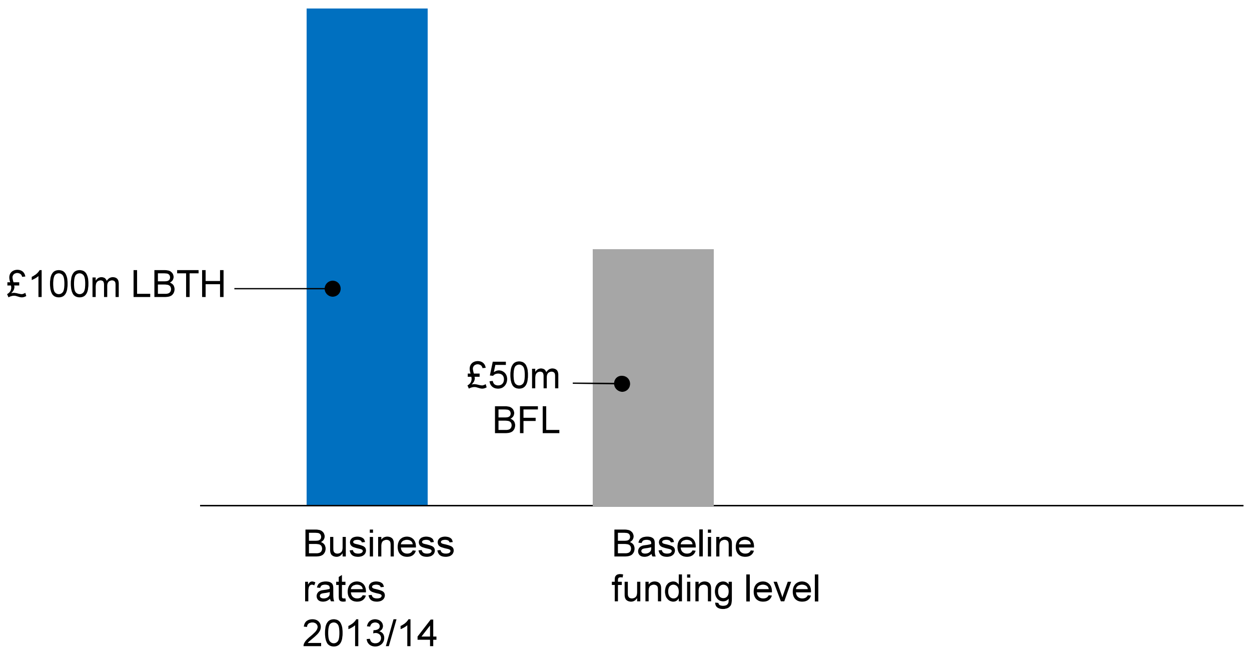

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- At the outset of the scheme, a *tariff* is paid by each London Borough, to equate its share of business rates revenue to its baseline funding level.
- These tariffs are fixed for the duration of the scheme, increasing each year in line with inflatio For simplicity, this diagram ignore the effects of inflation.

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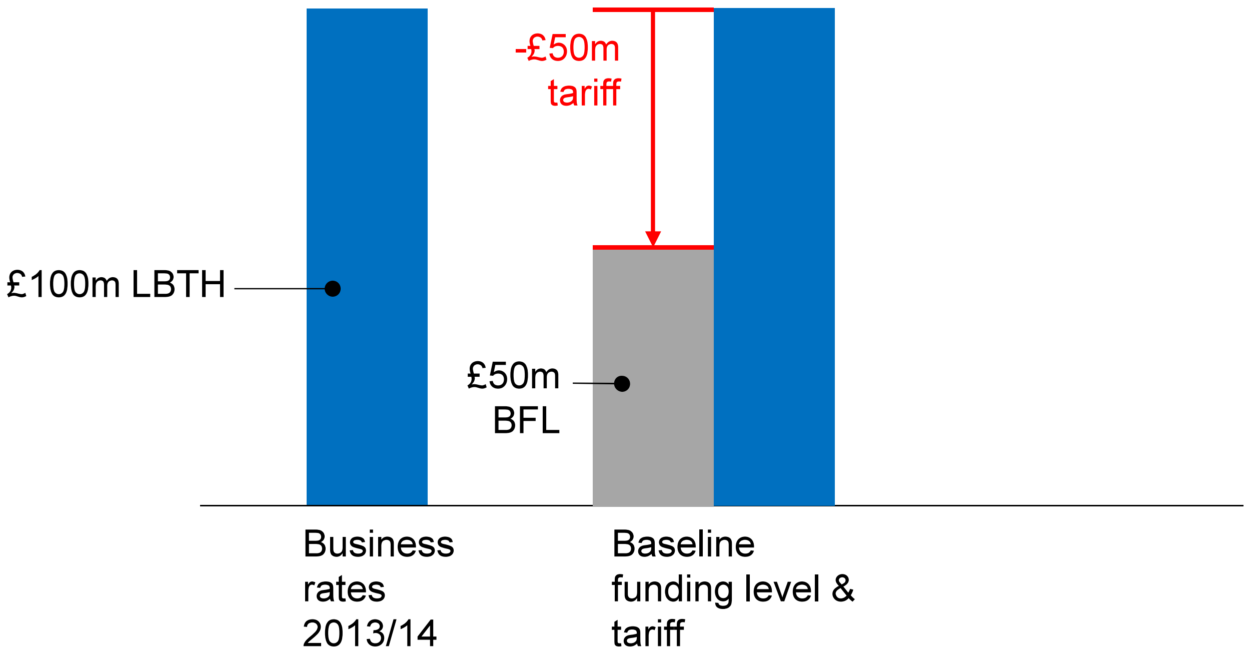

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- Assume LBTH grew its local share of business rates by £30m by 2020/21, as illustrated below

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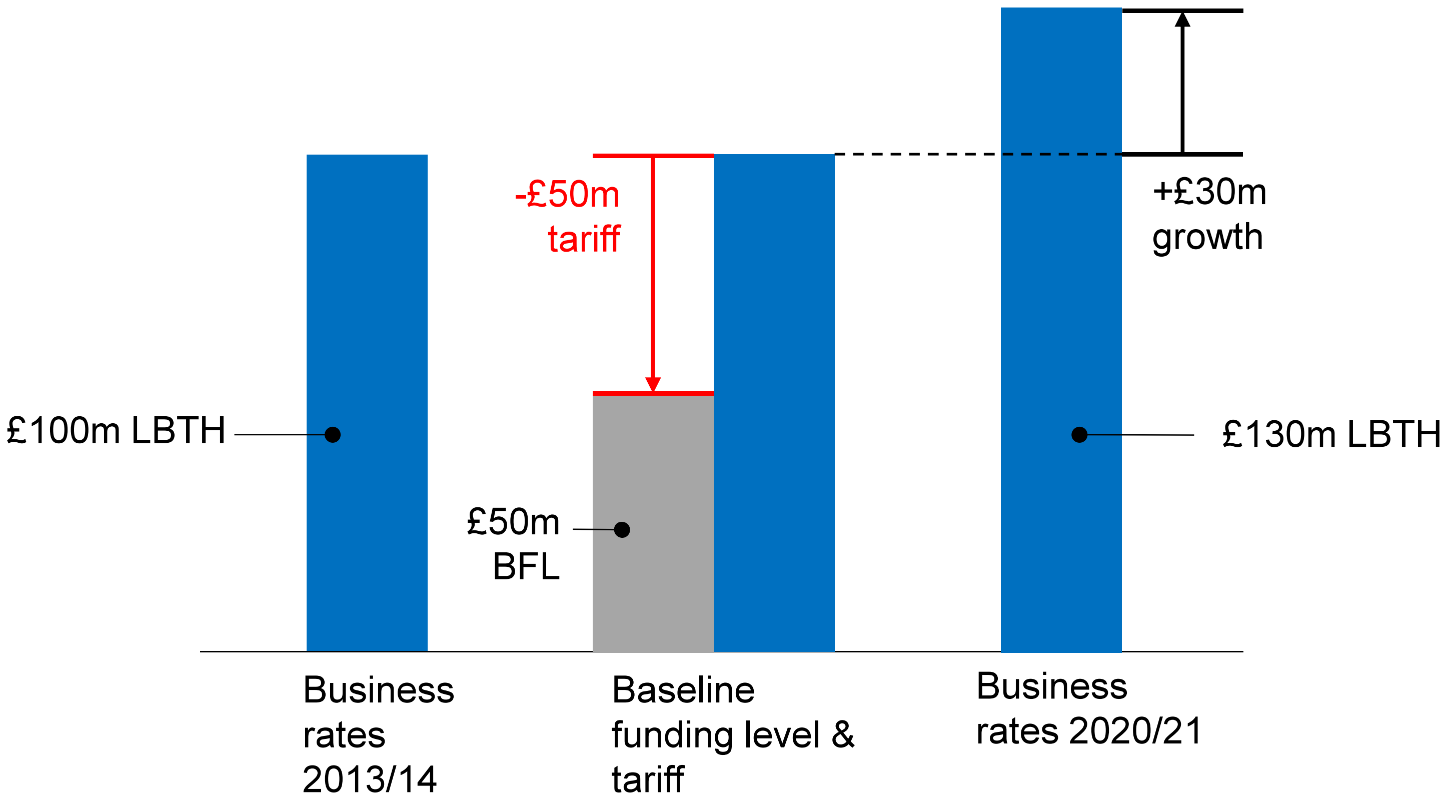
Diagram not to scale. Does not show the increase in baseline funding levels and tariffs due to inflation.



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- LBTH must pay a levy on this growth. For most councils, the levy is set to the maximum of 50 per pound, or 50% of the growth. In this example, the levy would be £15m

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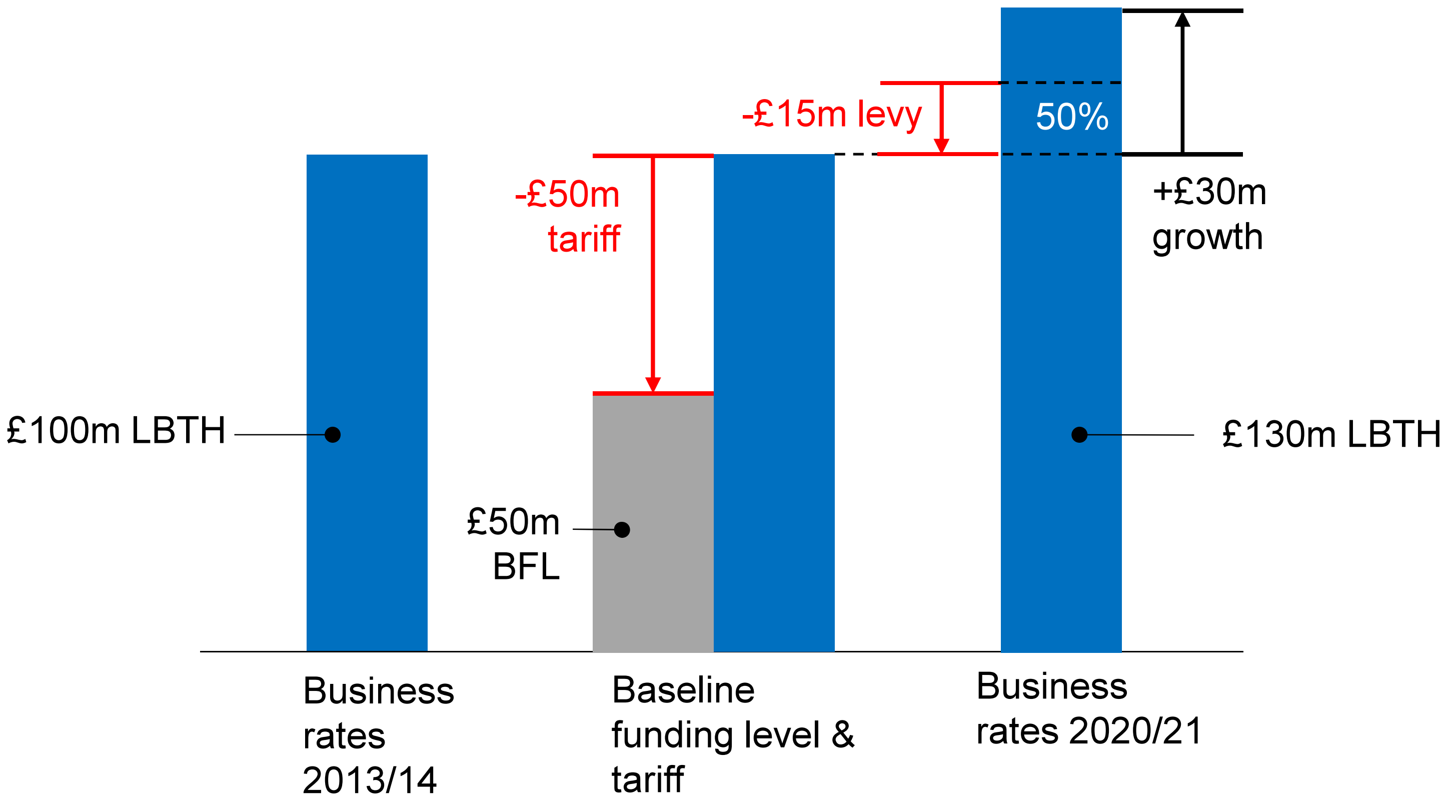

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- This translates to a gain of **£15m** from the business rates retention scheme.
- Equivalently: the Council would receive £65m in revenue, equal to its local share of business rates (£130m), less its tariff (£50m), less its levy (£15m). This compares to its baseline funding position of £50m, i.e. a gain of £15m.

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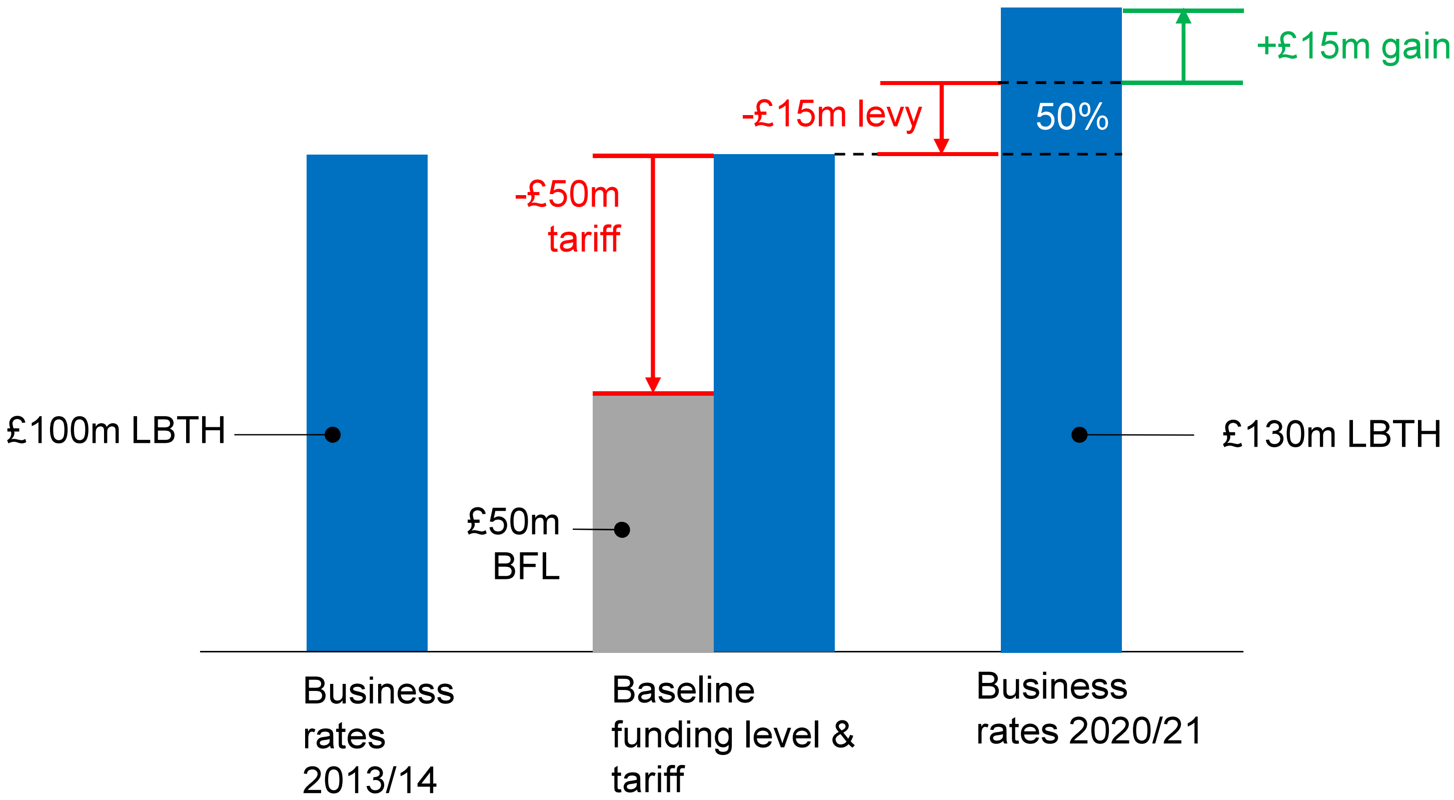

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- Following a reset, ***these gains would be lost and redistributed to other councils***.
- The council's tariff would then increase to align its local share of business rates revenue to its baseline funding level.
- In this example, assuming the Council's baseline funding level was unchanged, the tariff woul increase to £80m and the Council's **net BR funding would reduce to £50m** (down from £65

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