

THE TROUBLE WITH BUSINESS RATES

A topic now being debated in many business circles is that of business rates and whether they should be re-localised again – or “repatriated” according to the recent 2011 Budget.

At present councils collect business rates for their areas and the revenues are put into a national pool for central redistribution as part of the annual formula grant. Business rates were locally determined, locally collected and locally retained until relatively recently. But the trouble was with businesses not having a vote, unlike domestic rate payers, councils were free to raise business rates in preference to other domestic council taxes, without fear of losing votes. This made sense politically – but not economically. So in 1990 the then government brought in the current system of nationally determined and centrally distributed but locally collected business rates, which was welcomed by business groups at the time and still has a lot of support.

The Government has set up a Review to consider and consult on the question of providing Councils with their own income stream designed to replace in part or whole the central grants currently received. It is hoped that, as well as making councils more accountable, any proposals to change the business rates system will also encourage Councils to promote economic growth, as this should then lead to an increase in their revenues.

Peter Williams of Lambert Smith Hampton briefed the Hampshire Chamber's Tax Finance & Legal Committee on the current business rates debate. He commented that,

“Between Councils there is a wide variation in the business rates revenue collected compared to the amount of central grant received. So a workable solution would mean either there must be at least some form of central redistribution of part of the rate income to provide an initial degree of balance, or Councils should have the power to set their own local rate. Businesses will be glad to hear that at this point the second option has been ruled out. The Government believes that by 2015 some 25% to 33% of Councils would be independent of central grant.”

Hampshire Chamber of Commerce supports the BCC national Chamber network's view that there must be no additional local business taxation without a full and fair business vote – in line with the principle set out in the explanatory notes to the Localism Bill. We also support the BCC's willingness to work with the Review to explore the possibility for some form of local retention of rates collected, but we agree it is not appropriate to re-localise the power for councils to set the rates.

The Review of Local Government Resources set up in March is moving ahead with speed.

The first phase will deliver proposals for change by July 2011 and we will be keeping you updated.