



Business Rates Retention Reform 2018 Consultation Summary

Objectives for the consultation

The Government is committed to further business rates retention and in 2017 announced it was aiming to **introduce 75% business rates retention from 2020 in a fiscally neutral way**. Alongside increasing business rates retention the Government is also carrying out a review of relative needs and resources. This is subject to a separate consultation.

This consultation focuses on the way the business rates retention system works, not on how further business rates retention will be delivered or the transition to the reformed system. The consultation covers two broad areas:

- The **right balance of risk and reward in the business rates retention system**. Local authorities should continue to receive the benefit of growth they achieve in their local areas.
- Summarises the work undertaken to develop options to **mitigate volatility** in income and address the **impact of appeal losses and valuation change** on local authorities.

The consultation brings together previous work and seeks the sector's views on options to reform the business rates retention system from 2020.

Resets

The consultation seeks views on two types of reset to be implemented after 2020:

Phased reset or Partial reset

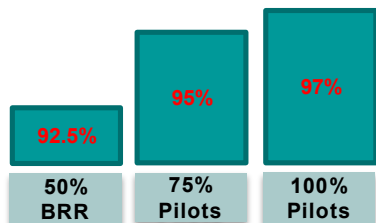


The consultation also seeks views on the **length of the reset period** – with the objective of a strong growth incentive, whilst also recognising redistribution for need.

Safety Net

Different safety net levels are being piloted by different areas

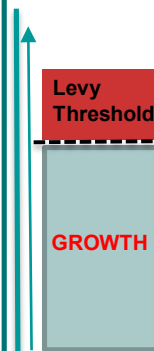
The consultation proposes that the safety net will continue to work as it currently does – stopping income falling below a **certain % of baseline funding level**



What **level** should the safety net be set at?

Levy

The Government wants to ensure that the **growth incentive remains strong** and is therefore looking to reform the levy.



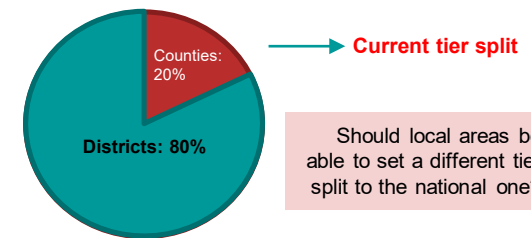
The consultation proposes **increasing the threshold** at which growth is capped so as to capture only 'extraordinary' growth.

Should the levy act as a 'cap' on extraordinary growth above a certain level?

Reforming the levy reduces the incentive to **pool**. Respondents are invited to propose **fiscally neutral incentives** to pool that continue to support joint strategic decisions.

Tier Splits

The Government will continue to collaborate with the sector to set the right **tier split** between counties and district.



Should local areas be able to set a different tier split to the national one?

The consultation asks the sector to consider an **appropriate balance** between district and counties' risk and reward profile.

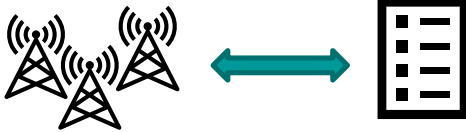


Business Rates Retention Reform 2018 Consultation Summary

Central and Local Lists

When the business rates retention system is reset in 2020 it provides the opportunity to 'tidy up' the hereditaments that currently sit on the Central list using existing criteria.

The central list should be **RATIONAL**,
TRANSPARENT, and **UNIFORM**.



The consultation asks the sector and ratepayers to identify any appropriate hereditaments that they feel should be listed differently.

Appeals and valuation change

The consultation summarises the work the Government has been doing to tackle the impact of appeals and valuation change.

To address volatility caused by appeals and valuation change, MHCLG has worked with the sector and CIPFA to address two questions:

- How to measure the compensation due to local authorities, if business rates losses due to valuation change were to be centralised.
- How to mitigate the impact of provisions on authorities' ability to spend on services.

The Government is seeking solutions that don't exacerbate complexity of the business rates retention system. The consultation proposes a **change to the administration of the system** as the best way to mitigate the impact of appeals and provisions for appeals.

Change to the administration of the system

Fixed BRB: Business Rates
Baseline
+
Fixed Top-ups and Tariffs



Redistribution
baseline

Growth
baseline

Floating top-ups and tariffs

This change would work by having floating tariffs and top-ups, compared to fixed ones. Local authorities' own estimates of income - **after provisions** - would be used each year (through NNDR1s) to set top-ups and tariffs.

The Government is committed to ensuring **local authorities see the benefit of all their growth**. A **separate baseline could be used to measure growth from**, based on either gross rates payable or net rates payable. This could be recalibrated annually to take account of backdated appeals.

Such a change to the administration could bring significant benefits such as **providing predictability** of income from business rates, allowing local authorities to **retain all the growth** they achieve and a more **responsive and flexible system**.

How resets, tier splits, the safety net and levy will work from 2020 are all decisions that would still need to be taken regardless.

Implementation

This consultation **will not be testing how we transition into the new system**. We will consult further in 2019.

- There will be a full reset of the business rates system in 2020/21. This will allow full implementation of both reforms to the business rates retention system and the outcome of the review into relative needs and resources.
- The outcome of the review into local authorities relative needs and resources the Spending Review will give all local authorities new funding allocations.
- The consultation does seek views on how we should set business rates baselines.
- MHCLG will continue to work with the sector on the design of the future business rates retention system through 2019.