

Business Rates Retention Early Implementation Pilots: update

Background

1. At the Budget the Government committed to piloting approaches to 100% Business Rates Retention in London, Manchester and Liverpool from as early as 1st April 2017.
2. Some elements will be piloted from 2017-18 onwards, however we expect a number of elements of the system will not be piloted before 2018-19.
3. The Government has committed that the pilots offer be available to other city regions with ratified devolution deals. Sheffield, the West Midlands, the West of England and Cornwall have come forward to explore the options around becoming pilot areas and DCLG is working with them on this. Other areas have also expressed initial interest and are in the very early stages of discussion so we would expect these areas to pilot from 2018 rather than 2017.
4. With a move to 100% rates retention pilot authorities will be taking on a degree of risk in advance of a system-wide approach to risk management. As part of the negotiation leading up to the Budget announcement it was therefore agreed with the pilot areas that pilots will result in no detriment.

Current state of play

5. Pilot negotiations are now in the final stages. Since the announcement DCLG has engaged with pilot areas to scope options for development and to discuss mechanisms for implementation. Pilots are bespoke to reflect the diverse needs of different areas and therefore contain different elements.
 - a. Greater Manchester, Liverpool, Cornwall, the West of England and the West Midlands intend to move to 100% business rates retention from 2017. Sheffield is considering a transition to 100% retention over a period of time but proposes to pilot elements of the system from April 2017.
 - b. In London the GLA will take over responsibility for funding TfL Investment grant from DfT. In return, the GLA will be allowed to keep a commensurately higher percentage of the business rates income collected in London. The GLA will also fund its share of RSG through business rates from 2017.
 - c. The following options will be implemented by all or some pilot areas. Alone or in combination, these will ensure that the increase in the “local share” of business rates is cost neutral at the point of change:
 - i. Ending RSG entitlement
 - ii. Ending entitlement to other funding streams. Options under consideration are:

1. Rural Services Delivery Grant
 2. Public Health Grant
 3. Devolved Transport funding
 - iii. Devolving additional responsibilities to pilot areas
 - iv. Adjusting existing tariffs and top-ups
- d. The scope of the pilots will likely expand from April 2018. Pilot areas are ambitious and are keen to test rolling in further functions and taking on new responsibilities.
 - e. We are planning to test mechanisms for managing appeals risk in some pilot areas, most likely on a shadow basis, from either 2017 or 2018.
 - f. We are considering a new form of safety net for pilots and are working with pilot areas to consider options. Given that work on the wider design of the system has not yet concluded, risk management measures for pilots will not necessarily mirror the future system. With the full rollout of 100% retention we expect that pilots will move to the new system.
 - g. The mechanism by which we will calculate the value of business rates percentage shares has been agreed with pilot areas. This was included in the consultation on the Local Government Finance Settlement, published earlier this month.
 - h. We are discussing with pilots the approach to data collection to allow for monitoring.
 - i. Any cost to the system from elements of the pilots will not impact on non-pilot authorities.

Next Steps

6. Final pilot agreements are currently being drafted and we expect these to be signed off in October.
7. Changes to secondary legislation will be required to implement elements of the pilots from 2017. We are developing legislation and expect Orders to be laid in Parliament later this year.
8. The Local Government Finance Settlement for 2017 will incorporate pilots and all decisions will therefore need to have been taken before publication of the provisional Settlement.