Department for
Communities and
Local Government

The quantum of resource available to fund Business Rates Reform:

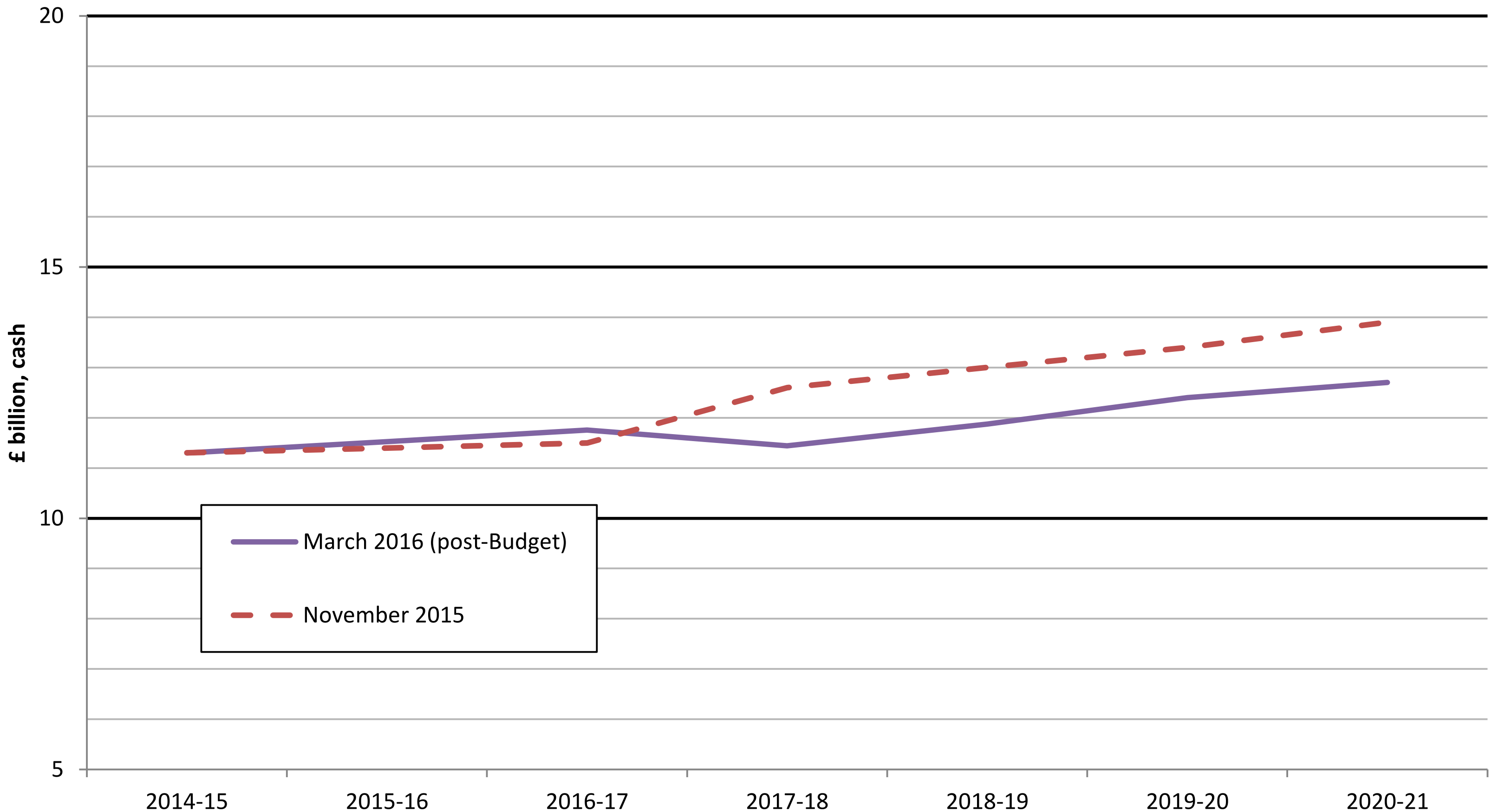
Overview, implications and choices

NOTE: ALL CONTENTS FOR DICSUSSION PURPOSES ONLY, AND DOES NOT REPRESENT GOVERNMENT POLICY

Contents:

1 – Retained Business Rates Forecast

OBR: Forecast Business Rates Retained by Local Authorities, England:



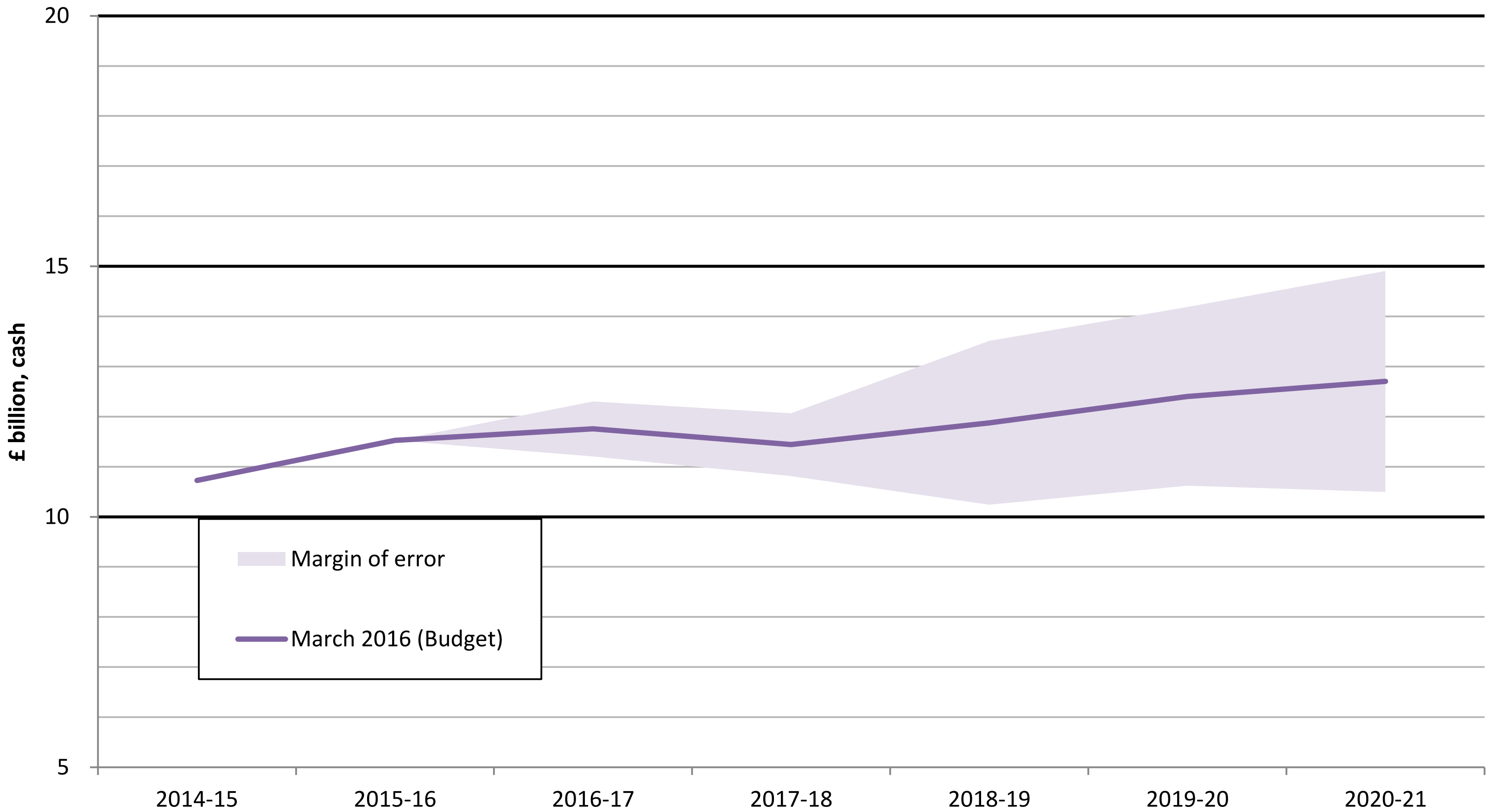
Note: The purple line is adjusted for Budget 2016 announcements such as small business rates relief and the move from RPI to CPI in 2020-21

Sensitivities include:

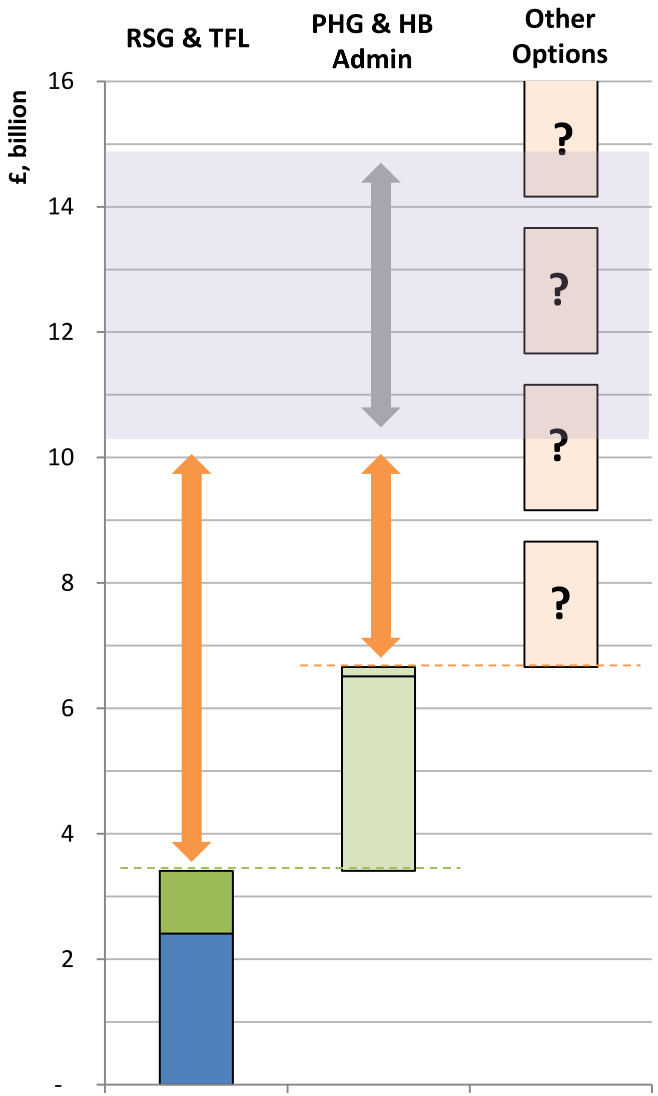
- Property values (aka Gross Rates Yield)
- Yield and Appeal Loss post-revaluation
- Reliefs – both mandatory and discretionary
- Collection costs and losses on collection
- Appeals and Provisions
- Transitional arrangements and funding of the Safety Net
- Other policy choices, for example any decision by LAs to change multipliers if given the flexibility or if government chose to renew retail relief

Historically, 5-year forecasts of retained business rates have been out by about 10%.

OBR: Forecast Business Rates Retained by Local Authorities, England, applying historic levels of error:



2 – The link to devolution



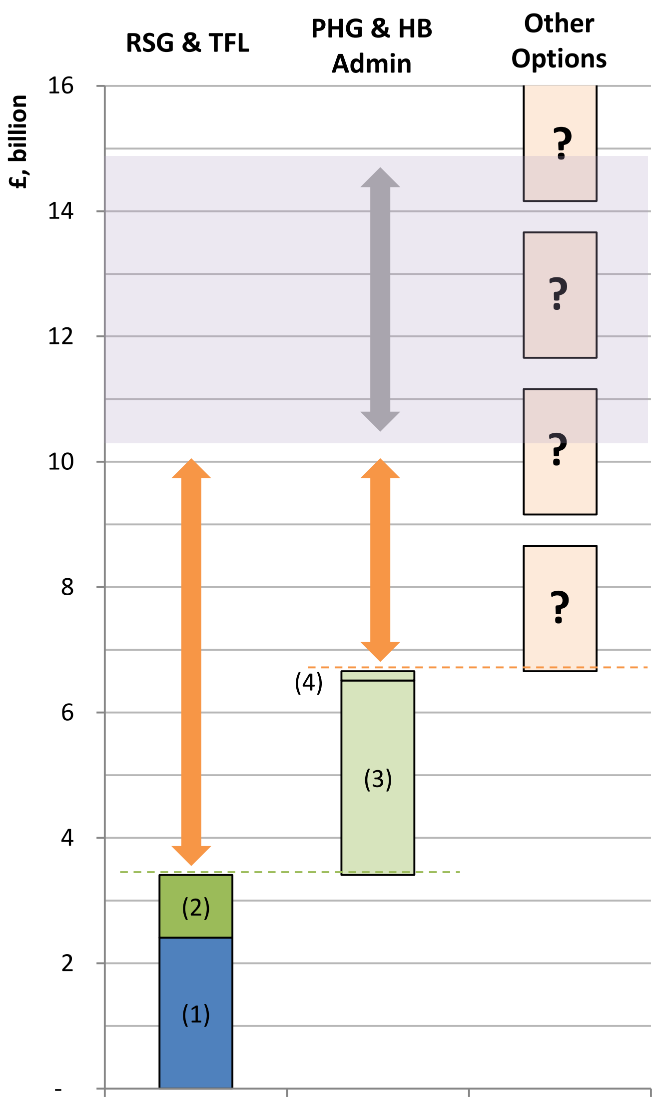
The **shaded area** represents the estimated ‘target’ for 2019-20, likely to fall between £11 and £15bn (with a central forecast of £12.4bn, following budget announcements).*

- This range is subject to change, for example due to forecast updates and decisions on the rates retention system design, e.g. the safety net, central list and treatment of appeals.

The **Individual Blocks** represent potential new grants or responsibilities (with the Public Health Grant and Housing Benefit admin subsidy for pensioners included as examples).

*The figure would be about £300m higher in 2020-21. It is adjusted for Budget 2016 announcements, and excludes the Central List (£1.4bn), Designated Areas (£0.1m), Renewable Energy Schemes (£0.1m) etc.

2 – The link to devolution



Arrows identify the 'target range' for devolving additional grants or responsibilities into retained business rates.

- **Column 1** – Includes the (1) Revenue Support Grant and (2) Transport for London capital grant - after this target is between £7bn and £11bn.
- **Column 2** – Possible candidates for illustration, identified in last steering group paper (3) Public Health Grant and (4) Housing Benefit admin subsidy for pensioners. If these were devolved target is between £4bn and £8bn.
- **Column 3** – Other options under consideration were set out in the paper to the Technical Working Group.

We will need to explore individual options in detail, with reference to the principles and criteria for devolution.

100% Retention Pilots: Overview

- Intended to inform the implementation of Business Rates Reform, for example identifying new risks or opportunities for improvement, ahead of full roll-out.
- Agreed in Greater Manchester, Liverpool City Region and London, potentially from 2017-18.
- Potential to devolve grants and responsibilities, ahead of their devolution to **all** authorities at full roll-out, for example the Public Health Grant.
- Could also devolve responsibilities to specific areas that are **not** devolved to other authorities at roll-out, e.g. TfL investment grant to GLA.

100% Retention Pilots: Link to the Quantum

- Both ‘universal’ and ‘bespoke’ devolution options will need to be balanced against the 2020 quantum, including any new responsibilities given to pilots.
- The 100% retention pilots and their financing arrangements will therefore interact with the quantum and be an important and ongoing piece of work, to be brought to the Steering Group.
- In line with the principle of fiscal neutrality, all authorities will be funded for their existing and new responsibilities. As a result, non-pilot authorities will not be financially worse-off as a result of bespoke devolution elsewhere.

100% Retention Pilots: Redistribution Mechanics

- Devolution of 'bespoke' responsibilities to a pilot authority would increase its 2020 **funding baseline** in line with grant or cost (all else being equal). For example, devolution of the TfL capital grant will increase London's funding baseline by approximately £1bn.
- Each authority's funding baseline will be compared to its **local tax baseline** to determine tariffs and top-ups (as per the current system). London, for example, would (in aggregate) remain a tariff authority unless its funding baseline exceeded the approximately £7bn of business rates that it will be collecting in 2020.
- Tariffs / top-ups for pilot authorities will be part of a wider system of redistribution. New responsibilities in pilot and non-pilot authorities in 2020 can be funded through tariffs and top-ups as long as the **full package** of new responsibilities devolved through rates reform is matched to the ≈£12bn quantum available.

100% Retention Pilots: 100% retention for an authority or authorities

- All local authorities will retain 100% of the **growth** in their business rates income following introduction of the system in 2020. The System Design workstream will consider how the growth is treated at Resets.
- An authority (or authorities) might retain **all** of their business rates **if their funding baseline matched their business rates income on day 1 of the new system**. This would effectively take the area out of the top-up and tariffs system (subject to resets, as above).
- The funding baseline would need to match forecast business rates income – so more (or fewer) responsibilities would need to be devolved to that authority in line with the new needs assessment.
- As set out on previous slides, the level of responsibilities devolved would affect the quantum elsewhere but would not financially disadvantage other authorities.
- Any such proposals will need to be considered by the steering group.

3 – Relationship between quantum and other policies

Devolution Deals

- Currently funded through grant rather than business rates retention.
- Existing deals or deals agreed before 2020 *could* be funded through business rate retention.
- Funding any of the devolution deals' devolved functions through business rates retention will impact on the quantum.
- There will also be interactions with the system design workstream because devolution deals have devolved functions to combined authority/mayoral level.
- Any deals agreed after 2020 are likely to be funded outside of business rates.

Other System Design

- As noted in slide 4, choices related to the central list, appeals and funding of the safety net will impact the net business rates income available.
- The system design options, including potential impacts on the available quantum, will be investigated within the System Design technical working group.

4 – Next Steps & Discussion

- DCLG and the LGA will continue to refine estimates of the quantum of business rates available:
  - Updated OBR forecasts will be released in November.
  - We are exploring Monte Carlo analysis to provide a sense of what forecast uncertainty might mean for individual authorities.
  - Technical groups will continue to explore interrelated issues such as system design.

Questions for discussion

- What is the best way for DCLG and the LGA to keep track of the available quantum as forecasts are updated and refined?
- How is the uncertainty in future receipts best communicated and presented in the Summer Consultation?
- How can we ensure that the new business rates system is flexible enough to incorporate uncertainty, and ensure that everything ‘adds up’ on day one?
- What parts of the new system could DCLG and the LGA test through the implementation of pilots? How can we ensure that risks and opportunities are identified ahead of full roll-out?
- How and when should the Steering Group consider impacts of pilots and, potentially, devolution deals on the overall quantum?