Factsheet: 100% Business Rate Retention system (Clause 1 and Schedule 1)

What is 100% business rate retention?

In October 2015 the Government committed that local government should retain 100% of taxes raised locally by the end of the Parliament. These reforms will help move local authorities away from dependency on central government grant and towards self-sufficiency. The reformed system will also provide local authorities with strengthened incentives for growing their business rates income.

These reforms will give local councils in England control of around an additional £12.5 billion of revenue from business rates to spend on local services. To ensure that the reforms to business rates are fiscally neutral, some existing central Government grants will be phased out. Local government will continue to deliver these existing responsibilities through retained business rates or they will take on new responsibilities to reflect additional tax income.

What is the policy hoping to achieve and where are we now?

The move to 100% business rates retention builds on the current system, in which local government as a whole retains 50% of locally collected business rates. That system was introduced in April 2013. The Local Government Finance Bill provides the framework for the reformed system, building on the legislation that provides for the current system of 50% business rates retention as set out in the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 2012).

The Bill makes some specific changes to allow the move from 50% business rates retention to 100% business rates retention. In particular it:

- Removes all reference to the requirement for local government to pay a proportion of business rates income to the Secretary of State for Communities (currently known as the ‘central share’);
- Removes the ability of the Secretary of State to require local authorities to make ‘levy payments’ on any growth they achieve;
- Makes some technical changes to the timing of safety net calculations and payments to correct an anomaly in the timing of these in response to a request from the local government sector; and
- Makes other consequential changes to Schedule 7B of the Local Government Finance Act 1988 to reflect the move to 100% business rates retention and changes to the local government finance settlement.

The Government is not trying to define all of the detail about how the 100% business rates retention system will work at this point. The Government would like to continue to work with local authorities, their representatives and businesses on the detailed design of the reforms. Secondary legislation will set out much of the detail about how the system will work in practice, as is the case under the current 50% business rates retention scheme.

Why is legislation needed?

The Government is making an important change to the way in which local government is financed. The changes set out here are amending the primary legislation that was put in place to implement 50% business rates retention. These changes through primary legislation are essential to implement the 100% business rates retention, and the Government’s commitment to scrap the levy on growth.

Why is the Secretary of State taking the power to make regulations about the calculation and timing of safety net payments?

Existing legislation gives the Secretary of State the power by regulations to make provision for calculating safety net payments for authorities in England. The safety net is intended to protect authorities that see a sudden decline in their non-domestic rating income. This is not changed by the Bill and a safety net will continue to be provided under 100% Business Rates Retention.

Giving the Secretary of State the power to make regulations about the calculation and timing of safety net payments will enable him to deal with an anomaly in local government accounting created by the timing of safety net calculations and payments as set out in previous legislation. The previous legislation regarding the timing of safety net calculations and payments meant that some payments were required to be accounted for in a different financial year than they were calculated and paid. This has caused unanticipated challenges for local government.

The Government intends to continue to engage and consult with relevant authorities and other bodies on the timing of safety net calculations before setting out the detail in regulations.

How will the new system work in practice?

The Government thinks that 100% business rates retention will have some strong similarities with the existing system. For example, there will continue to be a level of redistribution between authorities similar to the current system of tariffs and top-ups. In addition, there will continue to be protection in the system to insulate authorities from shocks or significant reductions in their income.

There will also be some important differences. Scrapping the 'central share' of business rates income will reduce councils' dependence on central government, and is a further step towards self-sufficiency for local government. Scrapping the levy on growth sharpens the incentive for local authorities to grow their economies by allowing them to create more of the growth that they have helped create.

How can I find out more?

The Government intends to publish a consultation shortly on further detail of the design of the 100% business rates retention system.

We encourage all local authorities to continue to engage with their representatives on the joint LGA-DCLG Business Rates Retention Steering Group and Systems Design Working Group. Minutes of the meetings, along with all papers considered by the Steering and Working Groups, can be found at www.local.gov.uk/business-rates.

Key questions & answers:

Will councils that can't generate as much revenue from business rates lose out under the new system?

- In moving to the 100% business rates retention system, we will continue to ensure that there is redistribution between councils so that areas do not lose out just because they currently collect less in local business rates. The system will mean that there are now stronger incentives to boost growth, and areas that take bold decisions to boost growth will see the benefits.

How will the safety net payments be funded in the future?

- We will continue to make safety net payments to authorities that see their business rates income fall. Such payments are currently, in part, funded from levy receipts. In future we

expect to fund the safety net by effectively top-slicing some business rates from the total amount collectible before baseline funding levels are set. This is likely to follow the same approach as we will use for 'loss payments'.

How will decisions on the responsibilities to be funded from retained business rates be made?

- The Government has been working closely with local authorities and their representatives on the move to 100% business rates retention, including the package of responsibilities that could be devolved as part of the reforms.
- The Government summer consultation on business rates retention sought views on grants and responsibilities that might be suitable candidates for devolution. A response to that consultation will be published shortly. The Government has already announced that that the devolution of Attendance Allowance funding is no longer being considered as a part of the retained business rates reforms.
- As with other parts of the reforms, we will continue to work with local government on the grants and responsibilities that could be suitable to be funded from retained business rates.

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