

Communities and Local Government Committee

Reforming Local Authority Needs Assessment

Paper 4 - Business Rates Retention and the Reset

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Executive Summary

Introduction

1. Within the business rates retention scheme, the determination of the business rates baseline (National Non-Domestic Rates or NNDR Baseline) could be considered to be the most important element in determining an authority's ability to meet, or exceed, the resources amount allocated to it within the Settlement Funding Assessment (SFA). The SFA being the level of resources allocated to individual authorities that is funded through the retained element of business rates and Revenue Support Grant.
2. The current business rates baseline has been in place since 2013/14 and is due to be updated through a reset process. Given that the intention of business rates retention is to reward local authorities in promoting economic growth (through retaining growth in business rates income), it is important that resets do not remove this incentive. However, given that the reset process will include a number of subjective decisions, it is also important that the system is periodically adjusted to ensure that all authorities have the ability to gain from promoting growth, whilst removing any anomalies that are leading to material and potentially unjustified gains or losses.
3. This paper considers the implications of alternative approaches to the reset, focusing on the period of time that elapses between when the NNDR Baseline is adjusted. The two methods considered were (i) a fixed period reset – where a reset would take place every five years and (ii) a rolling reset – where business rates baseline figures would be updated annually.
4. In comparing both options, it was necessary to use a base set of data. The actual and forecast NNDR amounts collected by local authorities for the period 2013/14 to 2016/17 was used as a starting point. Future years' income levels to 2024/25 was then simulated, based upon existing income levels, an assumed level of business rates overall, but with individual authority variation to reflect the variable nature of business rates income.

100% Business Rates Retention and the Reset

5. The move to 100% business rates retention (from the current level of 50% retention), was originally expected to take place in 2019/20. This paper therefore assumed that any reset would also take place in 2019/20, the same period as when the introduction of 100% business rates retention was originally anticipated.
6. Current indications from the government are that there will be movement towards 100% nationally, although it is likely that this will not take place in the timeframe originally intended. Stepped change to the scheme (i.e. from 50% to 100% retention) is therefore unlikely to take place as soon as 2019/20.
7. However, the findings of the report in relation to the proximity of authorities to the NNDR Baseline and related amounts would still hold, and these would not be affected by any potential delay in the introduction of the reset (i.e. later than 2019/20), as they are concerned with how the system deals with baseline change after the first reset, irrespective of when that year is. The analysis within this report is based upon 100% business rates retention, and so, if this did not take place,

the figures would need to be scaled down by half, to reflect the existing 50% scheme.

Findings

8. In order to compare the two reset approaches, the following criteria were used.
 - Simplicity/transparency
 - Importance of the data selected in determining the future years' position
 - Resource implications for local government overall
 - Resource implications for individual local authorities
 - Ability for local authorities to gain from business rates growth
 - How it deals with authorities with large business rates growth/decline
9. The comparison was based on the analysis undertaken and wider considerations within the local government finance system.

Simplicity/transparency

10. As a fixed period reset occurs every set number of years (five years in this case), compared to a rolling reset, which is updated annually, it is simpler for local authorities.

Importance of the data selected in determining the future years' position

11. The material financial impact of the data used in determining a 2019/20 NNDR baseline was measured by comparing the resulting baselines from using two and five years' data. Of the 384 authorities nationally, 172 had a difference in NNDR Baseline of over 2% between the two approaches. Given that business rates income was only 5.2% above NNDR baseline after four years of the scheme (i.e. an average annual growth of 1.3%), the importance of how the NNDR Baseline is set appeared to be more significant than growth itself.
12. The fact that the baseline (in terms of the data used or the number of years) potentially has a greater impact than business rates growth therefore might favour a more flexible approach offered through the rolling reset. As per Tables 1 and 2 below, the rolling reset lessens the impact of the initial reset (and therefore the determination of the Baseline) by reducing the gains and losses it creates.

Resource implications for local government overall

13. Both approaches require decisions regarding forecast business rates income and the proportion that can be retained by local government. However, the rolling reset approach provides greater scope for the system to be more responsive to issues, both at a national and local level, as it allows NNDR Baselines to be adjusted annually, rather than every five years. This means that, at a national level, if the forecast level of business rates income used for the 2019/20 reset process proves to be too high, (and therefore results in lower than planned resources for local government) it could be adjusted more quickly within the system than under a fixed period reset (where it could take a further four years to correct).
14. From a local government resource perspective, the rolling reset would therefore appear to offer a

fairer/less risky approach to setting NNDR Baselines.

Resource implications for individual local authorities

15. Within the business rates retention system, the level of resources an authority receives is dependent upon its NNDR Baseline after a reset and the level of business rates income collected (i.e. growth/decline).
16. Under the fixed period reset, the importance of the starting NNDR Baseline is greater than under a rolling reset (as it is updated annually under a rolling reset). Therefore, a rolling reset is potentially the fairer method, as it reduces the influence of any decision on the initial reset in determining gains. The table below demonstrates this by comparing the relative importance of initial NNDR Baseline to the overall gain for the respective reset approaches. The table shows the average variance per authority per annum (compared to Baseline Need) over the period 2019/20 to 2023/24 for individual authorities, based on their initial starting position in 2019/20 against Baseline Need. The level of business rate income change (i.e. growth and decline) was similar for all authorities, irrespective of their starting position.

Table 1 Average variance per annum to Baseline Need for authorities, based on the starting position in 2019/20 for the two reset approaches 2019/20 to 2023/24

Starting position against Baseline Need in 2019/20	Fixed Reset	Rolling Reset
Below 0%	-1.9%	0.4%
0% to 3%	2.8%	3.1%
3% to 6%	4.9%	4.1%
6% to 9%	7.7%	5.6%
9%+	9.4%	6.1%

17. The Table shows that, under the fixed period reset approach, those authorities with a starting position below the Baseline received resources of 1.9% below baseline per annum over the five-year period. This pattern of average gains being closely linked to authorities’ starting position is replicated for each of the five percentage bands.
18. For the rolling reset, whilst the starting position is clearly still significant e.g. those authorities starting at +9% above Baseline Need still had the highest average gain of the five percentage bands, the variation is not as pronounced. This would be as expected, with the rolling reset taking into account the variation above Baseline each year.
19. However, under the fixed period reset, the financial implications of a change in business rates income are sustained for longer i.e. change is not factored into the NNDR Baseline as quickly. Given that the intention of Business Rates Retention (BRR) is to create an incentive to promote growth, it could be argued that a system that rewards growth for longer is preferable.
20. There is therefore a trade-off between limiting the impact of the initial Baseline, which the rolling reset achieves, and increasing the impact of growth, which the fixed period reset achieves.

Ability to gain from business rates growth

21. An authority's ability to gain from growth is linked to its position relative to the safety net amount and the proportion of growth removed at resets. The safety net amount being the minimum amount of resources an authority can receive under the scheme¹. As both the Fixed and rolling reset approaches were assumed to have the same starting position (2019/20) and end position (2024/25), the comparison between the two is based upon the years in-between i.e. 2020/21 to 2023/24. Table 2 below provides a comparison of selected key figures from the analysis for the two approaches.

Table 2 – Comparison of Key Figures for a Fixed Period Reset vs Rolling Reset

	2019/20 Base	2023/24 Fixed	Rolling
Authorities > 9% Above Baseline Need (LAs)	54	94	88
Amount retained if > 9% (£m)	342	726	428
Below Baseline Need (LAs)	138	114	70
In the Safety Net (LAs)	53	56	17
Cost of Safety Net (£m)	30	47	11
Number that stayed in the safety net		27	6

22. The Table shows that, for each of the figures, the rolling reset limits gains and losses i.e.

- Of the 138 authorities that start below Baseline Need in 2019/20, by 2023/24, there are still 114 authorities below under the fixed period reset approach, compared to 70 under the rolling reset.
- The required 2023/24 safety net payments are lower for the rolling reset (£11m compared to £47m) for the fixed period reset.
- The number and value of gains for authorities with resources 9% above Baseline Need in 2023/24 are lower for the rolling reset, 88 authorities gaining £428m, compared to 94 authorities gaining £726m for the fixed period reset.
- Of the 53 authorities that start within the safety net for 2019/20, 27 remain in the safety net in 2023/24 under the fixed period reset, compared to 6 under the rolling reset.

23. In terms of the ability to retain growth between resets, for the fixed period reset, all growth in business rates income is retained in resources and all decline (up to the safety net) is lost. Whereas, under the rolling reset, NNDR Baselines will be adjusted to take into account growth and decline each year, thereby reducing gains and losses.

24. In summary:

- The rolling reset approach is more responsive and therefore moves authorities out of the

¹ If an authority's income after net business rates collected is below its safety net amount a grant payment is made to increase resources to the safety net amount.

safety net quicker than the fixed period reset. This, in turn, increases the number of authorities that can gain from business rates growth.

- The fixed period reset allows all variations in business rate income to be retained between resets and therefore provides the greater incentive for growth (in terms of the proportion retained).
- However, for authorities with growth levels lower than the national average and those below their Baseline, the rolling reset would still allow all growth to be retained. It is only authorities above Baseline Need with growth above the national average that lose a proportion.

25. A weakness of both approaches is the inability of local authorities to retain growth in the longer term. For both approaches, the same level of growth would be taken from authorities in 2024/25 (i.e. under the partial reset). This loss in growth is perhaps the most significant, in that it may deter authorities from investing in infrastructure/economic development schemes which would require business rate revenues to finance investment.
26. The potential introduction of Local Growth Zones would have allowed growth in specified areas to be retained locally over the longer term and could assist in this regard. The February 2017 100% BRR paper proposes that these zones would allow *“local authorities to establish growth areas which would then allow a proportion of growth in business rates income from that area outside the rates retention system for a specified number of years – i.e. this growth would remain outside the ‘reset’ system”*.
27. Whilst the future of Local Growth Zones is unclear, given there is no longer a local government finance bill to enable them, if a similar mechanism was to be introduced, it may allow authorities to have certainty regarding specific resource flows, which, in turn, could be used to finance investment costs, for example.

Material business rates growth and decline scenarios

28. In order to test how both reset approaches dealt with significant business rates growth and decline, scenarios were run at a local authority level.
29. Under the scenario of a large increase in business rate revenues in 2018/19, the rolling reset incorporated growth into the NNDR Baseline calculation quicker than the fixed period reset, thereby reducing the gain made from growth. The fixed period reset therefore offers the greater incentive to authorities to grow their taxbase (as the rewards would be greater) and the size of the incentive could be increased further by increasing the period between resets.
30. However, as already noted, a problem under both the fixed period reset and rolling reset is that the initial growth was taken into account after five years; with the authority not gaining after the partial reset in 2024/25. Therefore, the potential enabling role of Local Growth Zones (or a similar proposal) in more ambitious larger projects should be considered when evaluating their inclusion in the 100% Business Rates Retention system.
31. Under the scenario of a large decrease in business rate revenues in 2018/19, the rolling reset allowed the authority to move out of the safety net quicker. Under the fixed period reset approach,

the authority remained at the safety net until the partial reset in 2024/25; compared to 2022/23 under the rolling reset approach. Whilst this would not necessarily happen in all instances (even if the scale of the loss was large enough), generally, the result would be expected.

- 32. The rolling reset approach therefore offers the advantage that (i) it reduces safety net payments – which require funding and (ii) by lifting authorities out of the safety net quicker, it restores the incentive to promote business rates growth (as growth below the safety net only offsets the safety net payment).
- 33. However, whether or not the system needs to/should adjust itself more quickly should be considered. Whilst the rolling reset is more likely to lift authorities out of the safety net, by doing so, it also reduces the incentive to maintain business rates income from the existing taxbase. The protection afforded by the safety net also ensures that resource levels cannot go below a certain level.
- 34. So, whilst there are advantages in the system being more responsive to large business rates decline, the extent to which it should remove these losses is questionable.

Summary of Both Approaches

- 35. The table below provides a summary of how the Fixed Period and rolling reset approaches compare against each of the criteria described above.

Table 3 Summary of both approaches against the criteria

Criteria	Fixed Period	Rolling
Simplicity/transparency	The simpler of the two approaches, with less frequent adjustments to NNDR Baselines. Transparent in determining business rate baselines, once subjective decisions on choice of years and the forecast level of national business rates are made.	Similar to the fixed period approach, in that historic data is used to determine future years' resources. . It has the increased complexity/variability of annual changes to the NNDR Baseline.

Criteria	Fixed Period	Rolling
Resource implications for local government	<p>The forecast level of national business rates at the reset will be critical in determining the resources received by local government between resets.</p> <p>The system will not be responsive to macro-economic changes between resets that may influence business rate revenues.</p>	<p>The forecast level of business rates will be determined annually, allowing material variances to be corrected sooner.</p> <p>If needed, the annual reset would allow funding to be shifted from being distributed based upon business rates growth to other spending priorities within local government (e.g. to Baseline Need).</p>
Resource implications for local authorities	<p>The NNDR Baseline for individual authorities will be set (in this case for five years). This will determine their ability to gain from growth (i.e. if above the safety net) and, more crucially, the resources they will receive, relative to Baseline Need, over the five years.</p>	<p>Local authorities are more able to move away from the safety net (and gain from growth).</p> <p>The level of resources received over the period is influenced to a lesser extent by the 2019/20 reset, as more up to date data will be used to determine future years' resources.</p>
Ability to gain from business rates growth	<p>Growth is retained longer, but this is less material than the gains/ losses due to the way the initial business rates baseline is set.</p>	<p>Growth is reflected more quickly in the NNDR Baseline, but the starting position is of lesser importance in determining future years' resources.</p>
Importance of the data selected in determining the future years' position	<p>NNDR Baselines are set for a fixed period, therefore making the data used critical to the starting point of authorities in the scheme (and the level of resources received between resets).</p>	<p>There is a reduced emphasis on the decision regarding data, as NNDR Baselines are updated annually to take into account the latest position.</p>
Large business rates growth	<p>The authority receives a higher level of resources (as the gains are received for longer). But this does not solve the issue of local authorities using longer term business rates revenue stream to</p>	<p>A lower level of resources would be received over the medium term.</p>

Criteria	Fixed Period	Rolling
	fund investment.	
Large business rates decline	Loss not taken into account until the next reset – potentially leaving the authority at the safety net.	Loss taken into account more quickly, potentially reducing safety net payments and restoring the incentive for growth. However, questionable as to whether these outcomes are needed.

36. In summary, the **fixed period reset** is:

- + Simpler;
- + Allows a greater proportion of growth to be retained between resets;
- + Provides greater incentive to maintain the existing business rate taxbase/revenues.

37. The **rolling reset**:

- + Places a lower importance on the data selected at the initial reset;
- + The data used will be more up-to-date over the period;
- + Reduces gains and losses made just as a result of the initial reset;
- + Allows authorities to move from the safety net quicker;
- + Reduces the importance of the national forecast business rate revenues at the initial reset;
- + Offers greater flexibility regarding funding being used to fund other spending priorities.

38. The rolling reset therefore appears to offer more benefits in terms of fairness (i.e. the starting point and the subjective decisions are of lesser importance), but, as with most funding mechanisms, the trade-off between the level of fairness and increased complexity must be decided upon.

1. Introduction

- 1.1. Within the local government business rates retention (BRR) scheme, the determination of the business rates baseline (the level of business rates income local authorities are expected to collect) could be considered to be the most important element in determining an authority's future ability to meet, or exceed, the resources amount initially allocated to it within the Settlement Funding Assessment. The SFA being the level of resources allocated to individual authorities to be funded through the retained element of business rates and Revenue Support Grant.
- 1.2. The current business rates baseline (National Non-Domestic Rates or NNDR Baseline) has been in place since 2013/14 and is due to be updated² through a reset process. Given that the intention of business rates retention is to reward local authorities in promoting economic growth (through retaining growth in business rates income), it is important that resets do not remove this incentive. However, given that the reset process requires a number of decisions, it is also important that the system is periodically adjusted to ensure that all authorities have the ability to gain from promoting growth, whilst removing any anomalies that are potentially leading to material and unjustified gains or losses.
- 1.3. This paper considers the implications of alternative approaches to the reset, focusing on the period of time that elapses between when the NNDR Baseline is adjusted. The two methods considered were (i) a fixed period reset – where a reset would take place every five years and (ii) a rolling reset – where business rates baseline figures would be updated annually.
- 1.4. The paper is set out as follows:
 - Section 2 – Background
 - Section 3 – Methodology used in determining the base data
 - Section 4 – Fixed period reset
 - Section 5 – Rolling reset
 - Section 6 – Comparison of the two approaches

² DCLG, *100% Business Rates Retention - Further consultation on the design of the reformed system, Chapter 2*

2. Background

- 2.1. The concept of a reset within the Business Rates Retention (BRR) system was first introduced in the DCLG paper, “Local Government Resource Review: Proposals for the retention of business rates³”, in July 2011.
- 2.2. The paper highlighted the need for resets to avoid resources becoming too divergent from core service pressures within individual local authority areas. The paper then went on to discuss the issue that is highlighted within the February 2017 DCLG paper, “100% Business Rates Retention - Further consultation on the design of the reformed system⁴” i.e. that the government want to try and achieve a balance between too short a period for reset (which limits the incentive) and too long a period (which increases the level of divergence).
- 2.3. The 2011 paper set out two approaches for determining the timeframe for resets, these being:
- Judgement based approach – *The government, using an objective based assessment, would determine when a reset is required. Government believe that this would strengthen the incentive effect.*
 - Set period for resets – *Resets would be carried out after a set period of years; the period would need to be determined. Government believe that this would provide greater certainty over the period in which gains could be retained.*
- 2.4. The 2011 paper also provided two methods by which the reset could be undertaken:
- A partial reset – Only the baseline would be reset. The paper suggests that this would leave “the income attributable to growth to sit with the authorities that achieved it”.
 - A full reset – reset baselines, taking into account all the business income in the system at the point of reset i.e. all authorities would be set back to zero growth.
- 2.5. For the purposes of this paper, what is meant by full and partial reset is set out below.

³ <https://www.gov.uk/government/consultations/business-rates-retention>

⁴ <https://www.gov.uk/government/consultations/100-business-rates-retention-further-consultation-on-the-design-of-the-reformed-system>

- **Full Reset** – The business rates baseline for the reset year is set at the forecast level of business rates income for that year – thereby removing all existing growth from the system. This growth could then be used in two ways:
 - Method 1 - Full Reset – Growth to be retained by local government via Baseline Need – The level of resources distributed via the relative needs formula would be increased by the change in the level of the business rates baseline – this would distribute growth based on the calculated relative need of local authorities.
 - Method 2 - Full Reset – Growth retained by DCLG – The level of funding streams rolled into the 100% business rates retention system would be increased by the change to the business rates baseline (thereby increasing Baseline Need – but crucially, also increasing the responsibilities that it is required to support).
- **Partial Reset** – Under the plans outlined in the paper, a proportion of the growth achieved by individual local authorities would be retained, whilst those that are below their baseline (i.e. negative growth) would see a reduction in baselines. The remainder of the growth would be placed in a pot and distributed as required – this is taken to mean via Baseline Need, but could equally mean via targeted specific grants, or potentially used in a similar way to the “Full Reset – Growth to DCLG” approach above.

- 2.6. The 2017 paper also indicated that a five-year period between resets received the largest support of those that responded to the previous 2016 consultation paper. This five-year reset could also see the level of need being re-calculated at the same time, thus meaning that authorities’ Baseline Need and NNDR baseline would be updated every five years. It is important to note at this stage that, whilst a similar timetable (i.e. every five years) is being considered for both the future review of need and the reset, they do not have to occur at the same time. Therefore, whilst there may be some advantages of updating both elements together (there are also potential disadvantages), if circumstances dictated that one would be better suited to an alternative frequency, this would not be problematic.
- 2.7. The 2017 paper also states, “we recognise that resetting the needs formula every five years could result in significant changes of income for some local authorities, so intend to explore the introduction of transitional arrangements after a reset”. This approach of “damping” changes to relative need was an ongoing feature of the local government finance system prior to the introduction of business rates in 2013/14. Indeed, the relative need amounts that have been used since 2013/14 to distribute Settlement Funding Allocations (SFA) still include damping from the 2013/14 determination of relative need that have never been “unwound”.
- 2.8. It could be argued that, in recognising the potential need for damping, to avoid stepped changes in Baseline Need, it should also be necessary to reflect transitional arrangements for the NNDR baseline figure also. An authority’s net funding is dependent on these two independent variables, and therefore, changing either of them would have the same bearing on the resources received i.e. a decrease to Baseline Need of £1m or an increase to NNDR Baseline of £1m could have the same resource implications for an authority.

- 2.9. A potential method of limiting the level of stepped changes to the NNDR Baseline figure is the use of a rolling reset period. Under this approach, the NNDR Baseline would be recalculated annually to take into account the latest available data. The impact of a rolling reset compared to that of a fixed period reset will be assessed in this paper.
- 2.10. In comparing these two approaches, the period 2020/21 to 2024/25 will be used, with the same reset methodology being used for both approaches in 2019/20. Initially, the analysis was going to base 2019/20 on the full reset approach (Method 1 above – with the growth being added to Baseline Need); this was based upon what is felt most likely to happen at the first reset. However, this was changed to a partial reset (with 30% retained by local authorities within the business rates retention scheme), due to the outcomes the full reset provided, where it was felt too many authorities would be below Baseline Need in future years (see para 3.24).
- 2.11. Should an alternative reset approach be used for 2019/20 (e.g. a full reset), it would not be expected to impact on the findings of this paper, as the paper is comparing what happens after the point of the first reset (to the next reset), rather than the implications of the first reset. In addition, if the first reset was delayed by a year (to 2020/21), this again would not have an impact on the findings of this paper, as the focus is on what happens in the five years after the first reset, irrespective of what year that is in.

100% Business Rates Retention and the Reset

- 2.12 The move to 100% business rates retention was originally expected to take place in 2019/20 and was to be enabled through a local government finance bill. This report assumes that any reset would also take place in 2019/20, to coincide with the introduction of 100% business rates retention.
- 2.13 As there is now no longer a local government finance bill, the future of 100% business rates retention is currently unclear. Whilst it is possible that there could be movement towards 100% nationally (e.g. through further increases to the local share), it is likely that 100% business rates retention will not happen in the short term. It is therefore reasonable to assume that there will be no stepped change to the scheme in 2019/20 (i.e. from 50% to 100% retention).
- 2.14 The analysis within this report is based upon 100% business rates retention, and so, if this did not take place, the figures would need to be scaled down by half, to reflect the existing 50% scheme. However, the findings of the report in relation to the proximity of authorities to NNDR Baseline and related amounts would still hold, and these would also not be affected by any potential delay in the introduction of the reset (i.e. later than 2019/20), as they are concerned with how the system deals with baseline change after the first reset, irrespective of when that year is.

3. Determining the Base Data

- 3.1. In order to assess the potential implications of the fixed versus rolling reset approaches, it is first necessary to determine a base data set. This data can then be rolled forward in order to assess the redistributive impact of the respective approaches.
- 3.2. There are two main data sets for local authority business rates data, these being:
- NNDR1 – This is completed in January each year by local authorities, forecasting business rate income levels for the forthcoming year and updating the previous year’s projection of the current year’s income. For example, the 2017/18 NNDR1 was completed in January 2017 and provided a forecast for 2017/18 business rates income and an update on 2016/17 business rates income levels.
 - NNDR3 – This is completed in April each year and sets out the actual business rates collected for the preceding year. For example, the 2015/16 form was completed in April 2016, showing the amount of business rates collected for 2015/16.
- 3.3. As the business rates retention scheme started in 2013/14, data prior to this date has not been considered for this analysis. This decision is based upon the fact that changes to the respective forms and accounting practices since the start of the scheme would make data pre-2013/14 difficult to use.
- 3.4. As at April 2017, the following years’ data was available at a local authority level.
- 2013/14 – NNDR3 – Actuals
 - 2014/15 – NNDR3 – Actuals
 - 2015/16 – NNDR3 – Actuals
 - 2016/17 – NNDR1 – In-year forecast as at January 2017
 - 2017/18 – NNDR1 – Forecast as at January 2017 for the following year
- 3.5. Since the start of the business rates retention scheme, NNDR1 forecast business rates income levels have been higher than actual income levels nationally⁵. Discussions with stakeholders suggest that this is due in part to their being unfamiliar with the forms, but mainly due to underestimating the number of business rates appeals (based on the 2010 revaluation) that continued to be lodged since the start of the scheme in April 2013.
- 3.6. However, it is felt that it is acceptable to use the updated 2016/17 estimate (as per January 2017), due to the increased familiarity with the forms and process locally and the decreasing value of outstanding appeals from the 2010 revaluation.

⁵ The deficit for the total of all local authority collection funds has increased each year since the start of the scheme, rising from £1.1bn, in the 2013/14 accounts, £1.4bn for 2014/15 and was £1.6bn for 2015/16. A deficit represents the amount forecast is higher than the amount collected.

- 3.7. The analysis is not going to use 2017/18 projections, due to complications arising from Revaluation 2017 (effective April 2017), including:
- The January projections were completed on the provisional lists, the final list was not prepared until the end of March 2017.
 - There was a lack of consistency/understanding as to how the provision for appeals on the 2017 list should be calculated.
 - Subsequent to the form, the government announced plans to nationalise the process for dealing with appeals; with further details needed in order to understand the process that will underpin this change.
- 3.8. Using data from the period 2013/14 to 2016/17, it is possible to determine the actual (2013/14 to 2015/16) and forecast (2016/17) position of each authority against its target business rate figure (NNDR Baseline). The target figure for each authority was initially set at the start of the business rates retention scheme in 2013/14, based upon two years' worth of data (2010/11 and 2011/12) and the estimated business rates income nationally for 2013/14 (adjusted for the forecast cost of appeals). For subsequent years, NNDR Baselines have been increased in line with the annual inflationary increase to the business rates multiplier only.
- 3.9. The relative position of each authority during the period 2013/14 to 2016/17 is to be used as a starting point for this analysis. In undertaking the analysis, a number of further assumptions are necessary. These assumptions and the reasoning for each is set out below.

Assumptions within the analysis

- **Enterprise Zones and Renewable Energy** – Excluded from the analysis, as income from these elements of the business rates retention scheme are outside the scope of a reset.
- **Inflation/Multiplier increases** – Assumed at 0% from 2016/17 onwards, for ease of comparison between years.
- **100% Business Rates Retention** – It is assumed that the responsibilities rolled in will be equal to the additional 50% of business rates retained (and that the central list will continue to be excluded). This will mean the “as is” position for 2019/20 will be updated with, initially, the doubling of all authorities Baseline Need and NNDR baseline amounts (see Tier Splits below).
- **Levy** – There would be no levy on local authority gains above the business rates baseline following the reset/introduction of 100% BRR, as per previous government announcements.
- **Safety Net** – The safety net would be set to 97% of Baseline Need as per the 2017/18 Pilot arrangements.

- **Pooling** – The impact of pools (existing or future) has not been factored into the analysis. Without the impact of the levy, pooling under its current form would no longer be needed. The February 2017 100% BRR paper sets out proposals for pooling beyond the reset, but not in sufficient detail to allow their inclusion within the modelling. However, the proposed inclusion of Local Growth Zones (or a similar proposal, given there is no longer a local government finance bill to support their introduction) for pooling areas is covered with the issue of excluding growth from the reset.
- **Tier splits** – Existing tier splits will remain for all areas, aside from districts and county areas, which will see the split changed from 40% districts/10% counties to (including the new 50% from 100% BRR) 20% districts and 80% counties (with fire authorities retaining their 1% share of the county share, where appropriate). This is based on the February 2017 100% BRR consultation paper, indicating the government's desire to reduce gearing (the ratios of NNDR Baseline to Baseline Need). A reduction in gearing may also help to reduce the level of windfall gains received by district councils, which, after the introduction of 100% BRR, will no longer be subject to the levy.
- **In-year local authority business rates income for 2017/18 onwards** – Business rates income for individual authorities will be based on 2016/17 income levels. However, in order to reflect the variable nature of in-year income (albeit, this characteristic should be less pronounced with the nationalisation of appeals), individual authority income will be subject to a random element of change within boundaries of +/- 3% (to reflect the variable nature of business rates), with an additional 0.5% to reflect growth in the taxbase nationally. The figure of +/-3% variation was arrived at after discussions with local authority officers. It reflects a view that there will be less volatility in future years through the nationalisation of appeals (the most volatile factor in business rates income). It was felt that examining previous volatility at a local authority level would not be a good indicator of future years' volatility; given that previous years' volatility includes the appeals being provided and paid for locally.

3.10. Using the assumptions above, a forecast level of business rates income was determined for individual authorities. The sum of these amounts provided a national business rates income forecast.

3.11. The table below shows the resulting national business rates income figures for the period 2013/14 to 2024/25 against the current NNDR baseline amounts. It should be remembered that:

- There is no inflation increase to the NNDR Baseline from 2016/17
- The doubling of the baseline in 2019/20 reflects 100% business rates retention being introduced
- The figures to 2015/16 are the actual business rate collected by authorities
- The 2016/17 figure represents the latest forecast position for 2016/17 as at January

2017

- The figures for 2017/18 onwards are generated based upon the assumptions outlined above regarding in-year variances at a local authority level i.e. each authority, for each year, had an assumed random change in business rates between -2.5% and +3.5%. They **do not** reflect forecast actual business rates income.

3.12. The table below shows that the base data assumes that business rates income will be £1.940bn above baseline (+8.5%) at the start of the 100% Business Rates Retention scheme, increasing to £2.527bn by 2024/25 (+11.1%). Again, it is important to remember that the figures for 2017/18 onwards have been generated for modelling purposes only and are not intended to represent an actual forecast (i.e. they do not include inflation or take into account economic predictions over the period).

Table 3.1 – Base data – Business Rates income vs. Baseline

Year	NNDR Baseline £m	Actual / Forecast NNDR Income £m	Variance to Baseline £000 £m	Variance to Baseline %
2013/14	10,888	10,679	(209)	(1.9%)
2014/15	11,100	11,160	60	0.5%
2015/16	11,312	11,596	284	2.5%
2016/17	11,406	12,001	594	5.2%
2017/18	11,406	12,198	791	6.9%
2018/19	11,406	12,326	920	8.1%
2019/20	22,813	24,753	1,940	8.5%
2020/21	22,813	24,856	2,043	9.0%
2021/22	22,813	24,902	2,089	9.2%
2022/23	22,813	25,119	2,306	10.1%
2023/24	22,813	25,201	2,388	10.5%
2024/25	22,813	25,340	2,527	11.1%

3.13. At this stage, it is also worth noting the impact of revising the tier splits. Based on the individual authority figures for 2019/20 (prior to the reset and including the levy), it is possible to compare the percentage amount above Baseline Need distribution using the existing split of 10% county councils and 40% districts (at 50% BRR), against the split used within the modelling of 80% county councils and 20% districts (at 100% BRR).

3.14. Table 3.2 below shows that, of the 384 authorities nationally, 157 would be more than 15% above Baseline Need using the existing splits. However, this number would drop to 40 using the revised split. Similarly, the number of authorities between 0% and 9% above baseline increases under the revised split from 147 to 246.

3.15. This reduction in the number of authorities with significant gains above Baseline Need is due to the gearing for districts being reduced (i.e. the ratio of NNDR baseline to Baseline Need). In the absence of the levy post 2019/20 to limit these large gains above baseline, a reduction to gearing would appear to be necessary and therefore a reasonable assumption for this

analysis.

- 3.16. Reducing the gearing of authorities also reduces the risk of safety net payments being required, as a greater percentage reduction in business rates income is required before a safety net payment is triggered.

Table 3.2 – Proximity to Baseline Need – existing and revised tier splits

Range of Variance to Baseline Need			Number of authorities	
			Existing Split	Revised Split
30%	+		84	7
27%	to	30%	15	1
24%	to	27%	8	5
21%	to	24%	19	2
18%	to	21%	12	8
15%	to	18%	19	17
12%	to	15%	24	22
9%	to	12%	25	45
6%	to	9%	35	80
3%	to	6%	60	105
0%	to	3%	52	61
-3%		0%	31	31

2019/20 Reset

- 3.17. Using the base data from the period 2013/14 to 2017/18, a reset was undertaken for 2019/20. This reset was initially undertaken using the following approach:

The average share of the national business rates income over the period 2013/14 to 2017/18 will be determined for each authority. This figure is based upon the business rates income figure for safety net/levy purposes (prior to the top up/tariff amount being added) and is expressed as a percentage amount.

A = Average share of national business rates income 2013/14 to 2017/18

This percentage figure is then applied to the forecast amount of business rates collected in 2019/20. Initially, the new 2019/20 national NNDR baseline is based upon 0% of the growth being retained by local authorities in the NNDR baseline⁶. This would be based on the following:

B = Existing national 2019/20 NNDR baseline

C = Forecast 2019/20 Business Rates income⁷

D = Forecast variance (growth) to 2019/20 NNDR Baseline

⁶ For simplicity, it is assumed the removed funding will be used outside of the business rates retention system in a new funding stream. Therefore, there is no increase to Baseline Need. This results in a net tariff collected by DCLG, which would be used to finance other priorities.

Where **D = C Minus B**

E = New 2019/20 national baseline

E = B + 100% of D

This would mean that, for an individual authority, its new 2019/20 NNDR Baseline would be:

F = New Individual authority NNDR Baseline 2019/20

F = A x E

The figures below show the impact of this reset:

2019/20 NNDR Baseline – prior to the reset (**B** above) = £22.813bn

Forecast Business Rates income 2019/20 (**C** above) = £22.753bn

Variance - growth above baseline (**D** Above) = £1.940bn

2019/20 Revised NNDR Baseline – post-reset = £22.753bn

- 3.18. As would be expected from increasing NNDR baselines by £1.940bn, this alters the distribution of authorities' position relative to their Baseline Need amounts. Using the figures (revised split) from Table 3.2 above as the base position, the change in proximity to Baseline Need as a result of the reset can be seen in Table 3.3 below. In order to compare like with like, an additional column has been added showing the distribution of authorities for 2019/20 without a levy being applied. Without this adjustment, it would not be possible to compare the figures, as percentage gains for tariff authorities in the 2019/20 column of Table 3.2 are reduced, due to the levy.

Table 3.3 – Proximity to Baseline Need – Pre- and Post-Reset 2019/20

Range of Variance to Baseline Need			Number of authorities		
			No Reset	No Reset No Levy	Reset
30%	+		7	29	3
27%	to	30%	1	6	2
24%	to	27%	5	6	1
21%	to	24%	2	20	1
18%	to	21%	8	12	1
15%	to	18%	17	32	2
12%	to	15%	22	35	3
9%	to	12%	45	51	10
6%	to	9%	80	59	26
3%	to	6%	105	61	30
0%	to	3%	61	42	76
-3%		0%	31	31	229

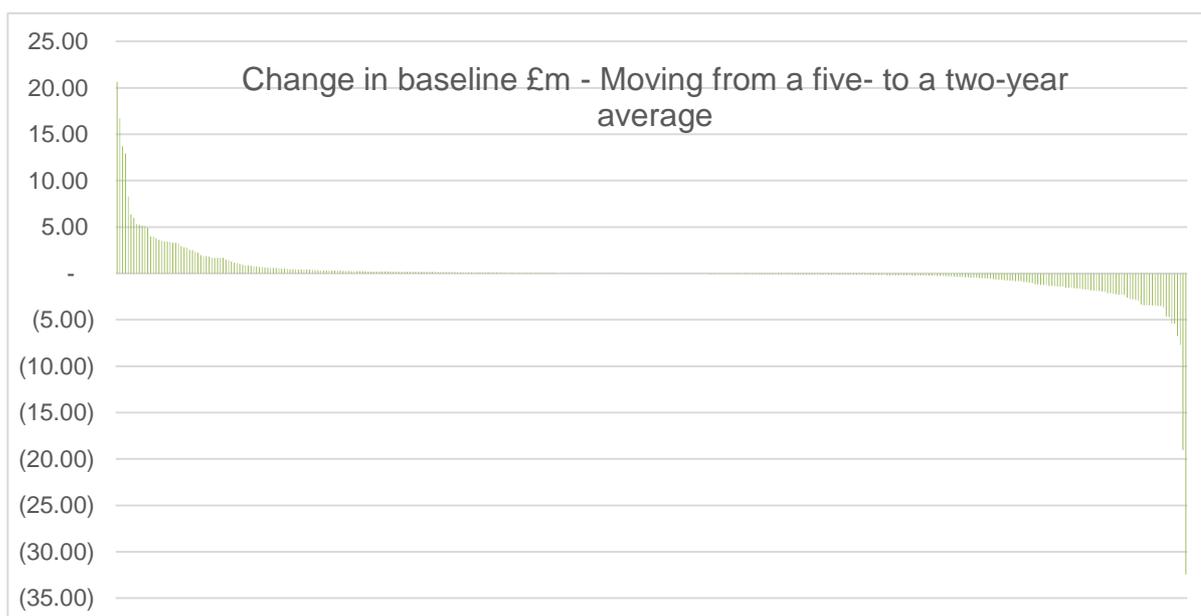
3.19. The table shows that the number of authorities forecast to be between -3% and +3% of Baseline Need (shaded rows) increases from 73 to 305 as a result of the reset. It also shows the number of authorities with gains above 9% reduces from 191 to 23. However, the table also highlights a problem with this type of reset. Whilst, at a national level, forecast business rates = NNDR baseline, at a local level, there will continue to be variances. In this instance, for the 384 authorities, 229 are forecast to be below Baseline Need. These variances exist because:

- (i) The individual authority NNDR baselines are set on historic collection amounts – it is not possible to set in advance a baseline that will equal actual business rates income.
- (ii) Even if (i) was possible, this would remove the growth incentive for that particular year.
- (iii) Setting a baseline over a five-year average results in prior years being taken into account that no longer reflect the current position e.g. previous high or low income years
- (iv) However, if more recent years were used only e.g. the last two (as they are more relevant), there is a danger that one-off occurrences (e.g. large appeals being paid) have too great an influence on future years.

3.20. In order to illustrate why authorities are above/below the baseline, due to the reset, two examples of how variance to Baseline Need for two authorities are shown in **Appendix B**.

- 3.21. Whilst the sum of all authorities' variance to Baseline Need is £0, this reflects the sum of all authorities above and below their Baseline Need amount. The outcome of the above Reset shows the weakness of using a straight 5-year average (i.e. it gives equal weighting to years that are less representative of the current position). This could be overcome by using more recent years only (as was the case in 2013/14). However, this can potentially also lead to difficulties in relation to one-off events in those years having a significant impact on future years' position. Alternatively, a higher level of weighting could be given to the most recent years.
- 3.22. There is therefore a trade-off between the stability of average income based on a higher number of years versus using only more recent years that will be (in most instances) more likely to better reflect future business rates income.
- 3.23. This decision will have significant implications at a local authority level, with the potential to leave individual authorities with very different starting positions, post-reset. To illustrate this point, an alternative reset was undertaken using only 2016/17 and 2017/18 data (as opposed to 2013/14 to 2017/18). Figure 3.1 below shows the resulting change in baseline for individual authorities of moving from five years to the two years' data.

Figure 3.1 – Change in baseline from a five-year to two-year average



- 3.24. The chart shows that, for some authorities, there would be significant changes to their NNDR Baseline e.g. an increase of £20m for one metropolitan authority and a decrease of £19m for another. This would result (if not altered for five years) in a reduction in resources for the authority with the increase to its baseline of £100m, purely due to the reset methodology i.e. it would still have the same taxbase and collect the same income, but it would now be assumed to need to collect an additional £20m per annum in order to achieve its Baseline Need resources level (as its top up would be reduced by £20m).

- 3.25. Whilst these two authorities were the highest and lowest changes (in cash terms) of the 384

authorities, 172 had a change to their baseline greater than +/- 2%. The issue of the number of years data used will therefore be critical in determining the relative potential for individual authorities to gain or lose from the scheme (in terms of being above NNDR Baseline) post-reset.

3.26. It should also be remembered that this analysis was able to access perfect information regarding the national business rates to be collected for the reset year. DCLG will only be able to use prior years' actuals in order to forecast this amount. Given that even using the exact amount led to significant variances to Baseline Need for authorities (despite the intention of a reset being that it aligns business rate targets with income), DCLG face a significant challenge in delivering a reset that will broadly align NNDR Baselines with the amount that can be collected locally.

Amending the 2019/20 reset approach

3.27. Whilst it was the intention initially to use the full reset approach for 2019/20 as the starting point for the analysis, it was felt that the approach should be refined because:

- It resulted in 229 of the 384 authorities receiving less resources than their Baseline Need amounts (i.e. their NNDR baseline was higher than forecast business rates income).
- It left 125 authorities on the safety net, meaning that not all future growth would be retained (i.e. growth would initially only be offsetting safety net payments).

3.28. Therefore, instead of 100% of the forecast growth being used to fund other priorities, such as Baseline Need, only 70% was removed, with 30% left within the business rates retention scheme. The decision to use 70% as the amount taken was based upon its impact within the data set used. A worked local authority example is shown in **Appendix A**.

3.29. The change distribution of authorities compared to Baseline Need for 2019/20 as a result of this revised reset approach is shown in Table 3.4 below.

Table 3.4 – Proximity to Baseline Need – Amended Pre- and Post-Reset 2019/20

Range of Variance to Baseline Need			Number of authorities		
			No Reset No Levy	100% Growth taken	70% Growth taken
30%	+		29	3	7
27%	to	30%	6	2	-
24%	to	27%	6	1	1
21%	to	24%	20	1	2
18%	to	21%	12	1	2
15%	to	18%	32	2	6
12%	to	15%	35	3	10
9%	to	12%	51	10	26
6%	to	9%	59	26	27
3%	to	6%	61	30	55

0%	to	3%	42	76	110
-3%		0%	31	229	138

3.30. The implications of this change are as follows:

- (i) There is a reduction in the resources that can be used by DCLG to fund other priorities (e.g. added to Baseline Need) from £1,940m to £1,358m.
- (ii) The number of authorities that are forecast to have 2019/20 business rate income below baseline reduces from 229 to 138.
- (iii) The number of authorities receiving safety net payments in 2019/20 reduced from 125 to 53.
- (iv) The forecast safety net payments for 2019/20 reduced from £125m to £30m.

3.31. Table 3.5 below provides a summary of these changes:

Table 3.5 – Implications of the 2019/20 and revised 2019/20 Reset

	No Reset No Levy	100% Growth taken	70% Growth taken
Authorities > 9% Growth (LAs)	191	23	54
Amount retained if growth > 9% (£m)	£1,352	145	342
Below Baseline Need (LAs)	31	229	138
In the Safety Net (LAs)	9	125	53
Cost of Safety Net (£m)	£14m	£115m	£30m
Growth Retained by Local Gov (£m)	£1,940m	£0	£582m
Growth taken from BRR (£m)	£0	£1,940m	£1,358m

3.32. The revised reset for 2019/20 will therefore be used as the starting point to compare the fixed period reset and rolling reset methodologies.

[Gains from baseline methodology vs. gains from growth](#)

3.33. This analysis also highlights the potential for the baseline methodology to potentially be of greater consequence than business rates growth. After four years of business rates retention, the growth nationally above baseline was 5.2%, an average per annum of 1.3%. Whilst there was more than a 2% variation in baseline for 172 authorities, just by using two years' instead of five years' worth of data to determine the NNDR Baseline.

3.34. This raises a key issue in the approach to the reset i.e. if it is assumed that a high proportion of variation (to baseline) is due to the methodology that set the baseline and not local growth, it is potentially less contentious to take a higher proportion of growth of individual authorities during a reset, as a significant proportion of it may be due to the previous reset methodology

anyway. However, if a higher proportion of growth was taken from individual authorities at resets, it reduces the longer term incentive for growth. The extent to which the gains from resets and growth are retained are therefore considered for the fixed period reset and rolling reset methodologies.

Fixed vs. rolling reset

3.35. Using the partial reset for 2019/20 as the starting position, this report now considers how the fixed period (Section 4) and rolling (Section 5) reset methodologies would be applied to the base data for the period 2020/21 to 2024/25. This would mean that for the:

- Fixed period reset : A second reset would take place in 2024/25 – five years after the first
- Rolling reset : An annual reset would take place for the period 2020/21 to 2024/25

3.36. In assessing the relative merits of the two approaches, the following criteria will be considered:

- (i) Simplicity/transparency
- (ii) Resource implications for local government overall
- (iii) Resource implications for individual local authorities
- (iv) Ability for local authorities to gain from business rates growth
- (v) Importance of the data selected in determining the future years' position

3.37. In addition to the analysis of the implications for all authorities of the two approaches, two outlier scenarios have been created to see how the respective approaches deal with:

- (vi) An authority with large business rates growth in 2018/19 – for example, the creation of a new shopping centre.
- (vii) An authority with large business rates decline in 2018/19 – for example, the loss of a major ratepayer.

3.38. These two scenarios will be examined to see how resource levels alter locally following the change in events, identifying how quickly the system erodes gains or counteracts losses.

3.39. In both instances, the same unitary authority has been chosen, with the material change being made in 2018/19 i.e. so income levels will be different for the reset in 2019/20, but the baseline will not immediately reflect the change (as the data used for the 2019/20 reset was for the period 2013/14 to 2017/18).

4. Fixed Period Reset

- 4.1. The approach for the fixed period reset 2024/25 used the same methodology as the initial reset for 2019/20, as outlined in para. 3.17. This is based on the information regarding DCLG's view of a partial reset, as per the February 2017 technical paper.
- 4.2. The partial reset in 2024/25 was set at 50% i.e. the amount of resources retained by local government within the business rates rate retention scheme was 50% of the forecast amount above the business rates baseline.
- 4.3. The fixed period reset approach therefore used the following reset timetable:

2019/20 – Partial Reset @ 30% retained - Data used in the reset 2013/14 to 2017/18

2024/25 – Partial Reset @ 50% retained – Data used in the reset 2018/19 to 2022/23

Results – all authorities

- 4.4. The table below shows the position of all authorities against Baseline Need for the period 2019/20 to 2024/25 using:
- 2019/20 reset, as outlined in Section 3
 - Business rates income change 2019/20 to 2024/25 as per the base data outlined in Section 3
 - A partial reset for 2024/25, with 50% of the forecast growth retained by local government.

Table 4.1 – Local Authorities % Variation to Baseline Need 2019/20 to 2024/25 under a Fixed Period Reset

Range	Number of Authorities					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
30%+	7	6	6	10	13	-
27% 30%	-	2	2	4	4	-
24% 27%	1	7	7	6	1	-
21% 24%	2	3	3	4	7	5
18% 21%	2	7	7	7	10	3
15% 18%	6	12	12	9	12	5
12% 15%	10	7	7	20	18	15
9% 12%	26	24	24	28	29	25
6% 9%	27	41	41	36	41	35
3% 6%	55	61	61	66	56	61
0% 3%	110	81	81	72	79	125
-3% 0%	138	133	133	122	114	110

4.5. In order to better understand the implications of how the BRR scheme would function over the period 2019/20 to 2024/25, the table below shows the key figures. Its starting point (i.e. figures for 2019/20) are taken from Table 3.5.

Table 4.2 – Key figures using the Fixed Period Reset Methodology 2019/20 to 2024/25

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Authorities > 9% Above Baseline Need	54	58	68	88	94	53
Amount retained if > 9% (£m)	342	373	455	662	726	221
Below Baseline Need (LAs)	138	133	133	122	114	110
In the Safety Net (LAs)	53	56	51	57	56	36
Cost of Safety Net (£m)	30	33	38	58	47	50
Growth Retained by Local Gov (£m)	582	685	731	948	1,030	584
Growth taken from BRR (£m)	1358	1358	1358	1358	1358	1942

4.6. The table shows that:

- Following the 2019/20 reset, there are 54 authorities with resources greater than 9% of Baseline Need. This number increases to 94 by 2023/24 (with the overall growth +0.5% and the variability of authorities business rates income of +/- 3%), but then is reduced back to 53 for the 2024/25 reset.
- The value of resources gained above Baseline Need by these authorities increases from £342m in 2019/20 to £726m by 2023/24.
- For 2019/20, there are 138 authorities below Baseline Need. This number reduces each year (as income is increasing in overall terms due to the allowed for growth), with 114 being below Baseline Need in 2023/24, the final year before the 2024/25 reset. Following this second reset (where 50% of the growth was retained by local government), 110 authorities are below Baseline Need.
- There are 53 authorities that qualify for the safety net in 2019/20, at a cost of £30m. This number remains stable over the period between resets, with 56 in 2023/24 at a cost of £47m. The total cost of the safety net in the years between resets i.e. 2020/21 to 2023/24 was £175m.
- Of the original 53 below the safety in 2019/20, 27 were still at the safety net in 2023/24 and 7 in 2024/25. Examining the change in income of these 7 authorities showed that, over the period 2019/20 to 2024/25, they had overall decline in business rates income and, therefore, using an average income at the reset would lead to a baseline higher than the 2024/25 position.

- The amount of resources above Baseline Need increased from £582m in 2019/20 to £1,030m in 2023/24, reducing back down to £584m in 2024/25. The amount of resources available to DCLG to fund other priorities remains at £1,358m per annum over the period 2019/20 to 2023/24 (total of £6.8bn), with a further £1,942m in 2024/25.

Scenario Analysis

4.7. Two additional scenarios have been modelled under the fixed period reset; these being:

Scenario 1 – Growth authority – £5m Increase in business rates revenue in 2018/19

Scenario 2 – Authority in decline – £5m decrease in business rates revenue in 2018/19

4.8. For consistency, the same authority was used to model both scenarios. In each case, there was a £5m change in business rate revenue for 2018/19 (that would not be reflected in the 2019/20 reset). The £5m change then becomes a £10m change (assuming the introduction of 100% BRR in 2019/20, as the local share would increase from 50% to 100%).

Scenario 1 – Growth in NNDR

4.9. The position of the authority against Baseline Need as a result of the £5m increase in 2018/19 over the period 2018/19 to 2024/25 is summarised in Table 4.3 below.

Table 4.3 Resources received from a £5m increase to business rates income under the Fixed Period Reset

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Business Rates Collected	52.8	102.8	102.3	102.8	102.3	102.8	101.4
Plus Top Up / (Tariff)	31.4	57.3	57.3	57.3	57.3	57.3	46.6
Equals	84.2	160.0	159.6	160.0	159.6	160.0	147.9
Baseline Need	74.7	149.3	149.3	149.3	149.3	149.3	149.3
Variance	9.5	10.7	10.2	10.7	10.2	10.7	(1.4)
Variance %	12.8%	7.2%	6.9%	7.2%	6.9%	7.2%	-0.9%

4.10. The Table shows that:

- The initial £5m increase results in the authority being £9.5m above baseline for 2018/19 (the authority was already £4.5m above baseline prior to the £5m increase).
- Following the reset in 2019/20, the majority of the previous growth of £4.5m has been lost (with only £0.7m remaining). The £5m growth in 2018/19 is now worth £10m, due to assumed 100% BRR, leaving the authority £10.7m above baseline.
- The authority remains at least £10.2m above baseline (allowing for in-year volatility) each year up to, and including, 2023/24.

- It has therefore received an additional five years' worth of growth (£50m in resources) over the period 2019/20 to 2023/24, from the increase to its business rates revenues.
- In 2024/25, as the NNDR Baseline is now set using data from 2018/19 to 2022/23, the additional £10m is included each year and therefore the authority now has a baseline in line with the resources it collects.

Scenario 2 – Decline in NNDR

4.11. The position of the authority against Baseline Need as a result of the £5m decrease in 2018/19 over the period 2018/19 to 2024/25 is summarised in Table 4.4 below.

Table 4.4 Resources received from a £5m decrease to business rates income under the Fixed Period Reset

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Business Rates Collected	42.8	82.8	82.3	82.8	82.3	82.8	81.4
Plus Top Up / (Tariff)	31.4	57.3	57.3	57.3	57.3	57.3	66.4
Plus Safety Net	-	4.8	5.3	4.8	5.3	4.8	-
Equals	74.2	144.8	144.8	144.8	144.8	144.8	147.8
Baseline Need	74.7	149.3	149.3	149.3	149.3	149.3	149.3
Variance - Pre Safety Net	(0.5)	(9.3)	(9.8)	(9.3)	(9.8)	(9.3)	(1.5)
Variance % - Pre Safety Net	-0.6%	-6.2%	-6.5%	-6.2%	-6.5%	-6.2%	-1.0%
Variance - After Safety Net	(0.5)	(4.5)	(4.5)	(4.5)	(4.5)	(4.5)	(1.5)
Variance % - After Safety Net	-0.6%	-3.0%	-3.0%	-3.0%	-3.0%	-3.0%	-1.0%

4.12. The Table shows that:

- The £10m reduction in 2019/20 leaves the authority £9.3m below Baseline Need (prior to the Safety Net), and £4.5m after the Safety Net Payment.
- This position of a £4.5m loss per annum is maintained to 2023/24.
- Following the partial reset in 2024/25, the authority is left £1.5m below Baseline Need, but out of the Safety Net.
- The total loss in resources to the authority of the reduction is calculated at £25.0m (compared to no reduction occurring).

5. Rolling Reset

5.1. As per the fixed period reset approach, the approach for the rolling reset will be based on the 30% partial reset for 2019/20, as outlined in para. 3.17.

5.2. In order to compare the two approaches on a similar basis, the rolling reset approach will not remove any of the local government growth for the resets in 2020/21 to 2023/24 and then use the same 50% partial reset (as per the fixed period reset), in 2024/25. Of course, an option under a rolling reset is to take a proportion of the growth each year, rather than periodically. However, for the purposes of this analysis, the amount taken will remain the same under both approaches.

5.3. The rolling reset approach therefore used the following reset timetable:

2019/20 - Partial Reset @ 30% retained - Data used in the reset 2013/14 to 2017/18

2020/21 – Partial Reset @ 100% retained - Data used in the reset 2014/15 to 2018/19

2021/22 – Partial Reset @ 100% retained - Data used in the reset 2015/16 to 2019/20

2022/23 – Partial Reset @ 100% retained - Data used in the reset 2016/17 to 2020/21

2023/24 – Partial Reset @ 100% retained - Data used in the reset 2017/18 to 2021/22

2024/25 - Partial Reset @ 50% retained - Data used in the reset 2018/19 to 2022/23

Results – all authorities

5.4. The table below shows the position of all authorities to Baseline Need for the period 2019/20 to 2024/25 using:

- 2019/20 reset, as outlined in Section 3
- Business Rate income change 2019/20 to 2024/25, as per the base data outlined in Section 3
- A rolling reset for 2020/21 to 2024/25, with 100% of the growth retained by local government up to 2023/24 and 50% retained in 2024/25.

Table 5.1 – Local Authorities % Variation to Baseline Need 2019/20 to 2024/25 under a Rolling Reset

Range	Number of Authorities					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
30%+	7	6	6	10	13	-
27% 30%	-	2	2	4	4	-
24% 27%	1	7	7	6	1	-
21% 24%	2	3	3	4	7	5
18% 21%	2	7	7	7	10	3
15% 18%	6	12	12	9	12	5
12% 15%	10	7	7	20	18	15
9% 12%	26	24	24	28	29	25
6% 9%	27	41	41	36	41	35
3% 6%	55	61	61	66	56	61
0% 3%	110	81	81	72	79	125
-3% 0%	138	133	133	122	114	110

5.5. In order to better understand the implications of how the BRR scheme would function over the period 2019/20 to 2024/25, the table below shows the key figures. Its starting point (i.e. figures for 2019/20) are taken from table 3.5.

Table 5.2 – Key figures using the Rolling Reset methodology 2019/20 to 2024/25

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Authorities > 9% Above Baseline Need (LAs)	54	55	57	75	88	53
Amount retained if > 9% (£m)	342	263	244	361	428	221
Below Baseline Need (LAs)	138	92	92	73	70	110
In the Safety Net (LAs)	53	40	24	23	17	36
Cost of Safety Net (£m)	30	17	22	26	11	50
Growth Retained by Local Gov (£m)	582	685	731	948	1,030	584
Growth taken from BRR (£m)	1358	1358	1358	1358	1358	1942

5.6. The table shows that:

- Following the 2019/20 reset, there are 54 authorities with resources greater than 9% of Baseline Need. This number increases to 88 by 2023/24 (with the overall growth +0.5% and the variability of authorities business rates income of +/- 3%), but then is reduced back to 53 authorities for the 2024/25 reset.
- The value of resources gained above Baseline Need by these authorities increases from £342m in 2019/20 to £428m by 2023/24.
- For 2019/20, there are 138 authorities below Baseline Need. This number reduces each year (as income is increasing in overall terms due to the allowed for growth), with 70 being below Baseline Need in 2023/24, the final year before the 2024/25 reset. Following this second reset (where 50% of the growth was retained by local government) 110 authorities are below Baseline Need.
- There are 53 authorities that qualify for the safety net in 2019/20, at a cost of £30m. This number reduces year on year, with 17 by 2023/24, at a cost of £11m.
- Of the original 53 authorities below the safety in 2019/20, 6 were still at the safety net in 2023/24 and 7 in 2024/25. The cost of the safety net in the years between resets i.e. 2020/21 to 2023/24, was £76m.
- The amount of resources above Baseline Need increased in line with the fixed period reset approach in section 4 i.e. from £582m in 2019/20 to £1,030m in 2023/24, reducing back down to £584m in 2024/25.

5.7. As per paragraph 5.3, the rolling reset approach also allows DCLG to take a proportion of the growth annually, instead of every 5 years. For example, if it had taken 17% per annum over the period 2020/21 to 2024/25, it would have still taken the same amount in 2024/25, but it would have taken a greater amount in each of the years 2020/21 to 2023/24. **Appendix C** shows the equivalent table under this approach.

Scenario Analysis

5.8. As under the fixed period reset (para 4.8), two additional scenarios have been modelled under the rolling reset; these being:

Scenario 1 – Growth authority – £5m increase in business rates revenue in 2018/19

Scenario 2 – Authority in decline – £5m decrease in business rates revenue in 2018/19

Scenario 1 – Growth in NNDR

5.9. The position of the authority against Baseline Need, as a result of the £5m increase in 2018/19 over the period 2018/19 to 2024/25 is summarised in Table 5.3 below.

Table 5.3 Resources received from a £5m increase to business rates income under the Rolling Reset

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Business Rates Collected	52.8	102.8	102.3	102.8	102.3	102.8	101.4
Plus Top Up / (Tariff)	31.4	57.3	55.2	53.8	53.2	50.8	46.6
Equals	84.2	160.0	157.5	156.5	155.5	153.5	147.9
Baseline Need	74.7	149.3	149.3	149.3	149.3	149.3	149.3
Variance	9.5	10.7	8.2	7.2	6.2	4.2	(1.4)
Variance %	12.8%	7.2%	5.5%	4.8%	4.2%	2.8%	-0.9%

5.10. The Table shows that:

- The initial £5m increase results in the authority being £9.5m above Baseline Need for 2018/19 (the authority was already £4.5m above Baseline Need prior to the £5m increase).
- Following the reset in 2019/20, the majority of the previous growth of £4.5m has been lost (with only £0.7m remaining). The £5m growth in 2018/19 is now worth £10m, due to 100% BRR, leaving the authority £10.7m above baseline.
- The authority loses £2.m of the growth in 2020/21, increasing to £6.5by 2023/24.
- Over the five years 2019/20 to 2023/24, it received £34m in additional resources from the £10m increase to its business rate revenues.
- In 2024/25, as the NNDR baseline is now set using data from 2018/19 to 2022/23, the additional £10m is included each year and therefore the authority now has a baseline in line with the resources it collects.

Scenario 2 – Decline in NNDR

5.11. The position of the authority against baseline as a result of the £5m decrease in 2018/19 over the period 2018/19 to 2024/25 is summarised in Table 5.4 below.

Table 5.4 Resources received from a £5m decrease to business rates income under the Rolling Reset

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Business Rates Collected	42.8	82.8	82.3	82.8	82.3	82.8	81.4
Plus Top Up / (Tariff)	31.4	57.3	59.1	61.6	64.9	66.3	66.4
Plus Safety Net	-	4.8	3.4	0.5	-	-	-
Equals	74.2	144.8	144.8	144.8	147.2	149.1	147.8
Baseline Need	74.7	149.3	149.3	149.3	149.3	149.3	149.3
Variance - Pre Safety Net	(0.5)	(9.3)	(7.9)	(5.0)	(2.1)	(0.2)	(1.5)
Variance % - Pre Safety Net	-0.6%	-6.2%	-5.3%	-3.3%	-1.4%	-0.2%	-1.0%
Variance - After Safety Net	(0.5)	(4.5)	(4.5)	(4.5)	(2.1)	(0.2)	(1.5)
Variance % - After Safety Net	-0.6%	-3.0%	-3.0%	-3.0%	-1.4%	-0.2%	-1.0%

5.12. The Table shows that:

- The £10m reduction in 2019/20 leaves the authority £9.3m below Baseline Need (prior to the safety net), and £4.5m after the safety net payment.
- This position of £4.5m below Baseline Need is maintained to 2021/22. It then reduces to £2.1m below Baseline Need in 2022/23 and £0.2m in 2023/24.
- Following the partial reset in 2024/25, the authority is left £1.5m below Baseline Need.
- The total loss to the authority of the reduction is calculated at £18.3m (compared to no loss occurring).

6. Comparison of the Two Approaches

- 6.1. The section compares the two approaches using the results from Sections 4 and 5, together with wider considerations within the business rates retention system. The criteria used will be those previously set out in paras 3.33 and 3.34 i.e.
- (i) Simplicity transparency
 - (ii) Importance of the data selected in determining the future years position
 - (iii) Resource implications for local government overall
 - (iv) Resource implications for individual local authorities
 - (v) Ability for local authorities to gain from business rates growth
 - (vi) How it deals with an authority with large business rates growth in 2018/19
 - (vii) How it deals with an authority with large business rates decline in 2018/19
- 6.2. The comparison will be based on the analysis undertaken and wider considerations within the local government finance system.

Simplicity/transparency

- 6.3. Business rates retention is a complex system and would not be considered transparent to those not directly involved. However, the basic premise of having a target amount of business rates income based on previous income levels is straightforward. In comparing the two methods, the key difference is that this calculation occurs once every set number of years (five years in this case) as opposed to annually.
- 6.4. For the fixed period reset, this means that an authority knows (inflation aside) what it is expected to collect over the following period and therefore can forecast if it is likely to exceed that amount (and have more resources than Baseline Need) or be below it (and have less). Whilst for the rolling reset, the target will be adjusted each year to take into account local and national business rates income. Therefore, a fixed period reset is a simpler approach i.e. having a change in target less often (e.g. once every five years) as opposed to annually.
- 6.5. In terms of transparency, both approaches use the same principle (i.e. historic levels informing future targets) and both would be based on the same data. The variable elements to both approaches are (i) the assumed level of business rates income for the reset year and (ii) the associated decision regarding the proportion of the assumed growth that should be retained by local government. Therefore, in terms of transparency, both approaches are similar, but the fixed period reset benefits from having these decisions being made less often (i.e. not required annually).

Importance of the data selected in determining the future years' position

- 6.6. In determining the 2013/14 NNDR baseline, the initial proposals suggested that baselines would be determined by a five-year average of business rates income. This position was changed by DCLG six months prior to the start of the scheme and a two-year average was used. Whilst there is no right or wrong approach, the approach chosen has been a major factor in determining the winners and losers (i.e. those authorities above/below Baseline Need) and will continue to do so until any reset i.e. at least six years of funding (2013/14 to 2018/19).
- 6.7. The material financial impact of decisions on the 2019/20 NNDR baseline was measured by comparing the resulting baselines from using two and five years' historic data. Of the 384 authorities, 172 had a difference in NNDR Baseline of over 2% between the two approaches. Given that business rates income was only 5.2% above NNDR baseline after four years of the scheme (i.e. an average annual growth of 1.3%), the importance of how the NNDR Baseline is set appears to be greater than growth itself.
- 6.8. The fact that by 2019/20 the actual NNDR baselines will not have been updated for six years therefore makes the decision to use only two years' worth of figures of greater consequence.
- 6.9. The fact that there is no "right" approach in determining the baseline (in terms of the data used or the number of years) but it potentially has a greater impact than business rates growth, therefore might favour a more flexible approach offered through the rolling reset. As per Tables 6.1 and 6.2 below, the rolling reset lessens the impact of the initial reset (and therefore the determination of the Baseline) by reducing the gains and losses it creates.

Resource implications for local government overall

- 6.10. In assessing the following criteria, the extent to which the respective approaches provide a "fair" system will be used.
- 6.11. As both systems require decisions regarding forecast business rates income and the proportion that can be kept by local government, there are no differences as to process. However, the rolling reset approach provides greater scope for the system to be more responsive to issues, both at a national and local level, as it allows NNDR baselines to be adjusted annually, rather than periodically. This means that, at a national level, if the forecast level of business rates income used for the 2019/20 reset process is too high, (and therefore results in lower than planned resources for local government), it could be adjusted more quickly within the system than under a fixed period reset (where it could take a further four years to correct).
- 6.12. From a local government resource perspective, the rolling reset would therefore appear to offer a fairer/less risky approach to setting NNDR baselines.

Resource implications for individual local authorities

- 6.13. Within the business rates retention system, the level of resources that an authority receives is dependent upon (a) its NNDR Baseline after a reset and (b) change in business rates

income.

- 6.14. Under the fixed period reset, the importance of the NNDR baseline after a reset is greater than under a rolling reset (as this is updated more often under a rolling reset). Therefore, a rolling reset is potentially a fairer method, as it reduces the influence of the reset in determining gains. This may be considered of greater importance when taking into account para. 6.7 above i.e. where the setting of the NNDR baseline had more of an impact for nearly half the authorities than the average level of growth.
- 6.15. However, under the fixed period reset, the financial implications of a change in business rates income are sustained for longer i.e. change is not factored into the NNDR baseline as quickly. Given that the intention of BRR is to create an incentive to promote growth, it could be argued that a system that rewards growth for longer is preferable.
- 6.16. So, there is a trade-off between limiting the impact of the NNDR baseline after a reset (which the rolling reset achieves) and increasing the impact of the change in business rates income, which the fixed period reset achieves.
- 6.17. The results of the analysis provide some perspective on the relative importance of the setting of the baseline and the role of growth. Following the 2019/20 reset, 138 authorities were below Baseline Need in 2019/20, of which 53 required safety net payments, whilst 54 authorities would receive resources of 9% or more above Baseline Need. Over the next four years, there is a marked difference in how the two approaches dealt with this divergent starting position. This is summarised in Table 6.1 below.

Table 6.1 – Comparison Fixed Period Reset vs. Rolling

	2019/20 Base	2023/24 Fixed	Rolling
Authorities > 9% Above Baseline Need (LAs)	54	94	88
Amount retained if > 9% (£m)	342	726	428
Below Baseline Need (LAs)	138	114	70
In the Safety Net (LAs)	53	56	17
Cost of Safety Net (£m)	30	47	11
Number that stayed in the safety net		27	6

- 6.18. The Table shows that, in each instance, the rolling reset limits gains and losses i.e.
- 138 authorities that start below Baseline Need in 2019/20, and by 2023/24, there are still 114 authorities below under the fixed period reset approach, compared to 70 under the rolling reset.
 - The required 2023/24 safety net payments are lower for the rolling reset (£11m), compared to £47m for the fixed period reset.
 - The number and value of gains for authorities with resources 9% above Baseline

Need in 2023/24 are lower for the rolling reset, with 88 authorities gaining £428m, compared to 94 authorities gaining £726m for the fixed period reset.

- 6.19. The table below compares the relative importance of the initial NNDR baseline to the overall gain for the respective reset approaches. The table shows the average variance per authority per annum (compared to Baseline Need) over the period 2019/20 to 2023/24 for individual authorities, based on their initial starting position in 2019/20 against Baseline Need.

Table 6.2 Average variance per annum to Baseline Need for authorities based on the starting position in 2019/20 for the two reset approaches

Starting position against Baseline Need in 2019/20	Fixed Reset	Rolling Reset
Below 0%	-1.9%	0.4%
0% to 3%	2.8%	3.1%
3% to 6%	4.9%	4.1%
6% to 9%	7.7%	5.6%
9%+	9.4%	6.1%

- 6.20. The Table shows that, under the fixed period reset approach, those with a starting position below the baseline were, on average, 0.9% below baseline over the five-year period. This pattern of average gains being closely linked to authorities' starting positions is replicated for each of the five percentage bands. For the rolling reset, whilst the starting position is clearly still significant e.g. those authorities starting at +9% above Baseline Need still had the highest average gain of the five percentage bands, the variation is less pronounced. This would be as expected, with the rolling reset taking into account the variation to NNDR baseline each year.

- 6.21. Whilst the actual 2019/20 reset is likely to use an alternative methodology (e.g. data type/ number of years etc.), it is unrealistic to expect it to determine a position that does not create winners and losers (based on the methodology used). The rolling reset therefore potentially offers greater scope to refine/correct any unfairness that the 2019/20 reset will have created.

Ability for local authorities to gain from business rates growth

- 6.22. An authority's ability to gain from growth is linked to its position relative to the safety net amount and the proportion of growth removed at resets. As both the fixed and rolling reset approaches have the same starting (2019/20) and end position (2024/25), the comparison between the two is based upon the years in-between i.e. 2020/21 to 2023/24.

- 6.23. For all authorities above the safety net, an increase in business rates income will mean an increase in resources. As per Table 6.1, of the 53 authorities that start in the safety net for 2019/20, 27 remain in the safety net in 2023/24 under the fixed reset, compared to 6 under the rolling reset. The rolling reset approach should offer a greater number of authorities the opportunity to benefit from business rates growth.

- 6.24. In terms of the ability to retain growth between resets, for the fixed period reset, all growth in

business rate income is retained in resources and all decline (up to the safety net) is lost. Whereas, under the rolling reset, NNDR Baselines will be adjusted to take account of growth and decline each year, thereby reducing gains and losses. This is illustrated in Table 6.3 below, showing how variation in business rates income in 2018/19 would be included in the determination of the NNDR Baseline under a five-year fixed period reset period vs. a rolling reset.

Table 6.2 – How a variation to business rate income would be taken into account five-year Fixed vs. Rolling Reset

Baseline	Data used	Fixed Reset % of the growth taken into account	Rolling Reset % of the growth taken into account
2019/20	2013/14 to 2017/18	0%	0%
2020/21	2014/15 to 2018/19	0%	20%
2021/22	2015/16 to 2019/20	0%	40%
2022/23	2016/17 to 2020/21	0%	60%
2023/24	2017/18 to 2021/22	0%	80%
2024/25	2018/19 to 2022/23	100%	100%

6.25. The table shows that the variation would be taken into account under the rolling reset during the period 2020/21 to 2023/24, with 20% in the first year, increasing to 80% in year four. Therefore, for those authorities:

- Below Baseline Need (i.e. those that the reset started in an adverse position), all of the growth would be retained (if they did not go above Baseline Need as a result).
- Above Baseline Need, where growth is less than the national average, the growth will not result in an increase to the baseline.
- Above Baseline Need, where growth is higher than the national average, the baseline will increase.

6.26. In summary, the rolling reset approach is more responsive and therefore moves authorities out of the safety net quicker than the fixed period reset. This, in turn, increases the number of authorities that can gain from business rates growth. The fixed period reset allows all variations to business rate income to be retained between resets and therefore provides the greater incentive for growth (in terms of the proportion retained). However, for authorities with growth lower than the national average and those below their baseline, the rolling reset could still allow all growth to be retained.

6.27. For both approaches, the same level of growth would be taken from authorities in 2024/25 (i.e. under the partial reset). This loss in growth is perhaps the most significant, in that it may deter authorities from investing in infrastructure/economic development schemes that would require business rates revenue to break even. The potential introduction of Local Growth Zones that would allow growth in specified areas to be retained locally over the longer term may contribute towards a potential solution to this issue (see paras. 6.30 to 6.33).

Material business rates growth in 2018/19

- 6.28. As demonstrated in Table 6.2 above, the rolling reset approach incorporates growth into the NNDR baseline calculation quicker than the fixed period reset. This was also seen in the scenario analysis, where the rolling reset only provided an additional £34m in resources to the authority, compared to £50m under the fixed period reset. The fixed period reset therefore offers the greater incentive to authorities to grow their taxbase (as the rewards would be greater) and the size of the incentive could be increased further by increasing the period between resets.
- 6.29. However, under both the fixed period and rolling resets, the initial growth was taken into account after five years; with the authority not gaining after the partial reset in 2024/25. The elimination of the additional revenues (or even part elimination of the partial reset allowed more to be retained locally) represents a potential barrier to local authorities using business rates income with business cases.
- 6.30. If authorities are looking to invest locally (e.g. in infrastructure/economic development schemes) and part finance the investment from business rates income, the number of years of additional business rate revenues to repay the initial borrowing may be significantly longer. In discussions with local authority officers, it was suggested that schemes may require at least 20 years of additional revenues to be affordable and these timeframes would be consistent with the 25 years exemption from the reset that Enterprise Zones were given in 2013/14.
- 6.31. The potential introduction of a similar proposal to Local Growth Zones would allow growth in specified areas to be retained locally over the longer term may form part of the solution to this issue. The February 2017 100% BRR paper proposes that these zones would allow *“local authorities to establish growth areas which would then allow a proportion of growth in business rates income from that area outside the rates retention system for a specified number of years – i.e. this growth would remain outside the ‘reset’ system”*.
- 6.32. If a similar proposal to Local Growth Zones were introduced, they may provide the opportunity for authorities to have greater certainty over business rate income from the specified areas over the longer term. A challenge for government will be to design the governance arrangements around the creation of these schemes in such a way as to provide an accessible way for authorities to allow investment without them being subject to manipulation; e.g. where growth that would be occurring anyway is included in such zones.
- 6.33. In summary, whilst the fixed period reset will allow authorities to retain a higher amount of growth locally, neither the rolling nor fixed period reset may allow the business rates retention scheme to be a method of financing investment. However, the creation of a similar proposal to Local Growth Zones may assist this issue for both approaches, providing that they are applied appropriately.

Material business rates decline in 2018/19

- 6.34. Under the scenario of a large decrease in business rate revenues, the rolling reset allowed the authority to move out of the safety net quicker. Under the fixed period reset approach, the authority remained at safety net until the reset in 2024/25; compared to 2022/23 under the rolling reset approach. Whilst this would not necessarily happen in all instances (even the scale of the loss was large enough), the rolling reset would increase the potential of it occurring.
- 6.35. The rolling reset approach therefore offers the advantage that (i) it reduces safety net payments – which would require funding and (ii) by lifting authorities out of the safety net quicker, it restores the incentive to promote business rates growth (as growth below the safety net only offsets the safety net payment).
- 6.36. However, whether or not the system needs to/should adjust itself more quickly should be considered. Whilst this approach improves the incentive to promote future growth, it also reduces the incentive to maintain business rates income from the existing taxbase. The protection also afforded by the safety net also ensures resource levels cannot go below a certain level.
- 6.37. So, whilst there are advantages in the system being more responsive to large business rate decline, the extent to which they are needed is questionable.

Summary

- 6.38. The table below provides a summary of how the fixed period and rolling reset approaches compared against each of the criteria. The conclusions drawn would apply equally to a 50% or 100% business rates retention scheme; it is only the proportion of local authorities' overall resources that alters, with a 100% scheme clearly being more material in absolute terms. Indeed, the cash amount that could be lost under the 50% scheme (with the current safety net at 92.5% of baseline need) could actually be higher for authorities than the 97% figure that was expected under the 100% scheme.

Table 6.3 Summary of both approaches against the criteria

Criteria	Fixed Period	Rolling
Simplicity/transparency	<p>The simpler of the two approaches, with less frequent adjustments to NNDR Baselines.</p> <p>Transparent in determining business rate baselines, once subjective decisions on choice of years and the forecast level of national business rates are made.</p>	<p>Similar to the fixed period approach, in that historic data is used to determine future years' resources. It has the increased complexity/variability of annual changes to the NNDR Baseline.</p>
Resource implications for local government	<p>The forecast level of national business rates at the reset will be critical in determining the resources received by local government between resets.</p> <p>The system will not be responsive to macro-economic changes between resets that may influence business rate revenues.</p>	<p>The forecast level of business rates will be determined annually, allowing material variances to be corrected sooner.</p> <p>If needed, the annual reset would allow funding to be shifted from being distributed based upon business rates growth to other spending priorities within local government (e.g. to Baseline Need).</p>
Resource implications for local authorities	<p>The NNDR Baseline for individual authorities will be set (in this case for five years). This will determine their ability to gain from growth (i.e. if above the safety net) and, more crucially, the resources they will receive, relative to Baseline Need, over the five years.</p>	<p>Local authorities are more able to move away from the safety net (and gain from growth).</p> <p>The level of resources received over the period is influenced to a lesser extent by the 2019/20 reset, as more up to date data will be used to determine future years' resources.</p>
Ability to gain from business rates growth	<p>Growth is retained longer, but this is less material than the gains/ losses due to the way the initial business rates baseline is set.</p>	<p>Growth is reflected more quickly in the NNDR Baseline, but the starting position is of lesser importance in determining future years' resources.</p>

Criteria	Fixed Period	Rolling
Importance of the data selected in determining the future years' position	NNDR Baselines are set for a fixed period, therefore making the data used critical to the starting point of authorities in the scheme (and the level of resources received between resets).	There is a reduced emphasis on the decision regarding data, as NNDR Baselines are updated annually to take into account the latest position.
Large business rates growth	The authority receives a higher level of resources (as the gains are received for longer). But this does not solve the issue of local authorities using longer term business rates revenue stream to fund investment.	A lower level of resources would be received over the medium term.
Large business rates decline	Loss not taken into account until the next reset – potentially leaving the authority at the safety net.	Loss taken into account more quickly, potentially reducing safety net payments and restoring the incentive for growth. However, questionable as to whether these outcomes are needed.

6.39. In summary, the **fixed period reset** is:

- + Simpler;
- + Allows a greater proportion of growth to be retained between resets;
- + Provides greater incentive to maintain the existing business rate taxbase/revenues.

6.40. The **rolling reset**:

- + Places a lower importance on the data selected at the initial reset;
- + The data used will be more up-to-date over the period;
- + Reduces gains and losses made just as a result of the initial reset;
- + Allows authorities to move from the safety net quicker;
- + Reduces the importance of the national forecast business rate revenues at the initial reset;
- + Offers greater flexibility regarding funding being used to fund other spending priorities.

6.41. The rolling reset therefore appears to offer more benefits in terms of fairness (i.e. the starting point and the subjective decisions are of lesser importance), but, as with most funding mechanisms, the trade-off between the level of fairness and increased complexity must be decided upon.

Appendix A –Reset 2019/20 Calculations

Below is a worked local authority example of the 2019/20 reset calculations under the fixed five-year reset approach. It uses the revised approach of allowing local government to retain 30% of the growth locally.

A = Average share of national business rates income 2013/14 to 2017/18

B = Existing national 2019/20 NNDR Baseline

C = Forecast 2019/20 Business Rates income

D = Forecast variance (growth) to 2019/20 NNDR Baseline

$$D = C \text{ Minus } B$$

E = New 2019/20 national baseline

$$E = B + 70\% \text{ of } D$$

F = New Individual authority NNDR Baseline 2019/20

$$F = A \times D$$

Therefore, for an authority, where **A** equals the average of the following:

Year	2013/14	2014/15	2015/16	2016/17	2017/18
Share %	0.627%	0.604%	0.598%	0.607%	0.607%

A = **0.609%**⁸

B = Existing national 2019/20 NNDR Baseline = £22.813bn

C = Forecast 2019/20 Business Rates income = £24.753bn

D = Forecast variance (growth) to 2019/20 NNDR Baseline

$$D = C \text{ Minus } B$$

$$D = \text{£}24.753 \text{ minus } \text{£}22.813\text{bn} = \text{£}1.940\text{bn}$$

E = New 2019/20 national baseline

$$E = B + 70\% \text{ of } D$$

$$E = \text{£}22.813\text{bn} + 0.7 \times \text{£}1.940\text{bn} = \text{£}24.171\text{bn}$$

F = New Individual authority NNDR Baseline 2019/20

$$F = A \times D$$

$$I = 0.609\% \times \text{£}24.171\text{bn} = \text{£}147.16\text{m}$$

⁸ Figures shown to 3 decimal places; actual calculations are not be rounded, with baselines determined to the nearest pound.

Appendix B – Reset 2019/20 – Further Explanation

Individual Authority Examples

There are two examples below showing how an individual authority can be above or below its Baseline following a full reset.

The table shows the share of the national business rates income for Authorities A and B.

Year	2013/14	2014/15	2015/16	2016/17	2017/18	Average
Authority A	0.341%	0.420%	0.391%	0.368%	0.373%	0.379%
Authority B	0.931%	0.937%	0.970%	0.951%	0.933%	0.944%

Authority A has an average of 0.379%. However, importantly, this average is higher than its most recent figures (i.e. 0.368% in 2016/17 and 0.373% in 2017/18), which could be reasonably argued to be the best two indicators of the 2019/20 income level. In this example, the actual income level for 2019/20 was 0.370%, which is consistent with 2016/17 and 2017/18, but significantly below the average of 0.379%. This variance of 0.009% (0.379% MINUS 0.370%) was the reason for the authority being £2.1m (1.5%) below its Baseline Need figure.

Authority B's figures show the opposite position. Its average of 0.944% is below its actual share of 0.959%. This therefore means it is £4m (3.5%) above Baseline Need.

Appendix C – Rolling Reset – Alternative Approach

The table below shows the outcomes from 83% of the growth being retained by local government for the period 2020/21 to 2024/25 instead of 100% for the first four years and 50% for year five.

Key figures using the alternative Rolling Reset methodology 2019/20 to 2024/25

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Authorities > 9% Above Baseline Need	54	46	43	57	41	53
Amount retained if > 9% (£m)	342	212	132	274	169	221
Below Baseline Need (LAs)	138	125	125	119	118	111
In the Safety Net (LAs)	53	45	43	36	45	36
Cost of Safety Net (£m)	30	23	36	54	40	50
Growth Retained by Local Gov (£m)	582	567	508	600	565	584
Growth taken from BRR (£m)	1358	1476	1581	1706	1823	1943

The table shows that, under this approach, the amount of growth retained by local government over the four years 2020/21 to 2023/24 equals £2.240bn, compared to £3.374bn (where 100% is retained over the same period). This reduction of £1.134bn in growth would instead be retained by DCLG to fund other priorities.