

## **100% Business Rates Retention - Further consultation on the design of the reformed system**

### **Summary of Questions and Responses**

#### **Preamble**

We remain clear that councils must first and foremost be able to use extra business rates income to address existing funding pressures before any additional responsibilities are considered.

Decisions on additional responsibilities transferred to councils, tier splits and the safety net threshold and subsequent impact are not mutually exclusive and it is, therefore, difficult to make an informed response in isolation, notwithstanding an authority's baseline funding level will not be known until nearer the introduction of 100% BRR.

#### **Question 1: What are your views on the proposed approach to partial resets?**

Support the proposal to build fixed reset periods into the future 100% BRR system.

In responding to the earlier consultation the view at that time was there should be a full reset of the system including all achieved growth. Local authorities under the new system will be heavily dependent on business rates income for delivery of core services. As a result a partial reset is supported on the understanding that the growth retained in the system would be net of the amount of growth needed by those authorities whose funding is below the new baselines. It is acknowledged that the approach does mean the level of growth to be retained would not be known until the reset was undertaken and, in turn, not provide any certainty in terms of medium term financial planning beyond the reset period.

Resetting the needs formula every five years could result in significant changes of income and as such transitional arrangements after a reset could be required. Annual updating of data would allow the system to respond to relative need changes much faster and could lessen the resulting stepped change from periodic updates.

Matters that require clarification – that growth in the new system would be retained by local authorities and should not be used to fund new responsibilities. Neither should allow further grants to be rolled into the scheme. CPI growth in business rates should be calculated as part of the scheme without compensating reductions in other income streams?

Further data and modelling is required to better understand the impact of these choices – rewarding growth / redistributing for need.

#### **Question 2: What are your views on how we should measure growth in business rates income over a reset period?**

It would seem to be sensible to measure growth in real terms and as an average. A crucial component is of course the baseline against which growth is to be measured and as such how it is determined should be transparent, fair and readily understood.

**Question 3: What are your views on the Government's plans for pooling and local growth zones under the 100% Business Rates Retention system?**

It should remain up to local areas to decide to join a business rates pool arrangement.

Further information is required on pooling and local growth zones to better understand the likely impact on the total amount of growth in business rates. Details on how this growth is to be redistributed at a partial reset as well as how that impact might be managed. Without these details it not possible to make an informed response. Not forgetting the growth needed by those authorities whose funding is below the new baselines.

**Question 4: How can we best approach moving to a centrally managed appeals risk system?**

Managing the impact of successful business rates appeals is particularly important given the impact that this can have on an authority's available resources.

The proposal to make direct payments to local authorities to recompense for loss of income resulting from changes to rating lists relating to 'valuation errors' is seen as a positive step. This change should see a reduction in business rates volatility both in terms of successful appeals reducing income and the removal of the estimated appeals' provisions that, for good reasons, are often incorrect. The proposal is supported in principle subject to the detail about what is seen as a 'valuation error' and how loss payments are calculated and made.

**Question 5: What should our approach be to tier splits?**

As noted in the response to the earlier consultation; the approach to tier splits will need to take into account the services (including any new responsibilities) that are expected to be delivered by each tier of government. The split needs to acknowledge the impact on a local authority's exposure to risk, resilience and ability to grow their business rates base. Also, the level at which the safety net threshold is set.

Further data and modelling is required to better understand the impact of the different options.

**Question 6: What are your views on proposals for a future safety net under the 100% Business Rates Retention system?**

In responding to the earlier consultation, it was suggested the safety net be set at the baseline funding level. This is a measure of need and is often used for budgeting purposes and as such should aid financial planning.

In this respect welcome the intention at the very least to raise the current threshold to reflect the increased proportion of funding at stake.

As with other aspects of the new Business Rates Retention system, the safety net threshold to be informed by the impact of different options on a local authority's exposure to risk, resilience and ability to manage risk as well as incentivise the growth in their business rates base.

Further data and modelling is required to better understand the impact of the different options.

**Question 7: What are your views on our proposals for the central list?**

To provide stability and certainty for local government in terms of whether hereditaments should be assessed on the central list or local rating lists is a prerequisite to the introduction of 100% BRR; and in that regard support the proposals for the central list set out in the consultation paper.