Note following BRR Technical Papers

Steering Group 16 October 2018

This is a proposed summary of the policy proposals and narrative around them that might form the basis of a consultation document in December. ***Does the Steering Group agree with it?***

The Business Rates System was designed to recognise the vital role that authorities play in creating conditions which support local economic growth and the Government remains committed to allowing authorities to benefit from locally raised income. Additionally, it may be beneficial to simplify the business rates retention system and to and make it more resilient to change. These reforms offer an opportunity to pursue these objectives.

Towards the end of our technical paper programme, members of the System Design Working Group approached us with a proposal for a simplification measure, which would use the existing legislative framework. This is an attractive proposition because, as well as simplifying the system and making it more live and responsive to change, it is also a viable way to address volatility caused by valuation change and removes the need to use less than perfect methods to set baselines.

Whatever approach is taken to reform, the spirit of business rates retention will remain unchanged; it will continue to be a system of risk and reward which allows authorities to be rewarded for growth within their local economy. Decisions will need to be made on system elements such as resets and tier splits and what configuration provides the right balance of risk and reward regardless of the reform pursued.

Having now consulted the working and steering groups on individual elements of the system a wider picture is starting to form of what the reformed system could look like.

The Balance of Risk and Reward

Resets - partial and phased/ lagged resets emerged as the most desirable in terms of incentivising growth and smoothing cliff-edges, suggesting that no resets, full resets and rolling resets should possibly be ruled out.

The Safety Net – the current mechanism is the right one to provide a ‘back-stop’ for authorities who have lost income, therefor it should continue to be expressed as a percentage of BFL. The level will need to be determined once decisions are made on other elements of the system. Currently the safety net is 92.5% of BFL and 100% BRR pilots have a safety net of 97%. Top-slicing BR income is likely to be the only fiscally neutral and viable way to fund the safety net, so possibly funding through the central list and the levy, if reformed, should be ruled out.

The Levy – although ‘scrapping the levy’ would almost certainly require primary legislation, it is possible to reform the levy to address ‘excessive growth’ within the system using existing legislation. Reforming the levy to address gearing would add complexity to the system and so should be ruled out.

Tier Splits - this is a decision that will be made later in the process, following decisions on other elements. It would be desirable for proposals to be sector led. Fairness between all authorities, including between those delivering the same services, should be considered.

Pooling – this is a desirable element of the system. Some of the incentive would be removed if the levy were to be reformed. It should be considered how else pooling can be incentivised.

Dealing with volatility

The Central and Local Lists – as the lists have not been proactively maintained, a ‘tidy up’ is desirable. This should be carried out using the criteria that currently assist decisions (previously approved by the SDWG and Steering Group). The management of hereditaments likely to cause short term volatility is currently addressed using the safety net and this is probably the best lever to use, therefore these sorts of hereditaments should not be listed in the central list as they remain inherently local and it would be inconsistent. The upcoming consultation is an opportunity for respondents to identify hereditaments that should change list under the proposed criteria.

Valuation Change – after extensive work carried out alongside CIPFA, the Department is concerned that it may prove difficult to find a viable or desirable way to centralise valuation change under the current system. Although the Department continues to work on options, these have so far been constrained either by international accounting standards, by the level of complexity that would be added, or both. The Government recognises the volatility that valuation change causes and is keen to address this. The simplification measure offers an opportunity to do this and is one of the central reasons for its appeal.

The Simplification Measure - The Government is interested in this proposal, which was originally worked-up by members of the System Design Working Group; there is an opportunity to radically simplify the system and to improve its functionality, especially in addressing the issue of instability caused by valuation change and removing the need to use a less than perfect method to set baselines. In keeping with the spirit of greater business rates retention, risk and reward could be designed into the system to support economic growth. Other elements of the system would continue to be relevant, even if this approach were adopted (i.e. resets, tier split etc.)