

Factsheet: Loss payments (Clause 2)

What are loss payments?

This measure will allow the Government to make a direct payment in connection with a reduction in a local authority's income that results from an alteration of the authority's local rating list ("loss payments"). This is in recognition of the challenges that local authorities have faced under the current approach to managing the impact of business rate appeals.

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

Under the current 50% business rates retention scheme, local authorities are required to set aside funds ("provisions") to be used in case of successful business rates appeals. At the outset of the scheme, a top slice of business rates income was taken and distributed proportionally among local authorities to support them in managing business rate appeals. However, successful appeals are not distributed evenly around the country. For some authorities, the amounts that they have had to pay out for successful appeals have been greater than the amount of 'top slice' they were given, thereby reducing their income from business rates. Others have paid out less than anticipated in their provisions.

The Government's intention under the 100% business rates retention system is to continue to help local authorities manage the risk and income volatility associated with appeals but to better direct this support to where losses are experienced. This will involve moving towards central management of appeals, by more directly reimbursing authorities when they suffer appeals losses due to valuation errors. These payments will be known as "loss payments".

Why is legislation needed?

Legislation is necessary to allow the Government to make payments to local authorities specifically in relation to a reduction in a local authority's income that results from an alteration of the authority's local rating list.

The primary legislation allows the Secretary of State to make regulations about how loss payments are calculated, and how the payments themselves are made.

Why is the Secretary of State able to make regulations about loss payments?

The regulations will set out the technical detail about loss payments, including making provision for calculating whether loss payments are to be made, the amount to be paid, and the timing of the payment.

Government will continue to engage with the local government sector and other bodies on the calculation and operation of loss payments, and intends to provide further information where possible later in the year.

How do we see this working in practice?

The Government's intention is that loss payments will be direct payments to local authorities, to more directly provide remuneration for loss of income resulting from appeals relating to 'valuation errors' in the compiled local ratings list. We do not intend for this payment approach to be made for other changes to ratings lists, such as those resulting from later physical changes to a property.

We expect funding for these payments to come from a 'top slice' to the total England-wide amount of business rates income, before baseline funding levels are set. This is the same approach used

under the 50% business rates retention scheme but in the future the top slice will be held and distributed centrally rather than a share being held by each local authority. This change will allow us to focus reimbursements where they are experienced, rather than assuming equal loss due to appeals across every local authority. This will help to reduce the volatility in income that individual councils can experience under the current approach.

How can I find out more?

The detail about how loss payments are calculated and made will be set out in further proposals later in the year. The Government is working with local government and CIPFA representatives to better understand how this will need to work in practice, and intend to provide further information where possible later in the year.

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

Key questions & answers:

Where will funding for loss payments come from?

- We expect to fund loss payments by effectively top-slicing some business rates from the total amount collectible before baseline funding levels are set. This is the same approach that we take under the current system to help local authorities handle successful business rates appeals. The change under the new approach will be that instead of local government all holding a share of this top slice, it will be held and distributed centrally.
- Loss payments reimburse local authorities for funds that they in turn have had to repay to local businesses after successful business rates appeals.

Will this affect the amount of money councils have to meet the cost of local services?

- No. As now, we intend to take the top-slice to fund loss payments from the total amount of business rates before baseline funding levels are set and funding allocated to local authorities to meet that baseline.

How will the Government make sure the top slice is the right amount?

- We are working with CIPFA and local authority representatives to determine the detail about how loss payments will be calculated, and to better understand the likely costs associated with loss payments.
- Our commitment to 100% business rates retention means that any excess top slice will be returned to local government.
- We intend to consult shortly on how the loss payments system should work in practice.

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