**Notes of Business Rates Retention Steering Group Meeting**

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| **Title:** | Business Rates Retention Steering Group |
| **Date:** | Tuesday 9 April 2019 |
| **Venue:** | Smith Square 1 & 2, 18 Smith Square, London SW1P 3HZ |
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**Attendance**

An attendance list is attached as **Appendix A** to this note.

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| **Item** | **Decisions and actions** |  |
|  **1** | **Welcome, Introductions and Apologies**Members were welcomed to the meeting.Apologies were noted for Duncan Savage, Joe Chesterton, Richard Flinton and Joanne Pitt. |  |

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| **2** | **Minutes of the last meeting**The minutes were agreed as an accurate summary of the discussion held at the previous meeting.  |  |

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| **3** | **2019 Spending Review and next steps on reform – verbal update** |  |
|  | Alex Skinner, Ministry for Housing, Communities and Local Government (MCHLG), provided a verbal update on the progress of the 2019 Spending Review. He noted that at the 2019 Spring Statement, the Chancellor had outlined the intent to hold a three year Spending Review, likely to be launched in June/July and reporting in late November alongside the Autumn Budget. Treasury has started to talk about guidance and are speaking to MHCLG about internal modelling, as well as the importance of capital and making sure things do not fall through the net. They have taken the message about the importance of certainty but MHCLG noted a likely tension between securing an early settlement for the sector and Treasury’s preference to keep flexibility at the outset of the SR process. There is also a tension between reform and certainty and an axis between the two and MHCLG are interested in what the sector thinks around this. The sector roundtables have received positive feedback so far and suggestions for future roundtables are welcome. The Minister is interested in freedoms and flexibilities, particularly the pragmatic and the practical. Also noted awareness around DSG causing issues and that MHCLG were in close touch with the Department for Education who now have a clearer idea of what the problem is and what they can do.Stuart Hoggan (MHCLG) outlined the latest steps on reform. On the FFR, MHCLG have completed the analysis of consultation responses and when ministers have taken decisions they plan to reconvene the Technical Working Group for the next phase. It is on track for implementation next year. There will be a further consultation in late spring with a provisional consultation in the autumn. However, a late Spending Review and consequential delayed numbers could cause issues. Quantum and transition as well as the future of IBCF and the NHB are outstanding issues. Question to consider is whether pressing ahead for next year outweighs delaying for a year, particularly as it is likely to be damped heavily.  One option would be to have a roll-over settlement; working in parallel on the Review of Relative Needs and Resources (RRNR), with a view to consult in early 2020 and implement in 2021.Members of the steering group provided the following comments:* Nicola Morton (LGA) wondered whether a delay to implementing the reforms could lead to the same uncertainty this time next year if the Spending Review was late in the year. MHCLG could not speculate.
* Sarah Pickup (LGA) noted that it would be helpful to have early certainty over funding streams as well as know what is happening on business rates retention, the RRNR and information on council tax referendum principles. There was general agreement that this would help financial planning. Richard Paver (Greater Manchester Combined Authority) agreed that an early announcement on council tax referendum limits would also help Combined Authorities and Police and Crime Commissioners. MHCLG confirmed that they had heard the need for certainty.
* Mike Heiser (LGA) and Graham Soulsby (DCN) queried whether any of the reforms could be phased in rather than all at the same time. MHCLG said they were all linked and it was difficult to phase in the RRNR.
* Guy Ware (London Councils) asked about settling baseline funding for three years and longer. MHCLG said that they might run the formula and give indicative allocations, on the lines of the four year deal. They could project forward. MHCLG noted decisions on the level of spending going forward will impact on the percentage of business rates retention.
* Liz Passey (HM Treasury) noted that MHCLG had set out as much certainty as possible at the current time. She acknowledged it was helpful to hear the views in the room. Sarah Pickup reiterated the view that certainty was important and urged Liz to take that message back to the Treasury.
* Tony Kirkham (Solace) stressed the importance of removing appeals risk earlier rather than later. Nicola Morton asked whether the alternative model could be implemented in April 2020, if the other reforms are delayed, as MHCLG had previously asserted that the alternative model would produce a similar result to the current system. MHCLG stated they want to test these sorts of assumptions as well as consider the interaction with revaluation.
* Gary Fielding (CCN) expressed keenness in pressing ahead with business rates retention and RRNR reform in April 2020. He also raised concerns regarding Department for Education advice on negative high needs balances. MHCLG said they relayed worries around this.
* Sarah Pickup (LGA) argued that a cash flat roll-over would not be acceptable given the £3 billion funding gap already facing local government in 2019/20. Future funding should be sufficient to reflect the current and future cost and demand pressures facing local government.
* Martin Clarke (GLA) queried whether the Home Office were considering a “roll-over” approach for police funding and he felt that there should be consistency in the approach. MHCLG noted things were dependent on timescales.
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| **4** | **Notional Council Tax** |  |
|  | Stuart Hoggan (MHCLG) introduced the paper, pointing out that the answer to who is better off under a higher or lower notional council tax scenario was about relative shares of both needs and resources. In setting a notional council tax level, ministers will take a view on:1. The desired degree of equalisation in the system
2. The risk of negative funding baselines for some authorities.
3. Distance from notional council tax and the need to avoid perverse incentives.

MHCLG acknowledged that they also need to consider how to split notional council tax between tiers. Members of the steering group provided the following comments: * There was a concern that a misunderstanding of the purpose of notional council tax would create pressure to increase council tax for low tax authorities.
* Sarah Pickup (LGA) raised concerns that this setting of notional council tax would be based on judgement and felt that it should be based on something objective and rational. There will be great interest in how the levels will be set and what they are to be based on. MHCLG responded that there was a decision to be made on this. It would partly be based on ministerial judgement as it is not possible to arrive at one particular outcome through analysis.
* Tony Kirkham (Solace) noted that the social care precept adds complexity to this issue. Guy Ware (London Councils) questioned whether the precept would continue and if so how it would be dealt with. Sarah Pickup noted links with notional council tax and the iBCF in the future.
* Nicola Morton (LGA) raised the importance of relative needs in the equation in that it is an issue if average council tax is used but the control total given to needs is low.
* MHCLG noted that the Spending Review will ultimately set the totals and that they do want to be more transparent and clear on what factors have been taken into account in arriving at decisions on notional council tax.
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| **5** | **Area Cost Adjustment** |
|  | Stuart Hoggan and Charlotte Woodacre (MHCLG) introduced the slides, noting they were trying to distinguish between costs and volumes, with the formulas taking into account volumes and the area cost adjustment (ACA) adjusting for different costs of provision. They have been as comprehensive as possible in refreshing the ACAs. They have used the best available evidence, taking into account submissions by local authorities, and think the overall approach is much improved, but not perfect. They noted they wanted to avoid cliff edges. MHCLG welcomed comments and suggestions from steering group members.Members of the steering group provided the following comments: * Gary Fielding (CCN) noted it may be useful to provide an example of how the ACA would be derived for a particular service including outsourced services. MHCLG replied that SAR data would be used to help weight labour costs and rates costs.
* Tony Kirkham (Solace) asked how profit is removed from outsourced services for ACA purposes. MHCLG responded that not all costs were included.
* Guy Ware (London Councils) questioned how significant remoteness is. MHCLG said that LG Futures research had found mixed evidence, with more remote areas seeing increased costs for some services and reduced costs for others. MHCLG accepted there was a need for further testing of the data with the sector. Guy also asked if MHCLG could do a full survey rather than use SAR data which is based on a sample.
* MHCLG confirmed that there would be no lower limit (set at 1 in current ACAs) under the proposals.
* There was a discussion over national versus local markets determining costs.
* Sarah Pickup (LGA) highlighted Slide 5 of the presentation regarding additional costs due to journey times and sought clarification on if it related to ‘time’ or ‘distance’. MHCLG confirmed it was time. Guy Ware (London Councils) noted the importance of steering group members knowing the impact of the measures that have been chosen.
* Nicola Morton (LGA) asked for more information on how the ACA would be calculated and what evidence it will be based on. Members agreed with the need for further information including draft factors. It was recognised that this should go through the Technical Working Group before coming to the Steering Group MHCLG agreed with the needs for further information.
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| **6** | **RRNR – Summary of Consultation Responses** |
|  | Emily Gascoigne (MHCLG) introduced the paper, noting the large number of responses received. She welcomed feedback on the summary outlined in the paper, which focussed on responses from representative bodies.Members of the steering group provided the following comments: * Richard Paver (Greater Manchester Combined Authority) noted a lack of recognition of Combined Authorities in the summary and the need to look into their sustainable funding going forward. MHCLG noted they did have individual responses from Mayoral Combined Authorities and would consider the issue.
* Sarah Pickup (LGA) highlighted summary point 7 in the paper, regarding widespread calls for the publication of more data, analysis and exemplification, and noted that this was an important point in every one of the areas as it was necessary to see how things are derived and the impact of decisions as soon as possible to allow better financial planning.
* Guy Ware (London Councils) noted his surprise at the collection rates point and the idea of doing a level of statistical analysis giving a notional collection rate for every authority in the country. He expressed concern about every Treasurer in the country being held to account to explain why they are not reaching a theoretical level.
* Members noted that some form of small adjustment for collection rates would be helpful, but without a full exercise setting individual notional collection rates
* MHCLG noted the members’ views on the need to take into account deprivation in different areas.
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| **7** | **BRR – Summary of Consultation Responses**Tahmina Adan (MHCLG) introduced the item and thanked steering group members for responses received. They confirmed that next steps would be to develop the alternative model of business rates retention and MHCLG hope to publish a further consultation by spring/summer this year.Members of the steering group provided the following comments: * There was discussion around the proposals on moving lists. MHCLG noted there had been very few proposals and that this would be included in the full summary. MHCLG said they would reflect on this point and that there would be other ways of getting candidates. Richard Paver (Greater Manchester Combined Authority) noted that local government did not benefit from increases in business rates due to infrastructure such as railway stations that are on the central list.
* Sarah Pickup (LGA) highlighted summary point 6 that the majority of responses called for further modelling and worked examples to illustrate the impact of each option on different authority types. She noted a theme and work for the technical working group would be helpful.
* Guy Ware (London Councils) asked about the potential for financial incentives for pooling (Para 22-23). It was suggested that a different level of council tax for equalisation could be an incentive; a national level could in effect equalise for additional resources which would have not otherwise have existed. MHCLG said they would reflect on this but ministers have emphasised fiscal neutrality and finding incentives within the system.
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| **8** | **The Alternative Model** |
|  | Mark Barnett (MHCLG) introduced the paper setting out on options for the alternative model. He stressed this this was government policy but officer thoughts and options. He noted it was not for detailed discussion at this meeting but wanted to use the paper as an opportunity to start a wider discussion, a point the sector was calling for in the December consultation document. Members of the steering group provided the following comments: * Members were content for the paper to go to the System Design Working Group and Implementation Working Group and welcomed wider engagement with local government on the alternative model.
* Richard Paver (Greater Manchester Combined Authority) highlighted that growth on a gross or net basis was an important issue and raised the issue of growth in the university sector which would not lead to business rate gain under the current arrangements.
* Members highlighted the need to address EZs where there is no allowance for appeals.
* Mike Heiser (LGA) noted the issue of potential data lags in when authorities benefit from growth. MHCLG noted that this could be up to 2 years later depending upon the data used.
* Sarah Pickup (LGA) proposed taking the paper to the working groups and then bringing it back to the Steering Group.
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| **9** | **Media Lines**At their meeting today, members of the Steering Group discussed: * The summary of consultation responses on the Fair Funding Review and Business Rates Retention.
* The impact of different levels of notional council tax and how the level might be determined.
* Area Cost Adjustment and the proposed factors and principles associated with this.
* That more analysis and exemplifications are necessary for all the areas of the reforms. Steering Group members requested they go to the Needs Technical Working Group and System Design Working Group to look further into the detail.
* The alternative ways of administering the Business Rates Retention system and MHCLG’s intention to discuss with the wider sector.
* The forthcoming Spending Review and the range of scenarios interacting with the reform of the system.
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| **10** | **AOB** |
|  | **Appendix A – Attendance** |
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| **Name** | **Organisation** |
| Alex Skinner | MHCLG  |
| Alexander Black | MHCLG |
| Charlotte Woodacre | MHCLG |
| Suzanne Clarke | MHCLG |
| Stuart Hoggan | MHCLG |
| Emily Gascoigne  | MHCLG |
| Trefor Henman | MHCLG |
| Lily Jesionowska | MHCLG |
| Tahmina Adan | MHCLG |
| Mark Barnett | MHCLG |
| Steve Smith | MHCLG |
| David Bull | MHCLG |
| Elizabeth Passey | HM Treasury |
| Sarah Pickup | LGA (Chair) |
| Nicola Morton | LGA |
| Aivaras Statkevicius  | LGA |
| Bevis Ingram | LGA |
| Mike Heiser | LGA  |
| Guy Ware | London Councils |
| Gary Fielding | County Councils Network |
| Richard Paver | Greater Manchester Combined Authority |
| Jill Penn | Society of District Council Treasurers |
| David Magor | Institute of Revenues Rating & Valuation |
| Tony Kirkham | Solace |
| Graham Soulsby | District Councils Network |
| Frances Foster | SIGOMA |
| Mike Curtis | Society of London Treasurers  |
| Lorna Baxter | Society of County Treasurers |
| Jonathan Bochenski | Valuation Office Agency  |
| Martin Clarke | Greater London Authority  |