Note of Business Rates Retention Steering Group meeting

Title:	Business Rates Retention Steering Group
Date:	Tuesday 12 April 2016
Venue:	Smith Square 1, Ground Floor, Local Government House, Smith Square, London, SW1P 3HZ

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

Item	Decisions and actions

1 Welcome and introductions

The Chair, Stuart Hoggan (Deputy Director of Local Government Finance Reform and Settlement, DCLG) welcomed attendees to the inaugural meeting of the Steering Group. He informed the group that the Secretary of State for Communities and Local Government, Greg Clark, views business rates reform as a central plank of the government's agenda and is keen for the sector to feed in a clear set of ideas on how this reform should go ahead. The aim of this group is to guide the development of these ideas.

Stuart's opening remarks were followed by a round of introductions.

Sarah Pickup (Deputy Chief Executive, LGA) stated that the LGA's Leadership Board had agreed that the association should work closely with DCLG on business rates retention but that the LGA reserves the right to withdraw from this joint working arrangement with DCLG if issues that divide the LGA's membership arise, such as distributional issues. She highlighted that the documents being discussed at this meeting have been published on the LGA website as a way to promote a wider discussion across the sector.

2 Terms of Reference

The Chair asked attendees for their comments on the proposed Terms of Reference. The Steering Group raised the following points:

- The importance of involving Fire Authorities and Combined Authorities directly in the work of the Steering Group and the technical working groups, as well as indirectly through their membership of the LGA.
- The need to clarify what is meant by 100 percent retention of business rates for local authorities referred to in paragraph 1. Attendees presumed it related to local authorities as a whole and not each individual authority.
- The need to clarify what is meant by 'fiscally neutral' in paragraph 1. Specifically, there is an important difference between the reforms being fiscally neutral from

central government's perspective and from local government's perspective, given that local government already enjoys 50 percent business rates retention as a baseline for devolving new responsibilities.
- The need to specify which local government grants will be phased out to ensure the fiscal neutrality of reforms, as referred to in paragraph 1. Attendees confirmed that the document only intended at this stage to refer to Revenue Support Grant (RSG), with other grants considered in the round as part of the work to identify which responsibilities should be devolved.
- The need for further detail on the nature of the oversight relationship between the Steering Group and the three technical working groups, as referred to in paragraph 4. Attendees were keen for the Steering Group to put forward substantive proposals, rather than simply sign-off the technical working groups' proposals.
- The importance of getting direct input from local authorities as well as the technical working groups.

By way of conclusion, the Chair set out the expected timeline for business rates reform from DCLG's perspective. He stated that:

- It is reasonable to expect the announcement of a Bill as soon as practicable.
- The main purpose at this stage is to develop a framework for the legislation, which is likely to be similarly permissive to the primary legislation for 50 percent business rates retention.
- The Secretary of State for DCLG, Greg Clark, is keen to publish discussion documents setting out ideas for this framework in Summer 2016.

Action

Officers to update the Terms of Reference to reflect the suggestions made during the discussion.

3 Devolution of Responsibilities

The Steering Group agreed to consider the *Devolution of Responsibilities* paper first. Introducing the paper, Sophie Broadfield (Deputy Director, LGF Strategy, Revenue and Capital, DCLG) highlighted that DCLG and the LGA should work together to establish the approximate quantum of resources available for new responsibilities once other pre-existing commitments have been taken into account. However, she emphasised that the exact numbers will vary over time depending on factors such as growth forecasts.

In terms of fiscal neutrality, Sophie stressed the importance of being transparent about the responsibilities and funding streams being devolved in order to ensure that the reforms are financially sustainable. She noted that it is possible to develop either a uniform system of business rates retention, with the same things devolved everywhere, or a more asymmetric system with bespoke packages in different areas. In addition, she highlighted that DCLG intend to look at all new responsibilities and existing grants side-by-side, rather than phasing out all grants first and then selecting a list of new responsibilities to match.

In the discussion that followed, the Steering Group raised the following points:

- In the event of asymmetric devolution, the importance of developing clear criteria justifying why some areas have different devolution packages to other areas.
- The question of whether a principle of service consistency across different areas will guide the group’s work.
- The need to clarify whether the aim for a relatively stable demand for funding outlined in paragraph 4(b) refers to local authorities as a sector, or each individual authority.
- The importance of DCLG sharing their calculations on what grant streams are included in the £13 billion to be devolved to local government.
- The need to clarify the role of the four criteria that will guide decisions on whether to devolve new responsibilities to local government. Attendees confirmed that each criteria will be used as a reference point, rather than any given proposal having to satisfy all four criteria.
- The issue of how to fund local services that do not contribute towards economic growth, and the related issue of how to deal with responsibilities that have already been devolved to local government but were not previously funded by central grants.
- The risk of bespoke business rates retention deals leaving local authorities vulnerable to the specific policy demands of central government in order to negotiate favourable deals. This links in to the broader issue of how business rates retention will integrate with pre-existing devolution deals.
- The importance of ensuring that reforms gain the long-term support of the business community. The chief risk identified in this regard was business hostility towards being taxed to fund services that do not support business or economic growth. It was noted that the four proposed criteria to govern decisions to devolve new responsibilities have broader aims than simply the promotion of economic growth. It was also noted that DCLG will convene a business group whose opinions will be fed into the Steering Group.
- The question of whether authorities in existing devolution deal areas can negotiate additional reforms at a lower level of governance. Attendees confirmed that the preference would be to negotiate at the existing Combined Authority level.
- The need to develop section 3 of the paper into a specific list of services that could be considered for devolution. Attendees confirmed that by the next meeting a long list will be available for consideration based on the input of local authorities, and a firmer idea of the quantum of resources available will be presented.
- The importance of central government recognising the existing burdens on local services, some of which are not funded by central grants.

Actions

DCLG and the LGA to work together to calculate (a) the approximate quantum of resources available for new responsibilities and (b) a long list of services that might be devolved and report back at the next meeting, taking account of the discussion here and at the planned meeting of the technical working group.

4 100% Rates retention system

The Steering Group agreed to consider the *100% Rates Retention System* paper next. Introducing the paper, Lucy Rigler (DCLG), highlighted four main areas to be examined: first, the level of local governance at which business rates income is retained; second, the ways in which business rates volatility might be mitigated; third, the issue of what type of safety net might be required for local authorities and how it might be funded; fourth, the ways in which revaluations should occur in order to protect growth incentives. Lucy noted that DCLG and the LGA are keen for the technical working group to begin by examining the second issue (business rates volatility).

In the discussion that followed, the Steering Group raised the following points:

- The importance of calibrating the impact of any decisions made about business rates retention on places with existing devolution deals. Specifically, many such places are working on the an assumption that business rates will be retained in order to fund infrastructure projects; if this assumption is threatened then this might compromise long-term infrastructure investment.
- The need to carefully consider the interim funding impacts on the sector of selecting certain areas for pilot deals.
- The need for clarity on whether, and how, business rates retention might interact with council tax and the joint impact of these on councils' income.
- The potential risk that future recessions might pose to local authority funding under a system of 100 percent business rates retention, including whether this has been forecasted and how it might be mitigated.
- The value of having clear criteria governing what properties go on the central list and which go on local lists. Attendees agreed that there should be a review of what the central list is for, how it is managed and what the funds are used for.
- The importance of feeding into the review of the central list a careful analysis of the different types of risks facing local areas and whether they are best funded by pooling among local authorities or central redistribution.

Actions

DCLG Officers to review how central list operates as part of this work stream.

Technical working group to consider, taking account of the discussion here and make proposals to the Steering Group.

5 Local Tax Flexibilities

The Steering Group agreed to consider the *Local Tax Flexibilities* paper next. Introducing the paper, Nicola Morton (Head of Local Government Finance, LGA) noted that at the same time the government announced 100 percent business rates retention they also announced new tax flexibilities for local government. Specifically, it was announced that local authorities will be able to reduce business rates, and Combined Authority Mayors will be able to raise business rates provided this is supported by their Local Enterprise Partnership (LEP).

Nicola raised a number of questions for discussion: Should all types of local authorities be able to reduce business rates? Should they be able to target reductions at certain types of businesses? How should these decisions be made in two-tier areas? Should LEPs be involved in these decisions as well as decisions about business rates increases? Should reductions be perpetual or time-limited? Should all types of local authorities have the power to increase business rates? Should there be safeguards to prevent tax competition between neighbouring areas? Has the existing 50 percent business rates retention led to tax competition between neighbouring areas?

In the discussion that followed, the Steering Group raised the following points:

- The importance of considering who is likely to benefit from a reduction in business rates under different circumstances. For instance, one can envisage circumstances under which a reduction is counterbalanced by a rise in rents so local business does not benefit.
- The question of how many local authorities use discretionary business rates reliefs at the moment. Attendees confirmed that very few choose to do so in the current financial and budgetary climate.
- The issue of whether Tax Increment Financing (TIF) of infrastructure projects is something that should be promoted through the reforms. Attendees noted that, if so, central government may need to underwrite risks.
- The value of different types of local authorities being able to raise the 2p levy on business rates for infrastructure spending, rather than only Combined Authority Mayors.
- The benefits of all types of local authorities being able to increase business rates, rather than only Combined Authority Mayors – provided a system of checks and balances is developed and implemented.
- The importance of engaging with a wide range of businesses when developing business rates reforms.
- The question of whether local decisions to help certain industries through business rates reductions will count as state aid. Attendees confirmed that this would not be the case.
- The question of whether the 2p levy on business rates for infrastructure spending can be levied in addition to increased business rates. Attendees confirmed that no decision has been made on this yet.
- It was confirmed that there has not been DCLG research on whether the existing 50 percent business rates retention has led to tax competition between neighbouring areas.

Action

Technical working group to consider, taking account of the discussions here and make proposals to the Steering Group.

6 Fair Funding Review

The Steering Group agreed to consider the *Fair Funding Review* paper next. Introducing the paper, Nicola Morton emphasised that this work stream is not intended to progress at the same rate as the other three work streams. She highlighted ‘resets’ of needs assessments as a particularly important issue for the technical working group to consider. In addition, the working group will aim to collect data on what the key drivers of need are.

The Chair stated that this work stream will run in parallel to the other three work streams and they will be integrated at a later stage. He portrayed this work as reaffirmation of the previous government's commitment to a reset of the needs assessment in 2020, although the precise date is subject to change.

In the discussion that followed, the Steering Group raised the following points:

- The need to clarify how this work stream will influence the distribution of retained business rates in relation to other factors such as the work looking at growth incentives. Attendees suggested that both work streams should factor into any decisions, as redistribution and growth incentives are inextricably intertwined.
- The importance of the review being fundamental, rather than starting from the status quo and looking at what changes should be implemented given what we already have.
- The need to clarify when and how resets of needs assessments should be done, particularly if they are no longer linked to Spending Reviews.
- The value of building a model that can have different possible devolved services plugged into it as a way of mapping out different needs profiles under different possible conditions. However, it was suggested that it would be prudent to gather further information on the expected importance of redistribution before engaging in complex model building.
- The importance of the working technical group having access to the most up-to-date data.
- The positive impact that a smooth system of updating needs assessments and business rates revaluations without any step changes would have in managing shifts over time.
- The question of whether the efficiency of local authorities should be a relevant factor when assessing needs. Attendees suggested that efficiency is not relevant to factors increasing the need spend provided calculations are not based on current spend.
- The importance of avoiding 'damping' of the technical working group's proposals at the implementation stage, and relatedly the value of having input into the Steering Group about Ministers' ambitions for the reforms.
- The possibility of the Steering Group agreeing initially on a set of principles to govern work in this area, such as 'the more responsive the system, the better' and 'the system should be accountable'. Attendees emphasised the importance of ensuring that any such principles represent the views of the sector.

Action

Technical working group to consider, taking account of the discussions here and make proposals to the Steering Group.

7 AOB

Other items of business included:

- A request that the papers under discussion and their contents are publicised more widely before and after meetings of the Steering Group. Attendees suggested that this could be achieved through the newsletters and bulletins of the various organisations present and by word-of-mouth at other meetings.

- Invitations for DCLG colleagues to attend the meetings and workplaces of some of the organisations present at the meeting, all of which were accepted.
- The question of how to engage local authorities more going forwards. LGA officers informed the group that their communications team are developing leaflets to be distributed explaining the basic points about business rates retention Attendees felt that the inputs and outcomes of the Steering Group and technical working group meetings will engage local authorities.
- The issue of what role the Valuation Office Agency (VOA) will play. Andrew Edwards (VOA) informed the group that the VOA are already speaking with DCLG on how they can help by providing data to underpin the joint work.

The Chair concluded by noting two other work streams in the overall programme: one on the accounting and accountability of central and local government, the other on the negotiation of the business rates pilots announced in the most recent Budget. He confirmed that the work of both of these groups will be fed back to the Steering Group.

Action

DCLG officers to schedule the first meetings of the four technical working groups prior to the next meeting of the Steering Group.

8 Dates of next meetings

The Steering group approved the following three dates for their next meetings:

Friday 13th May, 14.30-16.30

Monday 13th June, 13.00-15.00

Tuesday 19th July, 13.00-15.00

Action

LGA officer to arrange pre-meets for all of the representatives of local government organisations on the Steering Group.

Appendix A - Attendance

Nominee	Organisation	Attendance
Simon Edwards	County Councils' Network (CCN)	Present
Ian Rooth	Special Interest Group of Municipal Authorities (SIGOMA)	Present as substitute
Paul Martin	Society of Local Authority Chief Executives (SOLACE)	Present
Alison Griffin	Association of Local Authority Treasurers' Societies (ALATS)	Present
Chris West	Association of Local Authority Treasurers' Societies (ALATS)	Present
Sheila Little	Association of Local Authority Treasurers' Societies (ALATS)	Present as substitute
Norma Atlay	Association of Local Authority Treasurers' Societies (ALATS)	Present
Tim Hannam	Association of Local Authority Treasurers' Societies (ALATS)	Present
Joanne Pitt	Chartered Institute of Public Finance and Accounting (CIPFA)	Present as substitute
Andrew Edwards	Valuation Office Agency (VOA)	Present
David Magor	Institute of Revenues Rating and Valuation (IRRV)	Present
Martin Clarke	Greater London Authority	Present
Guy Ware	London Councils	Present
Stuart Hoggan	Department for Communities and Local Government (DCLG)	Present
Sophie Broadfield	Department for Communities and Local Government (DCLG)	Present
Lorenzo Peri	Department for Communities and Local Government (DCLG)	Present
Lucy Rigler	Department for Communities and Local Government (DCLG)	Present
Sarah Pickup	Local Government Association (LGA)	Present
Nicola Morton	Local Government Association (LGA)	Present
John Wilesmith	Local Government Association (LGA)	Present

Sandra Dineen	District Councils' Network (DCN)	Unable to join meeting due to problem with dial-in facility
Frances Foster	Special Interest Group of Municipal Authorities (SIGOMA)	Apologies
Sean Nolan	Chartered Institute of Public Finance and Accounting (CIPFA)	Apologies
Margaret Lee	Association of Local Authority Treasurers' Societies (ALATS)	Apologies