

Note of last Business Rates Retention Steering Group meeting

Title: Business Rates Retention Steering Group
Date: Monday 13 June 2016
Venue: The Milbank Room (8.2), 8th 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
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1 Sub-group updates

(a) Needs and Redistribution Working Group Update

The Chair, Stuart Hoggan (Deputy Director of Local Government Finance Reform and Settlement, DCLG) informed attendees that an officer from the Treasury has agreed to join the Steering Group for future meetings. The Chair then provided attendees with an update on the work of the Needs and Redistribution Working Group. He informed attendees that, at its second meeting, the Working Group had discussed the pattern of 2014/15 local government expenditure on a number of services and how this varied by authorities, regions and classes. The Group agreed that, due to the complex range of factors affecting spending, there was a need for a more sophisticated approach to measuring needs than solely by population. The Group questioned the suitability of past expenditure to establish local authorities' needs, and will look instead at the possibility of an outcome-based measure of need. More broadly, the Chair informed attendees that the upcoming consultation document on business rates retention will focus on areas where legislation is required in this parliament, and as such will include little detail on needs.

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

- The importance of continuing to recognise the unfunded, or hidden, costs that exist, for example the future demand of existing services, as raised during the Working Group meeting.
- The question of how to model needs for new services that are devolved to local government, as the existing formula applies to services already delivered by local government. DCLG officers clarified that this is open for discussion. One possible option is to retain the existing model for existing services alongside a new model for each new service or responsibility; an alternative option is to model the whole package of existing and new services in the round.
- The value of a draft timetable being circulated that sets out the major milestones of the various work streams, so as to allow the Steering Group to consider the sequencing of reforms.
- The possibility of reviewing how the Working Groups operate as they begin to do more detailed pieces of work. For instance, some pieces of work might be delegated to sub-groups within Working Groups.

- The importance of recognising that the distribution of needs funding between different levels of local government will need to be revisited with the advent of combined authorities with elected mayors.

(b) Responsibilities Working Group Update

Bevis Ingram (Senior Finance Adviser, LGA) provided attendees with an update on the work of the Responsibilities Working Group. He informed attendees that the Working Group has met twice since the last Steering Group meeting. At the first meeting, the Working group considered feedback from the Steering Group on the criteria for new responsibilities, and in particular the importance of grouping services by outcomes. The Working Group then commented on a number of possible service areas in light of these criteria, and these comments were used to create a first draft of the paper to be considered later under item 4. At the second meeting, the Working Group reflected on this draft paper and offered some amendments, which have since been incorporated.

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

- The question of the stage at which relevant experts should be invited to partake in discussions of the Working Group or Steering Group. DCLG officers suggested that the most useful time to invite experts into discussions will be once a short list of possible new responsibilities has been settled on in light of responses to the consultation document.
- The importance of circulating papers to the Working Groups as early as possible so that attendees have time to consult with their members prior to the meetings.

(c) Systems Design Working Group: Tax flexibilities update

Lucy Rigler (DCLG) provided attendees with an update on the work of the Systems Design Working Group relating to tax flexibilities for local government. She informed attendees that the Working Group met to consider more detailed papers on the power to reduce the multiplier and the infrastructure levy. Some of the key questions raised about the multiplier were: Which tiers of local government should be granted the power to alter it? What will the interaction be with local discount powers? And, how will the multiplier be increased after a reduction? The Working Group broadly agreed that whichever tier of local government altered the multiplier should be liable to fund the change. Some of the key questions raised about the infrastructure levy were: What does LEP approval mean in practice? And, how will the levy interact with existing Business Rates Supplement Powers (BRS)? The Working Group expressed concern that LEPs were not always representative of local business communities, and this concern has since been communicated to the Business Interest Working Group.

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

- The difficulty of judging which tier of local government should fund changes to the multiplier in the absence of further information about how to design a system that is most likely to strike the appropriate balance between incentives for growth and satisfying needs.
- The possibility of splitting the multiplier, so different tiers of local government have different multipliers, with a recognition of the complexity this might generate.
- The related issue of when more targeted reductions of the multiplier might qualify as state aid.

- The question of the extent to which 'infrastructure' needs to be specified in legislation for the purposes of the infrastructure levy. DCLG officers suggested that a broad legislative definition might be appropriate, with local authorities then having power to decide what qualifies in specific instances.
- The need for borrowing powers to be increased for combined authorities to match levying powers.
- The question of whether the Home Office has indicated any plans to alter the current business rates regime for fire authorities.

Attendees noted that there is an Accounts and Accountability Working Group that has not thus far been sending updates to Steering Group meetings. Sophie Broadfield (Deputy Director, LGF Strategy, Revenue and Capital, DCLG) provided a brief update of that Working Group's last meeting. On the accountability side, the Working Group agreed to study the main Treasury publication on accountability (Managing Public Money) as a basis for their discussions on reforms. On the accounts side, the Working Group have proposed to continue the Collection Fund. They discussed the balanced budget requirement and agreed to explore in further detail how it should be calculated. This will be covered briefly in the Summer consultation document.

Actions

DCLG officers to produce a draft timetable showing the major milestones for the various work streams for the next Steering Group meeting.

Officers to bring updates from the Accounts and Accountability Working Group and the Business Interest Working Group to future meetings of the Steering Group.

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

2 Responsibilities

Bevis Ingram introduced a paper outlining the Responsibilities Working Group's recommendations on areas to include in the consultation document. The first half of the paper focussed on areas where local government currently has responsibilities that are funded by central government grant and offered the Working Group's reasoned judgements on whether particular grants should cease and the responsibility be funded by the funds transferred through business rates retention. The second half of the paper evaluated a number of new responsibilities that local government might fund through business rates retention against the criteria set out by the Steering Group, which centred around outcomes for residents and clients.

Bevis highlighted four assumptions underpinning the Working Group's analysis: first, that Revenue Support Grant (RSG), Rural Services Delivery Grant, Transport for London (TfL) Investment Grant and the City of London offset will all be funded from retained business rates. Second, that business rates funding can be used to replace central government funding that is capital (although the Working Group asked for a clear line on this issue). Third, that it is possible at a later stage to distribute funds in a way that satisfies the needs of local areas. Fourth, that the responsibilities being considered should be suitable for devolution across England as a whole though this would not preclude different levels of devolution in different areas, in line with existing devolution deals.

The Steering Group first considered the Working Group's recommendations on grants to be devolved. The following points were raised:

- The opportunities for public sector reform that the reform of business rates funding provides, and the importance of moving this agenda forwards by focussing on work and skills, rather than administering types of benefits.
- The importance of ensuring the medium-term fiscal neutrality of business rates reforms for local government by ensuring that the future demand for services funded by retained business rates is not likely to increase faster than business rates growth.
- The possibility of weighting the criteria by which services to be funded by retained business rates are evaluated to ensure that certain criteria are always met (e.g. promoting economic growth).
- The need to look at what services local government should fund from retained business rates in the round, particularly taking into account the impact of welfare reform on certain groups, such as older people.
- The value of making an explicit decision on whether local government should prioritise using retained business rates to fund services with a stable income, or to fund services with a riskier return that might offer better opportunities to promote economic growth and/or public sector reform.
- A strong preference that local government spend should not be ring-fenced after the introduction of business rates retention.

The Steering Group then considered the Working Group's recommendations on new responsibilities. The following points were raised:

- The importance of focussing initially on new responsibilities where it is felt local government can improve the efficiency and/or quality of provision, before then focussing on whether the combined budget of these services fits precisely with the quantum. DCLG officers indicated that it might be technically possible to devolve a package of services that collectively overshoot the quantum and that decisions on this have not yet been taken.
- The need for the Steering Group to focus primarily on the desired outcomes to be achieved from local government taking on new responsibilities, while leaving the detailed analysis of specific services to the Working Group.
- The importance of clarity on the national programmes that might be stopped in favour of new local programmes, if certain service areas or new responsibilities were devolved to be funded through retained business rates.
- The need for the sector to agree how it would like devolution deals to interact with business rates retention. For instance, would it be preferable for services that have been devolved in deal areas to be devolved nationally, or for there to be differential devolution funded by business rates, or for some devolved services in deal areas to be funded through grants?
- The need for differential needs funding formulas in the case of differential devolution, and the complexity this would generate.
- The need for more information on the rationale behind devolving different services in different deal areas.
- The value of the Steering Group receiving an update on the business rates retention pilots.
- The group approved of adding co-responding by the Fire Service to the list of potential new responsibilities that look like promising candidates to be funded by retained business rates.

The Chair informed attendees that the consultation document will be a government publication. Sarah Pickup (Deputy Chief Executive, LGA) added that she expected the sector to have a role in shaping the document, and to provide a response through the LGA alongside those expected from individual councils.

Actions

DCLG officers to provide an update on the business rates retention pilots at the next Steering Group meeting.

The 'Principles and criteria for business rates retention' paper that went to an earlier Steering Group meeting to be circulated alongside the papers for all future meetings.

Technical working group to consider, taking account of the discussions here, and make proposals to the Steering Group particularly on the interaction between devolution deals and business rates retention.

3 Systems Design

Lucy Rigler introduced a paper that provided attendees with an update on the Systems Design Working Group's work on managing the risk associated with successful business rate appeals, the interaction of the central list and the local list, and the future of the safety net. She informed attendees that the Working Group has examined the advantages and disadvantages of managing the risk of appeals at different geographical levels, with different members preferring different options. In doing so, the Working Group recognised a likely division between local authorities that want to minimise risk, and those that are prepared to manage higher levels of risk in order to seek rewards. This led the Working Group to consider whether different solutions for managing the risk of appeals might be implemented in different areas.

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

- The criteria that the Steering Group might promote in order to inform the Working Group's ongoing discussions about the best way to manage the risk of appeals.
- The risk of assuming that business rates income will grow, particularly in light of changes to the ways in which new businesses operate (e.g. with less need for large premises).
- The possible value of trialling some of the proposed system designs in business rates retention pilot areas, or using existing pilots' data to draw inferences about different possible system designs.
- The need for clarity on whether there is still a consensus that some risk should be managed at a national level, as agreed at the last Steering Group meeting.
- The importance of looking at how a safety net should be financed. In particular, if regional safety nets are considered, a position will need to be formed on borrowing across regions.
- The interaction between the issue of how to manage the risk of appeals and how to fund the safety net.
- The importance of matching any increased risk devolved to a sub-national level with increased powers to control and manage that risk.

Action

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

4 Note of previous meeting

The Steering Group agreed the note of the previous meeting on 13 May 2016.

Members of the group were keen to arrange a dedicated break-out session where the Steering Group and the Working Groups can interact. DCLG officers suggested that it would be most beneficial to hold this session after the consultation document is published.

5 AOB

The Chair informed attendees that lines for external use describing the meeting will be circulated to them in writing.

Action

Officers to circulate lines for external use describing the current meeting.

Appendix A - Attendance

Nominee	Organisation	Signature
Margaret Lee	County Councils' Network (CCN)	Apologies
Pete Moore (sub)	County Councils' Network (CCN)	Present, as substitute
Sandra Dineen	District Councils' Network (DCN)	Present
Frances Foster	Special Interest Group of Municipal Authorities (SIGOMA)	Present
Paul Martin	Society of Local Authority Chief Executives (SOLACE)	Apologies
Pat Ritchie	North East Combined Authority	Apologies
Tony Kirkham (sub)	North East Combined Authority	Present, as substitute
Alison Griffin	Society of London Treasurers (SLT) - ALATS	Apologies
Duncan Whitfield (sub)	Society of London Treasurers (SLT) - ALATS	Present, as substitute
Chris West	Society of Municipal Treasurers (SMT) - ALATS	Present
Sheila Little	Society of County Treasurers (SCT) - ALATS	Present
Norma Atlay	Society of District Council Treasurers (SDCT) - ALATS	Present
Tim Hannam	Society of Unitary Treasurers (SUT) - ALATS	Present
Sean Nolan	Chartered Institute of Public Finance and Accounting (CIPFA)	Present
Andrew Edwards	Valuation Office Agency (VOA)	Apologies
Charlotte Sewell (sub)	Valuation Office Agency (VOA)	Present, as substitute
David Magor	Institute of Revenues Rating and Valuation (IRRV)	Present
Martin Clarke	Greater London Authority (GLA)	Present
Guy Ware	London Councils	Present
Duncan Savage	Chief Fire Officers Association Finance Network	Present
Richard Paver	Greater Manchester Combined Authority	Present

DCLG		
Stuart Hoggan	Department for Communities and Local Government (DCLG)	Present
Sophie Broadfield	Department for Communities and Local Government (DCLG)	Present
Lucy Rigler	Department for Communities and Local Government (DCLG)	Present
Richard Enderby	Department for Communities and Local Government (DCLG)	Present
LGA		
Sarah Pickup	Local Government Association (LGA)	Present
Nicola Morton	Local Government Association (LGA)	Present
Bevis Ingram	Local Government Association (LGA)	Present
John Wilesmith	Local Government Association (LGA)	Present