Minute of meeting

100% Business Rates Retention
Systems Design Working Group (7th meeting)

Friday 14 October 2016
10.30 – 12.30
LGA House, Smith Square

1. The chair began the meeting by requesting an update from the Steering Group meeting:
    - The Steering Group were interested in the Systems Design paper on risk and were looking forward to receiving the working group's conclusions in due course.
    - The Steering Group received an update on the Fair Funding Review, and viewed it as a good exercise on the initial stages. Some had queried the pace of the work. Some of the dependencies on the work of the Systems Design Group were also noted.
    - The Steering Group had noted and signed off the work in relation to 100% Business Rate Retention pilot authorities.

2. The first paper on **Appeal risk** was introduced. The paper outlined several methodologies for compensating local authorities following successful appeals against the compiled list. Since the proposed system would have to cope with complex cases, illustrations were provided, which the group discussed.
    - Local government were clear that, while it was content to bear the risk and reward from business rate fluctuations resulting from alterations to properties throughout the lifetime of the list, it wanted to find a way to manage valuation errors that were backdated to the first day of the list. Since these valuations would feed into the business rates baseline of a local authority, local government was of the opinion that it should be compensated for the difference between the baseline as calculated and as it should have been calculated (accounting for successful appeals backdated to the first day of the list).
    - A specific challenge was how to translate the change in a property's rateable value into an amount of lost business rates income. This would then allow splitting out the refund element on the property which was backdated and the ongoing refund to reflect the baseline adjustment.
    - DCLG stated that challenge was how to estimate the original loss, so as to ascertain the amount for which local authorities' baselines should be adjusted. Owing to the resulting transfers between central and local government, a firm methodology was necessary.
    - <u>Local government committed to coming forward and sharing local list data and working with DCLG to model some of the approaches outlined in the paper. Westminster, Birmingham, Kettering and the City of London</u>

volunteered to assist. This would ensure that both the principle was correct and that the approach was administratively possible at a local authority level.

- The VOA gave their in principle agreement to this approach.
- The **accounting implications** of the approach in relation to the provisions that local authorities were required to put aside were being explored with CIPFA. DCLG would re-convene the Systems Design accounting sub-group to discuss the worked example. The sub-group would report back to the Systems Design group in due course.

3. The second paper on **Gearing and tier splits** was introduced. DCLG provided modelling to the group, which used historic data to show the effects of different levels of gearing[1] on both counties and districts in 2-tier areas. This showed that risks and rewards were skewed for districts owing to the gearing effect. Although75% of districts' business rates baseline closely matched their baseline funding level, there were significant outliers. It was suggested that if these outliers could be addressed, possibly through reducing the gearing, then business rates income would be a more stable source of income for all authorities and the cost of the safety net would go down.
   - It was noted that gearing could not be viewed in isolation, but that it was necessary to consider, for example, the scheme's wider incentives, the level of protection afforded by the safety net, the amount of deadweight attributable to appeals.
   - Some members of the group suggested that outliers were a result of the initial setup of the scheme: for example, if a major development had come on stream just after the business rates baseline for a particular authority had been set. Growth, then, could be as a result of local political prioritisation, but could also be significantly levered by fortunate timing.
   - Representative organisations of country and district authorities would share their proposals for tier splits in due course
   - DCLG would undertake analysis on the characteristics of outliers, and look at the gearing effect at other area levels.

4. The paper on the **Safety net** was introduced, which proposed different design options, including whether local authorities should be protected on the basis of year-on-year change, whether the safety net should differentiate between different types of authority or the characteristics of those authorities, or be linked to baseline funding level.
   - It was noted that the function of the safety net would be linked to decisions on gearing/tier-splits and the management of appeals.
   - The group were divided on whether authorities ended up on the safety net as a result of the closure of a small number of high paying properties, or as a result of the closure of multiple, smaller ratepayers.
   - The group were also divided on whether an authority's ability to raise council tax should be factored into its falling on the safety net. DCLG would give the concept further thought.

[1] The amount of local business rates that a council is able to raise compared to the amount it is assessed to 'need' as its baseline funding level.

- The group discussed the possibility of an ‘events-based’ approach to safety net funding, which would cater for specific shocks.
- <u>DCLG would provide the group with high level information on the cost of the safety net.</u>

5. The final paper on the **Central List** was introduced. This had been briefly discussed at the meeting held on 2 September.
   - DCLG advised the group that it was currently looking to revise the Central List machinery so that, from a mechanical perspective, it could respond quickly to the changing ratings landscape, and, from a policy perspective, the Secretary of State would be able to decide what sits on the list in the longer term.
   - Local government expressed a view that the Central List should be kept as small as possible, and the financial effect of any transfers between lists should be neutralised.
   - Local Government also stated that there should be an incentive for local authorities to give planning permission to properties that would sit on the Central List. DCLG stated that, although this would be difficult for the central list, the concept of area lists was a proposed middle option, which attempted to recognise that business rates were a local tax, but that some properties were not local.
   - DCLG confirmed that it was aiming to refresh Central List policy alongside the setting of the baseline for the 100% Business Rates Retention scheme, and would set out the proposed policy in due course.

6. Under **Any Other Business**, the group discussed:
   - *Revaluation*, and the frequency of future revaluations, on which the Government is currently consulting.
   - *Appeals data*. At the group’s 2 September meeting, the VOA committed to looking into aggregated appeals data and what might be able to be shared. The VOA reported that it had considered this, and that it could only share data for its own functions, and so would not be able to release the desired data. The group was disappointed with this result.
   - *Business rates growth and needs*. Some members of local government raised a concern that there was not enough funding within the business rates system to both incentive growth and respond to local authorities’ needs. DCLG confirmed that Ministers were aware of intrinsic design questions, but that local government were welcome to bring representations as they saw fit.