

Note of Business Rates Retention Steering Group meeting

Title: Business Rates Retention Steering Group
Date: Tuesday 19 July 2016
Venue: Terrace Lounge, 7th 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 Working Group updates

(a) Responsibilities Working Group

Bevis Ingram (Senior Finance Adviser, LGA) informed attendees that the Responsibilities Working Group has met one since the last Steering Group meeting. At this meeting, the Working group agreed to set up two workshops to be run in August that will each look at two areas in more detail with relevant experts: economic growth and public sector reform (with a particular focus on health and social care integration and welfare). The Working Group considered whether retained business rates might be used to ensure continuity of EU regeneration funding post-referendum and asked for direction from the Steering Group on whether to spend time investigating this option.

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

- The option of using retained business rates to ensure continuity of EU regeneration funding does not appear viable when assessed using the principles and criteria used to assess other potential transfers of responsibilities.
- The value of mapping out, so far as possible, the anticipated growth in demand for the various services under consideration to ensure they do not outpace the anticipated growth in the business rates tax base.
- Department for Communities and Local Government (DCLG) colleagues clarified that, while there has not been formal government confirmation that public health grant will be funded from retained business rates, this is likely to be the case.

(b) Systems Design Working Group

Stuart Hoggan (Deputy Director of Local Government Finance Reform and Settlement, DCLG) informed attendees that the Systems Design Working Group has met once since the last Steering Group meeting. At this meeting, the Working Group drew to a close the first phase of its work, which focussed on clarifying issues around risk and reward in the future system, particularly through the continued use of top-ups and tariffs. In future meetings, the Group will focus more on the second phase of its work, which involves more detailed modelling of potential features of the new system.

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

- The value of receiving an update report from the Working Group on their work on appeals, with specific reference to the pilots..

(c) Needs and Redistribution Working Group

Ian Rose (DCLG) informed attendees that the Needs and Redistribution Working Group has met once since the last Steering Group meeting. At this meeting, the Working Group had considered a move away from the past expenditure-based approach to creating needs formulae and towards an outcome-based approach; however, there was less agreement on the particulars of a new approach. A smaller group of attendees will pursue this line of enquiry in more detail and report back. The Working Group have arranged meetings with various government departments to discuss specific policy areas that interact with their work.

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

- The question of how fundamental the review of measuring need should be, given the implications for the timescale of this work stream.
- The related academic work being undertaken by Professor Sheena Asthana (School of Government, Plymouth University).

(d) Accounts and Accountability Working Group

Stuart Hoggan provided attendees with an update on the work carried out by the Accounts and Accountability Working Group at its first two meetings. At the Working Group's first meeting in May, the substantive discussion item focussed on potential implications for the current Collection Fund arrangements, used to account for business rates income. At the group's second meeting in July, the discussion was largely centred around the potential implications of proposals outlined in a paper prepared for June's Systems Design Working Group meeting, which focussed on reset periods and redistribution arrangements.

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

- The question of whether there are external auditors involved in the Accounts and Accountability Working Group, as their absence might be problematic. [DCLG colleagues subsequently confirmed that there are]

(e) Business Interest Group

Stuart Hoggan provided attendees with an update on the work carried out by the Business Interest Group at its first meeting. The Group considered the potential for a change in the relationship between business and local government centred around their mutual interest in promoting growth. Attendees were supportive of increased local tax flexibilities, but wanted further information about the forward guarantees for any reductions of the multiplier, and on the role that Local Enterprise Partnerships (LEPs) might play in providing scrutiny and transparency to the use of the infrastructure levy.

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

- The issue of whether other interest groups, such as the voluntary sector or the social care sector, ought to be represented in Working Group discussions to the

same extent as the business sector. DCLG colleagues stated that the consultation period would open a wider debate and that they would report back on any bilateral discussions with such organisations..

- The importance of ensuring that this Group is able to contribute to discussions on the design of the new system. It was noted that the group had expressed concerns about demand for services not keeping pace with business rate income and a desire for new responsibilities to include those that allow local authorities to generate growth.
- The value of Groups reflecting at the end of their meeting on what issues they may wish to feed into the the Steering Group. .

Actions

Lead officers from the Systems Design Working Group to provide an update report to the Steering Group on their work on appeals, with specific reference to the pilots.

DCLG officers to clarify the role of external auditors in the Accounts and Accountability Working Group. [This subsequently confirmed]

Working Groups should consider what issues they wish to feed into the Steering Group.

2 Timeline

Stuart Hoggan introduced a draft timeline of the key events from the publication of the business rates consultation in July 2016 to the implementation of the new system in April 2019. He stated that the work is currently progressing for a potential 2019/20 implementation.

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

- The value of having a more detailed timeline that adds in the various levels of detail beneath the key events highlighted in the current timeline.
- The absence of a date for reporting back on the pilots beginning in April 2017. DCLG colleagues stated that there will be a more continuous process of learning from the pilots, rather than a pilot period followed by a report.
- The need for each Working Group to consider a plan for their work leading up to the next consultation in November 2016, followed by a plan to be considered by the Steering Group incorporating the various Working Group plans.

Actions

Each Working Group to consider a plan for their work leading up to the next consultation in November 2016.

The Steering Group to consider a plan leading up to the next consultation in November 2016, incorporating the various Working Groups' plans.

3 Pilots

Richard Paver (Treasurer, Greater Manchester Combined Authority) introduced a slide pack with details of the Greater Manchester business rates retention pilot. He highlighted four areas of focus for the pilots: incentivising economic growth; transfer of functions; creating a stable funding regime; and redistribution of business rates income. Richard emphasised that a central feature of the pilot is that Greater Manchester is not looking to take resources from other areas, but rather to retain the resources already in the Greater Manchester Combined Authority area.

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

- The question of whether funding pilots from retained business rates will reduce the remaining quantum of business rates available to non-pilot areas. Attendees clarified that non-pilot areas will only have available business rates to match their receipts.
- The importance of distinguishing *financial* disadvantages for certain areas, which will not necessarily follow from asymmetric devolution of services to be funded from retained business rates because central government grant can be used to fund these services elsewhere, from any potential *opportunity* disadvantages for certain areas (in terms of opportunities to fund services from business rates), which could follow from asymmetric devolution of services to be funded from retained business rates.
- The importance of factoring in unfunded pressures and demand growth for services currently provided by local government when calculating the amount of the quantum of retained business rates they require.
- The possibility of retaining some grant in the new system in order to ensure that service demands match resource availability over time.
- The possibility of allowing different parts of the country to retain business rates growth, rather than doing revaluations.

Mark Barnett (DCLG) introduced a paper that provided a more general update on the business rates retention pilots. He highlighted that DCLG have held discussions with all local authorities with pilots. The two main options discussed to ensure pilots are cost neutral are: (i) to move to 100% retained business rates and then adjust tariffs and top ups in light of the funding streams devolved, or (ii) to first identify the funding streams to be funded from retained business rates and then set the level of retained business rates to match. The pilots will also be used to test mechanisms for system design, particularly around handling appeals.

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

- The importance of clarifying that pilot areas will retain any business rates that result from growth of the business rates tax base in their area above the initial baseline. DCLG colleagues clarified that tariffs and top ups will fix a starting position beyond which growth will be retained by local areas.
- The need to factor in inflation when calculating growth in the business rates tax base.
- The question of whether there will be pilots in two-tier areas, given the message in the Budget that pilots will only be in areas with ratified devolution deals. DCLG colleagues stated that, in general terms, government has an appetite for pilots in two-tier areas.
- The value of detailed quarterly reports on the pilots feeding into the relevant Working Groups, particularly the Systems Design Group.

Actions

Officers to present regular reports on the pilots to the relevant Working Groups.

Working Groups to consider, taking account of the discussions here, and make proposals to the Steering Group.

4 Business Rates Retention & Devolution Deals

Vicky Jones (DCLG) introduced a paper from the Responsibilities Working Group on the interactions between business rates retention and devolution deals, which was commissioned by the Steering Group at its last meeting. She highlighted three main questions raised by the Working Group: Are the services included in existing devolution deals strong candidates to be funded by business rates? If so, then at what geographical level should these services be provided (if the answer is combined authority level, then this means they cannot be rolled out universally)? How much of the overall quantum of retained business rates is it desirable to use to fund services in devolution deals? The Working Group plans to tackle these three questions in depth at meetings over the summer with experts.

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

- The risk that allowing devolution of more services to be funded by retained business rates in certain areas will lead to the perception that these areas are receiving more funding than other areas.
- The possible benefits of using grant to equalise opportunities to devolve services if services funded by retained business rates are not universal.
- The importance of obtaining clarity on what is meant by 'equality of opportunity', not just on day one of the new system, but in the medium term given differential growth across areas.
- The likely overlap between grants and services that are potential candidates for inclusion in devolution deals, and those that are strong candidates to be funded by retained business rates, given that both reforms have a strong focus on promoting economic growth.
- The value of taking a case-by-case approach to the different grants and services in existing devolution deals: some might be suitable for universal funding from retained business rates; some might be suitable for funding from retained business rates only in certain areas; and others might not be suitable for funding from retained business rates.
- The need for the Steering Group to form a view on whether or not – at the level of principle – it is desirable to have a uniform range of services funded from business rates across all areas, or to have differences between devo deal and non-devo deal areas, or to have difference between all areas.
- The value of the Responsibilities Working Group re-applying the themed groupings of services that the Steering Group agreed at a previous meeting to the list of services in existing devo deals that might be that might be funded from retained business rates.
- The importance of factoring in the growth path of services into future calculations.

Actions

Responsibilities Working Group to re-apply the themed groupings of services that the Steering Group agreed at a previous meeting to the list of services in existing devo

deals that might be that might be funded from retained business rates, and to factor in the growth paths of services.

5 Business Rates Retention Consultation

Stuart Hoggan thanked the Steering Group for their valuable input into the process of formulating the consultation. He informed attendees that, alongside the ongoing work of the Steering Group and Working Groups, the LGA and DCLG are planning events across the country as part of the consultation exercise.

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

- A small number of issues in the consultation paper had not been discussed at Steering Group meetings (as opposed to Working Group Meetings). There needed to be regular feedback between the Working Group and Steering Groups.
- The value of responses to the consultation covering a broader range of issues than those set out in the 36 questions at the end of the document. DCLG colleagues welcomed responses that touch on a broader range of issues.
- The importance of Steering Group members engaging with the organisations that they represent, as well as more widely, in order to encourage the broadest possible set of responses to the consultation.

Action

Steering Group members to encourage the organisations they represent to engage with the consultation process.

6 Initial Feedback on Business Rates retention

Nicola Morton (Head, Local Government Finance, LGA) introduced the paper, which summarised the initial feedback received from local government, at both officer and member level, on the business rates retention proposals.

Action

Officers to continue collating feedback from local government and updating this document accordingly.

7 Summary of key press lines

The Steering Group agreed that the following lines will be used externally to describe the current meeting:

- *The Steering Group discussed the work of the five technical working groups and particularly talked about how to ensure strong working relationships between the Steering Group and the working groups.*
- *We also discussed the business rates retention pilot in Greater Manchester and the more general links between pilots, devolution deals and business rates retention.*

- *The Responsibilities Working Group was tasked with drilling down into the precise services that might be funded from retained business rates, including details of which organisations currently hold the budgets for these services.*
- *The Steering Group considered the feedback received through the business rates website and encouraged more feedback, particularly on appeals, needs assessments and incentivisation.*
- *We discussed the government consultation on business rates retention and affirmed the need for full and broad engagement and responses that reach beyond the formal questions set out in the document.*

Action

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

8 Minutes of the last meeting

The Steering Group agreed the minutes of the last meeting on 13 June 2016.

9 AOB

The Steering Group agreed the suggested set of dates for future meetings.

Action

Steering Group members to send through between six and eight ideas for topics to discuss at an away day with the Working Groups to businessrates@local.gov.uk, with the email title referencing the Business Rates Retention Steering Group.

Appendix A - Attendance

Nominee	Organisation	Signature
Margaret Lee	County Councils' Network (CCN)	Present
Sandra Dineen	District Councils' Network (DCN)	Apologies
Graham Soulsby (sub)	District Councils' Network (DCN)	Present
Frances Foster	Special Interest Group of Municipal Authorities (SIGOMA)	Apologies

Paul Martin	Society of Local Authority Chief Executives (SOLACE)	Present
Pat Ritchie	North East Combined Authority	Apologies
Janice Gillespie (sub)	North East Combined Authority	Present
Alison Griffin	Society of London Treasurers (SLT) - ALATS	Present
Chris West	Society of Municipal Treasurers (SMT) - ALATS	Apologies
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 (by phone)
Andrew Edwards	Valuation Office Agency (VOA)	Apologies
Charlotte Sewell (sub)	Valuation Office Agency (VOA)	Present
David Magor	Institute of Revenues Rating and Valuation (IRRV)	Present
Martin Clarke	Greater London Authority (GLA)	Apologies
Martin Mitchell (sub)	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
Richard Flinton	Society of Local Authority Chief Executives (SOLACE)	Apologies
Chris Jackson	HM Treasury	Apologies
DCLG		
Matthew Style	Department for Communities and Local Government (DCLG)	Present
Stuart Hoggan	Department for Communities and Local Government (DCLG)	Present
Lorenzo Peri	Department for Communities and Local Government (DCLG)	Present

Ian Rose	Department for Communities and Local Government (DCLG)	Present
Mark Barnett	Department for Communities and Local Government (DCLG)	Present
Vicky Jones	Department for Communities and Local Government (DCLG)	Present
Jonathan Denning	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