Minute of meeting

100% Business Rates Retention
Systems Design Working Group

Wednesday 4 May 2016
2.30 – 4.30pm
Local Government House

1. The Chair gave an overview of the Government's announcement on 100% BRR and specifically:
    - The Government's intention that the policy should be developed with the sector, but that decisions would ultimately lie with Ministers;
    - The arrangements in place between DCLG and the LGA to facilitate this, including other technical working groups (on needs and resources, and devolution of responsibilities), as well as the overarching Steering Group;
    - The working timetable;
    - That while the Government envisages that the policy is to be introduced as announced, it welcomes representations that make the case for other changes.

2. The Systems Design Working Group Terms of Reference were discussed. In addition to those stated, the group wanted the opportunity to discuss:
    - Other designated areas (such as renewable energy), in addition to Enterprise Zones,
    - How some of the devolution deals in place might impact on 100% retention of business rates
    - Resets and how to deal with growth gains (which should be discussed in this forum as well as the Technical Working Group on the Fair Funding Review)
    - The effect of revaluation
    - Reliefs within the system
    - Asymmetrical devolution of responsibilities and how this might affect the system.

    The group also discussed:
    - the balancing of needs of local authorities versus the incentivisation for growth;
    - The operationalizing of the scheme, where it was suggested that some technical points could be covered in appropriate others forums, such as the Central Local Information Partnership (CLIP) – Finance Subgroup;
    - The VOA and its role in managing appeal risk.

    It was agreed that a representative of fire authorities would be invited to the group when there was an issue which concerned them

3. The first paper on **Local Tax Flexibilities** was tabled and the group discussed issues arising from the proposition that local authorities could have the power to reduce the business rates multiplier:

- The effect of a reduction at the time of a revaluation, which could strip out the effect of the revaluation. To account for this, a benchmark multiplier could be used, for the sake of comparison;
- The nature of particular authorities will impact on their ability to use the power;
- Issues concerning how such flexibilities might work in two-tier areas, where the tier setting the rate would not be the tier paying the rate (though it was noted that this issue already exists in the current system). The suggestion was made to look at policy areas where this already happens to consider how it is managed currently (e.g. Disabled Facilities Grant, Local Council Tax Support)
- Concerns that the new power could hand excessive power to businesses who might lobby authorities to introduce a reduction to the multiplier.
- The observation that any reduction in the business rates paid could be offset by an increase in rental value (though there was a lag between the two).
- There might not be appetite amongst local authorities to lower rates as it was suggested that authorities might not have the financial headroom to lower rates.
- Suggestions that it should be possible to exclude certain properties – such as power stations – from the reduction (if not considered state aid).
- It would be necessary to have clear answers on what would, and what would not, constitute State Aid

4. The group also discussed issues arising from the policy aim of allowing combined authority mayors to levy a supplement on business rates bills to fund new infrastructure projects, provided they have the support of the business community through the Local Enterprise Partnership (LEP). It was noted that:
    - In many areas, only a small percentage of the business rates base would pay a supplement, if, like the Business Rates Supplement, it were only to be levied on properties with a rateable value over £50,000.
    - It would need to be clarified whether London was included in the original announcement.
    - There may be a need to review the Business Rates Support Act and regulations alongside any decisions on the supplement.
    - It was noted that LEP approval might not be sufficient, while the policy as currently designed prevented non-mayoral authorities from introducing an infrastructure levy.
    - Whether all authorities should be given the power, perhaps replacing Business Rates Supplement
    - A 'large project facility' encompassing multiple areas should be considered, perhaps where a LEP could fill the role of a combined authority.

5. The second paper on **Mitigation of Appeal Risk** was introduced. Following discussion, it was noted that
    - The Group agreed with the policy intention that the direct impact of valuation "errors" should be removed from the system at a local level.
    - However, there were concerns about how the system should be funded, and widespread agreement that a safety net would also still be necessary.
    - Funding the proposition through adjusting the multiplier to create additional "headroom" within the system could be explored.

- There would be a lot of detail to be resolved in this proposition, including the operationalization of any compensatory arrangements, whether payments would occur in year, and how local areas would move to a new approach (ie what would happen to the remaining provisions that they hold?). It was agreed that these details should be considered after exploring the overall design of a scheme.
- There are concerns regarding reliefs within the system, particularly applications for mandatory relief by public sector organisations.
- This work should also consider the role of the VOA.
- The behaviour of rating agents and avoidance tactics would also be a consideration of any changes.
- There was a suggestion that risk should lie with central government, since it was central government (through the VOA) who were responsible for valuation “errors”.

6. Following in principle agreement, the group discussed how to test the proposed system. Some local authorities suggested that, in the absence of suitable data from the VOA, local information and retrospective modelling of the proposed change could be shared.

7. It was agreed that a paper would be put to the group on proposed changes to the current VOA appeals system and the effect that this might have on the appeals process.