Minute of meeting

100% Business Rates Retention
Systems Design Working Group (5th meeting)

Monday 25 July 2016
11.00 – 12.30
Local Government House, Smith Square

1. The Chair began the meeting by asking for comments on the minutes from the previous meeting.
    - A paper from the VOA on dealing with appeals is forthcoming, and will form part of a wider discussion on appeal risk at the next meeting.

2. The group noted the publication of the DCLG consultation document, Self-sufficient local government: 100% business rates retention, which contains a broad overview of the questions around the design of the system, and raised queries about the wider timetable of the work:
    - DCLG were confident that there would be sufficient time to analyse the consultation responses before the planned publication of a more detailed technical consultation in November;
    - The Systems Design Working Group will continue to meet through the consultation window, and outputs from the group would feed into representations received through the consultation to inform the planned technical consultation. DCLG is still considering the length of this consultation period, though it was noted that local government prefer longer consultations. It is not expected that the consultation will be linked to that on the 2017/18 local government finance settlement.
    - DCLG confirmed that pilot authorities were working to a different timetable, and the group should focus its attention on designing a system ready for introduction in 2019/20 or 2020/21.
    - Some of the group suggested that there might be lessons to be learned from the devolved administrations. DCLG will consider whether such a paper would be useful, bearing in mind the group's timetable and the fact that business rates retention is not a feature in these areas.

3. The local government paper on **System Design Basics** was introduced. The group discussed:
    - Appeals and the rate at which the multiplier should be set in order to create sufficient headroom within the system to cover appeals.
      ACTION: DCLG to confirm whether sufficient legislative power already exists to adjust the multiplier year on year.
    - Several within the group were keen for the multiplier to be set so that more headroom would be created to deal with appeals, though it was noted that this was effectively setting a higher tax rate.

- That there is high degree of regional variation in provisions made by local authorities, and in successful appeals.
- The fact that it would not be known if current local authority provisions are correct until these have worked through the system.
- With the introduction of the new Check, Challenge, Appeal legislation, some in the group felt that it would be harder for local authorities to judge the appropriate provisions to make for appeal losses.
- The poor performance of the VOA in dealing with appeals was raised by the group, though it was noted that performance management of the VOA was outside the scope of this group.
  <u>ACTION: the group's concerns on the performance of the VOA should be referred to the Steering Group.</u>

4. The group also discussed the **Central List**, specifically:
   - Whether the design of the listing system should insulate and protect local authorities in situations where a large ratepayer closes, substantially affecting business rates receipts. In this case, there could also be significant knock-on effects further down the supply chain.
   - As an alternative to taking larger, riskier properties onto the Central List, such risk could be managed by an additional safety net that might kick in exceptional circumstances, or by a safety net that was set at an appropriate level.
   - The group felt that, in terms of business rates receipts for local authorities, there was no inherent difference between a local authority's income dropping as a result of the closure of a single, large ratepayer, or from multiple, smaller ratepayers.
   - The Central List could therefore be populated by hereditaments that are inherently non-local, such as national networks. This approach could be applied proactively to the current Central List with the possibility that some hereditaments are returned to local lists.
     <u>ACTION: DCLG to bring a policy paper to the next meeting of the group, including a proposition on what could sit on the Central List and on local lists.</u>
   - In a related conversation about risk to local authority income, it was felt that a mechanism could be built in to incentivise local authorities to move off the safety net.

5. **Growth gains at revaluations** were discussed, specifically:
   - That economic growth is not captured at a revaluation, but that activity that increases the value of a property, such as the refurbishment of an office block, is captured.
   - DCLG reiterated that revaluation was a zero-sum exercise. The group questioned whether this should always be the case.

6. The second paper on **Resets and Growth** (written by DCLG) was introduced. The aim of this paper was to isolate one element of the system (how to handle growth at resets, excluding all changes in need), with a view to getting a steer from the group to inform the design of other elements of the system (though noting that it may then be

necessary to return and re-evaluate earlier decisions). After the assumptions had been discussed, three models were introduced:

- First, **infrequent resets** (20 years or never). This showed that local authorities' retained income diverges significantly from baseline funding levels, before being reset. This maximises the growth incentive, but leaves authorities at the bottom of the chart seeing a significant reduction in income.
- Second, **frequent resets** (every 5 years). This would ensure business rates income was frequently redistributed to meet relative need. Local authorities would retain a 'growth incentive' for the years between resets, but all growth in business rates achieved by local authorities would go back into the redistribution system every 5 years.
- Third, a **partial reset** of receipts growth, which could work by allowing individual authorities to retain a proportion of any achieved growth in business rates income, with the other portion returned to the overall resource pot to be redistributed. Under the modelled scenario, a 'partial reset' takes place every 5 years and allows individual local authorities to retain 50% of the growth in business rates income that they have achieved during the previous reset period. At the other end of the scale, it aims to return all authorities that have seen 'negative growth' to 100% of their relative baseline funding level at each reset.

7. The group were strongly in favour of the third, partial reset option, liking the modelled scenario in which partial resets of receipts growth occurred every 5 years, through which 50% of the growth was redistributed, while a full reset would take place every 20 years. Other points raised were:
   - A first order query on what was the Government's policy on retaining growth, following the 'strong incentive' wording in the recent consultation document. It was argued that the incentive should be strong, and that the system should be designed such that an authority would not hold back large projects because it wants to retain the growth benefit for 5 years, as opposed to 1, for example.
   - The suggestion that resets and revaluations should be on the same timetable.
   - The trade-off between a higher % of retained growth, which was attractive, and the need to have a secure income stream to provide for service delivery.
   - The interaction with the needs baseline. While this scenario only modelled partial resets of growth retention, there may also be value in also applying a partial reset to certain elements of need. The Needs and Resources Working Group will be considering how frequently to reset the needs baseline at their next meeting.
   - Concern about outliers, and the fact that other elements of the system, such as appeals and gearing, would have an effect.

   <u>ACTION: DCLG to continue to work on the modelling, particularly to explore the % of retained growth, and how high this could be, while still having enough to redistribute in order to bring those authorities with 'negative growth' back to their baseline funding level at the partial reset.</u>

8. The final item on the new **Check, Challenge, Appeal** approach to business rate appeals was introduced by the VOA. Though this may lead to a larger number of ‘checks’ in the first instance, it is envisaged that there will be fewer ‘challenges’ and ‘appeals’, and therefore the legislation should lower the number of speculative appeals. Additionally,
    - The VOA are working on an online platform through which ratepayers could view their bills online, though this may not be ready for April.
    - DCLG and the VOA were unsure how rating agents would react to the new system, but the new legislation would mean that there would be more work in bringing an appeal.

9. Final points were made, including:
    - The DCN and the CCN were working on a paper on tier splits, which could be discussed at the next meeting as part of the discussion on gearing.
    - DCLG were exploring sharing modelling and data with the LGA, though the current position was that DCLG would bring the outputs of models to the working group.