Minute of meeting

100% Business Rates Retention
Systems Design Working Group (3rd meeting)

Wednesday 1 June 2016
11.00 – 12.30
2 Marsham Street

1. The Chair began the meeting by addressing the action points as outlined in the minutes to the previous meeting:
   - DCLG had circulated further analysis relating to the Central List, specifically possible categories of hereditaments that could be removed from local lists. <u>ACTION: Group to feed back comments by email.</u>
   - DCLG were working on further analysis about safety net usage. This would be sent to the Group in due course.
   - DCLG and Cipfa were scheduled to meet later in w/c 30 May to discuss the interaction of the potential reforms with accounting guidelines.

2. A paper on changes currently being put in place by the VOA would be shared with the Group in due course.

3. The first papers on the **Power to reduce the multiplier** were introduced. These covered:
   - The scope of the power to reduce the multiplier,
   - The period of any reduction to the multiplier,
   - Decision making and costs associated with reducing the multiplier, especially in two-tier areas and in relation to FRAs/PCCs,
   - Potential safeguards for neighbouring areas, and
   - Increasing the multiplier after a reduction.

4. The group discussed:
   - Whether the power should exist, and if it was desirable to promote competition between local authorities. Some members argued that business rates were zero sum at national level, while others noted that business rates were part of the overall package to foreign investors.
   - How far the exercise of the power should be controlled by central government, or left as a local decision. The latter was favoured by the Group, and it was noted that local authorities could come together and share the costs of any reduction.
   - The point of principle as to whether one tier should make a policy decision where the cost would be borne by another. There was agreement that whoever makes the policy decision to reduce the multiplier should bear the costs.

– The extent to which the potential power to reduce the multiplier would be used by local authorities – the group felt that this was unlikely to be heavily used.
– It was suggested that the group should look at how grants which are paid to one tier but which have a financial impact upon another tier such as Disabled Facilities Grant, and Council Tax Support Grant, are dealt with.
– The interaction with the safety net, and whether an authority choosing to reduce the multiplier should be eligible for safety net funds – the general consensus from the group was that any safety net payment required should disregard reduction in income resulting from the given authority's decision to reduce the multiplier.
– The consensus was that there should not be anything to prevent councils increasing the multiplier after a reduction
– The group argued that Fire and Rescue Authorities should not have the power to reduce the multiplier
– Displacement issues for hereditaments on the boundary of areas (Enterprise Zones or local authorities) where it was suggest that there may be a case for targeted discounts or reliefs. Related to this, the Group queried at what point State Aid rules would apply.
– Some commented that the group needed a set of overall design principles.

<u>ACTION: A paper on overall Design Principles to be produced by local government.</u>

5. The second series of papers on the proposed **Infrastructure levy** were introduced. The Group discussed:
   – Whether the levy would exist in addition to the Business Rates Supplement (BRS). Officials confirmed that it was envisaged that the Business Rates Supplement would exist outside Combined Authority areas, but that the levy mechanism would replace the BRS inside Mayoral Combined Authorities.
   – It was raised that the BRS powers provide for levying authorities to exempt BIDs from any supplement, and a similar provision was proposed for the levy.
   – It was noted that to successfully fund infrastructure projects, which are necessarily long term, the power needed certainty and longevity.

6. The nature of LEP approval of the levy was discussed. It was felt that:
   – The LEP landscape differed in different areas, and some members of the Group felt that LEPs were not representative of the business community, and so it might be necessary to seek additional input from other representative organisations, or wider community representation. In some areas the LEP and the combined authority work very closely together.
   – There were concerns relating to infrastructure projects that might cover multiple LEPs without coterminous geographies
   – There may be potential conflicts between a LEP board (which on the whole are not elected) and a Mayor (who is a democratically elected leader).

<u>ACTION: DCLG to speak with internal colleagues working on LEP policy</u>

ACTION: North East Combined Authority region to share LEP experience and planned changes.

7. The LGA presented the final paper with their proposals for reforming **Business Rates Reliefs**. This highlighted in particular the largest mandatory reliefs (charitable reliefs, empty premises reliefs, small business rates reliefs), and made the case for localising all reliefs, so that local authorities could decide on applying these, or reforming reliefs in order to make them more targeted. Local government representatives argued that this would enable authorities to intervene more effectively in order to create local growth and jobs.

8. The local government representatives on the group expressed a desire to have more local flexibility on these three reliefs and on reliefs generally. Also discussed were:
   - That localising these reliefs might aid tackling avoidance.
   - Whether it would be possible to reduce the statutory mandatory relief percentage to 50%
   - How to deal with publically funded bodies who had a change in status that resulted in a relief being granted and loss of income to the local authority, to ensure that money was not merely being moved around the system.
   - The *ad hoc* nature of some of the criteria for benefitting from reliefs, and the Group's wish for clearer principles.
   - The tax status of town centre student accommodation
   - the reliefs afforded to charity shops which some in the group felt is centrally driven and may not accord with local circumstances.
   - The need to recognise the position of Business Rates reliefs in the wider tax system, including the recent conclusion of the review at Budget, which made no changes to reliefs

9. The Chair asked for **Any Other Business** and the group expressed:
   - The benefits of a future conversation on the development of the future formula for assessing need, and how the future system could manage a period where need diverges from resources. It was pointed out that these are also being discussed in other Working Groups and in the Steering Group.

   ACTION: the Group to continue discussion by email.