Minute of meeting

100% Business Rates Retention
Systems Design Working Group (2nd meeting)

Friday 20 May 2016
10.30 – 12.30
Local Government House

1. The Chair began the meeting and asked for any opening comments. There were requests for discussion papers to be to be circulated further in advance of meetings, in order to allow the working group to canvass views within their organisations, as well as for future minutes to include specific action points.

2. The group were updated on wider Government developments concerning the 100% Business Rates Retention policy, specifically:

   - That the Local Growth and Jobs Bill, announced in the Queen's Speech and planned for introduction in early 2017, would be the legislative vehicle for the policy;
   - DCLG aim to produce a consultation paper later in the year, which would be broad in scope and include multiple options. The working group were encouraged to offer suggestions.

3. The first paper on the **Central List** was introduced. The group discussed the current issues with the interaction of the Central List and local lists, and the potential for reforms to the ratings list systems, including:

   - The possible use of Central List funds as a means to incentivise growth, but also to protect local authorities from some of the risk currently held on local ratings lists.
   - The interaction between the Central List income and the quantum of services to be devolved to local authorities.
   - That the risk faced by local authorities from volatility of business rates income would be far larger under the 100% business rates retention system.
   - The desire to keep any reforms to the listings system simple (especially in relation to the proposal to introduce Area Lists).

4. The group discussed the proposition of Area Lists, which were favoured by some, but not others. It was agreed that these should be considered in the light of some worked examples, pending decisions on what may sit on different levels of list. In addition, the group discussed:

   - Concerns that Area Lists would be difficult to set up owing to differing political geographies. However, these concerns should be seen against the backdrop of a growing number of devolution deals.

- At what level it was appropriate to bear risk, and whether it was preferable for Central Government to collect money to compensate for successful appeals, or to pass these funds to local government to hold. It was noted that the latter is very similar to local authorities' current system of provision based accounting.

5. Particular types of hereditament were discussed, and on what level of list these might best sit:

   - Local transport networks, which were argued to be sub-regional or local. It was noted that the income from these hereditaments was not necessarily stable, and so despite their defined geographies, these might not be best managed on a local list.
   - Power stations, where there was common consensus that these should not be managed on local lists.

6. More generally, the group wanted a better sense of scale as to how many local authority lists might be affected by the movement of a large single ratepayer, such as a power station, to the Central List.
   <u>ACTION: DCLG to look into producing further information on this</u>
   <u>ACTION: Working group members to consider what types of hereditaments should not be placed on local lists</u>

7. The movement of hereditaments between lists and the transition to any new system were discussed:

   - It was suggested local lists could be swept for hereditaments that should be moved. If a hereditament subsequently moved off a local list, then a corresponding adjustment could be made to that authority's tariff or top-up.
   - It was reported that some authorities will have built in assumptions on future growth from hereditaments that may move to the Central List as part of any reforms. Transitional arrangements were called for in these instances.

8. The second paper on the **Safety Net** was introduced. It was acknowledged that many of the issues discussed in relation to the first paper were highly relevant, for example the amount of risk that local authorities should bear.

9. The group agreed that the safety net should remain under the 100% BRR system and that its purpose should be to ensure that local authorities would be able to continue to provide statutory services if they suffer a decline in business rates income. The group discussed instances of authorities that would struggle to regrow their base in order to move off the safety net. It was acknowledged that the frequency of system resets would be of key importance for these types of authorities.

10. It was suggested that the starting point for setting the level of safety net should be the level at which it is currently set in the 50% system – ie where a local authority's income falls below 92.5% of its baseline funding level, it is topped back up to that level. Under this arrangement, a relatively small number of local authorities are reliant on the safety net.

<u>ACTION: DCLG to share further information about safety net usage to inform subsequent discussions</u>

11. Following the abolishment of the levy, the group agreed that the safety net could be funded from the Central List, from a topslice, or from a mixture of both. It was argued that it was important that there remained a mechanism to return any additional funds to local government (though this would be dependent on whether such provision was held at central or local level).

12. Regardless of what policy decisions are made on the design of the safety net, it was noted that local authorities are bound to follow certain accounting definitions. <u>ACTION: DCLG to have separate discussion with CIPFA to explore interaction of potential reform with accounting guidelines.</u>

13. Other issues raised relating to the safety net:
    - A local authority's likelihood of requiring assistance from the safety net was linked to its gearing, especially highly geared authorities.
    - The observation that the appeals system (discussed in a paper at the previous meeting of the group) is a driver of safety net use.
    - The interaction between the safety net and resets of the business rates retention system. If resets were to occur frequently, then the safety net would be less critical. However, it was argued that, fundamentally, resets go against long term planning. It was agreed that resets would be discussed in a future meeting and that longer term work with the Needs and Resources group would be required.
    - The possibility of a safety net for annual growth was discussed, as proposed at the time of the design of the 50% BRR system, in which a safety net would track the authority's growth in the previous year. While, in principle, this would give local authorities greater confidence in using the proceeds of growth, the group ultimately deemed the concept too difficult to implement, and potentially open to perverse incentives.
    - The group agreed that a decision would have to be made on what geographical level would be appropriate for a safety net. For any level below national, the areas would need to be defined, and it was not clear whether this could/would be by central or local government.
    - The suggestion was made that safety net calculations could take into account total council income (ie including council tax).
    - Different safety nets could be introduced dependent on the services devolved on the understanding that some services, such as social care, require more protection.

14. It was agreed that at the next meeting on 1 June, the group would discuss papers on:
    - Tax flexibilities
    - Reliefs (a paper to be prepared by local government)
    - Multiplier flexibilities (a paper to be prepared by local government)