



Summary Note – Meeting of System Design and Implementation Working Group

Title: **System Design Working Group**
Date: **Thursday 20th June 2019, 11:00 – 14:30**
Venue: **LGA headquarters, 18 Smith Square, London, SW1P 3HZ**

1. Attendance

- a. An attendance list is attached to this note. Please see Annex A.

2. Welcome and opening

- a. The meeting was chaired by Mark Barnett, who opened the meeting with introductions and welcomed attendees.

3. Minutes of last meeting and matters arising

- a. It was mentioned that MHCLG should revisit the attendance sheet from the last WG to make sure it's accurate (**Action 1**).
- b. A request was made that MHCLG should send any data in an excel file separately for future meetings for ease.
- c. Mark Barnett went through the actions from the last meeting and it was concluded that they were still open.
 - i. In particular, when action 2 and 3 were discussed, it was concluded that MHCLG would produce consistent figures for each element of the alternative model for ease of comprehension (**Action 2**).

4. Operationalising the Alternative Arrangements

- a. Mark Barnett presented the paper.
- b. The WG expressed their concerns that growth in accounting terms is defined differently to the growth mentioned under the alternative system, and it would be useful to see how the accounting and operation system works together.
- c. MHCLG responded that growth is defined by what local authorities receive above their BFL. The alternative model (AM) rewards local authorities real underlining growth regardless on how that matches with the collection fund balances.

- d. There was a question on how does the AM in reality work and what happens when there is an increase in the amount of reliefs in the system.
- e. MHCLG responded that it depends on the future direction of reliefs and how the government plans to take it forward. As previously mentioned, MHCLG said it would provide figures for each element of the AM for ease of comprehension (**Action 3**).
- f. MHCLG noted that reconciliations will still happen the same way under the alternative system as the current system.
- g. There was consensus that the AM seems to be easy to understand, however there is still concern on how growth would be measured under the new system.
- h. The group raised concerns about the use of VOA data in order to calculate growth.
- i. MHCLG responded that that using VOA data would not change how you measure growth. The RV data would be used to calculate the baseline and you can readjust the baseline for things like reliefs.
- j. A comment followed from the group that they liked the RV solution as seems easy to get to. MHCLG responded and said we will carry out further work in exploring the effects of the two options (RV/NNDR) and how both options work with reliefs (**Action 4**).
- k. The discussion turned to concerns on being able to get data from the VOA. MHCLG said they will be commissioning the VOA to produce a data set and will share with the WG (**Action 5**).
- l. The WG went on to express concerns on who will be taking the impact of appeals under the new system and how it will be funded.
- m. MHCLG responded that the AM works by taking out the effects of appeals and local authorities should still make provisions in the same way as they do in the current system.
- n. There was a question from the WG about gaming. MHCLG explained how gaming would work the same in the alternative system as the current system.
- o. The discussion moved on transitional arrangements. MHCLG agreed to do further thinking about transitional arrangements into the growth calculation for the AM (**Action 6**).
- p. The WG expressed that having a 2 year lag with the AM does not seem to be a problem to most, however would like to see how transitional arrangements would be put in place into this new system.
- q. The WG went on to express their concerns about practical implications of revaluations, in particular the timing of the publication of draft lists.
- r. The group went on to discuss NNDR1s under the alternative model. The WG expressed concerns about how it would work with cash flows. MHCLG said it would take this away and will develop an accounting paper on how the AM will work with resource and cash flows (**Action 7**).
- s. The discussion then moved on to S31 grants and the WG asked what will happen if the government decides to do further tax changes and what will happen to growth. MHCLG explained the baseline will take into account S31 grants, just like the current system, in top up and tariff calculations under the AM.
- t. It was mentioned that there was a concern about timetabling and deadlines of reconciliation payments.

- u. The group went further to ask about whether or not reward for calculating growth under the AM is effected by gearing. MHCLG plans to explore this further (**Action 8**).

5. Levy and Safety Net under the Alternative Arrangements

- a. Mark Barnett presented the paper, and explained how in theory the levy and safety net should work the same under the AM and would have to remain due to parliamentary legislation.
- b. The WG asked what level of safety net would be applied as under this new system local authorities should get their BFL.
- c. MHCLG responded that growth can be negative or positive and as this system is about risk and reward, safety net is therefore needed.
- d. There was a point made about whether or not local authorities may lose out if there is another financial crisis.
- e. MHCLG responded that although it may be a difficult position for rate payers, it does not effect the income received from business rates to local authorities.
- f. MHCLG explained that the risk is reduced under the AM, as the problems with appeals is solved, the way the levy and safety net is calculated would be different and this can be discussed in a future paper.
- g. LGA asked MHCLG to frame how the current arrangements would be implemented under the AM, and present some of the options i.e. safety net of 95% and levy that captures growth at 150/200/250% of BFL (as suggested in the previous consultation (**Action 9**)).

6. AOB

- a. The WG asked about timetables, in particular will there be a delay in reforms? MHCLG responded that the implementation of local government finance reforms will be kept under review as the timing of the Spending Review becomes clear, and we will continue to explore ways in which we can provide further certainty to local authorities about the likely outcomes as our work progresses.
- b. There was a consensus between the members that papers to the group should be sent sooner.

7. List of Actions

Action 1: MHCLG should revisit the attendance sheet from the last WG to make sure that it is accurate.

Action 2: Produce consistent figures for each element of the alternative model for ease of comprehension.

Action 3: Carry out further work in exploring the effects of the two options (RV/NNDR) and how both options work with reliefs. Explore further option to adjust RV data to net rates payable.

Action 4: MHCLG to share with the WG a paper commissioning the VOA to produce a data set.

Action 5: MHCLG will produce a paper on explaining how the collection fund would work with the appeal provision.

Action 6: MHCLG to consider further thinking around transitional arrangements into the growth calculation for the alternative model.

Action 7: MHCLG will develop an accounting paper on how the alternative model will work with resource and cash flows.

Action 8: MHCLG to look at whether or not reward for calculating growth under the AM is effected by gearing.

Action 9: MHCLG to frame how current system arrangements would be implemented under the AM, and present a number of scenarios at the next working group.

8. Next meeting

- a. The next working group will be held on the 15th July 2019 at the LGA headquarters. The agenda, and any papers will be circulated nearer the time.

Annex A – Attendance List

Attendee	Organisation	Attendance
Andy Camp	SCT	Present
Caroline White	CIPFA	Present
Carla-Maria Heath	IRRV	Present
David Semmens	Sheffield City Council	Present
Geoff Winterbottom	SIGOMA	Present
James Rossell	SCT	Present
Martin Mitchell	Greater London Authority	Present
Martin Hinkley	Westminster City Council	Present
Douglas Olley	London Councils	Present
Sharon Lay	VOA	Present
Mark Barnett	MHCLG	Present
Indre Planciunaite	MHCLG	Present
Valerie Vioria	MHCLG	Present
Tahmina Adan	MHCLG	Present
Valerie Vioria	MHCLG	Present
James Caddick	MHCLG	Present
Adrian Blaylock	CIPFA	Present
Gordon Heath	IRRV	Present
Mike Heiser	LGA	Present
Lorna Baxter	Oxfordshire County Council	Apologies
Stuart McKellar	SUT - ALATS	Apologies
Alan Peach	SDCT - ALATS	Apologies
Michael Furness	Birmingham City Council	Apologies

Chris Blundell	Thanet District Council	Apologies
Wayne Traynor	St Helens Metropolitan Borough Council	Apologies
Leigh Whitehouse	Surrey County Council	Apologies
Elizabeth Passey	HMT	Apologies

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