



Summary Note – Meeting of System Design and Implementation Working Group

Title: **System Design and Implementation Working Group**
Date: **Thursday 24th October 2019, 11:00 – 14:00**
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 previous meeting and matters arising

- a. Minutes of the previous meeting have not yet circulated (**Action 1**).

4. The practicalities of setting growth baselines (and measuring growth under the Alternative Model)

- a. Mark Barnett presented a paper outlining the two different ways growth baselines could be set and measured under the alternative arrangements. The group were invited to share views on whether growth should operate on a 'lagged' or 'non-lagged' basis and views on using VOA or NNDR data to set growth baselines.
- b. There was some concern in the room that a lagged system would mean no reward for growth in the first two years of the new system (i.e. assuming implementation from 2021/22, this would be in 2022/23 and 2023/24) and whether there was any means by which authorities could be compensated for this. For example, by using growth data relating to 2019/20. MHCLG explained that this would risk double counting as authorities would already have been rewarded for 2019/20 growth. There is a separate question of how surplus and deficit on the Collection Fund should be treated when moving to a reformed system.
- c. The Working Group was reassured that whilst in a lagged system growth would not be rewarded for 'in year', growth from these years

would be accounted for. It was also pointed out that in the first two years losses would not be coming through either.

- d. Some of the Working Group implied that preference between a lagged and non-lagged system would depend on whether authorities would be accounted for these two years of no recorded growth. The lagged model seemed attractive to some given and they felt it would be simpler to operate. However, if transitioning from the current non-lagged system to a lagged model was detrimental to authorities' cash position in the first two years of the system, then it may not be practicable.
- e. MHCLG asked the Working Group to isolate the transitional arrangements/payments from their thinking as it is unlikely any decisions on this will be made before a decision on a lagged or non-lagged system will be required.
- f. MHCLG explained that under the alternative arrangements any surplus or deficit could sit with the Government in the Collection Fund.
- g. The conversation turned to the timing of VOA data releases and when this would be needed for NNDR1 returns. Assuming implementation of the alternative arrangements from 2021/22, there was also a question of whether a data release should be used to set adjustment factors from the options available (i.e. NNDR1 2020/21, NNDR1 2021/22 or NNDR3 data relating to a previous list).
- h. Some in the group felt that VOA data would be needed before Christmas to allow for NNDR1 forms to run through committee cycles. There was a view that, given NNDR1s are an estimate and any differences would be reconciled at the NNDR3 stage, it is more important to get the VOA data early.
- i. With regards to adjustment factors and whether they were set locally or nationally, there were mixed views.
- j. Most felt that it was important to know the adjustment factor prior to NNDR1 forms being submitted, something that would not be possible under a national adjustment factor. There was also concern about who would carry the risk of a national adjustment factor being incorrect. MHCLG clarified that the adjustment factor is only an approximation of converting gross rates payable to net rates payable. In theory, it would be possible to 'adjust the adjustment factor' once NNDR3 information was available, but that would add to complexity.
- k. On the contrary, there was concern that under local adjustment factors the same hereditament would 'yield' a different growth payment depending on where it was placed, which did not seem fair to some in the room.
- l. There was a question of whether, if some of the practical issues could be resolved, could revaluation occur before implementation of the system. There was no clear answer to this, however, it would still not seem to remove the possibility of having the same problems again in a few years' time.
- m. Some in the Working Group asked for modelling to better understand this. MHCLG agreed to explore the practicalities/timings in relation to setting adjustment factors in lagged/non lagged systems and to look at collection fund accounting with regard to both systems. Modelling

would be completed working under the assumption of using RV data to measure growth baselines. MHCLG agreed to provide this for the next Working Group (**Action 2**).

5. Update on adjustment factors and reliefs

- a. Sanna Jenkins presented a paper on Adjustment factor options and reliefs, continuing the discussion from the previous Working Group meeting in August. The paper concluded that a national adjustment factor that was fixed for a set period of time would provide the greatest fiscal certainty and simplicity. Furthermore, the same adjustment factor nationwide would ensure that every authority would benefit equally from the same type of business rates growth.
- b. The Working Group wondered to what extent The City of London and Westminster were affecting the levels of London reliefs. MHCLG agreed to provide updated figures for London without those two authorities involved at the next Working Group (**Action 3**).
- c. Building on earlier conversations, there were some concerns around a national adjustment factor given the large variation in relief rates at local level.
- d. However, many felt that a national factor would be fairer, as it would ensure that similar growth in different authorities would be rewarded on an equal basis. thus supporting the conclusions of the paper. It was also recognised that authorities often have little influence over the level of mandatory relief that they have to award to ratepayers.
- e. There was consensus that the adjustment factor could be fixed for the duration of a reset period, to provide certainty and simplicity.
- f. MHCLG agreed to share the modelling used in this paper to allow authorities to see their own data (**Action 4**).

6. Transitional relief, discretionary reliefs and the adjustment factor

- a. Sanna Jenkins ran through the paper section by section. The first discusses how transitional relief should be treated in the setting of adjustment factors.
- b. The paper suggests not taking account of transitional relief at the point of setting the adjustment factor. The Working Group agreed on the basis that it would be arbitrary to do so given the purpose of the transitional arrangements.
- c. There was a question if under three year revaluations the transitional arrangements would also need to unwind over three years. MHCLG officials assumed that this would have to be the case although they would need to clarify with colleagues responsible for policy work relating to revaluations.
- d. Section two discussed the relationship between transitional relief, mandatory reliefs and growth. This section further supports the idea that a fixed national level adjustment factor would mean an authority's 'growth' would be unaffected by changes to relief caused by the unwinding of transitional arrangements.
- e. There were no comments from the Working Group on this matter.

- f. Section three discussed discretionary reliefs. The working group wondered if an adjustment factor was set nationally, authorities could in theory 'game' the system by awarding significantly increased discretionary relief in comparison to system set-up year knowing that it would not affect their 'growth'.
- g. There was agreement that further work is needed to explore mechanisms to prevent or minimise the gaming incentive. The matter should also be considered from the perspective of a precepting authority as they would bear consequences of decisions that they are not responsible for.

7. AOB

- a. Mike Heiser asked MHCLG for 19/20 growth calculations to be shared with the Working Group as has happened with 18/19 data. **(Action 5).**
- b. Mark Barnett raised the matter of auditing NNDR1 forms, and how it is looking unlikely that some authorities will be certifying their forms in time which means safety net and levy payments will not be possible.
- c. The Working Group provided context to the problem and there was consensus that this problem is not likely to go away in near future. It was difficult to conclude if the problem would continue into future years as it will depend on the availability of auditors
- d. The potential need for statutory change is mooted to account for this, and MHCLG agreed to bring a piece of work on next steps for this matter to the next Working Group **(Action 6).**
- e. The Working Group were keen to ensure that the impact on pools and precepting authorities was considered.

8. List of Actions

Action 1: Circulate minutes from May 22nd and August 21st Working Groups.

Action 2: MHCLG to model the practicalities/timings in relation to setting adjustment factors in lagged/non lagged systems and to look at collection fund accounting with regard to both systems for the next Working Group.

Action 3: MHCLG agreed to provide updated relief figures for London without Westminster or The City of London included in the data ahead of the next Working Group.

Action 4: MHCLG agreed to share the modelling used in the Adjustment Factors and Reliefs update paper to allow authorities to see their own data ahead of the next Working Group.

Action 5: MHCLG to share 19/20 growth calculations ahead of next Working Group.

Action 6: MHCLG to conduct investigations into potential statutory changes to address the NNDR1 audit delays. To be presented at the next Working Group.

Annex A – Attendance List

Attendee	Organisation	Attendance
Geoff Winterbottom	SIGOMA	Present
James Rossell	SCT	Present
Adrian Blaylock	CIPFA	Present
Stuart McKellar	SUT - ALATS	Present
Douglas Olley	London Councils	Present
Carla Maria Heath	IRRV	Present
Cagdas Conbolat	CFN	Present
Michael Furness	Birmingham City Council	Present
Mark Dickenson	SDCT	Present
Martin Mitchell	GLA	Present
Mike Heiser	LGA	Present
David Semmens	Sheffield City Council	Present
Gordon Heath	IRRV	Present
Sharon Lay	VOA	Present
Indre Planciunaite	MHCLG	Present
Leon Clement	MHCLG	Present
Mark Barnett	MHCLG	Present
Sanna Jenkins	MHCLG	Present
Tim Roast	MHCLG	Present
Tom Kennett	MHCLG	Present
Valerie Vioria	MHCLG	Present
Matt Davis	UT	Present
Jo Wagstaffe	SDCT	Present
Simon Freeman	Harlow Council	Present
Caroline Newman	CIPFA	Dial In
Tracey Woods	Suffolk County Council	Dial In
Madlav Lala	MHCLG	Present
Duncan Cook	MHCLG	Present
Nicola Morton	LGA	Apologies