



Summary Note – Meeting of System Design Working Group

Title: **System Design Working Group**
Date: **Wednesday 21 March 2018**
Venue: **Westminster City Hall, 5 The Strand, London, WC2N 5HR**

Attendance

1. An attendance list is attached to this note. Please see **Annex A**.

Welcome and opening

2. The meeting was chaired by Mike Heiser, who opened the meeting with introductions and welcomed attendees.

Update on WMS regarding overpayment

3. A brief update was given regarding the WMS statement by MHCLG officials who then responded to questions presented by members of the Working Group.

Update on the Central and Local List paper - discussion at the Steering Group

4. The Steering Group endorsed the recommendations made by the Working Group. The Steering Group shared similar concerns to those expressed by the Working Group, namely that:
 - The movement of any hereditaments to the Central List should be done in a way that does not impact the quantum of business rates;
 - Local influence should be considered when deciding where a hereditament is best placed;
 - Anomalies noted;
 - MOD properties – problem when bases are shrinking and expanding;
 - If area lists were to be formed in the future they should be created in a way that is transparent and consistent with criteria;
 - MHCLG to merge the paper that showed Working Group's recommendations so that other authorities can comment on it.

5. MHCLG reiterated that they would draft and bring the criteria on moving hereditaments between lists to the Working Group for comment. **(Action 1)**
6. MHCLG thanked everyone who had commented on the Central and Local List paper and welcomed further feedback via emails from anyone who may be interested in further collaboration on the Central and Local List reforms. These should be sent to BRRSystemDesign@communities.gsi.gov.uk

Note on railway and airport hereditaments

7. VOA presented a paper explaining how the agency determines whether railway stations and their related infrastructure fall on Central or Local Lists.
8. Railway stations are used 'wholly or mainly' for the purpose of railway infrastructure and as such are usually assessed as part of the wider railway network and included in the Central List. In some cases the operator/occupiers of railway stations may not fall within the list of 'designated persons' in the Central Rating List regulations hence why the railway station may appear in a local rating list. The VOA stated that MHCLG administers a list of designated persons that are on the Central List and that this list is public. Anyone can apply to be on the List. The power of designation is with the Secretary of State through secondary legislation.
9. Even though car parks adjacent to railway stations may be operated separately they are part of the railway infrastructure and therefore appear on the Central List. VOA establishes who is in paramount control of the railway infrastructure and therefore the agency would not separately assess car parks.
10. Case law has contributed to develop the way in which the VOA assesses hereditaments. Any significant changes to the way in which railway station infrastructure is assessed would therefore require legislation.
11. Working Group members discussed how after any potential reform of the Central and Local Lists the business rates baselines will be adjusted. They asked MHCLG to consider if the system can be designed in a way that allows local authorities to benefit from growth that is accumulated through the development of new hereditaments in the Central List. Members suggested that authorities with new developments could be given a section 31 grant so that they can benefit from the new hereditaments despite them being located on the Central List.
12. It was also acknowledged that new hereditaments benefit local areas not only because of the business rates that they create but also because of the wider economic impacts on the area. But some members argued that since local areas are taking a risk by investing in new developments they should also be able to benefit from the growth that the new development may create.

13. MHCLG emphasised that the new system will aim for greater transparency. MHCLG agreed to continue work on tidying up the Central List.

Learning lessons from 100% business rates pilots in 2017/18

14. MHCLG presented a summary note on what the department has learnt by interviewing 2017/18 pilot areas. MHCLG confirmed that a full report on the lessons learnt from 2017/18 pilots would be ready in the next couple of months, after which the report will be made available to all piloting areas and the working group.
15. MHCLG are planning to roll out process evaluation for 100% business rates pilots in 2018/19. Since all pilots are still in very early stages this will not be an impact assessment. The focus will be on finding out how the scheme is working for piloting areas and finding out what their experiences and expectations are like. MHCLG will also re-visit the 2017/18 pilots to find out how things are going for them one year into the pilot, how their forecasts did in comparison to actuals and how they are using that data to forecast for next year. The 2018/19 pilots will offer an opportunity to look at many new things, such as different tier splits and governance structures.
16. MHCLG agreed to circulate a soft copy of the summary note to the Working Group attendees and agreed for the note to be put up on the LGA website. **(Action 2)**

Technical paper on Tier Split, Safety Net and Levy

17. A paper on tier split, safety net and levy was circulated to the working group in advance of the meeting and formed the main agenda item. The options presented in the paper could be implemented via secondary legislation when 75% business rates retention is introduced.
18. The paper consists of 10 questions, many of which were grouped and discussed thematically.

Q1: Do you agree with the rationale for reviewing the tier split for 2020/21?

19. The working group supported MHCLG's rationale for reviewing the tier split. As laid out in the paper, striking the right balance between risk and reward for all local authorities should remain one of the core objectives for system reform. Fairness and consistency are also important considerations.
20. The working group pointed out that there is a split in London which has been overlooked in the paper. MHCLG said that the London has not been forgotten about however the focus of the current work is on reviewing tier splits between counties and districts.
21. MHCLG agreed to consider if there is a link between additional growth and additional costs but cautioned that this might be hard to ascertain. **(Action 3)**

Q2: Are you happy for MHCLG to work directly with the CCN, DCN and county and district treasurer associations, on developing a proposal for a future tier split for consideration by the Working Group and Steering Group?

22. The working group agreed that it makes sense for CCN and DCN to work together and look at data since the 50% business rates retention system was introduced in 2013. However the group would like to ensure that the work comes back to the Working and Steering Groups afterwards. **(Action 4)**
23. MHCLG has not agreed on a timetable for working with CCN and DCN yet but is likely to progress the work with them over the summer. The working group called for more work and more modelling to be done on the issue of tier splits fairly soon.

Q3: Do you think that two tier areas should be able to propose their own tier split?

24. No one in the working group spoke against this proposal.

Q4: Do you think that the ability for areas to agree with central government their own tier split should be an 'opportunity' for areas and not a 'requirement'?

25. The working group was sympathetic to the idea of allowing areas to set their own tier splits. However, it was pointed out that the wording of the question does not set geographic boundaries for tier splits and that the question also interacts with pooling and rules of pools. The working group agreed that this proposal should be further explored and linked with ideas on pooling and geographies.
26. The working group noted that business rates pilots have evidenced that the system can be operated with different levels of tier splits in different areas without any impact on non-piloting areas.
27. It was also noted that the working group could spend much time and effort debating an appropriate level of tier split to be applied across local government and end up returning to the current default position.
28. MHCLG agreed to further explore the interrelations between tier splits and pooling. **(Action 5)**

Q5: Do you think that the safety net should remain a guarantee that income doesn't fall below a proportion of baseline funding level?

Q6: Do you agree that the final safety net level should only be determined once the full package of reforms are known?

29. The working group agreed on the need to maintain the safety net in the business rates retention system. There were also arguments for increasing the level of safety net to 100% in order to add stability to the system.
30. The working group considered whether there would be ways to incentivise authorities that are deeply into the safety net and seem likely to remain there.

31. Another important factor to consider is if local authorities should continue to carry some risk due to business closures which could partially be attributed to the environment for growth they have created.
32. It would also be possible to set different levels of safety net for areas with different responsibilities.
33. There is a connection between appeals losses and the safety net, which is why wider system reforms will need to be considered as a whole before the appropriate level of safety net can be set. The level of safety net also needs to be balanced against the need for certainty and how much local authorities are willing to withhold from the system to cover risk.

Q7: What are your views on whether there should be a higher safety net for local authorities that deliver upper tier functions?

34. The working group agrees that the proposal should not be ruled out at this stage, however, the question was seen as causing controversy. Bringing in more variables would also further complicate the system.

Q8: Do you think that a top slice of total business rates is the fairest and most viable option to fund future safety net payments?

35. The working group did not agree to ruling out Central List funding at this stage. Local government would like to see more transparency on the Central List. It was also pointed out that the next Spending Review is coming up before the introduction of the 75% system.
36. The group did not see the use of Central List funds as radically different to top slicing business rates.
37. MHCLG agreed to further explore if and how Central List funds could be used to fund safety net. If for various reasons funding through the Central List is ruled out, then ideas on levy and top slice should continue to be discussed. **(Action 6)**

Q9: Is the levy an appropriate mechanism to address excessive growth within the system upon moving to 75% business rates retention?

Q10: Should future reform via primary legislation include consideration of scrapping the levy?

38. Even though scrapping the levy gained wide support in the Further Consultation on 100% Business Rates Retention (primary legislation is required to do this), the Working Group feels that the need for some sort of levy probably still exists. However views on this question were varied and the group would like to continue debating whether there should be a progressive levy where the levy is paid on 'excessive' growth.

39. It was argued that the incentive for authorities to continue growing their business rates baseline should be proportionally the same no matter what their gearing is. It was recognised that the gearing effect may limit some authorities' capacity for growth.
40. Avoiding levy payments has often motivated the forming of pools among tariff areas. If the levy was scrapped then incentives for pooling would need to be re-considered.
41. However, it would be hard to come up with other ways of paying for the safety net that did not in some way resemble the levy. One idea would be to have a progressive levy where the first 5-20% of growth would be levy free.
42. Whilst levy is a significant source of funding for the safety net it would not be sufficient on its own.

Actions

43. The following actions were agreed:
 - MHCLG reiterated that they would draft and bring the criteria on moving hereditaments between lists to the Working Group for comment.
 - MHCLG agreed to circulate a soft copy of the summary note to the Working Group attendees and agreed for the note to also be put up on the LGA website.
 - MHCLG to commence deeper collaboration with DCN and CCN on tier split. Progress on feedback to be brought to the Working and Steering Group on a regular basis.
 - MHCLG agreed to further explore the interrelations between tier splits and pooling.
 - MHCLG agreed to further explore if and how Central List funds could be used to fund the safety net.

Next meeting

44. On 18 April 2018 MHCLG will present a paper on Appeals Losses for the Systems Design Working Group to consider.

Annex A – Attendance List (21 March 2018)

Will update this later!

Member	Organisation	Attendance
Mike Heiser	Local Government Association (LGA)	Present
Lorna Baxter	County Councils' Network (CCN)	Present
Steve Mair	Society of London Treasurers (SLT) - ALATS	Present
Matt Davis	Westminster City Council	Present
Stuart McKellar	Society of Unitary Treasurers (SUT) - ALATS	Present
Adrian Blaylock	Chartered Institute of Public Finance and Accountancy (CIPFA)	Present
Dawn Banyan	Valuation Office Agency (VOA)	Present
Gordon Heath	Institute of Revenues Rating and Valuation (IRRV)	Present
Carla-Maria Heath	Institute of Revenues Rating and Valuation (IRRV)	Present
Martin Mitchell	Greater London Authority	Present
Cadgas Canbolat	Collection Fund Network	Present
Andrew Moran	Greater Manchester Combined Authority	
Geoffrey Winterbottom	Special Interest Group of Municipal Authorities (SIGOMA)	Present/Dialled in
Leon Clement	MHCLG	Present
Aimee Powell	MHCLG	Present
Sohul Ahmed	MHCLG	Present
Nick Dorgu	MHCLG	Present
Michael Furness	Birmingham City Council	Apologies
Paul Wildsmith	Society of Municipal Treasurers (SMT) - ALATS	Apologies
Carolyn Williamson	Society of County Treasurers (SCT) - ALATS	Apologies
Mike Thomas	Sheffield City Council	Apologies
Alan Peach	Society of District Council Treasurers (SDCT) - ALATS	Apologies