

**Summary Note – Meeting of System Design Working Group**

Title: **System Design Working Group**

Date: **Thursday 15 November 2017**

Venue**: LGA Headquarters, 18 Smith Square London SW1P 3HZ**

**Attendance**

An attendance list is attached as **Annex A** to this note.

1. **Welcome and minutes of previous meeting**
   1. The Chair opened the meeting with introductions and welcomed attendees to the re-established system design working group.
2. **Recap of where we are on the Business Rates Retention Reforms**
   1. The Chair provided an update which covered the following:
   2. After the General Election the former Local Government Finance Bill was not considered in washup, due to not progressing far enough through the parliamentary process. Ministers took the decision not to reintroduce the bill for reasons pertaining to pressures in parliamentary time. However Ministers have been clear about fulfilling their manifesto commitment to give local authorities more control over the money they raise. Ministers want to use this time to look at system design issues such as appeals losses. The Secretary of State for Communities may provide further clarity on Business Rates Retention around the time of the Local Government Finance Settlement.
   3. Local government felt there is a question of ‘how far and when’ surrounding business rates retention.
   4. Local government highlighted that the issues surrounding appeals were previously considered by the Working Group. Considering some of the issues faced were unique to 100% system, clarification was sought on what the remit for consideration was and whether it went beyond business rates.
   5. DCLG explained that as the manifesto commitment was giving local government more control to over their finances, so the issues considered by the working group would not be confined to 100% business rates retention, although this is still the commitment for the longer term.
   6. Local Government asked whether there was an intention to bring lessons learnt from the current 100% pilots. DCLG offered to bring findings so far to the next meeting if helpful. DCLG analysts have also conducted some evaluation of the first round of pilots, the findings of which could be played into the Working Group.
3. **Mandatory Reliefs Discussion Paper – Birmingham City Council**
   1. Local government expressed concerns over the current mandatory reliefs system, emphasising that the costs of these reliefs are going up faster than inflation. When taking into account local government has no discretion over whether to grant a mandatory relief, there is a question on whether local government should take on the burden of these reliefs which amount to reductions in funding in real terms.
   2. The group recognised that engagement with HMT and other government departments will be crucial to the outcome of the review and therefore a priority in the coming weeks will be for the LGA to build upon their initial engagement activity with relevant Government departments.
   3. Local government posed the question of when government introduces a new policy that results in loss of business rates income, e.g. academies which qualify for charities relief, who should fund this shortfall? Two options which would avoid local government undertaking the loss in business rates income would be a) that the academy does not qualify for the charities relief, or b) the school does receive the relief, however central government reimburse local government for the cost of the relief.
   4. Some members of the Working Group felt that the NHS appeal over business rates was an attempt to circumvent the allocation of money to the sector agreed via the spending review. Local government felt a short term solution would be to compensate losses through moving money back to the right place, i.e. local government. However there was a question over the political capital ministers would be willing to exert to gain agreement from other departments.
   5. Local government raised a question on whether it was feasible to perform a fundamental review of charitable and empty property relief as well as excluding public sector bodies from business rates reliefs. The working group agreed that such changes would require primary legislation but felt that the group could work to build an evidence base on issues ministers could fix once a legislative slot opens up. It was explained that a similar approach was taken in Scotland.
   6. DCLG are open to evaluating whether or not public bodies should be paying business rates.
   7. Local government were also unclear on how losses incurred due to mandatory reliefs would be measured and captured in terms of where the incentive ends and the penalty arises against the baseline, as baselines factor an average of mandatory reliefs.
   8. DCLG would consider the issues raised as part of future work.
4. **Systems Design Working Group Forward Look – DCLG**
   1. DCLG covered the Systems Design Working Group Forward Look paper, which provides a brief for the Working Group over the course of 2018. It sets out a high level timetable for discussion, with Annex B laying out details of each topic of discussion, in a possible route to reform.
   2. The paper proposes for the Working Group to initially focus on elements of the system which can be modified using secondary legislation and so are suitable for a short term reform package. The next step would be to move onto considering longer term options for reform through primary legislation.
   3. Additionally, the paper recommends that the Working Group commission a smaller sub group to consider the detail of technical transition and operationalization, under the stewardship of Mark Barnett (DCLG). The findings of this group would then be presented to the Working Group for consideration. Suggested topics for the Technical Transition and Operationalization Sub Group to examine are:

i. Pilots: accounting and IT systems transition (as requested by the Steering Group);

ii. Establishing BRB;

iii. Redesign of NNDRs.

* 1. Local government felt some areas will need specialists from specific sectors such as ratings agents as well as whether the sub group was fluid in its membership.
  2. DCLG highlighted that they are also engaging with other departments and their stakeholders to ensure the right expertise are available to the sub group when required. Mark Barnett (DCLG) would convene a group to look at specialist issues when appropriate.
  3. DCLG confirmed the Working Group will next meet in February and continue to meet monthly to discuss the topics listed in Annex A and B of the Forward Look.

4.6.1 DCLG suggested starting in February with the Central and Local list as well as a recap of conclusions that the Working Group has previously reached.

4.6.2 Local government highlighted that in considering safety-net the levy will also need to be considered.

* 1. DCLG analysts are currently undertaking safety-net modelling in order to develop an integrated model. This will be available for a future discussion on resets and transitional arrangements.
  2. The Working Group agreed that gearing was an issue that needed consideration.

1. **Systems Design Working Group -**  **Informal Meeting of Local Government Representatives 2nd Aug 2017**
   1. Westminster representatives had attended an ad-hoc meeting on the 2nd August. All Working Group members were invited. The meeting went through what was in the Former Local Government Finance bill, discussing what would require legislation, with a focus on appeals.
   2. DCLG highlighted that the Steering Group had discussion around paper. Clarification was provided that we cannot move to 100% Business Rates because the central share cannot be completely removed without primary legislation.
   3. Local government suggested turning the central share into the topslice or central list.
   4. Local government felt other measures such as Business Rates Supplements should remain in the scope of the Working Group. A proposition was put forward to refresh the Business Rates Supplements regulations. DCLG clarified that internally there is a separate piece of work on other regulations of the bill.
2. **AOB**
   1. Local government asked how widely papers for the Working Group should be shared, as they would find it helpful to share papers with their groups in advance of meetings so that their views could be reflected. It was also raised that papers were not shared enough in advance for sufficient time to share papers and collect views.
   2. DCLG were content for local government to share papers with their members and planned to share papers one week in advance of meetings.

**Actions**

* DCLG to provide an evaluation of the first round of pilots for the Working Group.
* DCLG will circulate the Working Group papers one week in advance of the meetings.
* DCLG would consider the issues raised as part of future work.

**Annex A – Attendance List (15 November 2017)**

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| **Member** | **Organisation** | **Attendance** |
| Mike Heiser | Local Government Association (LGA) | Present |
| Lorna Baxter | County Councils' Network (CCN) | Apologies |
| Graham Soulsby | District Councils' Network (DCN) | Apologies |
| Mark Dickenson | District Councils' Network (DCN) - sub | Present |
| Geoff Winterbottom | Special Interest Group of Municipal Authorities (SIGOMA) | Present (Phone) |
| Steve Mair | Association of Local Authority Treasurers' Societies (ALATS) – SLT | Apologies |
| Matt Davis | Association of Local Authority Treasurers' Societies (ALATS) – SLT - sub | Apologies |
| Paul Wildsmith | Association of Local Authority Treasurers' Societies (ALATS) - SMT | Apologies |
| Carolyn Williamson | Association of Local Authority Treasurers' Societies (ALATS) - SCT | Apologies |
| Michael Hudson | Association of Local Authority Treasurers' Societies (ALATS) - SCT | Present |
| [Alan](mailto:Steve.Richardson@wycombe.gov.uk) Peach | Association of Local Authority Treasurers' Societies (ALATS) – SDCT - sub | Apologies |
| William Jacobs | Association of Local Authority Treasurers' Societies (ALATS) – SDCT - sub | Apologies |
| Stuart McKellar | Association of Local Authority Treasurers' Societies (ALATS) - SUT | Apologies |
| Calvin Orr | Association of Local Authority Treasurers' Societies (ALATS) – SUT - sub | Apologies |
| Alan Cross | Association of Local Authority Treasurers' Societies (ALATS) – SUT | Present (phone) |
| Caroline White | Chartered Institute of Public Finance and Accounting (CIPFA) | Apologies |
| Joanne Pitt | Chartered Institute of Public Finance and Accounting (CIPFA) - sub | Present (phone) |
| Charlotte Sewell | Valuation Office Agency (VOA) | Apologies |
| Gordon Heath | Institute of Revenues Rating and Valuation (IRRV) | Apologies |
| Carla-Maria Heath | Institute of Revenues Rating and Valuation (IRRV) | Present |
| Martin Mitchell | Greater London Authority | Present |
| Matthew Beals | Greater London Authority | Apologies |
| Steven Donlon | London Councils | Present |
| Cadgas Canbolat | Collection Fund Network | Present |
| Michael Furness | Birmingham City Council | Present |
| Chris Little | Hartlepool Borough Council | Apologies |
| Mike Thomas | Sheffield City Council | Apologies |
| Andrew Moran | Greater Manchester Combined Authority | Present |
| Leon Clement | Department for Communities and Local Government | Present |
| Aimee Powell | Department for Communities and Local Government | Present |
| Anne Stuart | Department for Communities and Local Government | Apologies |
| Jonathan Denning | Department for Communities and Local Government | Apologies |
| Sanna Tuunanen | Department for Communities and Local Government | Present |
| Mark Barnett | Department for Communities and Local Government | Apologies |
| Sophie Broadfield | Department for Communities and Local Government | Apologies |
| Sohul Ahmed | Department for Communities and Local Government | Present |