



Summary Note – Meeting of System Design Working Group

Title: **System Design Working Group**
Date: **Wednesday 18 April 2018**
Venue: **LGA headquarters, 18 Smith Square, London, SW1P 3HZ**

Attendance

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

Welcome and opening

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

Technical paper on centralising valuation change

14. This paper was circulated to the working group in advance of the meeting and formed the main agenda item.
15. The paper consists of 4 questions and a number of introductory paragraphs, which were discussed.

Distribution of the top-slice vs. distribution of appeals

16. There was consensus amongst the Working Group over the inherent difficulties in calculating provisions as both cases of over and under estimating represents some risk to authorities.
17. The Working Group was also in agreement that the appeals process is slow, making it increasingly difficult to make accurate provisions over multiple years. Class action against particular types of hereditaments also means other authorities have to predict if it will be successful.

Update on accounting arrangements

18. Current regulations mean that provisions would still need to be made even if valuation changes were to be centralised. MHCLG will work with CIPFA to develop

potential solutions using accounting adjustments to allow funds in the General Fund to be available to spend on services, as if the provision had not been made.

19. A meeting with CIPFA is scheduled for later in April. An update will be provided to the Working Group of the progress of this work at future meeting(s).
20. CIPFA felt that theoretically the model works. The issue will be whether it works on operationally when forecasting is not perfect.
21. The Working Group suggested an alternative: that the Department should simply reimburse authorities for provisions made by paying S31 grant into their Collection Funds. MHCLG agreed to consider this and come back to the group.

Q1: Can the working group suggest any alternative approaches to separating list alterations as a result of valuation changes from those that result from development?

22. Local government representatives clarified that at its core this is about differentiating changes local authorities are not responsible for, such as valuation changes in contrast to development changes which it was felt are in effect managed through the safety net.
23. Some group members argued that the result of all list alterations should be managed centrally.
24. There was general acceptance that the proxy might be the only workable approach and acknowledgement that an alternative had not been found.

Q2: What are your views on funding the centralisation of valuation changes through a top-slice?

25. MHCLG reiterated that central list income is unlikely to be used to fund appeals, as it is already used indirectly to fund various grants which are in excess to the central list income. Consequently it would not be fiscally neutral to use it to cover valuation changes.
26. Any use of the central list income would need to be pursued in the context of the Spending Review.
27. Local government representatives requested clarity on what the central list control total is and some representatives thought a process similar to the NNDR process authorities undertake would be the appropriate level of transparency.
28. MHCLG explained that a new top slice would be taken from the overall business rates quantum, to fund valuation changes. The methodology to calculate the top slice would be considered at sub-working group level.
29. MHCLG asked members of the working group on their thoughts on managing shortfalls. Local government suggested that funds running into deficit should be managed via a higher top slice in future years.

30. The working group suggested that there is an accounting issue regarding their obligation to create a provision regardless of the top slice.
31. The question was also raised on how payments would be calculated as local authorities needed certainty in order to bear their cash flow risk.

Q3: Do you agree with the proposal that were we to centralise valuation changes this should be done simultaneously with the next revaluation in 2021?

32. Concerns were raised that with the introduction of 75% business rates retention this would already constitute a fundamental change in 2020/21 and having additional changes of a high magnitude in the same period would make it difficult to unpick the impact of the changes. However, the working group members also recognised the difficulty of possibly having multiple strands of appeals working their way through the system if reforms were introduced before the next revaluation.

Q4: Taking into account the considerations in this paper, does the working group currently have a view on whether other levers should be used to address volatility within the rates retention system?

33. The Working Group expressed some concern about the level of complexity within the existing system and the potential of reforms in this area to exacerbate this.
34. Local Government raised the court case with the NHS which would have a big impact, the resolving of which may require a bespoke resolution outside the normal parameters of the appeals management system. This raised the additional question of what other events are going to cause for the system to need to be manipulated.
35. MHCLG agreed that outlier cases will add further complexity to the system.

Next meeting

36. In June 2018 MHCLG will present papers on resets and pooling for the Systems Design Working Group to consider.

Annex A – Attendance List (18 April 2018)

Member	Organisation	Attendance
Sanna Tuunanen	MHCLG	Present
Aimee Powell	MHCLG	Present
Leon Clement	MHCLG	Present
Sohul Ahmed	MHCLG	Present
Nick Dorgu	MHCLG	Present
James Caddick	MHCLG	Present
Nick Cooper	MHCLG	Present/Dialled in
Lorna Baxter	County Council's Network (CCN)	Present/Dialled in
Geoffrey Winterbottom	Special Interest Group of Municipal Authorities (SIGOMA)	Present
Alan Peach	Society of District Council Treasurers (SDCT) - ALATS	Present
Stuart McKellar	Society of Unitary Treasurers (SUT) - ALATS	Present
Caroline White	Chartered Institute of Public Finance and Accountancy (CIPFA)	Present
Charlotte Sewell	VOA	Present
Carla-Maria Heath	Institute of Revenues Rating and Valuation (IRRV)	Present
Martin Mitchell	Greater London Authority	Present
Michael Furness	Birmingham City Council	Present
Mike Heiser	Local Government Association (LGA)	Present
Sharon Lay	VOA	Present
Liz Ratcliff	VOA	Present
Mark Dickenson	District Councils' Network (DCN)	Present
Andy Moran	Greater Manchester Combined Authority	Present
Steven Donlon	London Councils	Present
Matt Davis	Reading Borough Council	Present/Dialled in
Gordon Heath	Institute of Revenues Rating and Valuation (IRRV)	Apologies
Chris Little	Hartlepool Borough Council	Apologies
Mike Thomas	Sheffield City Council	Apologies
Steve Mair	Society of London Treasurers (SLT) - ALATS	Apologies
Graham Soulsby	District Councils' Network (DCN)	Apologies
Carolyn Williamson	Society of County Treasurers (SCT) - ALATS	Apologies
John Sampson	Society of Municipal Treasurers	Apologies
Cadgas Canbolat	Collection Fund Network	Apologies
Paul Honeyben	London Councils	Apologies

Not a statement of Government policy