

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

Title: **System Design Working Group**

Date: **Thursday 7 February 2018**

Venue**: MHCLG Headquarters, 2 Marsham Street SW1P 4DF**

**Attendance**

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

**Welcome and Opening**

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

**Recap of where we are on the Business Rates Retention Reforms**

1. At the last meeting of the working group in November the Working Group a forward look commissioned by the Steering Group was agreed. This has subsequently been approved by the Steering Group.

**First of the system design papers – the reform of the central and local ratings lists**

1. A paper on the central and local ratings lists was circulated to the working group in advance of the meeting and formed the main agenda item. It will be made available on the LGA website.
2. The paper consists of 6 questions. Each question was discussed by the working group and a recommendation given.

**Q1: Is this still the basis on which the Department should develop clear and transparent criteria for publication?**

1. MHCLG outlined previous discussion of the reform of the central and local and ratings lists as summarised in the paper.
2. The working group supported MHCLG’s proposals to bring forward clear and consistent criteria based on current legislation and the principle of ‘network’ hereditaments. They were especially attracted to consistency as a principle. They also felt that it is correct to assume a hereditament to be best suited to local lists unless the hereditament is clearly part of a national network.
3. It was also agreed that these criteria would be presented to the working group once drafted for discussion.
4. The working group suggested that the criteria be informed by what can be controlled and influenced by an authority; they argued that where control and influence are not present then the hereditament is most suited to assessment in the central list.
5. The general consensus of the Working Group was that the issue lies in implementation rather than legislation. Some members of the group also felt that MHCLG has not been proactive in maintaining the central list.
6. Several specific anomalies were noted by working group members including various pieces of railway infrastructure.
7. Working group members asked why rate payers would want their hereditaments listed in the central list as opposed to local lists. MHCLG speculated that rate payers may believe that economy of scale would mean they would pay lower rates in comparison to what they pay on many local lists. However, MHCLG does not believe that this view is necessarily accurate as many hereditaments billed across local lists are in fact already assessed as one network and then divided up between the relevant billing authorities. MHCLG also noted that ratepayers may be seeking an administrative benefit of only having to pay one bill.
8. MHCLG stated that it is the Department’s intention that these reforms be business neutral.
9. MHCLG agreed to come back to the group with an update on the number of whole hereditaments which have been moved onto or off the central list since 2013.
10. They also asked MHCLG to be attuned to land usage when developing these reforms, especially where large quantities of land are not available for other developments because they are occupied by a central list hereditament. Particular concerns were raised about station car parks and it was noted that these are often sited on prime land.
11. Other concerns were raised on the subject of stations. MHCLG stated that operationally stations do not have intrinsic value but are part of the wider network and should not therefore be separated from network assessments. MHCLG further noted that retailers in stations are already in local lists. Local Government maintained that it is an issue of principle and that it would be possible to attribute a value to a station. Again, some specific anomalies within the system were raised.
12. MHCLG was asked to come back to the group with further information on the valuation of retailers in transport hubs and why this differs between stations and airports.
13. As the concerns around stations and retailers in transport hubs are valuation not policy issues, the VOA will provide a brief note on these topics at the next working group meeting.
14. Local government also asked MHCLG to consider whether Ministry of Defence hereditaments would be better suited to the central list.

**Q2: Do you agree with this approach to the process under which we will identify those properties which on application of the criteria might move between lists?**

1. MHCLG described the high level steps proposed in the paper: to draft criteria; identify the hereditaments subject to moving list; and consult stakeholders. MHCLG, authorities and the VOA have a good idea of the anomalies currently in the system. The initial list will draw up a view of which hereditaments are incorrectly listed. Following this an evidence check will be undertaken, seeking the views of stakeholders. The evidence check approach is preferred to a ‘call for evidence’ which may lead to large numbers of responses outside relevant scope.
2. The working group approved the proposed approach, having agreed with MHCLG that work would come back before the group for comment at appropriate stages.
3. It was also noted that stakeholders will need to be made aware that their hereditaments are listed in the evidence check, as detailed listed may not be enough information to identify them. MHCLG stated that they intend to contact all stakeholders on publication of the evidence check.

**Q3: How should we translate the outcome of the movement of hereditaments between lists into authorities’ baselines?**

1. The working group acknowledged the complexity of recalculating baselines when hereditaments move between lists. Various specific issues were noted, such as the impact of provisions and outstanding appeals, section 31 grants and discretionary relief as well as the impossibility of knowing a hereditaments’ true rateable value at a specific point in time.
2. It was agreed that the recalculations should be designed on the starting principle that they leave authorities no better and no worse off. It was also agreed that recalculations of baselines following revaluation was a good model to emulate. It was further agreed that this subject would be re-visited in the paper on transition.
3. The working group noted that some hereditaments identified to move to the central list will currently be listed in one authority’s local list. They asked that MHCLG be particularly mindful of preventing detriment to these authorities when designing the reforms.
4. The working group noted that hereditaments moved into the central list would no longer be eligible to pay local supplements. They asked that MHCLG consider compensating authorities for hereditaments not subject to levies. MHCLG noted that the process for nominating a hereditament onto a different list will include an opportunity for affected rate payers and authorities to respond to proposals.
5. The working group also requested that MHCLG consider the use of transitional reliefs for Local Growth Zones/ Designated Areas.

**Q4: What are your views on the use of area lists to share risk (and reward) and support pooling?**

1. London councils supported the idea of area list, particularly around transport infrastructure. MHCLG noted that some non-London authorities were noted to be in support in the published summary of responses to the Further Consultation although no direct question was asked in the Further Consultation.
2. The working group felt there was not enough information to comment on area lists at present but agreed they should remain in consideration. MHCLG stated that this topic will be revisited in the technical paper on pooling.
3. Some members suggested that the percentage of the billing authority’s rateable value a hereditament represented could help determine whether it should be considered for inclusion on an area list to help with risk management.
4. How area lists could be used to deepen pooling arrangements was briefly discussed. Group members asked if all pools would be expected to have area lists were this reform to be introduced. The group noted that if area lists were to be created then pool governance would need to reflect this.

**Q5: What are your views on allowing authorities to nominate hereditaments that fit a criteria based on national infrastructure to be designated to the central list in order to manage income volatility?**

1. MHCLG explained that possible criteria would include a narrow list of hereditament types that are nationally significant and would exclude large hereditaments that are not nationally significant, such as supermarkets.
2. The working group recommended that MHCLG remove from consideration the nomination of national infrastructure to the central list by authorities. The main objection to this proposed reform was that it would create inconsistency and so undermine the principles behind reform of ratings lists. Additionally, it was felt that this would be too open to ‘gaming’.
3. Members noted that the narrow list of hereditaments that could be nominated would make the reform ineffective in addressing problems faced by small districts where non-national infrastructure such as supermarkets can still dominate as a proportion of a local list.
4. MHCLG noted that other mechanisms were available to help authorities manage risk which may be more suited, such as the safety net and centralising appeals risk. The working group agreed that these mechanisms are more appropriate for addressing risk.

**Q6: What are your views on the proposals for post 2020/21 reform?**

1. The working group agreed that is was in the interests of consistency future reform to include extending charitable reliefs available to ratepayers whose hereditaments are listed in local lists to hereditaments in the central list.
2. They also supported pursuing the power of direction for the Secretary of State for the purpose of easing administration. However, members cautioned MHCLG not to be too broad in the creation of this power, so as not to cause uncertainty in the future. Some felt the criteria should be enshrined in the primary legislation whilst others felt the power to amend the criteria should only exist in specific and exceptional situations. Others felt that the power to change the central list should also specify a process for challenge.
3. The working group also noted that it is important that there is a good line of communication between the VOA teams that maintain the central and local list.
4. The working group asked that the forward look be amended to explicitly note that hereditaments to move between lists will need to be identified and confirmed in advance of the settlement in September 2019.
5. MHCLG invited working group representatives with a particular interest in this work stream to work more closely on the policy development of the central and local lists. Some representatives have subsequently come forward.

**Actions**

1. The following action were agreed:
* MHCLG will present the recommendations of the working group to the steering group to seek their endorsement.
* MHCLG will draft the criteria discussed for the working group’s consideration. It is expected that this will be presented to the working group at its April meeting.
* The VOA will present short notes on railway hereditaments and retailers in transport hubs at the next working group in March.
* MHCLG will do further scoping work on the position of MOD properties.
* MHCLG will report back to the group on the number of whole hereditaments which have been moved onto or off the central list since 2013.

**March meeting**

1. On 21st March 2018 MHCLG will present a paper on The Safety Net, Levy, Tier Splits and Gearing to the System Design Working Group for consideration.

**Annex A – Attendance List (7 February 2018)**

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| **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 |