

## Summary note – Implementation Working Group / System Design Working Group Joint meeting

### Business Rates Retention Scheme

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**Title:** IWG / SDWG joint meeting- Business Rates Retention Scheme

**Date:** 31/07/2018

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#### 1. Fair Funding Review Transition

- a. Henry Ogden presented the paper
- b. Principles of transition are: Stability, Transparency, Time limited, Clarity.
- c. Questions about scope: How does baseline link to BRR?
- d. To what extent does Fair Funding Review transition interlink with resets and partial resets?
- e. Growth should be redirected into transition at first.
- f. Should not be cost neutral to Central Government as LAs 'gaining' should see these immediately and those with reductions will need a viable transition. LG funding is very challenging at the moment.
- g. Language 'winners and losers' interesting - you could argue that the 'winners' of the FFR are losers under the current system.
- h. Some LAs that have not made changes to adapt (like increasing council tax) should not benefit from more grant.
- i. Discussion in relation to setting Baselines: What should be accounted for as part of setting baselines? What are the Group's concerns?
  - i. Proposition in the paper is based on the 19/20 position, that evolved from 'damped position' over several settlements.
  - ii. Close regard should be given to relative resources and relative needs, based on average council tax level
  - iii. The baseline formula needs to be clear and set transparently so that LAs can forecast more easily.
  - iv. LAs would also greatly benefit from information being made available earlier. They would like to have the full picture ahead of Spending Review. Since information becomes available in December of each year for the position in April of that year, they would, again, benefit from this information being made available sooner.
  - v. LAs would also like to have high level information available in relation to what this transition might look like
  - vi. Relative resources based on average CT level, doesn't relate to the income you can generate. Want formula should be simple enough to predict, not something only a few experts understand. How often should needs assessment be calculated, should we make projections about population? This would complicate

transition as would be transitioning to a moving picture. LAs want to be able to access the data source.

- vii. There may be separate approaches for upper and lower tier.
- viii. S31 grants - assuming that it will be rolled into baseline in 20/21.

## **2. Simplification of the Business Rates Retention System**

- a. The paper was presented by Michael Furness, a member of the System Design Working Group, who drafted it alongside Andrew Moran.
- b. Under this proposed system there is an opportunity to simplify the business rates retention system whilst preserving risk and reward incentives.
- c. The group asked that consideration be given to the impact the proposed alternative system would have on incentivising good collection rates.
- d. It was noted that these reforms would be achievable through current legislation and would simplify some of the system design work.
- e. Some members of the group were drawn to the gearing recommended in the paper.
- f. Some members of the group argued that SFA should be protected and the focus of the system should be on meeting needs and therefore it should not be possible to fall below baselines. However, it was noted that it would be possible within this system to build in risk as well as reward.
- g. The group discussed further work to be done in scoping this option, including:
  - i. What do we mean by reward compared to the current system?
  - ii. What are the implications of an earlier NNDR1?
  - iii. What are the implications for cash-flows?
  - iv. How does the Central List interact with this? Presumably it will remain a fund for grants? Would the alternative system reduce the need to move hereditaments between lists to manage volatility?
  - v. The interaction with other elements of the system such as tier splits, appeals and IT.
  - vi. Are there any inadvertent consequences, such as giving incentives to over/underestimate appeals provision?
  - vii. Any macro-economic implications of this system.
  - viii. Transition.
- h. It was noted that the IWG will be looking at measuring baselines.
- i. The group discussed appeals, which may present an issue for measuring growth.

### **What now/what next? Actions:**

- i. The group will go back to those they represent to gather views.
- ii. A new work programme will be proposed for the Autumn.
- iii. The SDWG will meet again in late September; meanwhile group members will contemplate the proposal and any foreseen problems.
- iv. MHCLG to seek Ministers views in September.

### **3. Investing Collection Fund balances**

- a. Mark Barnett gave some background of the issue
- b. We would remove mention EEA firms from legislation completely.
- c. Question to group: Do LAs invest Collection Fund balances in EEA firms? There is no indication that LAs differentiate this in any way.
- d. Proposal to add into legislation 'subject to prudential code'.
- e. Group agrees with proposal.

### **4. Levy account surpluses 2017-18**

- a. Currently there is a surplus on account of £13m. This will be rolled forward to next year.
- b. There may be a possible surplus for next year of as much as £130m. What should the basis for distribution look like?
- c. What do we do with this account when we transition to any of the possible new systems?
- d. All agree with MB points.
- e. Group to consider until following meeting.