

**Systems Design Working Group Forward Look**

**Background**

1. We have been given the opportunity to take stock of the best way to proceed with local government finance reform following the fall of the Local Government Finance Bill, when Parliament was dissolved in the run up to the General Election 2017. This means that DCLG and the sector, through co-working, will be best placed to reach the optimal overall solution.
2. In the current Parliamentary session, with Brexit dominating the Parliamentary timetable, we will be unable to bring forward primary legislation. However, this will not mean a lack of action. DCLG will be taking forward a package of reforms, in close collaboration with the sector, that further the manifesto commitment to continue to allow local government greater control over the money it raises. Reforms to the design of the system will seek to make improvements to the functionality and stability of Local Government Finance.

**Proposal**

1. At the Business Rates Retention Steering Group, a high level timetable was tabled for discussion setting out a possible route to reform (attached at Annex A). Some alterations have been made to reflect the wider timeline of local government finance reform and a proposed forward look of the papers it is recommended the Systems Design Working Group consider is attached at Annex B.
2. We propose that the Working Group initially focusses on elements of the system which can be modified using secondary legislation and so are suitable for a short term reform package. Once this work is completed we propose that the Working Group considers longer term options for reform through primary legislation.
3. Papers will be prepared based on analysis carried out by DCLG and responses to the Government’s Further Consultation on Business Rates Retention. Papers will be published, as usual, and feedback will be invited from the wider sector and other interested parties.
4. A strong, open and collaborative relationship between us will be central to achieving effective reform. We would therefore invite the Working Group to consider how the sector can best feed into the development of each of the technical papers (as well as commenting on it once produced) in order to create a system which truly delivers.
5. Additionally, we recommend that the Working Group commission a smaller sub group to consider the detail of technical transition (such as transitioning IT systems) and operationalization. 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:
6. Pilots: accounting and IT systems transition (as requested by the Steering Group);
7. Establishing BRB;
8. Redesign of NNDRs.
9. DCLG would of course welcome input into the forward plan, and it will be amended to reflect any additional papers that the Steering Group commissions or that the Technical Working Groups produce.
10. Timetables are of course subject to change and will be influenced by other factors. It may be necessary for the Working Group to accept additional papers to the agenda if elements need revisiting.

**Annex A: Over View Tabled at the Business Rates Retention Steering Group**

**BRR Working Groups Forward Work Plan**

There has been a significant pause in the work of Steering and Working Groups and so there are some recalibrations to work through. We propose that the Business Rates Retention Working Groups be resumed and will issue further detail, including dates, following the first meeting of the Steering Group on 3 October.

**New Responsibilities Working Group**

A forward work plan for the New Responsibilities Working Group will be proposed following the 3 October Steering Group meeting. This working group will, once resumed, agree its forward look and commission the (sub) **Accounting and Accountability Working Group**.

**Systems Design Working Group**

We propose that the Working Group be commissioned to consider the following elements of the Local Government Finance system in the following order:

1. Options for reforms and greater business rates retention, including the legal position, timings and scope and agree forward look including for the (sub) **Accounting and Accountability Working Group**;
2. The safety net, tier splits, risk and gearing;
3. Mitigating appeals losses;
4. Resets, set-up and measuring growth;
5. Transitional arrangements;
6. Reliefs, appeals and the Central List;
7. Pooling;
8. Data and accounting.

**Annex B: Proposed Papers**

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|  | **Paper** | **Date** | **Considerations** |
| 1 | Forward Look and Reliefs | 15 November 2017 | The forward look suggests a series of papers to be presented for the group’s approval. A paper on Mandatory Reliefs will be presented by Birmingham and considers the following:* How should the costs of funding mandatory reliefs be met in general?
* How should the costs of specific Government policy be met?
* What should happen when a relief is granted that transfers funding from one public sector body to another?
* Should there be a net cost to the public sector of rating agents?
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| 2 | The Central List | February 2018 | This paper, presented by DCLG, will consider:* Which list (Local or Central) types of hereditament are best suited to and what the criteria should be;
* What will happen when a hereditament changes list; and
* What the overall impact on individual authorities and the system as a whole would be.
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| 3 | The Safety Net & Tier Splits - Risk and Gearing | March 2018 | DCLG will lead on this paper but would very much welcome DCN and CCN collaboration on the design options for tier splits. The paper will consider the acceptable balance between risk and reward: * What is an appropriate tier split and how this should be set (nationally or by individual authorities)?
* Should tier splits be the same for BLF and growth?
* The right level to set the safety net as it applies to both individual authorities and pools; and
* How this should be measured (e.g. against baseline funding).
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| 4 | Appeals and Loss Payments | April 2018 | This paper, presented by DCLG, will consider what can be done to address the way that appeals currently create instability in local government finance. It will also consider specific issues around transition during a revaluation period. Key questions would include:* In which financial year it will be possible to address appeals losses;
* What the possibilities are for centralising appeals risks;
* What the possibilities would then be to identify money owing to authorities;
* Whether this should be funded through a top-slice;
* The optimal way to transition to the new system (including IT considerations); and what the overall impact on the system will be.
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| 5 | Resets, Measuring Growth and Revaluation | May 2018 | This paper, presented by DCLG, will consider:* How we will reset the system and how often;
* How growth will be measured at a reset;
* How we take account of changing relative need at a reset, including principles about transitional arrangement;
* What the interaction with Revaluation is.
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| 6 | Transitional Arrangements | June 2018 | This paper, presented by DCLG, will consider wide ranging policy issues about transition, including the position of the pilots. Additionally, the group will consider the findings of the Technical Transition and Operationalization Sub Group on the technical aspects of transition.  |
| 7 | Pooling, Data and Accounting, and Operationalization | July 2018 | This paper, presented by DCLG, will consider:* How can pooling support sustainability, growth, risk management and strategic thinking across a functional economic area?
* What is the best way for authorities to come to pooling arrangements?

Additionally, the group will consider the findings of the Technical Transition and Operationalization Sub Group on data, accounting and operationalization. |
| 8 | Proposed Overall Short Term Package and Future Reform Using Primary Legislation | September 2018 | Two papers will be presented by DCLG. The first will outline a proposed overall package, drawing together the previous papers, and responses to them, on individual elements of the system. The second will consider what long term reforms, requiring primary legislation, would be beneficial.  |