SYSTEMS DESIGN WORKING GROUP
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DESIGN PRINCIPLES PAPER FOR SYSTEMS WORKING GROUP

SUMMARY REPORT

Purpose of the Report

1. In addition to this paper there is a paper from Stephen Mair, City Treasurer of Westminster which compliments and adds to this paper. Due to time constraints rather than merge them we are submitting two documents with the expectation that they will together aid debate.

2. Set out below are in my view the key guiding principles that need to be addressed before detailed design can be undertaken and my view is these principles should be consulted on prior to detailed design consultation. Once principles are agreed the design becomes more a technical function than a policy decision as currently the Design Group is trying to decide on policy.

Principle One – Incentivisation for Growth or Financial Stability

3. At one extreme there would be full devolution of NNDR to a local level with no national safety net and all growth and losses would be borne by local councils.

4. At the other extreme is a system where business rates are fully devolved to Local Government but L.G. itself manages a national scheme in the same manner as a centralised scheme.

5. One option gives growth priority whereas the other best manages risk and volatility.

   Question 1 – Which is more important in the new system, access to income growth or greater financial stability and risk limitation.

   Question 2 - If your answer to question 1 is greater financial stability and risk limitation do you feel the existing safety net protection offers sufficient protection or is more needed? Is the current method of calculating the safety net still correct?
   Question 3 – If your answer is growth is more important what element if any of NNDR growth should be retained to fund a safety net?

Principle 2 – Degree of Devolution of Decision Making within the New System

6. It is a given that the multiplier and valuations are set nationally this being the case there are a number of reliefs and options to change the multiplier that exist within the system.

7. At one extreme all reliefs could be set nationally with no discretion to change them, pretty much this is the current position.

8. The other extreme is full delegation of powers, this could be done by a national standard being agreed and then Councils being given the power to reduce or increase the reliefs, such an approach could help target support for economic growth, reduce avoidance and enable Councils to raise additional income to fund key services.

9. A challenge in allowing greater discretion relates to how this is accounted for in a system of top ups and tariffs. Also who pays for the decision in two tier areas? In terms of the multiplier there are current powers for certain increases or reductions in the multiplier these could be extended wider.

10. Increased discretion could operate in either extreme of principle one.

    Question 1: Should there be devolution of decision making to a local level for all reliefs or just some? If you answer is not all please list those to be devolved.

    Question 2: Should there be any amendments to the level of reliefs offered currently and/or should any be deleted ? If so please list.

    Question 3: Should there be universal powers to alter the multiplier up or down?

Principle 3 – Reset Period and Impact on Growth Proceeds

11. This principle links to Principle 1 as there are similar opposite views that could be expressed between access to income growth and financial sustainability of local authorities.

12. A reset is proposed in the current 50% retention system to enable need to be recalculated to then redistribute top ups and tariffs to equalise need and resources. The more frequently this is done the less the growth incentive there is and the less frequently it is done the more likely a Council with increasing need and reducing income will suffer financial hardship. The impacts could be offset in some way such as some element of growth retention beyond the rest period and some adjustment within resets if needs grow beyond a certain level however the late production of information may be an issue.

13. The current reset date is 2020/21 so a 6 year period where need and income raising ability is not addressed.

    Question 1: Is the current 6 year reset period appropriate or should it be a larger or shorter period?
    Question 2 Should the rest allow for some growth to be retained beyond the reset?
    Question 3 Should there be help for high growth in need between resets?

Principle 4 - Revaluations

14. These happen every 5/7 years (worryingly there is talk of them being every 3 years) and are one of the largest contributors to volatility in the system due to the industry around appeals against valuation. In the 'new' system should the volatility faced by Councils from appeals against the new list be reduced? Could the system be set up to allow appeals against the original list, (errors in effect) be funded by a top slice nationally whilst 'normal business' appeals due to changing circumstances are funded locally. This could be accommodated by the V.O. identifying the type of appeal.

15. Revaluations add volatility to the system as do resets, would it make sense to have them at the same time to avoid a number of disturbances to the system.

16. If both cannot be done at the same time (link to Principle 3) is a five year revaluation period too frequent?, would it be better to go for a longer period between revaluations?

    Question 1: Should the new system have a top slice to fund at a national level to fund the cost of appeals against initial revaluations?

    Question 2: Should revaluations be less frequent and should the aim to be to align them with the reset?

Principle 5 – Central List

17. This principle is very much linked to Principle 1 as the extent of the central list has an impact on the levels of grant achievable and the volatility within the system.

18. There is a general acceptance that a number of categories are best managed at a national level however there does appear to be a consistency issue. An agreed definition of what should be on the list is required rather than looking at individual assets for example :-

    (a) All power generation and supply

    (b) All national rail networks

    (c) All telecommunication services

    Beyond these all will be in local lists.

19. Changes to and from the central list can cause significant volatility at a local level so an agreed methodology to offset losses and gains could be done via the top up and tariff model.

    Question 1: Do you agree there should be a central list with an agreed definition?

    Question 2: Do you agree any movement between central and local lists should be adjusted for by the system of top ups and tariffs?