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**BUSINESS INTEREST GROUP: SYSTEM DESIGN WORKING GROUP UPDATE**

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1. The Systems Design Working Group (SDWG) has been meeting on a regular basis to consider and provide advice on the mechanisms needed to set up and run the 100 per cent rates retention system.
2. Discussions so far have focussed on defining the areas to be addressed in designing the 100% rates retention system, and then focussing discussions on handling growth and managing risk in the new system, and on the tax flexibilities measures.
3. The SDWG agreed at early meetings on the areas to focus their attention. These include:
  - Local tax flexibilities
  - Handling growth gains
  - Managing appeal risk
  - Tier splits
  - Geographies of business rates retention
  - Redistribution mechanisms
  - Safety net
  - Central List
  - Enterprise Zones
  - Treatment of reliefs
4. The discussions on handling growth gains have focussed so far on resets of the system. Both the Systems Design Working Group and the Needs and Resources Working Group have discussed resets, and local authority representatives have reached an agreed position that:
  - Resets should take place relatively frequently – five years was seen as a sensible period.
  - Resets should be harmonised with revaluations, and five years was seen as a sensible period for both.
  - A partial reset of growth should happen at each reset: the groups have been working on an assumption of 50% but further work is needed to determine what this % should be.
  - A full reset of need should take place at each reset: the needs formula should be re-run and business rates income redistributed according to updated relative need.
  - No full reset of the system should be built in: both groups expressed the view that a full reset of all growth in the system would not be beneficial (though this is to be tested with both working groups further).
5. Discussions on managing risk within the system have focussed on handling the risk associated with successful business rates appeals in a different way, how gearing impacts on risk, how ratings lists could be better utilised to manage risk, and what protection a future safety net should provide. These discussions are ongoing. Some of the issues the group are considering include:
  - Exploring alternative ways of funding losses due to successful appeals through the 100% rates retention system, including compensating authorities more directly for the losses they experience.

## POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

- Exploring the impact of different levels of gearing on local authorities. This includes considering whether the current approach to tier splits between different tiers of local government is right.
  - Looking again at the way that local ratings lists and the central list operate. This could involve clarifying the central list policy approach, and then refreshing the central list ahead of the introduction of 100% rates retention.
  - Considering how a future safety net should operate in the 100% rates retention system. Other design elements to set out above should reduce the risk on local authorities, so the group are considering what additional protection should be provided by a safety net.
6. The SDWG has also had responsibility for considering and advising on implementation of the tax flexibilities work: the proposed ability to reduce the multiplier, and the proposed new infrastructure levy for Mayoral Combined Authority areas. Updates on these are covered in a separate paper for the Business Interests Group.
  7. The SDWG will continue to meet on a regular basis to further explore these issues, and to start to consider how the system is set up and implemented before the end of the Parliament.