Agenda Item No. 15

RESPONSE TO THE CONSULTATION ON THE LOCAL GOVERNMENT RESOURCE REVIEW.

To:	**Cabinet**
Date:	**25th October 2011**
From:	**Nick Dawe, LGSS Director of Finance**
Electoral division(s):	**All**
Forward Plan ref:	**N/A** *Key decision:* **No**
Purpose:	**To outline the key elements of Northamptonshire County Council's (NCC's) response to the above consultation.**
Recommendations:	**Cabinet is asked to:**

a) Note the report.

b) To delegate responsibility for submitting a detailed consultation on behalf of Cambridgeshire County Council to the LGSS Director of Finance in discussion with the Leader and the Portfolio Holder for Resources.

c) That an additional response letter, along the lines of that shown at Appendix 1, be sent by the Leader of the Council.

Name:	Nick Dawe	Name:	Cllr Steve Count
Post:	LGSS: Director of Finance	Portfolio:	Cabinet Member for Resources and Performance
Email:	Nicholas.Dawe@cambridgeshire.gov.uk	Email:	Steve.count@cambridgeshire.gov.uk
Tel:	01223 699236	Tel:	01223 699173

1. PURPOSE

1.1 To outline the key elements of NCC's response to the above consultation.

2 BACKGROUND

2.1 In line with LGSS policy, a joint response to the consultation has been submitted to Northamptonshire County Council's management team.

2.2 The Local Government Resource Review was announced as part of CSR10. There are two elements to the process. Phase one looks at fundamental changes to the way local government is funded and phase two concentrates on community budgets. The Department for Communities and Local Government published the Local Government Resource Review (Phase One) Consultation document on 18 July 2011. The response deadline was 24th October 2011.

2.3 Under existing arrangements, non-domestic rates (or business rates) revenue collected by local authorities is pooled centrally before being redistributed to local authorities in England. Government feels that while local authorities have a vital role to play in supporting the economy, there is limited direct financial incentive to do so.

2.4 The Secretary of State advises that not only will areas who need help continue to receive support and be allowed to keep the product of their work but that those areas who raise a lot of business rates should make a contribution to the support. Businesses will see no change to the way their rates are calculated or collected.

2.5 It is the Government's intention to bring Rates Retention in from April 2013.

2.6 Government have summarised the changes for County Councils as follows:

- 2.6.1 County Councils will receive a share of the rates collected in their districts as well as an additional top-up if required.
- 2.6.2 The baseline will be set and counties will see increases in funding if they grow and decreases in funding if they decline. Counties can consider forming a pool with their districts and / or neighbouring authorities.

2.7 Historically, Cambridgeshire County Council (CCC) has been a contributor to the national business rates pool and it is expected that the authority will be required to make a contribution (pay a tariff) to support those authorities who require additional support.

3 THE PROPOSED RATES RETENTION SCHEME

3.1 The rates retention model has been developed to meet the following aims:

- Ensure a fair starting point for all local authorities;
- Deliver a strong growth incentive where authorities can benefit from increases in their business growth and from hosting renewable energy projects;
- Include a check on disproportionate benefits;

- Ensure sufficient stability in the system; and
- Include an ability to reset in the future to ensure levels of need are met.

3.2 It is expected that from 2013-14 onwards the total business rates collected in England will be in excess of the 2010 Spending Review control total for local government. The Department of Communities and Local Government DCLG are proposing to remove this excess and distribute it to local authorities in the form of additional grants – which could include schemes such as the New Homes Bonus. The aim of this is to ensure that local authorities are able to benefit from growth above the levels predicted.

3.3 The next spending review will examine ways in which the activities and responsibilities of local government can be more closely aligned with business rates income.

3.4 On 19th August the government released eight technical papers covering detailed aspects of the Business Rates Retention scheme.

4 CONSULTATION RESPONSE

4.1 The consultation document and eight technical papers include a large number of detailed, technical and specific questions around how the proposed system should work and the authority has responded to these.

4.2 The authority, along with its Northamptonshire colleagues, has also taken the opportunity to outline some high-level concerns and observations and these are detailed below.

4.3 Firstly, we welcomed the opportunity to contribute to the design of any new scheme and also welcome any funding mechanism that will reward growth.

4.4 However, we do not believe that the proposed system will provide a suitably large stimulus for business growth in that it is too restrictive, is not ambitious enough and does not provide enough upside risk.

4.5 <u>Baseline position.</u>
The calculation method to establish the baseline position has given cause for concern in that it will be based on the 2012-13 formula grant settlement figures under the current funding mechanism. This authority has been lobbying and campaigning for some time on the flaws and inadequacies of this system and using it as the baseline starting point for a new funding mechanism will lock in these flaws and inequities going forwards. As there is nothing that can be done about the baseline position in the timeframe available, we reluctantly accept the proposed methodology. The baseline will form the starting point for the scheme against which growth in business rate yield will be measured.

4.6 Through its use of retained business rates there is no direct correlation between the proposed funding scheme and service need. This means that there is no mechanism to measure the particular needs of citizens across each authority.

4.7 Therefore we have recommended that base distribution and measure of need are re-visited within two years as part of the proposed reset of the scheme to better incentivise growth.

4.8 This would mean a more accurate mechanism for determining the baseline starting point will be put in place against which future business growth is measured. For example, under the proposed system CCC will be required to pay a tariff. This will be based on a starting point that we know is flawed and does not accurately recognise or calculate the funding required to meet the needs of our citizens relative to other authorities. The tariff will be locked in and payable until the next reset thereby potentially taking away more from the authority in tariff in future years than it should and thereby reducing incentive. We would hope that an early reset in the first two years would give a more accurate distribution of funding to better reflect service need and incentivise authorities.

4.9 There are over 70 variations on which to assess the potential impact of the proposed funding model and there are also a significant number of unknown factors which will be announced at a later date. It is therefore very difficult to gauge the exact impact of a reset of the funding system. However, a very simple calculation using basic assumptions for inflation and growth across Cambridgeshire would indicate a potential difference of over £5m over 5 years. This includes funding into district and borough councils and looks at one possible effect of resetting the system using the 2012/13 settlement before it has been adjusted to 'equalise' funding across authorities to support the less well off authorities (known as pre-damped formula grant). This would equate to the basic assessment of an authority's need relative to others.

4.10 Pooling.

The consultation outlines opportunities for pooling and colleague working for example, across upper and lower tier authorities and Local Enterprise Partnerships (LEP areas). As the name suggests this involves pooling funding for all areas that are in the pool and then using this funding to meet the agreed priorities across the area.

4.11 These opportunities are welcomed and we see this as a means to jointly meeting the potential effects of changing growth rates and economic cycles. We welcome the concept of protecting the more vulnerable areas within the pool to ensure that there is no postcode lottery with some citizens in an area receiving better services than others. Pooled arrangements will also help authorities with planning as the effects of large scale changes in business growth in one area will be spread across the wider area of the pool, thereby giving some protection against the effects of a significant drop in business rate yield in a particular area.

4.12 Wider Context.

The consultation response also highlights the other key factors currently affecting local government finance which should be taken into account when looking at the wider context of the potential impact of the proposals. Areas of particular consideration are those with clear links to growth such as:

- The general economic situation.

- Micro economies. Some areas are more able to create economic growth compared to others due to their geographical situation, historical growth, and proximity to main road links and infrastructure

- Public Works Loan Board(PWLB) +1% (November budget). In the CSR10 announcement central government increased PWLB borrowing rates (the rates at which local authorities can borrow from central government) by 1% with immediate effect.

- The consultation indicates that there is potential to make prudential borrowing more regulated and this could affect borrowing decisions for local authorities and the funding of capital programmes.

- Funding of Adult Social Care (Dilnott review). Fairer funding for all. The Dilnott report highlighted that *"the current funding system is in urgent need for reform: it is hard to understand, often unfair and unsustainable. People are left exposed to potentially catastrophic care costs with no way to protect themselves".*

- Consultation on funding transfers the new health responsibilities. In August the Department of Health published a consultation on options for allocating funding to local authorities for new responsibilities associated with Local Healthwatch, NHS Complaints Advocacy and Primary Care Trust Deprivation of Liberty Safeguard (PCT DOLS).

Other areas for consideration include:

- Council Tax Benefit localisation. Government are seeking to localise support for council tax *as "part of a wider policy of decentralisation, giving councils increased financial autonomy and a greater stake in the economic future of their local area".* To enable the local council tax support schemes, the government will therefore be seeking legislative changes as part of the Local Government Finance Bill in the next Parliamentary session. It is intended that authorities will establish their own local schemes by April 2013.

- New Burdens. The new burdens doctrine published in June 2011 states that central government have agreed that *"all new burdens on local authorities must be properly assessed and fully funded by the relevant department".*

- The Localism Bill. The Localism Bill contains a number of proposals to give local authorities new freedoms and flexibility.

- Big Society. The Big Society is the Government’s vision of a society where individuals and communities have more power and responsibility, and use it to create better neighbourhoods and local services.

- The role of central Government. There is some uncertainty regarding the role that central government will take in the future funding of local government. For example, whether the centre keeps the ability to top slice or if more successful authorities should be allowed to invest in those that are less successful.

- Academy funding. This relates to the transfer of funding to academies from local authorities to cover overheads previously incurred by the local education authority such as payroll, IT support etc.

- Public Service Pensions (Hutton report). A fundamental structural review of public service pension provision.

4.13 The consultation response also highlighted a number of other key areas of concern including:

- Timescales – Large scale changes under review with only a short amount of time prior to implementation.

- Upper tier authorities could be subject to significant risk in relation to lower tier forecasts for growth as they will need to repay (possibly in year) their (larger) proportion of any negative change in business rate yield forecast. There will be little incentive for lower tiers to improve their forecasting as upper tiers take most of the risk. This means a lack of stability and certainty could negatively impact on county council in-year activities and planning for the future.

- The scheme will be subject to a rigorous reconciliation process at year end which will increase levels of bureaucracy but will ensure that county councils will receive the appropriate level of funding.

- There is a proposed levy on disproportionate growth which indicates a cap on growth.

- Revaluations – will change incentive for growth (could change from tariff to top-up authority or vice versa). There could be potential to manipulate or delay growth until the new system comes into place or to time growth around revaluation or reset periods to get the optimum return.

- There are a significant number of unknowns around the proposed system which makes it difficult to fully understand the potential impact on each authority. This will impact on each authority's ability to plan for the future.

- Forecast national business rates are key to the proposed funding system. However, the calculation will not be an exact science and there is some uncertainty around how the expectation of future growth will be built in to the forecast. We know that future business rate forecasts will include some element of growth so authorities will need to grow in excess of this to receive any benefit. An estimate of forecast business rates will not be available until autumn 2012 which will impact on authorities' abilities to fully understanding the impact of the proposals for planning purposes.

- There will be a significant reliance on districts and boroughs to provide accurate forecast data (also potential impact of CTB localisation consultation)

5 EXTERNAL AND CONTEXTUAL ISSUES

5.1 The Local Government Resource Review is comprised of a number of key elements and additional consultations such as the Council Tax Benefit Localisation consultation which could have an impact on funding from April 2013 as may decisions to transfer other burdens without funding to Local Authorities.

6 SUMMARY

The proposed changes though welcome provide only a marginal additional stimulus to local economic growth. For comparison a house build rate of a further 1% or a one per cent council tax increase would yield similar additional levels of funding.

The main problem with the mechanism is that the baseline locks in the current skewed distribution of Government resource in the formula grant that benefits areas of social deprivation and economic failure.

A further letter explaining the consultation response could be usefully sent, an early draft is shown at Appendix 1.

General and technical responses to the consultation are shown at Appendix 2 and Appendix 3 respectively.

7 IMPLICATIONS

7.1 Resources and Performance:
The new funding mechanism resulting from the Local Government Resource Review will be in place from April 2013. There are still a significant number of unknown factors and variables to be able to accurately assess the potential impact on the authority. As more information is released, work will be ongoing to fully understand any potential impact for the authority.

7.2 Statutory, Legal and Risk:
There are no significant statutory, legal and risk implications.

7.3 Equality and Diversity:
There are no significant equality and diversity implications.

7.4 Engagement and Consultation:
No public engagement or consultation is required for the purpose of this report thogh dialogue with District and Local Enterprise Partnership colleagues has taken place.

8 SOURCE DOCUMENTS:

The DCLG consultation document can be found at: http://www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates

Appendix 1

Ms Katy Willison
Deputy Director, Business Rates and Revaluation
Department for Communities and Local Government
Eland House,
Bressenden Place,
London
SW1E 5DU
CTB-Reform@communities.gsi.gov.uk

24th October 2011

Local Government Resource Review (Phase One)

Dear Ms Willison,

LGSS is a local government shared service solution between Cambridgeshire and Northamptonshire county councils. This response reflects the joint opinions, issues and concerns of both authorities.

LGSS very much welcomes the opportunity to comment on the proposals and has submitted responses to the questions in the main consultation and subsequent eight technical papers and these are enclosed in the attached appendix.

We would also like to take this opportunity to outline a number of other issues and concerns not directly addressed in the consultation and these are detailed below.

Key headlines.

1. Timescales for implementation are very short given the large scale change proposed.

2. We do not believe that the proposed system will provide a suitably large stimulus for business growth in that it:
   - Is too restrictive
   - Is not ambitious enough
   - Does not provide adequate incentives for growth through the introduction of a levy on 'excessive benefit'.

3. There is no correlation between business rates and service need.

4. The use of 2012/13 formula grant to establish the baseline position will mean that the flaws and inequities of the current funding mechanism will be 'locked in' to the business rate retention scheme going forwards.

5. We reluctantly recognise that within the timeframe available there is no other suitable methodology to calculate the baseline but strongly recommend that base distribution and need are revisited within two years to address this.

6. Pooling opportunities are welcomed.

7. Proposals should be seen in the wider context of the other key factors currently affecting local government finance and the general economy.

8. There are a significant number of unknown factors which make it very difficult to assess the potential impact of proposals.

9. It is essential that the appropriate split it of funding is in place which accurately reflects the differing cost burdens of upper and lower tier authorities.

10. We are concerned at the reliance of business rate forecasts from lower tier authorities when upper tier authorities take the vast majority of the risk associated with this.

CCC context.

NCC context.

<u>Timescales.</u>
LGSS is very concerned about the proposed short timescales for introducing such a large scale change to the local government finance system. In particular, there are still a large number of unknown factors, for example, forecast national business rates which won't be known for another 12 months and which will have a big impact on the fairness of the baseline position. This has meant that the interactive calculator produced by the DCLG has been of very limited value.

<u>Incentives for growth.</u>
We do not believe that the proposed system will provide a suitable stimulus for growth.

There are a number of restrictions proposed such as a levy on a 'disproportionate benefit' and the proposal to increase regulation on PWLB borrowing.

There is capacity for some authorities to manipulate or delay growth to secure the optimum return, for example, by delaying growth until after a reset of the system or by restraining growth below a certain level to avoid moving to a tariff.

We do not feel that the proposed scheme is ambitious enough in that it sets a cap on growth through the levy. ***One idea could be that, instead of incurring a tariff, very successful authorities could invest in less successful areas to their mutual benefit***.

<u>Meeting the needs of our citizens.</u>
There is no correlation between business rates and service needs which gives serious cause for concern.

Both authorities within LGSS have consistently lobbied regarding the inadequacies of the current funding mechanism which we feel is flawed, opaque and overly complex. As growing counties we have been particularly concerned that the current system actually penalises growth in that it fails to accurately assess the impact of a rapidly growing population.

Upper tier authorities incur a far greater 'burden' in relation to housing growth and as populations grow, services become increasingly stretched. It was therefore particularly disappointing that the recent New Homes Bonus is to be split 80% to lower tier authorities and 20% to upper tier. <u>It is essential that any split of business rates in the new system accurately reflects the true distribution of need between classes of authorities.</u>

In addition to this, we are very concerned with how the set aside will be returned to local government in that we know some of it will be used to fund the New Homes Bonus which as we've indicated gives disproportionate benefit to district and borough councils. <u>We strongly recommend a review of the split in allocating the New Homes Bonus and it is essential that any other grants to local government from the set aside accurately addresses the needs of upper tier authorities</u>.

<u>Baseline position.</u>
The calculation method to establish the baseline position has given cause for concern in that it will be based on the 2012-13 formula grant settlement figures under the current funding mechanism. The authorities within LGSS have been lobbying and campaigning for some time on the flaws and inadequacies of this system and we feel that using it as the baseline starting point for a new funding mechanism will lock in these flaws and inequities going forwards. As there is nothing that can be done about the baseline position in the timeframe available, we reluctantly accept the proposed methodology.

However, we strongly recommend that base distribution and measure of need are re-visited within two years as part of the proposed reset of the scheme to better incentivise growth.

This would mean that a more accurate mechanism for determining the baseline starting point will be put in place against which future business growth is measured. For example, under the proposed system both LGSS authorities will be required to pay a tariff. This will be based on a starting point that we know is flawed and does not accurately recognise or calculate the funding required to meet the needs of our citizens relative to other authorities. The tariff will be locked in and payable until the next reset thereby potentially taking away more from each authority in tariff in future years than it should and thereby reducing incentive for growth. We would hope that an early reset in the first two years would give a more accurate distribution of funding to better reflect service need and incentivise authorities.

Pooling.

Pooling opportunities are welcomed and we see this as a means to jointly meeting the potential effects of changing growth rates and economic cycles. We welcome the concept of protecting the more vulnerable areas within the pool to ensure that there is no postcode lottery with some citizens in an area receiving better services than others. Pooled arrangements will also help authorities with planning as the effects of large scale changes in business growth in one area will be spread across the wider area of the pool, thereby giving some protection against the effects of a significant drop in business rate yield in a particular area.

Wider Context

We do not believe that the consultation proposals should be considered in isolation. There are a number of other factors affecting local government finance and these should be taken into account when considering proposals.

For example:

- The general economic situation – which will mean that actual potential to grow is limited.

- Micro economies – some areas will be better able to create economic growth compared to others due to their geographical situation and links to existing infrastructure.

- Increase in PWLB borrowing rate introduced in CSR10 borrowing costs for local authorities were increased by 1% with immediate effect, although this has now been removed for housing authorities. The consultation also indicates that there is potential to make prudential borrowing more regulated. This could affect borrowing decisions for local authorities and the funding of capital programmes and act as a barrier on investing in infrastructure to support growth.

- The Dilnott Review – the proposals need to be considered in light of an ageing population which is particularly important given our concerns that business rates have no direct correlation to growth.

- The recent consultation on funding transfers for new health responsibilities – we must ensure that the new burdens associated with these transfers are adequately funded.

Other factors for consideration include:

- Council Tax Benefit Localisation
- The New Burdens Doctrine
- The Localism Bill
- The Big Society
- Academy Funding
- Public Service Pensions.

Ability to assess the impact of the proposals

We have calculated that, in relation to our authorities, there are over 70 variations on which to assess the potential impact of the proposed scheme. In addition to this, there are a significant number of unknown factors which will be announced at a later date.

Forecast national business rates are key to the proposed funding system. However, the calculation will not be an exact science and there is some uncertainty around how the expectation of future growth will be built in to the forecast. We know that future business rate forecasts will include some element of growth so authorities will need to grow in excess of this to receive any benefit. An estimate of forecast business rates will not be available until autumn 2012 which will impact on authorities' abilities to fully understanding the impact of the proposals for planning purposes.

Given all of the above, we feel that it is therefore impossible to understand the true impact of the proposals. This will significantly impact on our ability to plan for the future.

Risks to upper tier authorities.

Upper tier authorities could be subject to significant risk in relation to lower tier forecasts for growth as they will need to repay (possibly in year) their (larger) proportion of any negative change in business rate yield forecast. There will be little incentive for lower tiers to improve their forecasting as upper tiers take most of the risk. This means a lack of stability and certainty could negatively impact on county council in-year activities and planning for the future.

There will therefore be a significant reliance on districts and boroughs to provide accurate forecast data, this is also particularly relevant in relation to the current Council Tax Benefit Localisation consultation.

Other key issues for consideration

Whilst we have submitted detailed responses to the questions laid out in the consultation documents we would like to highlight specific concerns in the areas detailed below:

- We are concerned that the scheme will be subject to a rigorous reconciliation process at year end which will increase levels of cost and bureaucracy.

- Revaluations – will change the incentive for growth (authorities could change from a tariff to a top-up authority or vice versa). There could be potential to manipulate or delay growth until the new system comes into place or to time growth around revaluation or reset periods to get the optimum return.

- Fire and Rescue Service. We are concerned with the proposal to remove funding for single purpose Fire authorities from the business rate retention system and guarantee their funding in line with CSR10. As funding for county Fire and Rescue Services will be included in county council funding it will therefore be subject to the volatility of the business rates retention system. This means that Fire and Rescue Services will be funded differently depending on whether they are a stand alone service or part of a county council. We do not believe that this is an equitable solution and feel that all Fire and Rescue Services should be funded through the same methodology.

We hope that you find these comments useful.

We would welcome any further opportunities to be part of the decision making process in relation to local government finance and would like to take this opportunity to offer our services in this area.

Yours sincerely,

Appendix 2

Response to Consultation Questions:

Q1: What do you think that the Government should consider in setting the baseline?
Please see our comments in the main text regarding the baseline.

As it is the basis against which future growth and will be calculated it is essential that the baseline methodology should be fair, transparent and easy to understand.

It must ensure a real and measurable incentive for growth.

Q2: Do you agree with the proposal to use 2012/13 formula grant as the basis for constructing the baseline? If so, which of the two options at paragraph 3.13 and 3.14 do you prefer?
Please see comments in the main text attached.

We have strongly lobbied and campaigned against the inadequacies of the current funding model and so to use it as a starting point will mean that these floors are inherently built into any new scheme.

Given the short timescales involved we reluctantly accept that this is the only measure available to us.

However, we would strongly recommend a revisit of the baseline principles within two years to more accurately determine a fair starting point from which to measure growth.

We support the first option (outlined in 3.13) as we do not believe there should be any further technical adjustments to this already overly complex system.

Q3: Do you agree with this proposed component of tariff and top-up amounts as a way of rebalancing the system in year one?
We accept the need for resource equalisation and feel that tariffs and top-ups would be an adequate way in which to do this.

Q4: Which option for setting the fixed tariff and top up amounts do you prefer and why?
We believe that option two would be the fairest measure (increase topper on tariffs by RPI).

Q5: Do you agree that the incentive effect would work as described?
There would be an incentive to a certain extent, but the proposed levy would restrict this. There is also the potential for authorities to manipulate/delay growth to retain maximum benefit (see previous comments).

Q6: Do you agree with our proposal for a levy on disproportionate benefit, and why?
We feel that the proposed levy means a cap on growth. This could restrict some authorities. A better idea could be to allow those authorities growing at a faster rate to invest in those that are struggling, to their mutual benefit.

Q7: Which option for calculating the levy do you prefer and why?
We feel that there are issues with each of the three options proposed.

Given the limited information available it is difficult to accurately assess each proposal. However, our initial conclusion is that option three (retention of growth in proportion to baseline revenue) would be the preferred option.

Q8: What preference do you have for the size of the levy?
As above, given the limited information available, it is difficult to determine the best solution. However we do feel that the levy trigger point should be relatively high to better incense incentivise growth which is the overall aim of the scheme.

Q9: Do you agree with this approach to deliver the Renewable Energy commitment?
We feel that the proposals around renewable energy are a disincentive to county councils. As highlighted in the main text of this response, upper tier authorities undertake the vast majority of the burden associated with a growing population and this proposal, along with the New Homes Bonus, does not support that position. We would like to see a scheme that ensured these funds are distributed on a more equitable basis.

Q10: Do you agree that the levy pot should fund a safety net to protect local authorities:

1. **whose funding falls by more than a fixed percentage compared with the previous year (protection from large year to year changes); or**
2. **whose funding falls by more than a fixed percentage below their baseline position (the rates income floor)?**

We welcome the idea of a safety net. There are a number of reasons why authorities will experience a decline in income and we feel that it is logical to protect authorities from both of these scenarios.

Q11: What should be the balance between offering strong protections and strongly incentivising growth?
This is a difficult question to answer given the limited information available.

The counties of Northamptonshire and Cambridgeshire have a strong growth history and we have confidence in our ability to grow going forwards. However we must acknowledge the current economic climate. We are aware, for example, that the loss of one major employer in one of our districts (0.6% of the valuations list) would represent a loss of over a third of the business rate income in that district. We feel that the protection/incentive balance should be adjusted in relation to the state of the economy with a move to a more incentivised approach as the economy improves and there are fewer reasons for not increasing business rates.

Q12: Which of the options for using any additional levy proceeds, above those required to fund the safety net, are you attracted to and why?
We would recommend the approach to hold a levy money back in high-growth years to ensure sufficient funding for the safety net in lower growth years. However, in a sustained period of high growth, of the options given, we would like to see the remaining levy pot redistributed to all authorities in proportion to their baseline.

Q13: Are there any other ways you think we should consider using the levy proceeds?
Following our recommendations in Q 12 regarding retaining funds to support lower growth years, we would like the DCLG to consider in a sustained period of high-growth returning unused funds to levy contributors on a basis proportionate to their contributions to the levy. This would be better incentivise growth.

Another alternative is to allow contributors to the levy (and potentially the tariff) to invest a proportion of the funds they would be contributing in supporting less well off authorities by investing in infrastructure in their areas, to the mutual benefit of both.

Q14: Do you agree with the proposal to readjust the tariff and top-up of each authority at each revaluation to maintain the incentive to promote physical growth and manage volatility in budgets?
We feel that there is potential for authorities to delay or manipulate growth around revaluation and reset periods to secure the optimum outcome. (See previous comments)

We have some concerns regarding the impact of periodic readjustments on authorities medium and long term financial planning capabilities.

Q15: Do you agree with this overall approach to managing transitional relief?
Yes.

Q16: Do you agree that the system should include the capacity to reset tariff and top-up levels for changing levels of service need over time?
Please see our response to question two Where we recommend that baseline principles are reconsidered within two years to better reflect actual need and further incentivise growth. However, this would be to address the inherent flaws of the current funding system which is being used to calculate the baseline starting point position for authorities. In the interests of budget stability we would not welcome regular resets once the scheme has had this initial reset.

Q17: Should the timings of resets be fixed or subject to government decision?
Neither option is particularly acceptable. We welcome the Society of County Treasurer's recommendation to introduce an objective body to determine when needs and resources have diverged past a predetermined trigger and call a reset.

Q18: If fixed, what timescales do you think is appropriate?
Please see response to question 17.

Q19: What are the advantages and disadvantages of both partial and full resets? Which do you prefer?
Please see response to question 16. We would recommend a full reset within two years. We believe that resets should be exceptional events and therefore partial resets on a more regular basis should not be needed.

Q20: Do you agree that we should retain flexibility on whether a reset involves a new basis for assessing need?
We strongly recommend that an initial reset (proposed within two years) involves a new basis for assessing need. Any new assessment of need should be easy to understand, simple and accurate.

Q21: Do you agree that pooling should be subject to the three criteria listed at paragraph 3.50 and why?
Yes.

Q22: What assurances on workability and governance should be required?
Any pool should consider and agree the approach to the issues outlined in paragraph 3.49 of the consultation.

There should be clear processes for the pooling and use of funds, and whilst it is recognised that some form of reconciliation on the use of funds will be required, this process should not be overly bureaucratic.

There should be clear links to community budget and accountability to citizens within the area of the pool.

Citizens within the pool should have access to and receive the same services regardless of which district they live in. There should not be a postcode lottery with the services available being dependent on where you live within the pool.

Q23: How should pooling in two tier areas be managed? Should districts be permitted to form pools outside their county area subject to the consent of the county or should there be a fourth criterion stating that there should always be alignment?
We agree that county councils should have the final say on whether they are prepared to take the additional risk to their budget if districts want to form a pool outside their county boundaries.

We believe that LEPs provide the best opportunities for pooling, taking advantage of existing arrangements.

Q24: Should there be further incentives for groups of authorities forming pools and, if so, what would form the most effective incentive?
We believe that authorities will receive additional benefits purely by being part of pool so no further incentives should be offered.

Q25: Do you agree with these approaches to non-billing authorities?
We do not believe that fire services should be funded differently depending on whether they are a stand alone service or part of the county council.

We are concerned with the proposal to remove funding for single purpose Fire authorities from the business rate retention system and guarantee their funding in line with CSR10. As funding for county Fire and Rescue Services will be included in county council funding it will therefore be subject to the volatility of the business rates retention system. This means that Fire and Rescue Services will be funded differently depending on whether they are a stand alone service or part of a county council. We do not believe that this is an equitable solution and feel that all Fire and Rescue Services should be funded through the same methodology.

County councils have a significant impact on securing economic growth within their areas. They also take on the vast majority of the costs associated with growth in supporting a growing population and insuring infrastructure supports great. However, this is not recognised. The proposals for the share of business rates collected should address these inequalities and better support council county council is in promoting growth.

Q26: Do you agree with this overall approach to funding the New Homes Bonus within the rates retention system?
The disproportionate funding mechanism for New Homes Bonus is a strong disincentive for county councils who take the vast majority of the costs associated with growth yet see very little reward.

We believe that New Homes Bonus grant should be distributed in the same manner as growth.

Q27: What do you think the mechanism for refunding surplus funding to local government should be?
Any surplus should be returned to authorities in proportion to their baselines.

Q28: Do you agree that the current system of business rates reliefs should be maintained?
Yes.

Q29: Which approach to Tax Incremental Financing do you prefer and why?
Authorities will need to see some certainty around future revenue streams before committing to additional borrowing.

We believe that option two should not be implemented as increased restrictions and government controls will be a significant barrier to growth. We therefore support option one as a stand-alone proposal which would allow greater freedoms and better incentivise growth.

Q30: Which approach do you consider will enable local authorities and developers to take maximum advantage of Tax Incremental Financing?
In order to provide equal opportunities for all authorities, we support option one.

Q31: Would the risks to revenues from the levy and reset in option 1 limit the appetite for authorities to secure growth revenues?
Given the other complexities of the proposed to system we do not feel that option one will significantly deter authorities from investing in growth.

Q32: Do you agree that pooling could mitigate this risk?
Yes. However, members must agree on where capital investment should be spent and that financing debt should be a priority.

Q33: Do you agree that central government would need to limit the numbers of projects in option 2? How best might this work in practice?
It seems inevitable that central government will need to limit the number of projects in option 2 to ensure some protection for the remaining authorities. This is likely to be through some form of competitive process which we do not support.

Appendix 3

Responses to the Eight Technical Papers

Technical paper 1: Establishing the baseline

TP1 Q1: Do you agree with the proposed approach to calculating the amount of business rates to be set aside to fund other grants to local government? If not, what alternative do you suggest and why?

We are concerned that the level of the set aside will be determined by comparing forecast national business rates for 2014/15 against the 2014/15 DEL. The forecast will be subject to a number of variations and assumptions which will impact negatively on its accuracy.

We also note that the forecast will include an element of anticipated growth which means that authorities will need to grow to this level before seeing any benefit.

We support the SCT recommendation that the baseline be set using known data from 2012-13 with the set aside being calculated and from that point forwards local government should be able to keep any increases in business rates (subject to tariffs/top ups as outlined in the consultation paper).

TP1 Q2: Do you agree with the proposed approach for making an adjustment to fund New Homes Bonus payments, and for returning any surplus to local authorities in proportion to their baseline funding levels?

We support the basic methodology.

However, as outlined previously, we do not agree with the redistribution basis of the new homes bonus. Currently in 2 tier areas districts receive 80% of the financial benefit with little burden attached to this they therefore have a much greater incentive to promote housing growth over business growth where they receive a much lower proportion of the reward.

We recommend that the new homes bonus be funded from the set aside using identical tier splits as with rates retention.

TP1 Q3: Do you agree with the proposed approach for making an adjustment in the event of any functions being transferred to or from local authorities?

Yes supported. Please note, in line with the new burdens doctrine it is vital that the transfer accurately reflects the true pattern of costs incurred between two tiers of authorities.

TP1 Q4: Do you agree with the proposed approach for making an adjustment to fund police authorities, and potentially also single purpose fire and rescue authorities?

We do not agree that fire services should be subject to different forms of funding.

TP1 Q5: Do you agree with the proposed approach for ensuring that no authority loses out in 2013/14 as a result of managing the business rates retention system within the 2014/15 expenditure control totals?

It is difficult, given the limited information available, to reach a conclusion with regards to this question.

TP1 Q6: Do you agree that we should use 2012/13 formula grant after floor damping as the basis for establishing authorities' baseline funding levels? If not, why?

Please see previous comments regarding the inadequacies of the current funding system. We reluctantly accept that, in the limited timescales for implementation, there is no other suitable methodology to establish the baseline.

We strongly recommend a full reset of the system within two years to better establish baseline principles and accurately identify need.

TP1 Q7: Do you agree that we should use 2012/13 allocations as the base position for floor damping in calculating the 2013/14 formula grant equivalent; and use the 2013/14 formula grant equivalent as the base position for floor damping in calculating individual authority's baseline funding levels?
Please see comments above.

TP1 Q8: If not, which years should be used as the base position for floor damping in each of these calculations, and why?
In line with past damping calculations we accept that using 2012–13 as base position for floor damping in 2013-14 would be reasonable.

TP1 Q9: If option one is implemented, do you agree that we should reduce the formula grant for each tier of services according to its Spending Review profile?
We agree in principle, however there is some confusion regarding the published data in paragraph 5.19.

TP1 Q10: If so, do you agree with the proposed methodology for splitting formula grant between the service tiers for those authorities that have responsibility for more than one tier of service, as described in Annex B?
Given the adequacies is of the current funding system this seems to be a logical approach.

TP1 Q11: If option two is implemented, do you think we should update none, some or all of the data sets used in the formula grant calculations? If you think some should be updated, which ones, and why?
We strongly support the Society of County Treasurers recommendation that updates and reviews of the four block model should be under taken by the settlement working group.

TP1 Q12: If option two is implemented, do you think we should review the formulae for none, some or all of the grants rolled in using tailored distributions? If you think the formulae should be reviewed for some of these grants, which ones, and why?
As above. We agree with the society of county treasurers that this should be considered by the settlement working group.

TP1 Q13: If option two is implemented, do you think we should review the relative needs formula for concessionary travel?
Please see question 12.

TP1 Q14: Do you think we should review any of the other relative needs formulae? If so, which ones?
Please see question 12.

TP1 Q15: If option two is implemented, do you think we should alter the balance between service demands and resources; and if so, how?
Please see question 12.

TP1 Q16: Do you agree with the proposed approach for establishing guaranteed levels of funding for police authorities, and potentially also single purpose fire and rescue authorities, in 2013/14 and 2014/15?
Please see technical paper 1 questions 9, 10 and 11.

TP1 Q17: Do you agree with the proposed approach for funding new burdens within the business rates retention scheme? If not, why?
Yes, agreed in principle but must ensure New Burdens Doctrine is upheld

TP1 Q18: Do you agree with the proposed approach for dealing with boundary changes and mergers? If not, what alternative would you propose, and why?
Yes

TP1 Q19: Do you agree with the proposals on the future of Revenue Support Grant?
Technical paper 2: Measuring business rates
Yes.

Technical paper 1: Measuring Business Rates
TP2 Q1: In the absence of billing authority estimates for 2013/14 and 2014/15, do you agree with the Government's proposals for setting forecast national business rates?
Please see previous comments. We have some concern regarding the proposals for forecast business rates. Unfortunately there are still a large number of unknowns and the methodology will be subject to a future consultation so it is difficult to form a judgement at this stage.

TP2 Q2: Do you agree with the proposed basis on which proportionate shares would be calculated?
Yes, broadly in principle.

TP2 Q3: Which of the options – "spot", or "average" – do you believe would be the fairest means of determining each billing authority's business rate yield, upon which proportionate shares would be based?
We believe that the average option would be the fairest method.

TP2 Q4: Do you agree with the allowable deductions the Government proposes to make to each billing authority's business rates yield, to reflect differences in the local costs of items such as reliefs, in establishing proportionate shares?
Yes.

Technical paper 3: Non-billing authorities
TP3 Q1: Of the two options outlined for determining a county council's share of a billing authority business rates baseline (pre-tier split), which do you prefer?
Option 1 is preferred

TP3 Q2: Do you agree that police authorities should receive fixed funding allocations in 2013/14 and 2014/15 through an adjustment to the forecast national business rates?
Yes.

TP3 Q3: Do you agree that the services provided by county fire and rescue authorities should be funded through a percentage share of each district council's billing authority business rates baseline (pre-tier split), subject to any tariff or top-up required to bring them to their baseline funding level?
Please see previous comments. We believe that any proposed funding for fire services should apply to all fire services. We do not believe that there should be different funding arrangements for organisations who provide the same service.

TP3 Q4: Do you think that single purpose fire and rescue authorities should be funded:

a) **through a percentage share of each district council's billing authority baseline rates (pre-tier split), subject to any tariff or top up required to bring them to their baseline funding level; or**
b) **through fixed funding allocations for 2013/14 and 2014/15, through an adjustment to the forecast national business rates?**

   It would make sense for Fire services to be funded by the collection authorities they cover. We do not believe that single purpose fire and rescue services should be funded differently to those fire authorities within a county or unitary authority.

Technical paper 4: Business rates administration

TP4 Q1: Do you agree with the proposed approach for administering billing authorities' payments to central government?

Yes, subject to suitable advance notification of allocations to support financial planning processes.

TP4 Q2: Do you agree with the proposed approach for administering billing authorities' payments to non-billing authorities?

Fortnightly payments could help with cash flow.

TP4 Q3: Do you agree with the proposals for year end reconciliation?

We are concerned about the level of bureaucracy and cost impact in relation to the year end reconciliation process.

TP4 Q4: Do you agree there should be a process for amending payments to non-billing authorities to reflect in-year changes, similar to the current NNDR2 returns?

See above. There should be some way to mitigate risk to upper tier authorities. We would like to see the billing authorities taking some responsibility for incorrect forecasts.

TP4 Q5: If there is a process for amending payment schedules, do you think changes should be possible at fixed points throughout the year? How frequently should changes be possible?

Please see comments above.

If changes are required they should be at fixed point in year i.e. quarterly or semi-annually.

TP4 Q6: Alternatively, do you think changes should only be possible if triggered by significant changes in business rates forecast? What do you think should constitute a significant change?

Please see comments above.

We believe that billing authorities should take some responsibility for incorrect forecasts and therefore small adjustments should be absorbed by the billing authority.

TP4 Q7: Do you agree with the proposed approach for administering payments to and from non-billing authorities?

Yes but we would like to see a system guaranteeing payments to upper tier authorities.

TP4 Q8: Do you agree with the proposed approach for establishing liability for the levy and eligibility for support from the safety net on the basis of an authority's pre-levy business rates income?
It s impossible to tell until the implications of previous recommendations are known and modelled.

Technical paper 5: Tariff, top-up and levy options
TP5 Q1: Should tariffs and top-ups be index-linked, or should they be fixed in cash terms?
We believe that tariffs and top ups should be indexed linked as collected business rates will be subject to a multiplier that is linked to RPI.

TP5 Q2: Do you agree that a pool's tariff, or top-up, should be the aggregate of the tariffs and top-ups of its members?
Yes

TP5 Q3: Do you agree that the levy should apply to change in pre-levy income measured against the authority's baseline funding level?
Yes

It seems logical to apply consistency – the proposals for measuring growth in business rates income are to measure this against year 1 (removing the affects of RPI), in which case any levy should be applied in the same way, comparing resultant pre-levy income against the baseline funding level.

If instead business rates growth for a local authority was measured against the previous year's growth (i.e. a year on year approach) then the levy should not be applied to the change in pre-levy income against the baseline funding, but should be compared against previous year's pre-levy income.

However, TP5 (page 12) says that given the known degree of volatility in the business rates system, it is not minded to adopt a year on year levy, because this would tend to increase the volatility in authorities' retained business rates.

TP5 Q4: The main consultation document seeks views on which option for calculating the levy you prefer (flat rate, banded or proportional) and why. What are your views about the levy rate that should be applied if a flat rate levy is adopted?
The levy options are complex and it is difficult to understand implications, given the level of unknown factors.

The proportional option seems most logical as it is the only option that allows the possibility of some growth being retained that would not be subject to a levy. Under the flat rate and banded options a levy would always be taken on any growth above RPI in a given year- this does not seem to support the idea of an incentive for growth.

We do believe that the levy trigger point should be relatively high to better incentivise growth which is the overall aim of the scheme.

TP5 Q5: If a banded levy is adopted, should the bands be set on the basis of an authority's gearing, or on some other basis; how many bands should there be and what levy rates should be applied to each band?

Gearing does seem logical, although banding does not seem to be the fairest way of setting the levy as the gearing will remain fixed until there is a reset of the system. The size of the gearing ratio depends on the Baseline option selected for splitting the collected business rates between the districts and counties. If as a result of the Baseline option selected, a council is a tariff authority (and therefore has a ratio of at least 1), then it will pay a levy on any growth above RPI based on the band it falls into. It will mean that however much business rates grow or decline for an authority; it will still be charged the same fixed levy- this does not seem to support the idea of an incentive for growth.

However, if a banded levy was adopted, then in order to set the bands, the gearing of all the local authorities should be taken into consideration. In this way a more appropriate range of bands, with levy rates could be set than suggested in the consultation example. However, a proportional levy would be a much fairer approach.

TP5 Q6: Under a proportional scheme, what is your view of the levy ratio that should be applied?
The levy ratio is the crucial part of the proportional levy since the size of the ratio determines whether or not a local authority will have to pay a levy at all.

The Baseline option selected for splitting the collected business rates between the districts and counties affects the ratio of an individual authority's business rates baseline and its baseline funding levels.

Authorities with an individual authority business rates baseline to individual authority baseline funding level of greater than the ratio selected for the levy ratio (since this is the same measure) would be subject to a levy however high their business rates growth rate became. Similarly, authorities with a ratio below the levy ratio would never be subject to a levy and would always be able to keep all their business rates however high growth became. The subsequent levy for each authority above the threshold would be proportional to its business rates growth.

Pooling dampens the affects of the size of the ratio and generally more income can be retained under pooling (depending on the baseline split option initially selected) than the sum of retained income for authorities if they were not pooled.

TP5 Q7: Do you agree that pools of authority should be set a lower levy rate or more favourable levy ration than would have been the case if worked out on the aggregate of the pool members' levy?
We believe that authorities would automatically benefit from being in a pool and should not receive specific financial incentive to do so.

TP5 Q8: Do you agree that safety net payments should be triggered by changes in an authority's retained income?
Yes. This seems logical as this is the actual resource that a local authority will have to put towards funding services.

TP5 Q9: The main consultation document seeks views on whether there should be a safety net for annual changes in pre-levy income. If so, what percentage change in annual income do you think that authorities could reasonably be expected to manage before the safety net kicked-in?
This would seem logical for smoothing out the effects of volatility – e.g. a significant drop in business rates compared to the previous year, such as if a large business went bust, causing a sudden large reduction in business rates collected in the area. This would help the local authority to manage the impact in the first year and put plans in place for subsequent years.

It would also be important to take into account the affects of redevelopment- what would be the best solution here? E.g. if a high street/ industrial estate etc. was knocked down for redevelopment, would it be a good idea to recompense the local authority for the lost business rates to some extent to tide them over? They would hopefully see higher returns down the line if new businesses moved in. So would providing a safety net for annual changes be an incentive for authorities to redevelop areas?

TP5 Q10: The main consultation documents also seeks views on whether there should be a safety net against absolute falls in income below an authority's baseline funding levels. If so, at what percentage below baseline should the safety net kick-in?
Yes. This seems logical.

TP5 Q11: Do you think that for the purpose of the baseline safety net, the baseline should be annually up-rated for RPI?
We believe the baseline should be up-rated by RPI annually.

TP5 Q12: Do you think that the safety nets should provide an absolute guarantee of support, or should financial assistance be scaled back if there is insufficient funding in the levy pot?
We do not believe that the safety net should be scaled back. There should be an absolute guarantee of funding support and the levy pot should be managed in such a way that losses or surpluses are carried forward with funding retained in good years to help offset liabilities in poor economic years.

TP5 Q13: Should safety net support be paid in year, or after a year-end?
We would recommend that safety net is paid in year.

TP5 Q14: Do you agree that pools should be treated as single bodies?
Technical paper 6: Volatility
Yes, we believe that pools should be treated as single bodies with tariff and top-ups being exactly as if calculated if they were a single body.

Technical Paper 6: Volatility
TP6 Q1: Do you agree that some financial assistance should be provided to authorities for the effects of volatility?
Yes

TP6 Q2: Of the options set out in the paper, which would you prefer? Do you agree with the Government's analysis that a safety net, instead of an events-based or application-based approach offers the best way of managing volatility?
We believe that a safety net is the more practical solution in managing volatility.

Technical paper 7: Revaluation and transition

TP7 Q1: Do you agree that tariffs and top-ups should be adjusted at a Revaluation to ensure that authorities' retained income is, so far as possible, unaffected by the impact of the revaluation?

Yes, in order to retain financial stability.

TP7 Q2: Do you agree that, having made an adjustment to tariffs and top ups, there should be no further adjustments to reflect subsequent appeals made against the rating list?

We agree that there should be no further adjustments to tariffs and top ups to reflect subsequent appeals.

TP7 Q3: Do you agree that transitional relief should be taken outside the main business rates retention scheme?

Yes, we believe that a transitional relief should be removed from the main rates retention model.

TP7 Q4: Do you agree with the Government's proposal for a system of transitional adjustments?

Yes, we support the government's proposal for a system of transitional adjustments.

TP7 Q5: Do you agree that any deficit on transitional adjustments should be charged to the levy pot?

We recommend that this is funded from the set aside, not the levy pot. As any surplus on the set aside will be returned to local government anyway. We share the Society of County treasurers concerns that too many demands on the levy pot will make it impossible to predict the required size of the pot in addition to placing greater pressure on the levy.

Technical Paper 8: Renewable Energy

TP8 Q1: Do you agree that the generation of power from the renewable energy technologies listed above should qualify as renewable energy projects for the purpose of the business rates retention scheme?

Yes.

TP8 Q2: Do you agree that establishing a baseline of business rate income from existing renewable energy projects against which growth can be measured is the most effective mechanism for capturing growth? If not, what alternative would you recommend and why?

Yes.

TP8 Q3: Do you agree with the proposal to define "renewable energy projects" using, as a basis, the definition in previous business rates statutory instruments?

Yes.

TP8 Q4: Do you agree with the proposal for identifying qualifying business rates income from new renewable energy technologies installed on existing properties?

Yes.

TP8 Q5: Do you agree with the proposal that the business rates income from Energy for Waste plants that qualify as being from a renewable energy project should be determined by the Valuation Office Agency apportioning the rateable value attributable to renewable energy generation? If not, what alternative would you propose, and why?
Yes.

TP8 Q6: Do you agree with the proposal that the billing authority should be responsible for determining which properties qualify as a renewable energy project?
Yes

TP8 Q7: Do you agree that the revenues from renewable energy projects should be retained, in two tier areas, by the local planning authority, or do you consider that the lower tier authority should receive 80 per cent of the business rates revenue and the upper tier authority 20 per cent?
We have previously stated that funding should more accurately reflect the proportion of cost/burden incurred in relation to growth We therefore do not agree that revenues from renewable energy projects should be retained by the planning authority in to tier areas. We've also do not support and 80/20 split between lower and upper tier authorities.

We strongly recommend a more equal and equitable split of income to retain incentive for the planning authority whilst not penalising upper tier authorities.