ANNEX 3

Suggested response to the Local Government Association to the questions posed in its consultations papers entitled 'Local Government Resource Review – Initial Consultation by the LGA' and 'Local Government Resource Review – Detailed Consultation Paper on Local Retention of Business Rates'.

Local Government Resource Review – Initial Consultation by the LGA

Q1 Do you agree with this analysis of the current position?
Yes. However, we believe that, although the current system does, indeed, produce a thoroughgoing redistribution of business rate income between authorities, such a redistribution is not necessarily benign. As is alluded to in the consultation paper, there is no incentive for authorities that are recipients of redistributed business rates to increase rate yield and, as a result, benefit from those authorities who contribute to equalisation. Conversely, those authorities that contribute to equalisation have no incentive to increase their rate yield because they would see little gain from so doing.
Q2 What principles should underpin a reformed system of business rates?
We support the additional principles put forward in the consultation paper. In addition, we consider that the government should consider the balance that should be struck between the burden of finance imposed upon the business rate payers and the council tax payers of authorities.
Q3 Which key features, either of the current system or of a reformed local government finance system, are most important to you?
In respect of the current system, we consider that the certainty that it theoretically provides, in terms of financial resources, is important and assumptions can then be factored into our medium term financial strategy. The present system, albeit flawed, does result in authorities not being 'in competition' with each other for business rates. Regarding a reformed system, this authority would strongly support the ability to be able to influence business rates in its area thereby benefiting businesses and the local communities, whose welfare is often inextricably linked to the local economy. We would also welcome less reliance on the vagaries of central funding.
Q4 Do you agree that a reformed local government finance system needs to continue to assess authorities' needs and available resources, in order for an equalisation system to operate?
Yes. There will be authorities that will, because of their needs, require assistance through rate equalisation.

Q5 How do you think local needs and available resources should be assessed, and by whom? Are you in favour of a 'sector owned' approach, with or without an independent body to assist with that?
We are unsure of advantage of a sector-owned approach but, if there were to be one, then we would favour its being assisted by an independent body.
Q6 Do you think that your authority would wish to join with others in collective arrangements to manage fluctuations in business rates yield? If so, how would you envisage those arrangements operating and at what geographic level?
We think that collective arrangements could have advantages. We envisage, bearing in mind that, within regions, circumstances can vary significantly, that regional collective arrangements would be inappropriate. However, the geographic spread would have to be sufficiently wide to make the arrangements robust. We would therefore suggest that a county basis would be appropriate.
Q7 What reforms do you think are necessary to ensure that local government, working with business, maximises the public benefit from a new incentive to promote growth through business rates relocalisation?
We believe that it is important that businesses are able to see some tangible benefit if their local authority increases the multiplier (assuming that it is given power to do so). Similarly, if the local authority has made local concessions on the business rate – such as discounts and exemptions, the council tax payers of the authority should expect to see some benefit to them. Therefore, it would appear appropriate that, in the case of additional business rates raised, the additional revenue should be set aside for community projects. If concessions have been made, there should be some mechanism for assessing the benefits arising from them. This could include local revaluations, which, as they follow rents, should reflect the desirability of the business premises. Unfortunately, we have concerns over the ability to engage with local businesses, particularly where they form part of national organisations.
Q8 What flexibilities would you like to see around local authorities' ability to vary the business rates multiplier, amend discounts and reliefs or adopt a localised rather than a nationalised approach to revaluation?
We would support the introduction of a power to vary the business rate multiplier but feel that the potential local variance should be within fairly narrow limits. We are concerned that one authority could substantially decrease the multiplier thereby causing difficulties for an adjoining authority with less available resources. We also support the ability to grant discounts and reliefs in addition to those already available. Such reliefs could provide essential incentives to the re-generation of deprived areas. As mentioned in the response to Q7, the ability to have local revaluations could be useful.
Q9 How important to your authority is the opportunity to use TIF. How should a TIF / UEZ system operate if business rate revenue is re-localised?
Tax Incremental Financing works by allowing local authorities to borrow money for

infrastructure projects against the anticipated increase in business rates income expected as a result of the that project. At the present time, this is not something that this authority would be interested in involving itself with. However, we can appreciate that other authorities may wish to use this method of financing. Similarly, Urban Enterprise Zones are not something that the Council envisages using at the present time so we do not feel it appropriate to comment.
Q10 How do you think that the funding arrangements for the New Homes Bonus should be changed to interact with a system of business rates relocalisation?
We believe that the funding should remain transparent and we do not, therefore, see any necessity for change.
Q11 More generally, how do you think the way in which government funds local authority spending by specific grants needs to change in order to ensure that the incentive effect from business rates relocalisation is not destroyed or weakened by the imposition of overall spending controls?
Yes.
Q12 Is there still a worthwhile debate to be had about diversifying the local tax base?
No. We would prefer to see stability and consider that the introduction of additional sources of revenue could meet considerable resistance. It would, in our view, be preferable, when the time is right, to perform a council tax revaluation.
Q13 If so, which taxes should be part of that debate and why?
N/A

Local Government Resource Review – Detailed Consultation Paper on Local Retention of Business Rates

Q1 Do you agree that a pooling mechanism is the best way to redistribute resources from authorities with surplus receipts to those with low or zero receipts? Would your council support a system along the lines outlined above?
Yes.
Q2 Do you support using actual council taxes or a national council tax in the pool calculations? Are there any other options (for example a mid way point between the two?)
We would support the use of a national council tax; other options of necessity adding a layer of complication. This would be consistent with the approach used in the calculation of the new homes bonus and, possibly, with the approach to be taken, in respect of council tax referenda, in the Localism Bill.

Q3 Over what period should payments into and out of the pool be fixed? Could councils pay a lump sum in through a bond arrangement?
We would prefer to see payments fixed, the period of fix perhaps aligned with the quinquennial revaluations. Further detailed arrangements would need more careful analysis before commenting – beyond the time we have had to consider this consultation.
Q4 What is the best way to incentivise councils to grow their business rate receipts? In addition to the model above, are there any other ways of doing it?
We believe that the model is sufficient.
Q5 Do you agree that the multiplier used to calculate payments into the pool should remain at a national level in order to avoid perverse incentives?
Yes
Q6 Should revaluation be carried out to a constant yield? How are incentives dealt with in a system of revaluation? Could revaluation be determined locally?
We have reservations about the wisdom of carrying out revaluations locally. Regarding the question as to whether they should be carried out to a constant yield, we feel that they should not, as this has led a significant shift in the proportions of local revenue generated from domestic and non-domestic properties. If such proportions were to be defined as having to fall within upper and lower limits, then, if the revaluations were not carried out to a constant yield, the multiplier could be adjusted to bring the total raised, following the revaluation, within those upper and lower limits.
Q7 How should discounts and reliefs be dealt with under a relocalised system?
It would appear to us to be logical that locally decided discounts and reliefs should be funded locally. However, reliefs etc. that are mandatory, and of national application, should continue to be funded centrally.
Q8 Do you support the continuation of government management of the pooled funds, or would you favour local government management? How could risks be managed effectively with local retention of business rates, and possibly local management of the system?
Yes, although we would not be averse to a sector-owned approach if it assisted by an independent body.