

Draft responses to questions asked in the Consultation Paper

In responding to the questions in both the consultation paper and the eight technical papers we would wish to add the accompanying commentary.

The essence of the proposals seems to be to encourage local government to promote growth, but this Council is not doing anything to discourage economic growth at the moment. In addition, it is said that the current arrangements deprive councils of the certainty they need to plan their finances, but the proposals do nothing to improve the position. Indeed, the proposals replaces known grant income with a much more volatile income stream which does not help (aid certainty) medium term financial planning with the added risk that comes from that volatility which will need to be taken account of in financial planning and the reserve balances held.

The need for checks and balances (safety net, levy, 'reset' button) in the system; the amount to be siphoned off; the complicated nature of the redistribution system; and the much more volatile income stream with the added risk that brings may erode the incentive for growth envisaged.

Clearly, if the proposals are taken forward the accuracy and fairness of the starting point is critically dependent on the baseline figure that is set and it is not clear how any discrepancies between estimates and final totals will be addressed.

The right balance clearly needs to be struck between incentive and protection and this will be difficult to do. To bring greater certainty and stability and to aid financial planning to set out what our grant / funding will be (and not subject to change year on year) and for that then to be subject to an inflationary uplift each year would be welcome.

Chapter 3: A scheme for rate retention

Component 1: Setting the baseline

Q1: What do you think that the Government should consider in setting the baseline?

Fairness must be at the heart of any new system.

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 paragraphs 3.13 and 3.14 do you prefer and why?

Agree. Prefer option outlined at paragraph 3.13 as it provides certainty and stability for the start of the business rates retention scheme.

Component 2: Setting the tariffs and top ups

Q3: Do you agree with this proposed component of tariff and top up amounts as a way of re-balancing the system in year one?

Agree

Q4: Which option for setting the fixed tariff and top up amounts do you prefer and why?

Fixed cash tariffs and top ups combined with levy option 3 appears to produce least extremes.

Component 3: The incentive effect

Q5: Do you agree that the incentive effect would work as described?

With the checks and balances proposed to be built into the retention scheme it may not deliver the incentive for growth envisaged.

Component 4: A levy recouping a share of disproportionate benefit

Q6: Do you agree with our proposal for a levy on disproportionate benefit, and why?

Agree. Contributes to the achievement of fairness in the system.

Q7: Which option for calculating the levy do you prefer and why?

Option 3 combined with fixed tariffs and top ups appears to produce least extremes.

Q8: What preference do you have for the size of the levy?

Other than, over time, it needs to be sufficient to meet safety net obligations, we don't believe we are in a position to comment further.

Q9: Do you agree with this approach to deliver the Renewable Energy commitment?

Agree

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

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

i.

Q11: What should be the balance between offering strong protections and strongly incentivising growth?

Both should be equally balanced.

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?

Hold some levy money back in higher growth years to ensure sufficient funding for the safety net in lower growth years.

Q13: Are there any other ways you think we should consider using the levy proceeds?

None that comes to mind.

Component 5: Adjusting for revaluation

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?

Agree

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

Agree

Component 6: Resetting the system

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?

Agree

Q17: Should the timings of reset be fixed or subject to government decision?

Fixed

Q18: If fixed, what timescale do you think is appropriate?

In step with revaluations.

Q19: What are the advantages and disadvantages of both partial and full resets? Which do you prefer?

Prefer full revaluations at fixed intervals as outlined above, but government to have discretion to undertake partial resets for exceptional circumstances.

Q20: Do you agree that we should retain flexibility on whether a reset involves a new basis for assessing need?

Agree on the proviso that there is adequate consultation.

Component 7: Pooling

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

Agree

Q22: What assurances on workability and governance should be required?

Governance arrangements need to be designed and agreed by the members of each pool to the satisfaction of each member.

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?

Pooling outside of county boundaries could prove to be administratively difficult, so on balance we favour alignment.

Q24: Should there be further incentives for groups of authorities forming pools and if so, what would form the most effective incentive?

No further incentives.

Impact on non-billing authorities

Q25: Do you agree with these approaches to non-billing authorities?

Agree

Chapter 4: Interactions with existing policies and commitments

New Homes Bonus

Q26: Do you agree this overall approach to funding the New Homes Bonus within the rates retention system?

Agree

Q27: What do you think the mechanism for refunding surplus funding to local government should be?

Redistribute the amount to local authorities in proportion to their baselines.

Business rates relief

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

Agree

Chapter 5: Supporting local economic growth through new instruments

Q29: Which approach to Tax Increment Financing do you prefer and why?

Option 2 because of the certainty it brings.

Q30: Which approach do you consider will enable local authorities and developers to take maximum advantage of Tax Increment Financing?

Option 2

Q31: Would the risks to revenues from the levy and reset in option 1 limit the appetite for authorities to securitise growth revenues?

Would have a part in the decision making process.

Q32: Do you agree that pooling could mitigate this risk?

To some extent possibly, but would continue to play a part in the decision making process.

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?

Agree via a bidding process and subject to a minimum amount for an individual project and an overall limit.