Annex 1

Local Government Resource Review: Proposals for Business Rates Retention Response from Oxfordshire County Council

Oxfordshire County Council's response to the consultation questions are as follows:

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?

We don't consider that the 2012/13 formula grant figures are a fair place to start from, but we do see that using anything else would be disruptive.

If the four block model is resurrected, we have a long list of changes that we would wish to see implemented.

2012/13 Formula grant figures must include the damping grant.

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?

We prefer the first option.

We don't consider that the 2012/13 Formula grant is a fair baseline for Oxfordshire as noted above.

If 2012/13 is to be used, it **must** include the damping grant figures. In 2012/13 we expect to get £9.338m of floor damping grant. We consider that if that Settlement had been fairer, then we would not have been reliant on damping grant and we would have received substantially more funding. To remove damping grant and allow all the effects of previous unfair decisions to impact on our position in the new system would be completely unjustifiable.

We oppose the second option. If the four block model is resurrected, we have a long list of changes that we would wish to see implemented.

We consider that running the Formula Grant system forward for two more years (even making just limited technical updates) would, more than likely, make our position even worse. This process would in fact be very complex, needing ministerial decisions about how Police, Fire and other funding was removed for example.

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?

Reluctantly, yes.

This will remove the benefits of having a local economy that raises far more in rates than we get back in Formula grant.

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

We prefer the second option, which is not adjusting the Tariffs and Top ups (TTU) for inflation.

If tariffs are inflation linked, 'set aside' and 'adjustments' should not be distributed according to 'proportionate shares'. In other words spending review cuts should not be focused onto authorities just because they collect a lot of business rates.

Oxfordshire has a large business rate income, compared to the amount of Formula grant that we receive. Rough estimates suggest the County Council's share of business rate might be around £200m, whereas we only receive £108m of Formula grant in 2011/12.

Paying a tariff and having this tariff increase in line with inflation will remove many of the benefits of our healthy local economy. Levies might reduce our advantage even further.

In these circumstances, it would not be fair to allocate spending review cuts and the costs of the new homes bonus pro rata to the amount of business rates raised. It would be fairer to allocate set aside and adjustments pro rata to baseline funding.

Component 3: The incentive effect

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

Yes, we think there would be an incentive effect.

However we do consider that the incentive effect could be masked by other features of the system, including:

- Removing funding to meet Spending Review cuts (Set aside);
- Removing funding for the New Homes Bonus;
- Government estimates of business rates growth;
- Function changes;
- The effect of any Levy or Safety Net and
- The effect of a general Reset.

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?

Yes we agree that there should be a levy.

There is evidence that some areas have experienced disproportionate growth in the past and this seems likely to recur.

Authorities may not know the final effect of a levy until some time after the end of the financial year. This will create uncertainty in budgeting. It is important that the levy scheme is clear and straightforward, so its impact can be anticipated and budgeted for.

In areas with district and county councils, county councils will need to closely monitor how business rate collection is proceeding in each of their districts.

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

We would like to see more analysis of the choices and their consequences in this case.

At this stage we prefer the first option with a standard rate for all authorities on the grounds that is simple, easy to understand and calculate and as it will apply to all authorities, the rate could be kept low to maintain incentives.

Using the Interactive Calculator it seems that Top up authorities would not pay any Levy if options two or three are chosen. This seems unfair as these authorities may be able to generate significant increases in business rate (as they start from a low base?) and so they should contribute to the cost of safety netting areas that have problems.

There is also an interaction between this decision and the decision about whether Tariffs should be increased by inflation. This is revealed by the Interactive Calculator.

The Interactive Calculator shows that when Tariffs are to be increased by inflation, then the Levy is only charged on any further business rate growth **above** RPI. This is reasonable, as increasing Tariffs by inflation will absorb some of the increase in business rates. However, this will focus the Tariff on what may be small increases in income. This means that to raise a significant amount, the tariff rate may need to be very high. This may significantly undermine any incentive.

Furthermore, the Interactive Calculator calculates the Levy using cumulative growth above RPI. Thus if we had above RPI growth in both 2013/14 and 2014/15, then the Levy would be based on the sum of both figures. In the first few years this might seem reasonable, but as time passes, it will be increasingly difficult to justify the Levy figure.

Option three limits percentage growth in income from business rates to a percentage growth in baseline revenue. We think this approach would exclude many authorities from paying a levy. The relationship between business rate income and revenue remains relatively stable over time. Thus the percentage growth approach will determine, possibly for many years, which authorities pay a Levy and which do not. Again, it seems unfair to focus payment of the levy on a just few authorities when all authorities might enjoy increases in business rates.

We conclude that if Tariffs are increased with inflation, a Levy that maintains the incentive may not produce significant amounts of funding. If you choose to go down this road it would be worth analysing several previous years figures to see what the Levy would have raised and whether the amount raised is worthwhile. Options 2 and 3 seem likely to exclude many authorities from paying levies, so we currently favour Option 1.

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

We need to establish the approximate cost of safety netting authorities (Question 10). Then, if the levy rate is the same for all authorities (Option 1 in Question 7), it should be relatively easy to establish what the rate is needed to fund any level of protection.

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

Yes, we agree that additional rates raised from Renewable Energy schemes should be retained locally. We think that the results should be shared out more equally in two-tier areas.

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)?**

Yes, there should be a Levy and a Safety Net. Safety netting should protect authorities against both falls in funding from year to year and falls in funding compared to the baseline position.

Option ii) would be reasonable in the early years of the scheme, but after several years with RPI pushing up income each year it seems less likely that any authority will receive any protection. Also, after many years, a distant baseline will not seem a fair way to distribute safety net money.

However a comparison with only the previous year may also be invidious as authorities that have a long history of gains, followed by a drop in one year may be given a safety net.

We can see advantages in both approaches. Thus we suggest that an option that combines both should be developed. Precise parameters should be calculated by reference to past history.

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

We support the proposal to have an incentive.

We are aware that if the system is clearly seen to fail many authorities – those with falling business rates through no fault of their own, plus rising needs – then the whole system will fail. Some protections will be needed therefore.

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?

Unless the amounts involved are very large, we would favour options that don't feed funding back to all authorities.

Thus we would favour holding some funding back for future years, providing ongoing support for authorities with losses that take more than a year to recover from and supporting development projects in low growth areas.

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

No.

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?

Yes.

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

Yes.

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?

Yes.

We are concerned that pressures on social care services due to increasing numbers of elderly people and people with disabilities will need to be funded more fairly. The Dilnot commission clearly identifies this issue.

Adult care faces 4% cost pressures, fuelled by exponential growth in demographics and rising socio-economic pressures at the national level. The gap between resources and demand are not matched and it is widening at a rate of 2% per year - as pointed out by ADASS.

The new system could cope with this by making further ‘adjustments’ or by additional grants, but at some stage this incremental approach will be hard to sustain and will lead to increasing pressure for a full reconsideration of funding levels and a full ‘reset’.

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

We think that the timing of resets should be fixed.

The government should at least consider having a reset at each Spending Review. A reset may be needed when 2011 Census data is available and has been fully analysed.

As suggested by the Society of County Treasurers, it would be beneficial if an independent, objective body took decisions about the timing of resets.

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

No more than every five years.

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

Either option should be considered in the light of circumstances at the time.

Resets do make long term planning more difficult. A partial reset might not produce sufficient changes to respond to changing levels of need and so could be seen to be unfair.

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

Yes. An independent body to assess needs might prove less controversial than the current arrangements.

Component 7: Pooling

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?

It should be clear that pools will increase economic development opportunities and not just be an opportunity to avoid paying levies. It should be clear that they will reduce volatility for all their members.

Appropriate governance arrangements should be set up and agreed by all parties.

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?

Districts should not be allowed to form pools outside their counties, unless there are clear intentions and plans that don't disadvantage one area or another. The County Council(s) should be able to veto any proposals as this would increase the risks to their income.

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

Yes. Reduced Levies are an appropriate additional incentive.

Pools will tend to form as they reduce the risks from volatility. However, a clear financial incentive would make this more likely to happen.

Pooling should also reduce the amount of safety net payments needed. This should reduce the rate at which the Levy is charged for all authorities.

Impact on non-billing authorities

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

Yes.

We have some concerns about the proposed separate treatment of single purpose Fire Authorities. The result could be different treatment, which could protect some Fire services from the effects of local growth or decline and this would be unfair. All fire services should be treated equally.

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?

We are concerned that with 80% of the NHB being paid to districts, but much of the funding for this being removed from Counties, that this will make Counties worse off in the long term.

We disagree with the 80:20 district:county split as most new infrastructure is provided by the County Councils.

We support the Society of County Treasurers proposal that NHB should be split between districts and County in proportion to the shares of Formula grant to avoid these difficulties.

As the proposals stand, we will be paying a larger ‘Adjustment’ to fund our districts and other areas because of the large amount of business rates that are collected locally. We will pick up a lot of the cost of the NHB scheme.

We are concerned that the new arrangements, with NHB and rates retention, will give districts more incentive to encourage the development of new housing rather than new businesses.

We will work with our districts and will rely on their planning decisions and other approaches to secure business growth. Business growth will be needed to support our larger budget and fund growing spending pressures.

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

We consider that surplus NHB should be repaid in the same proportions as it is deducted.

We are very concerned that the 'Adjustments' will be made pro rata to business rate collected (see response to Question 4). If Tariffs increase with the RPI, the advantage of having a larger business rate base locally will be removed. Thus it will be unfair to ask authorities with healthy local economies to pay a larger share of the national cost of the New Homes Bonus. It would be fairer to allocate these costs pro rata to Formula grant or 'baseline funding'.

Business rates relief

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

Yes and:

- **Any existing or revised Mandatory reliefs should be clearly funded by the government and**
- **County Councils should be involved in a review of all decisions to apply discretionary reliefs locally and should then be involved in any subsequent changes that reduce the amount of rates collected.**

Chapter 5: Supporting local economic growth through new instruments

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

As authorities retain growth in business rates, so TIF type schemes can be financed using prudential borrowing.

We think it is also worthwhile having 'Option 2' so specifically identified TIF schemes can be freed of the levy, revaluations and

reset complications. This will help to demonstrate to private investors and banks that a clear funding stream is available, which will make it more likely that they will be interested and invest.

We accept that under Option 2, the government will have to approve each TIF scheme, to avoid mass avoidance of the levy.

Adopting Option 2 should not limit authorities powers to set up TIF type schemes using prudential borrowing powers.

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

Option 2, plus retaining the ability to set up TIF-like schemes using prudential borrowing.

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

Yes.

We consider that banks and other sources of finance will be more interested in TIF schemes if these arrangements minimise complications and uncertainty.

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

Pooling is only mentioned as part of Option 1. It might reduce the risk from the levy and resets, but they would still remain as problems and a disincentive.

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?

Yes.

No doubt HM Treasury will take a positive view towards the ability of local public investment to enable and support business and private sector developments.

Response to the Consultation Questions in the Technical Papers from Oxfordshire CC

Oxfordshire County Council's response to the consultation questions in the Technical Papers are as follows:

Technical Paper 1 – 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 have concerns about how the amount of 'set aside' will be forecast in practice. The forecasting methodology should be shared with and discussed with local government.

We consider that there should be no 'set aside' calculations and authorities should be allowed to keep all increases in business rates.

We consider that the 80% district share of the New Homes Bonus needs to be reduced so the districts have more equal incentive to encourage business development.

All fire authorities should be treated equally.

We are concerned about the proposals to give authorities that collect a lot of rates a correspondingly large share of the Spending Review cuts and a large share of the costs of the New Homes Bonus. Tariffs, inflation on tariffs and possibly the levy system will remove the benefits of having a larger business rate base from these authorities. They will not be in a position to bear larger cuts.

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?

Yes.

However, this question appears to contradict paragraph 2.6 of Technical Paper 2. That says:

> *'The Government also proposes to use proportionate shares to determine how much a billing authority is required to contribute to the set aside and other adjustments'.*

'Other adjustments' apparently include the New Homes Bonus as shown in the diagram in paragraph 5.1 of Technical Paper 1.

Proportionate shares is the share of business rate, not the share of baseline funding.

As stated in the response to question TP1 Q1, we are concerned about the proposals to give authorities that collect a lot of rates a correspondingly large share of the Spending Review cuts and a large share of the costs of the New Homes Bonus. Tariffs, inflation on tariffs and possibly the levy system will remove the benefits of having a larger business rate base from these authorities. They will not be in a position to bear larger cuts.

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.

We are concerned that proper allowances must be made for the public health responsibilities that county councils will take on in 2013.

Also, proper allowances must be made for the cost of implementing any changes in roles as a result of the Dilnot commission.

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?

Yes to the police adjustment.

All fire authorities should be treated equally.

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 total?

No. We would like to see more detail of this.

Paragraph 5.10 says that:

> *'each billing authority will make a contribution to the set aside based on their proportionate shares.'*

As we have noted, the introduction of Tariffs, increasing them by inflation and some of the Levy options have the effect of removing any benefit of having a large business rate base. Thus allocating spending cuts on 'proportionate share' is in fact unjustified and unfair – it is disproportionate.

It seems likely that these proposals will impose unmanageably large cuts on some urban authorities.

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?

Yes reluctantly. As noted in our reply to Question 1, we are not content with this starting position.

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?

We do not want the four block model to be used for any future years, unless account is taken of our many criticisms of the recent results.

As we expect other authorities will have similar views, this generally rules out this option.

TP1 Q8: If not, which years should be used as the base position for floor damping in each of these calculations, and why?

See response to question TP1 Q7.

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?

Yes but reluctantly.

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?

Yes.

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 don't think that the four block model should be resurrected.

If it is, a full update of data seems inevitable. How could you argue that old information should be used?

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?

Funding for Supporting People was judgementally based on needs figures, ignoring higher levels of spend in counties such as Oxfordshire and Gloucestershire. We had developed this service to pick up unmet need in rural areas. For other services, high levels of spend in urban areas is factored into the relative needs figures but when the reverse occurs, as happened in this case, it was ignored.

Our 2010/11 Supporting people funding is £16.167m but this reduces to a ‘tailored’ figure of £9.541m in 2011/12 – a reduction of over 40%

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

Yes, the existing formula is completely unacceptable.

TP1 Q14: Do you think we should review any of the other relative needs formulae? If so, which ones and why?

EPCS – the density allowance was set by ministerial judgement by the previous government.

We would like a review of funding for rural areas. Allowances for sparsity are too low.

We would also like the model to equalise taxbase and not taxbase per head.

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

Yes. The current system gives much more weight for needs above the minimum level than for needs below that level. This means that basic need is not adequately funded. We think this should be changed so need above and below the minimum has the same weight.

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?

No, single purpose Fire authorities and Fire authorities included in County authorities should be treated equally.

TP1 Q17: Do you agree with the proposed approach for funding new burdens within the business rates retention scheme? If not, why?

Yes, subject to the usual consultation about totals and distribution.

We are concerned that proper allowances must be made for the public health responsibilities that county councils will take on in 2013.

Also, proper allowances must be made for the cost of implementing any changes in roles as a result of the Dilnot commission.

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?

Yes.

Technical Paper 2 – 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 the *forecast* national *business rates*?

We reserve judgement until we have more details of these proposals.

It might be useful if there was some sort of agreed correction mechanism in place, in the likely event that the government's forecasts are too high or too low.

TP2 Q2: Do you agree with the proposed basis on which proportionate shares would be calculated?

Yes.

The allowable deductions need to relate to the actual costs for each authority as reliefs and costs vary from area to area.

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?

Average.

Rate income is turbulent so an average would give a better picture. However a revaluation was introduced in 2010/11 so it is not appropriate to use information for earlier years. Thus the average will have to based on whatever information is available for 2010/11 and afterwards.

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?

Of the options presented, we would prefer the first one, based on the national share of spending patterns.

However, we would prefer the Society of County Treasurers proposal which is to use the existing distribution of formula grant within each County to establish the district:county shares. This would share out the risks and benefits of the business rate base in proportion to existing funding through formula grant.

Except in very extreme cases, Option two, the 'tailored' distribution is likely to produce a share out that relates to the number of districts in each county area. There is no justification for this. Some areas may find this attractive though, but it is a distracting and unhelpful option.

Tariffs and top ups will adjust for whichever share is decided on. Thus sharing out business rates is more about sharing out the risks than about sharing out the proceeds.

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*?

We agree that police authorities should be excluded from the rates retention system.

However we do think that all fire authorities should be treated equally.

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 baselines (pre-tier split),* subject to any *tariff* or *top up* required to bring them to their *baseline funding* level?

Yes.

However we do think that all fire authorities – whether or not they are singe purpose authorities - should be treated equally.

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 business rates baselines (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*?

As noted above, we think that all fire authorities should be treated equally.

Technical Paper 4 – Business rates administration

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

As noted by the Society of County Treasurers, allocations need to be published as far in advance as possible, so authorities can set their budgets.

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

We agree with the proposal to have 24 fortnightly payments.

We consider that new income from Enterprise Zones and renewable energy projects should be shared between districts, counties and the LEP. 10% of any new income should be allocated to the County and 10% to the relevant district.

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

We are concerned that most of the risk of inaccuracy in forecasting business rates in each district will be borne by the

county. So there may be little incentive for districts to improve their forecasting methodologies.

As suggested by the Society of County Treasurers, perhaps some process for ensuring that districts absorb more of their forecasting error should be developed.

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

Again, some way of mitigating the risk for upper tier authorities is needed, as mentioned in response to the previous question.

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?

We would support quarterly alterations in the early years, as suggested by the Society of County Treasurers. The frequency should be reduced once the system has been in operation for longer.

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

It is very hard to say what a significant change is. You should do some research about the scale and frequency of change experienced at the local level and suggest a cut off based on that. Otherwise it would be easy to pick a level that was too high or too low.

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

As suggested by the Society of County Treasurers, we think there should be some mechanism for government intervention when a billing authority is unwilling or unable to make a payment.

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?

As mentioned in response to question 7, we have some concerns about the levy and safety net.

We currently support a levy set at a standard rate which would be simple and easy to calculate. This could provide a source of funds during the year and these could be released where it was clear that safety netting was urgently needed.

As noted in our reply to question TP4 Q6, we think you need some research into the scale and frequency of fluctuations in year. This would inform decisions on this issue.

Some reconciliation and possibly repayment at year end is needed. Otherwise a temporary dip in year could lead to safety net payments whereas at year end they might not be needed.

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?

As noted in question 4, we recognise that adjusting the TTU figures themselves for inflation will even out the effects on 'spending power' of RPI inflation on the business rates collected. However it needs to be recognised that this is an ongoing form of taxbase/resource equalisation. It would permanently insulate authorities with low business taxbases from that fact and give them less incentive to improve their position.

The consequences of inflation linking tariffs are that it removes most or even all of the benefits of being an authority that collects a lot of business rates. This needs to be remembered when allocating out the 'set aside' (Spending review cuts) and the 'adjustments' (to pay for the New Homes Bonus). If the benefits of collecting a lot of business rates are evened out, those authorities will be no more able to find cuts in spending than anywhere else.

Thus if tariffs are inflation linked, then set aside and adjustments need to be allocated using baseline funding or formula grant, not the amount of business rates collected.

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.

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?

See our response to question 7.

Further research into past experience would be needed to set a levy at a reasonable level. It will probably need to vary from year to year.

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 that should be applied to each band?

We can see that a banded levy might be useful in cases where a very large amount of growth occurs in one area. For example, as a result of transport developments – for example the planned London to Birmingham and beyond High Speed 2 rail link.

Again, further research into the scale and frequency of change experienced in the past could inform this decision.

TP5 Q6: Under a proportional scheme, what is your view of the levy ratio that should be *applied*?

The relationship between business rate income and revenue remains relatively stable over time. Thus the percentage growth approach will determine, possibly for many years, which authorities will pay a Levy and which will not. It seems unfair to focus payment of the levy on a just few authorities when all authorities might enjoy increases in business rates.

TP5 Q7: Do you agree that pools of authority should be set a lower levy rate, or more *favourable* levy ratio than would have been the case if worked out on the aggregate of the pool members levy?

We consider that pools should be encouraged, as this should increase the likelihood of well planned development.

We assume that safety net and levy calculations would be made at the level of the pool and not for each individual authority then aggregated to give a pool total.

Thus safety net payments to pooled areas may be reduced as losses in one district could be offset by stability or gains in the others. Thus pooling could reduce the overall amount of safety netting needed. This should reduce the level of levy needed, which - depending on which levy option is chosen - will benefit all authorities

With levies set at a flat rate, as we currently recommend, pooling could:

- Not reduce the amount of levy paid by pooled areas, but
- Tend to reduce safety net costs in pooled areas and

- Benefit all authorities as the levy rate can be reduced

In these circumstances we can see the advantages of setting a lower levy rate for authorities in pools as this could have a general benefit.

With the other levy options, pooling may:

- Affect the amount of levy paid by pooled areas, and
- Tend to reduce the safety net costs in pooled areas and
- Benefit authorities that pay the levy, but not all authorities

In these circumstances it is less clear that setting a lower levy rate for authorities in pools will have a general benefit. Hence it is harder to justify this.

TP5 Q8: Do you agree that safety net payments should be triggered by changes in an authority's *retained income*?

Yes.

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?

Perhaps 1%.

Note that whatever level is assumed will feed into authorities considerations about the appropriate level of balances that they should hold in the case of difficulties.

Closure of Didcot A power station, which is expected in 2015, could reduce the rates collected in the Vale of White Horse by over 7% (£3.9m out of £54m total). We consider that change on this scale should certainly be Safety netted.

TP5 Q10: The main consultation document 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?

Again, perhaps 1%?

As time passes and inflation pushes up rates, the baseline funding level will be an increasingly distant figure. At some point, reference back to the baseline might be removed and change considered on another basis – perhaps change over the last five years.

TP5 Q11: Do you think that for the purposes of the baseline safety net, the baseline should be annually uprated by RPI, or not?

Yes.

Refreshing the baseline by increasing it by RPI would keep it up to date in some respects.

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?

Ideally, safety net promises should not be scaled back. Deficits (or surpluses) should be handled by amending the levy rate in the following year.

It is possible to imagine extreme circumstances where a very large safety net bill is run up one bad year and this could take several years to repay.

TP5 Q13: Should safety net support be paid in year, or after a year-end?

After the year end would be easier, but you might wish to retain the ability to make emergency in year payments.

TP5 Q14: Do you agree that pools should be treated as single bodies?

Yes.

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 favour a safety net approach but backed up by an option to apply in cases of dire need.

We have no experience of how this system might work and consider that the government should allow the possibility of applications from local authorities. This would cover unexpected circumstances that were not covered by whichever safety net option was implemented.

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.

With revaluations every five years, Spending reviews every two or three years, elections and other unexpected events, there will be quite a lot of turbulence in this system.

Any changes at Revaluation should be decided on technical grounds, avoid ministerial decisions where possible and be transparent.

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 against the rating list?

We think you should conduct some research into the scale and frequency of these events in the past. This could be used to inform this decision.

We have some experience with Didcot A power station where the rateable value has fluctuated between £3m and £9m in a four year period, but are not sure how this would have affected the amount paid after transitional adjustments.

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

Yes.

Transitional relief arises as a result of revaluation, so it should be treated separately.

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

Yes.

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

No.

We support the Society of County Treasurers proposal that this is funded from the set aside. If there are too many demands on the levy pot, it will become more difficult to manage and the levy rate will be too high.

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 purposes of the business rates retention scheme?

Yes.

We are assuming it will be possible to identify the additional rates raised from the various different schemes.

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 approach would you recommend and why?

Yes.

There may, of course, be technical problems in actually identifying a baseline that we are not aware of.

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.

There may be many small schemes and developments (a few solar panels for example). To reduce administration costs, it may be worth having a threshold below which renewable energy schemes added to existing properties are not included in this system.

TP8 Q5: Do you agree with the proposal that the business rates income from Energy from 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?

We consider that this should be a role for the VOA.

This responsibility would give the billing authority an incentive to include as many properties as possible. Could the Valuation Office Agency do this instead? There should be a means whereby billing authorities, using their local knowledge, can refer possible properties to the VOA.

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?

Yes, the revenue should be retained locally, ideally free of any levy.

But it should be allocated between counties and districts using formula grant shares.

If funding is focused on the 'local planning authority', the new system must recognise the fact that the 'local planning authority' can be either the county or the district in two tier areas.

The County Council is the 'local planning authority' for minerals and waste disposal applications. The County makes the decisions about minerals and waste disposal applications. So if a large share – 100% or 80% - is allocated to the planning authority, that large share should be given to the County Council.

We think that the allocation should be in line with the share of formula grant in each area. This is our consistent view across the board see our responses to questions 26 and question 1 of Technical Paper 3.

If 100% or 80% of this income is diverted to the local planning authority, then this might be seen as an undue incentive to favour any developments by local people.

96 questions, 33 in main paper, 63 in tech papers

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5 October 2011