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| **REPORT TO:** | Executive Board |
| **DATE:** | 13 October 2011 |
| **REPORTING OFFICER:** | Operational Director – Finance |
| **SUBJECT:** | Local Government Resource Review<br>Proposals for Business Rates Retention - Consultation |
| **WARD(S):** | Borough-wide |

## 1.0 PURPOSE OF REPORT

1.1 To seek approval to the Council's proposed response to the Government's consultation in relation to the proposals for Business Rates Retention as part of the Local Government Resources Review.

## 2.0 RECOMMENDED: That;

**(i) the Council's consultation response presented in Appendix 2 be approved;**

**(ii) the Council contributes to a joint consultation response by the Liverpool City Region.**

## 3.0 BACKGROUND

3.1 The Government's Local Government Resource Review will make fundamental changes to the funding of local government and will have a significant impact upon the future resources available to the Council.

3.2 On 18th July 2011 the Government launched a consultation in relation to the proposals for Business Rates Retention as part of the Resource Review. Eight technical papers were published during August 2011, providing further details of the proposals. The consultation also sets out how Tax Increment Financing (TIF) and the New Homes Bonus might work within the proposed Business Rates Retention system.

3.3 In 2011/12 business rates contributed 76% of the total national Formula Grant provided to Council's, with the balance met by Revenue Support Grant. Business rates are currently collected by councils and paid over into a national pool from which they are re-distributed as part of formula grant on a per capita basis. The Government's proposals are that from 2013/14 formula grant will be fully funded from business rates with the removal of revenue support grant.

## 4.0 PROPOSALS FOR THE RETENTION OF BUSINESS RATES

4.1 The consultation does not propose any changes to the current business rates payment mechanism ie. rateable values will continue to be set by the Valuation Office Agency and the rate in the pound will still be set by Government. Therefore the charges levied for business rates will continue to remain outside the Council's control and will not be localised.

4.2 The changes proposed by the Government relate instead to the "re-distribution" of business rates. The proposals are a fundamental change to the funding of local government. There was a risk that business rates could be fully localised, which would have had a major impact upon Halton's future funding. However, the Government has acknowledged that this would have brought too much volatility in the funding of local government services, and instead has proposed a system with effect from 1st April 2013 whereby councils will retain additional revenues from business rates above a Government-determined baseline.

4.3 The new re-distribution system will be based upon "tariffs" and "top-ups" to ensure no council is better or worse off from the start. Halton, along with all the Liverpool City Region councils, is a net receiver under the current national pool arrangements. In 2010/11 Halton received £64m of formula grant. This comprised £8m of revenue support grant and £56m of re-distributed business rates. However, Halton only paid over £44m into the national business rates pool relating to the business rates collected in the Borough.

4.4 Therefore, under the proposals Halton would receive a top-up grant in addition to the business rates collected locally. This is intended to ensure councils are protected at 2012/13 funding levels. Going forward, the system will operate on a "risk and reward" basis whereby councils will be allowed to retain growth in business rates (reward), but will also lose resources if business rates decline (risk).

4.5 The Government's stated aim for the changes is to incentivise councils to encourage economic growth and regeneration in their areas as they will in future benefit from increases in local business rate yields. The change to the system should not affect businesses as the mechanics of the current system will remain unchanged.

4.6 There are further implications as to how this new system will work within the Localism Bill currently before Parliament. In the Bill, there are local freedoms to offer business rate discounts and reliefs. The potential impact of this is that wealthier councils will be able to offer discounts/incentives to businesses to relocate from poorer tax base councils who cannot afford to offer such discounts.

4.7 There are a number of key issues and financial risks for Halton associated with the proposed changes, as follows;

(i) the basis used by the Government to determine the baseline position and how much top-up grant is likely to be received, are critical;

(ii) how the baseline and top-up grants are likely to change in future years, as this may result in the value of Halton's resource base diminishing over time compared to the increasing cost of providing services, resulting in either an increase in council tax or reduction in services;

(iii) if total business rates income exceeds the Comprehensive Spending Review national control totals then the excess income will be used by government to fund other grants, whereas under the current system all business rates must be re-distributed to councils;

(iv) if business rates income reduces in future there is a danger that the safety net mechanism may be insufficient to compensate councils.

4.8 There are seven components of the consultation which are outlined in Appendix 1, along with an indication of the potential implications for Halton within each component.

## 5.0 CONSULTATION DEADLINE

5.1 The deadline for responses to the consultation is 24th October 2011. Halton's proposed response to the consultation is presented in Appendix 2.

5.2 It is proposed that in addition to making its own response to the consultation, the Council also contributes to a joint consultation response by the Liverpool City Region which is currently being prepared.

## 6.0 POLICY AND OTHER IMPLICATIONS

6.1 None.

## 7.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

7.1 There are no direct implications, however, the Local Government Resource Review will have a fundamental impact upon the Council's future funding and therefore upon the delivery and achievement of all the Council's priorities.

## 8.0 RISK ANALYSIS

8.1 The impact upon the Council's future funding is difficult to ascertain with any certainty at this stage. The Council is however drawing upon technical support and briefings provided by Sigoma, Local Government Association, and other bodies as well as liaising closely with colleagues in the Liverpool City Region, in order to establish the best options for Halton within each area of the Government's consultation.

## 9.0 EQUALITY AND DIVERSITY ISSUES

9.1 None.

## 10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1072

| Document | Place of Inspection | Contact Officer |
|---|---|---|
| Local Government Resource Review: Proposals for Business Rates Retention Consultation | Financial Management Division Kingsway House Widnes | Ed Dawson Divisional Manager Financial Management |
| Technical Papers 1-8<br>• Establishing the Baseline<br>• Measuring Business Rates<br>• Non-billing Authorities<br>• Business Rates Administration<br>• Tariff, Top-Up and Levy Options<br>• Volatility<br>• Revaluation and Transition<br>• Renewable Energy | Financial Management Division Kingsway House Widnes | Ed Dawson Divisional Manager Financial Management |

**APPENDIX 1**

## COMPONENTS OF THE BUSINESS RATES CONSULTATION

There are seven components of the Business Rate consultation and a summary of each is provided below along with an indication of the potential implications and consultation response for Halton.

## 1. SETTING THE BASELINE

<u>Funding Baseline</u>

The main consultation document proposes to establish a fair starting point for all councils and ensure that no-one loses out at the outset of the scheme.

It would appear that the 2012/13 funding levels for councils will be considered as the base on which to implement the review. Such a base position will still lock-in significant business rates for Halton funded through the national pool arrangements, which would in future be classed as a “top-up” grant.

The Government propose two options for setting the funding baseline;

- Option 1: adjust actual 2012/13 formula grant allocations in proportion to the sum of local government control totals as per the Comprehensive Spending Review (CSR) 2010.

- Option 2: apply the 2012/13 formula grant process to the sum of local government control totals as per CSR 2010 and at the same time make technical updates to the formula.

Halton’s response to the consultation favours option 1, as it would provide stability and simplicity at such a volatile period in terms of council funding. If option two was applied there would be a greater risk that the baseline may reduce resulting in less funding being made available to Halton.

For either option Government will need to decide whether to use 2012/13 formula grant before or after floor damping. Floor damping is a self-funding mechanism within formula grant which protects councils’ year-on-year funding from dropping below a certain percentage. The 2012/13 indicative formula grant allocations show that Halton is protected by £2.649m of damping, which represents 4.3% of the formula grant allocation.

It is essential that the baseline should be based on the damped allocation of 2012/13 formula grant. The removal of damping will be costly to Halton; it would also go against the proposal to establish a fair starting point meaning that floor authorities would be at a disadvantage at the commencement of the scheme.

Business Rate Baseline

It is very important that Government measures fairly the business rates starting position, as the suggestion in the consultation is that it will be fixed for many years (possibly ten years). A council's business rates baseline will be set in proportion to the national business rates baseline. In order to calculate the national business rates baseline Government will forecast 2013/14 and 2014/15 national business rates based on the actual national non-domestic multiplier for 2013/14 and an estimated multiplier for 2014/15.

The consultation explains that, to avoid putting its deficit reduction programme at risk, the Government will set-aside from the forecast national business rates the sum needed to ensure that the business rates retention scheme operates within the expenditure control totals for 2013/14 and 2014/15. Further adjustments will be made to remove sums to fund the future cost of the New Homes Bonus Scheme, police authorities and, possibly, single purpose fire and rescue authorities to arrive at the national business rates baseline.

In order to arrive at an individual council's baseline figure the national baseline will be apportioned between billing authorities on the basis of proportionate shares. Proportionate shares will be calculated as an individual council's business rates income expressed as a percentage of the aggregate of all billing authorities business rates income. There are two options for measuring individual business rates;

- Option 1: using a spot assessment based on one particular day, or;

- Option 2: an average of a council's business rates income over two or three years.

Within the response Halton has argued that the proportionate share should be calculated as an average over three years, as this will smooth out any shocks in business rates yield felt by any individual council. An average should produce a lower proportionate share for Halton, whilst a spot assessment would increase the proportionate share. This is due to Halton's business rate contribution to the national pool growing gradually over the past three years.

## 2. TARIFFS AND TOP-UP GRANTS

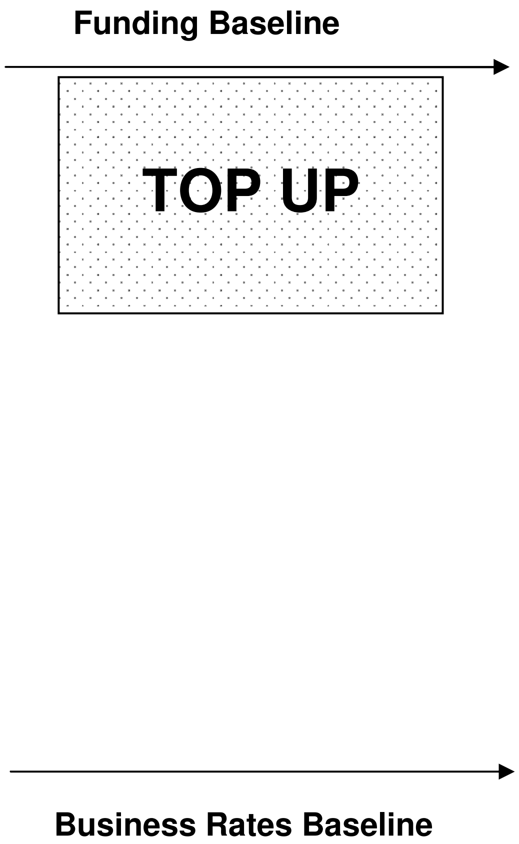
Setting Tariffs and Top-Up Grants

In order to achieve a fair starting position the Government would calculate a tariff or top-up grant amount for each council. The general rules would be;

- Those councils with a business rates baseline in excess of their baseline level of funding would pay a tariff to Government;

- Those councils with a business rates baseline below their funding baseline would receive a top-up grant from Government.

The tariff and top up grants would be self-financing and remain fixed year-on-year until a reset was undertaken. Halton will be a top-up grant council. The top-up grant can be illustrated as;

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The Council’s proposed consultation response is centred upon ensuring the top-up grant amount for Halton is as large as possible. In order to do this the Council would need a high funding baseline and low business rates baseline. Removing damping and calculating the business rates baseline with technical changes, will have the effect of lowering the funding baseline. Calculating the business rates baseline using a future spot assessment will increase the business rates baseline

<u>Fixing Tariffs and Top Ups</u>

Whilst the Government would fix both the tariff and top-up grants until any reset is undertaken, there are two options in the consultation to either;

- Uprate the year-one tariff and top-up grant amounts by the Retail Price Index (RPI) each year, to reflect the annual RPI increase in the nationally set business rates multiplier, or;

- Retain the year-one cash amounts and do not uprate them by RPI.

It is crucial to Halton that top-up grants are increased by RPI year-on-year. The approach to fixing tariff and top ups in cash terms would place the top-up grant councils in a much weaker position than the tariff councils. Tariff councils would gain in an RPI increase to business rates income whilst the tariff that is apportioned amongst top-up grant councils would not be increased. Government state that they want a fair starting point for all councils, but that position starts to erode in year 2 if tariff councils gain from an increase to RPI and top-up grant councils do not.

Based on a forecast of the top-up grant that Halton would receive at the commencement of business rates retention scheme, it is estimated that Halton could lose £1.9m in the first three years of the scheme if RPI is not applied to both tariff and top-up grants. The result of this loss of funding would add 1.4% per annum to council tax to continue funding the cost of services at existing levels.

## 3. THE INCENTIVE EFFECT

The consultation states "This incentive effect is at the heart of the changes that business rates retention is aiming to deliver – shifting from the allocation of local government funding solely on the basis of a central government assessment of need and resources to future increases in funding being on the basis of local economic growth."

In the consultation response Halton maintains that protection should be evident in any funding system which ensures that councils have the funding available to keep pace with the cost they incur in providing services. Incentivising growth cannot be seen as a priority over protecting local needs.

Halton argues in the response that the incentive effect will not work as described, as it does not take into account the advantage some councils have of increasing their business rate base due to their geographical location. Whereas there are councils who would need to invest additional resources to see the same growth, if any at all.

A council can keep a significant proportion of the additional business rates it generates, but it must also work hard to retain the businesses it has, as any loss of business rates will directly affect the revenues of the council. Furthermore, councils will be liable for failure to bill and collect business rates, therefore, a poor collection rate will result in a potential debt liability to the council.

## 4. A LEVY RECOUPING A SHARE OF DISPROPORTIONATE BENEFIT

To manage the possibility that some councils with high business rate taxbases could see disproportionate financial gains, Government would recoup a share of disproportionate benefit through a levy. The proceeds would be used to fund a "safety net" which would manage significant negative volatility in individual councils' business rates and so ensure stability in the system.

Halton agrees with the introduction of a levy on disproportionate benefit. If councils are to be funded wholly by business rates then there needs to be adequate resources to fund councils facing reductions to their income.

The way in which the levy is designed can have a positive impact upon moderating a "gearing effect" caused by the uneven distribution of business rate bases and the different spending needs of councils. As an example, in a council with a business rates base of £100m and a total budget requirement of £50m, a 5% increase in business rates income will result in a 10% increase in revenue. For another, with a different business rates base (£10m) and the same budget requirement (£50m), the same 5% increase in business rates income would only produce a 1% increase in revenue.

There are three proposed options as to how a levy could be calculated, which are summarised below;

- Option 1: Flat Rate Levy - levy based on pence in the pound with the same rate for all councils.

The flat rate levy has been opposed in Halton's response as it takes a too simplistic approach. The disadvantage is that it does not deal with the gearing effect described above and would therefore result in councils with a high tax base and low need benefiting more from the same levels of growth than councils with a low taxbase and high need.

- Option 2: Banded Levy - levy based on pence in the pound but introduce a "banding approach".

This would assign councils into different bands, with different levy rates depending on their levels of gearing. Councils with higher gearing levels would hand over a greater percentage of their retained income to fund the safety net. The disadvantage with this option is that it could develop into a complicated system with many bands which will always have 'cliff edges', with some councils falling just above or below a band boundary.

- Option 3: Proportional Levy - an individual levy rate for each council to allow the retention of growth in an equivalent proportion to its baseline revenue. For example a 1% growth in business rates income would allow councils to retain up to 1% growth in their baseline funding. There is flexibility in the option as the ratio could be altered with a 1% growth in business rates income resulting in councils retaining up to 0.5% or 2% growth in their baseline funding.

Halton has favoured the proportional levy rate within the consultation response as opposed to options 1 and 2. We have asked for a smaller levy ratio to be applied so that it protects the growth in business rates for top-up grant councils, whilst also creating a larger levy pot to protect against future volatility in the system. It would help the gearing effect and offer a more equal incentive for all authorities. The optimum levy ratio for Halton which would protect future growth whilst also ensuring a large levy pot would be 1% growth in business rates income resulting in a 0.75% increase in baseline funding.

It is important that the Government recognise the gearing effect where large tax base councils can gain significant resources compared to low tax base councils such as Halton, for the same increase in business rates base.

The proceeds of the levy will be used to fund councils (by way of a safety net) suffering from volatile changes i.e. losses in tax base. It should be noted that renewable energy projects are proposed to be excluded from any levy calculations.

The consultation response calls for the safety net to protect councils whose funding falls from one year to the next and also if their funding was to drop below their baseline position regardless of the percentage drop. The response also argues for the safety net to provide an absolute guarantee of support rather than financial assistance being scaled back if there is insufficient funding in the levy pot. We would not want inconsistencies in the system from one year to the next due to the lack of funding in the levy pot. There needs to be fairness and equality throughout the system.

## 5. ADJUSTING FOR REVALUATION

It is important that financial gains or losses as a result of revaluation are removed from the system. Revaluations will continue every five years by the Valuation Office Agency and a scheme of transitional relief would remain.

It is proposed that the tariff or top-up grant of each council is adjusted at revaluation, so that the sum of each council's retained business rates and tariff or top-up adjustment is the same after revaluation as immediately before.

Having made adjustments to tariffs and top-ups to protect against the impact of revaluation the consultation proposes that there will be no further adjustments to reflect subsequent appeals against the rating list. The proposal is that the impact of any appeals will be treated as part of the normal volatility of the system.

Halton has disagreed with the proposed treatment of appeals against the rating list. It is unfair that the system will protect councils at only the first stage of the revaluation process. Councils will be at risk of genuine growth in business rate income being diluted by downward revaluation appeals.

## 6. RESETTING THE SYSTEM

The Government would have the option of resetting the system if it was felt that resources no longer met changing service pressures sufficiently within individual council areas.

The Government is considering that a reset would be in many years time (10 years), and that any reset may only be partial (linked to original baseline), and may not consider needs. This is a major concern for Halton and the Liverpool City Region as councils could be tied into assessed relative need resources at 2012/13 levels for more than 10 years, and the gap between resources and relative needs will grow.
Therefore, a system of full resets on a more regular resetting would be more appropriate and should be aligned to multi-year local government finance settlements, comprehensive spending reviews or revaluations of the rating system.

## 7. POOLING

A group of councils, such as the Liverpool City Region, can voluntarily form a “pool” to share the risk and rewards. This option has some merits in that it reduces the financial risk of localised business losses for individual councils and allows a sub-regional strategic assessment of where businesses are best located rather than financially motivated competition. However, it must be recognised that this approach does reduce the financial reward for the best performing councils in any pool, as the rewards (like the risks) are shared.

**APPENDIX 2**

## PROPOSED RESPONSE TO THE CONSULTATION ON BUSINESS RATES RETENTION

Halton Borough Council Response – Proposals for Business Rate Retention

### Q1 – What do you think the Government should consider in setting the baseline

Halton would hope that DCLG recognise the importance of protecting those authorities whose formula grant allocations are protected by the floor and therefore it is vital that the 2012/13 formula grant allocations are used in setting the baseline. Due to the severity of the cuts in financial years 2010/11, 2011/12 and 2012/13 we request solidity in the funding for local authorities.

We request that Government resist the urge to make technical changes to the formulae and avoid adding further volatility to the baseline.

It is pleasing to note that Government recognise as a priority the need to maintain local budget stability and that there should be a fair starting point.

### Q2 – Do you agree with the proposal to use 2012-2013 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?

Halton agrees with the proposal of using the 2012/13 formula grant for setting the baseline. In terms of stability and simplicity at such a volatile period in terms of local government funding the option to take the 2012/13 formula grant and adjust for the 2013/14 and 2014/15 control total adjustments with no further changes would be our preferred option.

If the second option was chosen to make very limited technical changes it is vital that those authorities on the floor are protected and changes are not made to the level of the floor.

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

Agree, the tariff and top up mechanism is a reasonable approach to addressing the issue of funding authorities whose funding could not be maintained by the localisation of business rates alone.

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

Halton would prefer for top up and tariff amounts to be uprated by RPI on an annual basis. The gains in an authority's retained income should come from an increase in their Business Rate base rather than increases in RPI. The approach to fixing the tariff and top ups in cash terms would place the top up authorities in a much weaker position than the tariff authorities.

CLG argues for a fair starting point but that fair position starts to erode in year 2 if tariff authorities gain in an increase to RPI and top-up authorities do not.

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

Halton does not believe that the incentive effect of Business Rates retention would work. There are authorities who have the advantage of increasing their Business Rate base due to their geographical location whereas there are authorities who may need to invest additional resources to see the same growth, if any at all.

For many years Halton has been very active in implementing schemes to grow business rates. Halton has always been keen to see the economy grow and increase the number of businesses and jobs within the borough. The aim of local economic growth should not be seen as an incentive for local authorities to benefit from business rate growth only.

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

Halton agrees with the introduction for a levy on disproportionate benefit, if local authorities are to be funded wholly by Business Rates then there needs to be adequate reserves to fund authorities facing reductions to their income.

The proceeds of the levy should be returned to local government in full to pay for the safety net.

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

Halton is opposed to the Flat Rate Levy as it disadvantages those authorities with smaller gearing ratios. Based on the same percentage growth smaller authorities would generate less retained income than those authorities who are highly geared.

The banding approach is a fairer system than the flat rate levy as there is greater incentive for growth than the lower geared authorities. Halton note that there are a number of disadvantages in the system in that to make it fair there would have to be a large number of bandings to take into account the range of authorities gearing ratios. Regardless of the number of bandings the system will always have cliff edges.

Halton's option would be for the proportional levy based on a ratio of at least 0.75:1. As suggested in the consultation paper the proportional levy would have the same incentive effect right across the board which therefore brings fairness into the system which the other two options do not.

**Q8 – What preference do have for the size of the levy?**

Halton's preference would be for a smaller proportional levy rate to generate a larger levy amount which would fully fund a safety net. To ensure that there is fairness in the scheme at all times and to protect those authorities with greater needs a large safety net amount would be required.

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

We agree with the approach that authorities should be able to keep all retained income from growth in new renewable energy schemes within their area to maximise the community benefit.

**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)?**

There should be insurance in the system to protect authorities from volatility in their funding from one year to the next and if their funding fell below the baseline position.

Authorities who are paying into the levy system year on year should be able to benefit from the system if their funding was to drop due to circumstances beyond their control. Authorities should not have to set aside growth in retained income through reserves to mitigate risk in retained income in future years whilst also paying a levy to protect them against this risk.

Halton would also like to see measures introduced in the system if an authorities funding fell below their baseline position regardless of the percentage drop.

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

Protection should be evident in the system which ensures that authorities have the funding available to keep pace with the cost it incurs in providing services. Incentivising growth can not be seen as a priority over authorities having the adequate resources to meet local needs.

Government state that their will be a fair starting position for all authorities, we believe that they should apply this principle further and ensure that the system remains fair to all authorities year on year.

### 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?

Halton favours options 1&2 for the use of surplus levy proceeds once the safety net has been fully funded. Providing ongoing support for authorities that have experienced significant losses is essential. If an authority was to lose a major business from its area it could be many years before that loss in business rates is recovered.

Topping up the growth to authorities which had not contributed to the levy is a further incentive to those authorities with a smaller rate base who would not see the same rewards when growing at the same percentages as authorities with larger rate bases.

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

Levy funds should also be made available to areas of higher deprivation to promote growth when they are not benefitting from the system in comparison to other authorities.

### 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 mange volatility in budgets.

Agreed, in order to manage the volatility of revaluations it is appropriate that the RPI uprated tariff and top ups for each authority is reviewed at this time.

### Q15 – Do you agree with the overall approach for managing transitional relief.

Halton agrees that no authority should be allowed to lose or gain from transitional relief; we see no reason for any changes with the current national system on transitional rate relief.

Technical Paper 6 suggests that any cost of transitional relief is funded by levy proceeds. Halton do not agree with this, as it is proposed transitional relief sits outside of the scheme, the funding of any deficit should continue to be funded by central government, the use of the set aside perhaps?

**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?**

Halton agrees that there should be capacity in the system to reflect for changing needs. As emphasised in Q11 a priority of the scheme should be to protect authorities to keep pace with the increasing costs of funding vital services.

**Q17 – Should the timings of resets be fixed or subject to government decision?**

To ensure the system is fair and impartial the timings of the resets should be fixed. We also consider that it would be important to have a mechanism which ensured that government could take the decision to consider a partial reset during times of volatility in the national economy eg recession.

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

If there is a proposal in the system to readjust the tariff and top up at each revaluation then it would be appropriate for a full reset to be done at this time. It ensures that upheaval in the system is done once every five years, this allows for certainty in the system that authorities will be allowed to retain their growth for the maximum of five years.

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

Halton would prefer a full reset so that retained income within the system is fully redistributed to ensure a fair distribution of funding between authorities based on needs and the changing levels of service.

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

If government are to determine the assessment of need on any other basis than formula grant then it should be done in conjunction with a full consultation involving all stakeholders.

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

Halton support the principle of there being a collective management of risk in the fluctuations of business rate yield but this should be at a national level rather than smaller localised pools.
Agree, pools should only be formed on a voluntary basis and it is the responsibility of each member to agree to the workings of the pool.

**Q22 – What assurances on workability and governance should be required?**

Assurances on workability and governance should be no different from other partnerships authorities will have between each other.

**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?**

Halton is a unitary authority and therefore has no comment.

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

Incentives in forming pools should not be at the disadvantage of other authorities who stand alone. Members of pools should share in the risk and reward element between the members of the group.

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

As an interim measure we agree that Police and Fire authorities should receive fixed funding allocations for 2013/14 and 2014/15 based on the levels of control totals agreed at the 2010 CSR. Additional police funding should continue to come from the Home Office.

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

As previously noted in other consultations we disagree with the New Homes Bonus scheme, it is taking funding away from areas of high deprivation to those who would have seen growth in the number of houses regardless of the incentives provided by the scheme.

Halton agree with the proposed mechanics to funding the New Homes Bonus grants within the rates retention system, we also agree that the surplus on New Homes funding should be redistributed back to local authorities in proportion to their baseline.

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

Halton agrees with the approach in the consultation that the New Homes Bonus should be redistributed to local government in proportion to their baseline funding.

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

Halton agree that the current system of business rate relief should be maintained.

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

To ensure greater certainty and availability of funds to cover borrowings Halton prefers option 2, growth in revenue from TIF's should be protected even though this would be offset by a limit being imposed on the number of TIF's by Government.

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

Whilst option 1 gives more opportunity for organisations to take up the opportunity of TIF's it places a risk and uncertainty on authorities and developers not having the revenue available to service future borrowings. Whilst option 2 limits the number of TIF's available it does provide certainty.

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

Agree, option 1 does limit the incentive effect.

**Q32 – Do you agree that pooling could mitigate this risk?**

Pooling could mitigate the risk but any TIF scheme an authority would enter into would need the backing of all pool members. It would also limit the number of TIF's a pool could enter into to reduce the risk further.

**Q33 – Do you agree that central government would need to limit the number of projects in option 2? How best might this work in practice?**

We agree that central government would need to limit the number of projects in option 2 and this would be achieved by having rigorous controls around applications.

Establishing The Baseline – Technical Paper 1

**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 disagree with the approach to calculating the amount of business rates to be set aside, the set aside amount should be applied to each authority's baseline and grants to local government should continue to be funded centrally.

It appears there is a proposal to break the current principle, within the local government funding system, that all forecast business rate income should ultimately be paid over to local government. There is concern that increased Business Rates funding which local authorities have contributed so many resources to over a number of years are being used to fund other government department grants as opposed to being fed directly back into local government.

What consideration has been given to a scenario of Business Rates nationally dropping below the estimated amount in the consultation? How is it suggested that other grants to local government are funded under this scenario.

**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 base line funding levels?**

As previously noted in other consultations we disagree with the New Homes Bonus scheme, it is taking funding away from areas of high deprivation to those who would have seen growth in the number of houses regardless of the incentives provided by the scheme.

It appears that the adjustment is the fairest and most transparent way to distribute the New Homes Bonus Surplus, although this is dependent on the baseline funding levels being set after applying damping.

**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?**

We do not agree with the proposed approach for funding local authorities through the set aside amount. As per question 1 the set aside should be added to the baseline and any transferred functions should be introduced in line with the new burdens principle. The net additional cost of functions placed on local authorities by central government must be assessed and fully and properly funded.

We agree that funding for new functions are provided as a section 31 grant between resets.

**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?**

Agree

**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?**

Halton agrees that no authority should lose out in 2013-14; this will aid financial planning and ensure consistency.

**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, it is vital that baseline funding levels are set after floor damping to ensure authorities will be no worse off under the new system than they would have been under the old system. Technical Paper 1 highlights "the government intends to establish a fair starting point" disregarding floor damping would mean that floor authorities would be at a disadvantage.

**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?**

Yes, this would ensure stability in an authority's resources from one year to the next.

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

Not Applicable

**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?**

Agreed.

**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?**

Halton is a unitary authority and therefore has no comment.

**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?**

Halton is not supportive of option 2 as we suggest that it will remove stability and places further uncertainty on financial planning

If option 2 was to be implemented then we suggest all the data sets are updated.

**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?**

Halton is not supportive of option 2 as we suggest that it will remove stability and places further uncertainty on financial planning

If option 2 was to be implemented then we suggest that the formula should be reviewed for all of the grants.

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

Halton is not supportive of option 2 as we suggest that it will remove stability and places further uncertainty on financial planning. We do not agree that the relative needs formula for concessionary travel should be reviewed.

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

Halton is not supportive of relative needs formulae being reviewed at this time as we suggest that it will remove stability and places further uncertainty on financial planning

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

Halton is not supportive of option 2 as we suggest that it will remove stability and places further uncertainty on financial planning. If the balance between service demands and resources was amended we would ask for the relative needs percentage to be increased to offer protection to those authorities with greater needs on their services.

**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?**

Agree, as an interim measure.

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

We agree with the approach to fund new burdens as per the new burdens principle. There is a requirement on central government to assess and fully fund new burdens.

**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?**

Halton agrees with the approach for boundary changes, boundary changes and mergers should have no bearing on the funding of an authority that is not included in the changes.

**TP1 Q19: Do you agree with the proposals on the future of Revenue Support Grant?**

Halton agrees with the proposals on the future of the Revenue Support Grant, it is pleasing to note that any funding would continue to be allocated without the imposition of conditions.

<u>Measuring Business Rates – Technical Paper 2</u>

**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?**

Halton agrees with the proposal for forecasting the 2013/14 and 2014/15 national business rates based on an actual national non–domestic multiplier for 2013/14 and an estimated non-domestic multiplier for 2014/15.

If actual rate income is less in 2013/14 than estimated and there is a shortfall in retained income for authorities which cannot be covered by a levy fund how will the government address this? Will the shortfall come from central government?

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

We agree that the proportionate share should be expressed as a percentage of individual authority business rates compared to the national aggregate.

**TP2 Q3: Which of the options – "spot", or "average" – do you believe would be the fairest?**

The fairest method for calculating proportionate shares would be based on the average option; we suggest that this should be over three years which would erode any one off discrepancies which could be evident in the spot option.

**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?**

Agree.

<u>Non Billing Authorities – Technical Paper 3</u>

**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?**

Halton is a unitary authority and therefore has no comment.

**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?**

Agree, as a short term measure for 2013/14 and 2014/15.

**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?**

Halton is a unitary authority and therefore has no comment.

**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 per question 2.

<u>Business Rates Administration – Technical Paper 4</u>

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

Agree.

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

Halton is a unitary authority and therefore has no comment.

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

Agree.

**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?**

Halton is a unitary authority and therefore has no comment.

**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?**

Halton is a unitary authority and therefore has no comment.

**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?**

Halton is a unitary authority and therefore has no comment.

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

Halton is a unitary authority and therefore has no comment.

**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?**

Agreed, levy would need to be agreed immediately following year end to ensure accrual was included in year end accounts.

<u>Tariff, Top Up and Levy Options – Technical Paper 5</u>

**TP5 Q1: Should tariffs and top ups be index-linked, or should they be fixed in cash terms?**

Halton is of the opinion that tariffs and top ups should be index linked. If there was a zero change in our taxbase we would expect the level of funding to grow by at least by RPI. If top ups were fixed in cash terms it would result in top up authorities facing a shortfall in funding.

There is clearly an unfair advantage to tariff authorities if tariffs and top ups are fixed in cash terms, they will see annual increases in their retained income even if their tax base was to stand still.

Evidence suggests that there is a link between deprivation and the ability to generate NNDR. There is concern that areas of higher deprivation will suffer if top-ups are fixed in cash terms.

**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?**

Agree, a pool's tariff/top up should be the aggregate of the tariff/top ups of its members. The risk/reward element should apply at all times to pools.

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

Agree, this would ensure a consistent approach

**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?**

Halton would favour a proportional levy, a flat rate levy does not take into account those authorities who have higher gearing levels and therefore they are at an advantage to those authorities with lower gearing. Halton is strictly opposed to flat rate levies as they take a too simplified approach; as a result we have no opinion on the flat rate which should be applied.

### 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?

Halton would favour a proportional levy.

If adopted, banded levels should be set on an authority's gearing to take account of their ability to raise increased funds to a high Business rate taxbase. We would favour a high number of bands to reduce the risk of 'cliff edges'.

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

Halton suggest that a levy ratio of 0.75:1 is set as a maximum. A lower ratio would ensure that a greater levy pot would exist to fund the total cost of safety net payments. This would ensure that authorities with greater service needs are protected.

### 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?

Pools of authorities should share the risk and reward at all times, we see no reason why a pool should have more favourable levy options over single authorities.

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

Agree, safety net payments should be triggered by a year on year reduction to an authority's retained income. The retained income should be inclusive of RPI increases to tariff and top ups.

### 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?

A reduction in pre levy income of 10% is suggested in the consultation document , this is considered to be far too large a reduction for authorities to deal with in managing year on year budgets and as a result could have a significant impact on the delivery of services.

In assessing annual changes in pre levy income it is reasonable to expect the previous years figure to be uprated by RPI and the difference in years to be compared in real terms.

### 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?

Halton would like to see the safety net kick-in when income falls below the RPI adjusted baseline funding level regardless of the percentage. The safety net should fund the whole amount funding has dropped by; it should not be scaled back dependant on the size of the levy pot for that particular year.

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

Agree, the baseline safety net should be annually uprated by RPI.

**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?**

Safety nets should be an absolute guarantee of support. Scaling back dependant on funding in the levy pot would provide inconsistencies over a number of years eg an authority may be fully protected in year x but come year y when there are a greater number of authorities requiring protection a neighbouring authority may only be protected to a scale of 50%. There needs to be fairness and equality throughout the system.

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

Halton would favour a process that allowed authorities to apply in year for a safety net payment.

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

Pools should be treated as single bodies on an aggregate basis sharing the risk and reward at all times.

## Volatility – Technical Paper 6

**TP6 Q1: Do you agree that some financial assistance should be provided to authorities for the effects of volatility?**

Agree, it is imperative that financial assistance is given to authorities who should suffer the effects of volatility.

**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?**

Halton is in agreement that a safety net approach offers the best way of managing volatility. The other suggested methods for managing volatility appear to be subjective whilst the safety net offers a more transparent and fair solution.

## Revaluation & Transition – Technical Paper 7

**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?**

Agree, as the system is built upon rewarding local authorities in increasing their Business Rate taxbase it would be harsh to penalise authorities if they were to suffer losses in their retained income through revaluations.

**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?**

Halton do not agree, it appears perverse that having protected authorities from initial revaluations there is no further protection from appeals to revaluations.

There is a suggestion in the consultation that appeals will be treated as part of the normal volatility on rating lists. It is unfair that there is protection from revaluations at the start of the process but not from appeals. Authorities could be in the position of losing true growth in business rate income due to circumstances beyond their control.

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

Agree, transitional relief will create volatility in an authority's retained income from one year to the next. Taking the relief outside of the scheme should introduce a higher degree of consistency in the scheme and make it easier for local authorities to manage.

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

We agree with managing transitional relief through a series of adjustments whereby an authority would make a payment to government if they gained through transitional relief and vice versa.

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

Disagree, as transitional rate relief sits outside of the scheme, any deficit should be funded by the set aside amount as opposed to the levy which should be funding safety net payments.

## Renewable Energy – Technical Paper 8

**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?**

Agree

**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?**

Agree, this would be a practical way of measuring growth.

**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?**

Agree.

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

Agree that the growth in Business Rates above RPI should be used on existing properties qualifying from new renewable energy technologies.

**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?**

We agree that the split in valuation between a new renewable energy project and existing use should be agreed by the Valuation Office Agency.

**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?**

Agree, there is the incentive effect upon the local authority to ensure that they are correctly recording business rate income from new renewable energy projects. Verification of the NNDR data would be required to ensure that they are correctly identified.

**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?**

Halton is a unitary authority and therefore has no comment.