Consultation Response

LONDON COUNCILS

Local Government Resource Review: proposals for business rate retention consultation

Response by London Councils

The following response is on behalf of London Councils and has been endorsed by the Society of London Treasurers (SLT).

London Councils represents all 32 London boroughs, the City of London, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority. London Councils is committed to fighting for more resources for London and getting the best possible deal for London's 33 councils. We develop policy, lobby government and others, and run a range of services designed to make life better for Londoners.

SLT is the representative body of local authority Directors of Finance in London.

Introduction

London Councils welcomes the opportunity to comment on the Government's proposals in the '*Local Government Resource Review: proposals for business rate retention consultation*' – ('the consultation paper'). In addition to our response to the consultation questions, we would like the following comments noted as part of our response.

London Councils fully supports the local retention of business rates, but we are extremely disappointed that the Government's proposals:

1. effectively remove the incentive for pooling, with insufficient additional benefit accruing to pooled authorities;
2. are overly complex and lack the significant elements of incentive and reward that would deliver the considerable departure from the current regime that we believed Ministers were seeking; and
3. do not deliver the obvious link to business and economic development that our members had hoped to see.

For London, it is obvious that the proposals will strip too much of the growth in business rates yield away from London authorities, without any opportunity for the Capital to benefit either at the level of service provision to London's residents, or reinvestment for London's businesses.

The complexity of the system proposed vastly limits the size and predictability of the incentive available to local government in much the same way as the now defunct Local Authority Business Growth Incentive (LABGI) (albeit via a different mechanism). It is widely recognised that the growth 'rewards' under LABGI were not directly aligned to local growth and could not be predicted with any certainty. As such, LABGI funding was seen by local authorities as a windfall grant rather than funding linked to their local economies/economic growth policies. LABGI's failings, in particular the small level of funding and its unpredictable nature, mean that it did not succeed in promoting economic growth activities or long term investment. The stated purpose of the proposed retention scheme is to create a direct link between the success of local businesses and local authority cashflow in the form of retained business rates. The lack of clear and sizeable incentives in the proposals undermine this fundamental aim – unless this issue is resolved, and the size and predictability of the incentives are increased, the current proposals will not have their desired impact on growth.

We are also very disappointed that government Ministers appear to be minded to retain a disproportionate level of control within the system, with, for example, options to potentially reset the system at will, and a national safety net system and levy mechanism based entirely around shifting and arbitrarily imposed parameters. The number of government controlled levers within the system, will increase the risk of uncertainty (for example, control over the timings and nature of resets), and will impact on the strength of the incentive (for example, the potential to vary the levy rate) for local government. This could vastly undermine the Government's objectives to increase economic growth..

All in all, at this point, we see a disappointing lack of ambition and localism in the Government's approach.

London Councils position on business rate retention

At Leaders' Committee in May 2011, London Councils Leaders collectively endorsed a set of principles regarding business rate retention in London.

At Leaders' Committee in July 2011, prior to the publication of the LGRR consultation paper, London Councils Leaders agreed a submission to the Secretary of State which expressed their collective interest in a London wide business rate retention solution and asked that such an option should be included in the consultation proposals. Leaders were clear that incentives for growth would be stronger, and the protection against unforeseen risks would be greater, if London was allowed to operate a London wide system that offered both individual borough incentives and pan-London collective incentives. The submission to the Secretary of State also reinforced Leaders' recognition that London has historically been a net exporter of business rates to the rest of England and would continue to do so.

The principles agreed by London's Leaders have underpinned the development work carried out by London Councils officers to design a business rate retention model which protects the spending power of local authorities at the outset whilst offering strong incentives for business rate growth at both the borough and regional level. The results of this work can be seen in our recent publication '*Resourcing London – a model for business rate retention*'[1].

[1] http://www.londoncouncils.gov.uk/policylobbying/localgovernmentfinance/taxation/resourcinglondon.htm

Creating incentives for promoting economic growth via the business rates system

It seems clear that for a retained business rates system to provide a strong financial incentive to promote local growth, it must meet several key criteria:

1. *Transparency* – the scheme and its parameters must be transparent and easily understandable;
2. *Predictability* – the outcomes under the scheme must be predictable;
3. *Stability* – the system must be stable and able to deal with shocks and exceptional events; and
4. *Incentives must be significant* – the incentives (rewards) in the system must be significant enough to encourage policies which promote economic growth and strengthen the links between local authorities and local businesses. The incentive must also be large enough to compensate local authorities for the risks faced in a retention model

The Government's proposals for business rate retention

The business rate retention scheme proposed by CLG is incredibly complex – as complex as the formula grant system that it intends to replace. Indeed, using the current grant distribution system as the starting point for setting the baseline for the new system could mean that the current damping arrangements are locked into the baseline going forward. This could disadvantage scaled authorities. When setting the baseline, London Councils believes that the Government should take account of the position of scaled authorities without disadvantaging current floor authorities (see our answers to Q1 and Q2 of the main consultation document).

The scheme proposed would be a significant departure from the current system of local finance: local authorities would still have significant levels of interaction with central government with respect to business rates (payments/receipts of tariffs/ top ups, contribution to national topslices etc). There would also be an increased focus on local authority interaction with their local economies with the addition of a significant transfer of financial risk to local authorities particularly in times of decline.

As it currently stands, London Councils believes that the proposed scheme does not meet any of the key criteria set out above:

1. *The system is inherently complex and opaque*: The proposed system is exceptionally complex and difficult to understand. Dependent on local circumstances, individual authorities could be subject to a number of adjustments (tariff or top up, levy payments, contribution to national top slices etc) which risk detaching local economic growth activities from actual financial reward. In addition to the complexity, local authorities will be subject to a significant transfer of financial risk in periods of declining growth (subject to the final parameters of the safety net system);

2. *The predictability of incentive/reward is limited*: The complexity of the system makes it difficult to model/predict outcomes with any certainty, as such it will be difficult for local authorities to plan and budget for the future/long term use of any additional retained income;

3. *System resets could cause significant uncertainty and volatility*: If the Government decides to retain discretion about the frequency of resets and the underlying basis for changes to distribution methodology, this will create significant uncertainty for local authorities;

4. *The incentives within the system are weak*: The system is constructed around a series of adjustments (the set aside, national topslices, the payment and receipt of top ups and tariffs, the removal of rental growth etc) which as a whole act to reduce the incentives for growth to a negligible level. The operation of the levy means that it is likely that a significant proportion of London's growth would be diverted out of London further reducing the connection between business rates being spent where they are raised. Variations to the levy rate would cause uncertainty and increases to the levy rate are likely to disproportionately affect London. In addition, due to the manner in which the baseline has been constructed, incentives for growth in the first two years of the scheme are very small.

An example of the limited local incentives within the proposed system, is the estimated local retention of business rates that would accrue to the London Borough of Camden in 2014-15 from the current redevelopment of the brownfield site at and around Kings Cross station in Central London. The Kings Cross redevelopment is a large-scale major development in the Capital taking place over the next 10-15 years. It is estimated that once complete, the development will add approx 550,000 square metres of additional commercial space to the local business rate base. If the Kings Cross development led to 1% business rates growth in Camden in 2014-15 this would be equivalent to approx additional £5.2m in business rate yield. If the proportional levy is applied to this growth (on a 1:1 basis, Camden estimate their levy rate at 70p), Camden would only keep 30% of the growth in that year – approx £1.6m. Variations in the levy rate or the way in which the levy is set would of course change these estimates[2].These estimates are based on a large number of assumptions and should be regarded with caution – however, they do serve to illustrate that the level of incentive in the proposed system is so small that it will not fundamentally change the dynamics of local government funding at a local authority level.

London Councils is especially disappointed by the limited incentives to pool in the system proposed by Government. The only explicit benefit is the potential for a pool of authorities as a whole to retain more growth (via a reduced levy) than would have been possible if the authorities had been treated on a stand alone basis. In effect, this would mean that a London pool would be giving up the majority of its growth to the national levy pot. This is in direct contrast to the principles endorsed by London Councils' Leaders that the majority of London's growth should remain within London.

London Councils' Leaders are clear that the level and predictability of the incentive in the proposed system needs to be significantly increased if the retention system proposed is to meet its objectives to increase economic growth. In particular, if the Government wishes to

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[2] More detail can be seen in the London Borough of Camden's report to Resources and Corporate Performance Scrutiny Cabinet for October 2011 - http://democracy.camden.gov.uk/documents/s14483/Camden%20Response%20to%20the%20Resource%20Review.pdf

encourage pooling, then it must be willing to allow pools of authorities to retain significantly more growth (via the payment of a lower levy) than would occur in a stand alone system.

The business rate retention system proposed by the Government is multi-layered and complicated. If the Government's objectives were to replace the current opaque Formula Grant system with a more transparent funding regime, they appear not to have been met.

More significantly for local authorities, the incentives/rewards in the system are small and do not match the transfer of financial risk which is inherent in the proposals. As such, and bearing in mind that boroughs are already highly focused on local economic development, we believe that the retention model as proposed will not in itself have a significant impact on driving local economic growth.

Other issues not addressed in the consultation questions

1. The Central List

We note that the Government intends to review the position of centrally collected business rates at the next Spending Review [para 4.10].

Business rates raised from central list properties are required to be redistributed in full to local government and should be included within the business rate retention system.

Any review of how the central list is administered should be carried out in consultation with local government, and must include a commitment that central list business rates will continue to form part of the local government finance system being redistributed to local authorities in a transparent manner.

2. Local Authority Central Services Education Grant (LACSEG)

We note the comments regarding the need to continue to transfer resources from local government to fund academies via LACSEG [para 4.7].

As noted in our response to the recent DfE consultation on LACSEG[3], we believe that DfE's methodology is fundamentally flawed and we are very dissatisfied with the lack of transparency around the detail of the LACSEG calculations. The overriding principle for any calculation of LACSEG is that only clearly demonstrable savings are transferred from local authorities to DfE and that the methodology should be completely transparent. If the amount transferred from local authorities is higher than the savings authorities actually realise from academy conversions, pressure is likely to be placed on council tax and other local authority resources. This is inconsistent with the Government's clearly articulated policy to fully fund all new burdens on local authorities.

We request that CLG urgently provide clarification on how LACSEG will be treated in the business rate retention system, and ask that no further funding is topsliced from local authority budgets until agreement is reached about the appropriate basis of any transfer.

[3] http://www.londoncouncils.gov.uk/policylobbying/localgovernmentfinance/children/schoolfundingreform2011.htm

3. *Council Tax Benefit (CTB) localisation*

As previously noted, we believe that the proposed scheme for business rate retention transfers a significant amount of financial risk to local authorities. This risk is heightened by the current proposals for the localisation of council tax benefit (CTB) which, in our opinion, also transfer a significant amount of risk to local authorities with no corresponding increase in autonomy.

CTB localisation is due to be implemented in April 2013 alongside the new business rate retention scheme. These two new policies not only significantly increase the financial risk to local authorities from 2013-14 onwards, but also impose considerable burdens in the run up to their implementation in the form of scheme design, consultation, analysis and financial impact assessment and planning.

London Councils has considerable concerns regarding the impact of managing the transition to these new schemes at a time when local authority resources are already under considerable strain. We will wish to see a full and transparent analysis of the transitional burden and an appropriate level of funding.

4. *Planning policy – relaxation of planning rules for change of use from commercial to residential*

Earlier this year the Government consulted on proposals to relax the planning rules for changes of use from commercial to residential. The Government's consultation proposes that these changes of use, from class B2 to class C3, should constitute 'permitted development'. London Councils disagrees strongly with these proposals.

London Councils' response[4] to the consultation makes clear the potential adverse impact of these proposals on business and local economic growth, in particular the possibility that town centres could become less viable as properties convert from business to residential use – this could both negatively impact on the growth potential of existing businesses and deter the location decisions of new businesses.

There is a clear conflict between this policy and the proposals for business rate retention/incentives to promote local growth. Conversions of business property to residential property will result in a physical and therefore financial loss to the business tax base (a loss which, in the retention system, will be retained by local government). This loss may be mitigated, in part, by additional New Homes Bonus (NHB) funding attached to new residential property, but in London in particular, this is unlikely to fully compensate for the initial loss in business rate yield and the potential loss to future business rate growth if new businesses location decisions are discouraged. London Councils believes that the relative value of residential property in London could lead to large numbers of conversions and a resulting sizeable decline in business rate revenue.

The change of use proposals, mean that local authorities will not be able to control the potential shift of properties from commercial to residential use, and by implication will not be able to control the loss to their business rate base and yield. This is in direct conflict with the motivation for local economic growth which underlies the move to

[4] http://www.londoncouncils.gov.uk/policylobbying/planning/publications/changeofuse.htm

business rate retention. This conflict will blur the link between local authorities and local businesses and increase financial risks (associated with the retention of business rate losses and the difficulty of predicting future business rate growth) to local authorities.

5. Timetable for implementation

London Councils also has concerns regarding the proposed timetable which is very challenging, especially as it coincides with the Government's plans for implementing CTB localisation. Bearing in mind progress to date, we assume that the Government hopes to enact the necessary primary legislation by summer 2012 with secondary legislation to follow shortly after. And that the Bill will include provisions for CTB localisation (if current proposals in that area are carried through).

It is clear that there will be substantial changes required in systems and processes as a result of both business rate retention and CTB localisation, and we are extremely concerned that there is simply not enough time being allowed for both policies to be implemented.

We would urge the Government to seriously reconsider the proposed timescale for implementing business rate retention. It is imperative that any major change to the local government finance system, such as this, is carried out in a manner where the implementation timetable does not undermine the aims and delivery of the policy.

The consultation process

Given the fundamental nature of the reforms under consideration in this consultation, London Councils is very disappointed at the manner in which the consultation process has been carried out.

The main consultation paper was published on 19 July 2011. This document set out the main parameters of the proposed scheme but did not provide any technical detail about key elements such as the construction of the baseline, and adjustments to reflect revaluation. The technical details underpinning the main consultation paper were published in a series of eight technical papers on 19 August, 2011 – almost five weeks after the publication of the main consultation paper. The technical papers are extensive in length and provide a great deal of additional detail. In total they pose 65 questions in addition to the 33 questions posed in the main consultation paper. The delay in the publication of this detail has reduced the time available within the overall consultation timeframe for respondents to assess and analyse the detail of the proposals.

In addition, the consultation proposals (and supporting technical detail) were not published until well into the summer. This has resulted in a lack of time for proper engagement with our members on the impact of an area of such critical importance for local authority funding.

London Councils is particularly dissatisfied that the Government have not provided comprehensive numerical exemplifications of the impact of the proposals in the consultation paper. The complexity of the scheme, the multiple variables and options set out, and the need to forecast data make it very difficult to model outcomes under the scheme with any certainty. This has limited our ability to assess the proposals and their impact on our members.

Consultation Questions

Chapter 3: A scheme for business rate retention

Component 1: Setting the baseline

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

- The baseline is the foundation stone from which the rest of the scheme is built and as such is fundamental to the operation of the scheme. The baseline also sets the initial resourcing position/funding for each local authority in the scheme – as such London Councils is disappointed that CLG have not provided numerical estimates of the baseline funding position for each local authority. Until local authorities have clarity about their individual baseline funding positions, no further assessment of the financial impact of the scheme is possible with any certainty.
- London Councils would like to see the baseline set such that no authority is worse off in the first year of the business retention model, than under the final year of the current scheme.
- London Councils agrees with the consultation document that stability and consistency of financing should underpin how the baseline is set. London Councils also agrees that 2012-13 formula grant allocations are a simple, transparent and stable starting point for setting the baseline. London Councils would prefer the option set out in para 3.13, however, we believe that the position of scaled authorities should be taken into account when setting the baseline funding position in the proposed business rate retention system – simply freezing the relative distribution of formula grant in 2012-13 is inequitable for those many authorities that have been penalised by the current damping arrangements. Providing compensation to scaled authorities at the start of the retention system will prevent them from being locked into a disadvantaged position from the start. London Councils believes that this should be done without disadvantaging the baseline funding position of current floor authorities.
- We are disappointed that the baseline position does not include all business rates raised by local government, and that it will be set inclusive of the pre-announced cuts to local government spending in 2013-14 and 2014-15.
- Using 2014-15 (as the lowest point) to construct the baseline funding position for the scheme will set the baseline artificially low – this will result in top ups being lower and tariffs being higher than they would otherwise have been.
- We note that business rates in excess of the spending review control totals will be '*set aside and directed to local government through other grants*' [para 3.5]. No details are provided regarding the nature of these grants and how they will be distributed or what conditions may be attached to the funding. We would request further clarification on this point at the earliest opportunity.
- We also note that the next Spending Review will consider '*the total spending figures for local government with a view to more closely aligning local authority functions and responsibilities with business rates income from 2015-16*' – London Councils is concerned that a large transfer of functions and responsibilities to local government in this way could result in additional responsibilities for the sector without additional funding flowing into the sector. Functions and responsibilities transferred to local

government should be fully funded from general taxation funds currently outside the local government finance system in accordance with the New Burdens Doctrine.

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?

- Would not disagree in principle to the use of tariffs and top ups as a means of rebalancing the system in the first year.

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

- London Councils does not have a position on this question.

Component 3: The incentive effect

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

- For an incentive to be effective it must be clear, known in advance and stable.
- London Councils agrees that the incentive mechanism should reward growth and penalise decline (subject to certain conditions).

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?

- London Councils agrees that 'gearing' needs to be accounted for in setting the proportion of business rates is retained at the local authority level.

Q7: Which option for calculating the levy do you prefer and why?
Q8: What preference do you have for the size of the levy?

- On balance, London Councils would prefer to see Option 3 (the proportional method) used to calculate the levy. This method addresses the gearing issue without creating funding cliff edges and potential perverse incentives.
- The levy rate should be fixed in advanced and reviewed at set points in order to create stability and certainty for local authorities with respect to the business rate incentive.
- The levy rate should be set as low as possible to create the strongest possible incentive.

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

- London Councils agrees with the approach with respect to Renewable Energy projects.

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 business rates (protection from large year to year changes); or***
> ***ii) whose funding falls by more than a fixed percentage below their baseline business rates position (the rates income floor)?***

- The consultation paper is clear that the Government wishes to introduce a safety net mechanism to manage volatility in the business rates retention scheme. London Councils supports the introduction of a safety net mechanism, but, as previously noted, we are disappointed that the mechanism proposed is based entirely around arbitrarily imposed parameters.
- Option (i) would offer protection for one year based on volatility with reference to the prior year.
- Option (ii) would offer ongoing protection with respect to volatility with reference to the baseline funding position of each authority.
- As written, it appears that option (i) and (ii) are mutually exclusive. London Councils is unclear why this should be the case – a safety net system could encompass protection for both types of volatility.
- However the safety net operates, it is essential that the parameters of the safety net are known in advance and that they are applied consistently.
- Technical paper 5 suggests that the levy may need to be adjusted if, over time, safety net guarantees exceed available funding in the levy pot – '*If, … the safety net guarantees created the prospect of an unsustainable deficit on the fund, the only option would be to increase levy rates…*' [TP5 para 5.14]. This potential levy adjustment will add to the unpredictability of the system and is of particular relevance to those highly geared authorities who are likely to be contributing a significant amount of funding to the national safety net pot. The safety net funding pot will be at risk if highly geared authorities suffer negative growth – in these instances these authorities will no longer be contributing to the levy (and therefore safety net) but will require funding from the safety net. More worryingly, these authorities could then be subject to a higher levy rate when their business rate yield recovers in order to make good any safety net funding deficit.
- London Councils does not agree that adjusting the levy rate is the only way to manage the cost of any safety net guarantees. We believe that the safety net pot should be allowed to remain in surplus or deficit (reflecting economic cycles) if necessary, ensuring that central government bears some of the risks of managing the safety net mechanism alongside the considerable risks being borne by local authorities in the retention system as a whole – please see our answer to question 12.

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

- If the aims of the scheme are to incentivise local authority growth then the incentive mechanism and levy should work together to create a real and strong incentive for local authorities to grow their business rate yield.
- The 'safety net fund' in this scheme will be financed from a levy imposed on high base/growth authorities – as such it is imperative that there is a strong enough incentive in the system to incentivise authorities such as these to grow (and

therefore pay levy proceeds) in order that there is protection funding available to manage economic shocks and support lower base/growth authorities.

- We note that under the proposals in the consultation paper, all local authorities that are in decline (with reducing levels of business rate yield) will feel the full extent of that loss unless they meet the thresholds necessary for safety net protection.
- This creates an asymmetry of treatment within the system for authorities that are subject to the levy – these authorities will not keep all of their business rate growth but will be required to retain all of their business rate loss (unless they exceed the safety net criteria).

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?

- London Councils supports the creation of a safety net mechanism within the business rates retention system, however, we are concerned that two of the five options for the use of 'additional levy proceeds' set out in para 3.37, (providing ongoing support to authorities that have experienced significant losses; and, supporting revenue expenditure in areas of lower growth/targeting expenditure of projects to unlock growth and prosperity) require subjective uses of levy funds with potentially arbitrary decisions being taken by Ministers as to how levy funding should be distributed and which areas/projects should be supported.
- London Councils would prefer, dependent on the size of the levy pot and the calls on/structure of the safety net mechanism, that the levy pot should be allowed to remain in surplus (and indeed in deficit) if necessary, to reflect the cyclical nature of growth and the economic cycle [see our answers to technical paper 5]. This would limit the need to adjust the levy rate in order to keep the levy pot in balance year on year, and provide an element of risk sharing in the business rate retention scheme between central and local government.
- An excessive, increasing, or ongoing surplus in levy pot funding, however, would suggest that the Government has set the levy rate too high and that it should be reduced and the excess returned to local authorities/pools of authorities in proportion to their levy contribution. Failure to do so, will significantly undermine the incentive within the system as a whole.

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

- As currently proposed, a very significant proportion of London's growth is likely to be exported through the levy mechanism. While we recognise the need to account for disproportionate growth, we do not agree with the extent to which that growth in London will go unrewarded. Our intention had been for London to benefit from growth reward to the maximum possible extent, in a way which recognised the interdependence across the region with a sharing of reward across boroughs, while maintaining a significant reward for the growth generating authorities.
- With so little incentive and reward remaining in London, and only a limited amount of benefit in forming a regional pool, it seems unlikely that such a pool will be formed.
- However, we believe that the Government should consider options for increasing the benefit of pooling by rewarding such pools through a significantly reduced levy [see our answer to questions 21-24].

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

- Local authority efforts to stimulate economic growth are assumed to be manifested in higher business rate yields. Real growth in business rate yields occur through two routes: (a) increased market rental values of business property and, (b) increases in the physical tax base (net additions). Due to the workings of the business rate system, the first of these routes (rising rental values) is, in the main, only recognised as a result of five yearly revaluations.
- Removing business rate yield growth (or decline) attributable to rental growth (or decline) from the system means that local authorities will only be able to benefit from *real* increases in business rates income if they are due to additions to the physical tax base.
- London Councils work shows that historical growth in the physical tax base is minimal and even negative[5] and that business rate growth is linked to increases in rental values. Limiting the incentive to growth in the physical tax base will severely limit the potential for local authorities to benefit from business rate growth, particularly in inner city/urban areas where the potential for additions to the tax base is limited by spatial constraints. In areas such as this, economic growth policy which attracts new businesses will result in rises in rental values as businesses compete for limited space – an effect only picked up by revaluation.
- In addition, local economic growth and business improvement policies are used to develop links with, and assist in improving the performance of, existing businesses as well as encouraging new business location decisions. The impact of these policies on the improvement of the business environment is largely manifested via rental price increases. If the Government proceeds with stripping rental price out of the business rate retention system, there will be little incentive for local authorities to pursue policies such as these.
- The Government proposes to adjust the tariff and top up of each authority to neutralise the impact of rental growth at revaluation. It is not clear how this adjustment will operate, but if an adjustment of this nature is to be made, it must function such that it does not also remove the impact of physical growth and RPI growth in a revaluation year.
- Technical paper 7 makes it clear that despite removing the impact of rental growth from the system, any volatility arising from appeals at revaluation will not be captured via the revaluation adjustment. This results in an asymmetry of the treatment of volatility due to revaluation - local authorities cannot benefit from rental growth but will have to manage the volatility in local income stemming from revaluations in the form of appeals (which are outside local control).
- Disputed valuations, and revaluations, carried out by the VOA can have a significant impact on local authority funding and cashflow – this impact will be magnified under a retained business rates system where potential decline in local business rate yield due, for example, to losses on appeal will have a direct impact

[5] Between April 2005 and September 2009, the average London borough saw its physical tax base decline by 0.1%. By contrast, between April 2005 and April 2010, business rate yield in London grew by 6% on average.

on funding and the fluctuations in funding at a local level. Crucially, local authorities do not have control over the assessment of the rental values of hereditaments on local ratings list. London Councils would therefore like to see a greater onus of responsibility on the VOA to issue correct valuations/revaluations, and some form of indemnity from Government against significant errors – local government should not be expected to forego funding to account for VOA errors.

- Transitional relief reflects the underlying changes in the business rate base due to revaluation. As transitional relief unwinds, individual ratepayers move towards paying the real or full value of their business rates bill based on their updated rateable value. The impact of transitional on local authority business rates yields is therefore a manifestation of the change in local rental values.
- Stripping transitional relief out of the business rate retention system adds an additional layer of administration and complexity and makes it harder for local authorities to assess and predict their growth.

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 – service pressures change over time and shifts in relative need should be reflected in the system via a reset of the baseline.

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

Timings should be fixed. Unpredictable resets would undermine the stability off the system and reduce any incentive effect. This could lead to an ongoing risk to local authority budget plans which is likely to increase the need for reserves.

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

- London Councils does not have a view on this question.

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

- Partial reset – partial resets would allow for indefinite retention of growth and will favour high base authorities.
- Full reset – full resets create a funding cliff edge at the point of reset which would introduce volatility into the funding system and could impact local authority decisions and plans relating to business growth schemes. In addition, some smoothing or damping is likely to be necessary at the point of a full reset to manage local volatility caused by the redistribution of funding.
- London Councils would favour a rolling system of resets such that the growth reward is retained locally on rolling basis for a set number of years (in much the same way as New Homes Bonus) before it reverts to the baseline. This would create a more stable system where authorities retain annual growth on a rolling basis before it is redistributed (either nationally or within a pool), and where resets are predictable and known in advance. This would prevent the funding cliff edges that occur with full resets and also allows lower base or slow growing authorities to be on a more even footing with higher base/high growth authorities

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

- London Councils believes that need should be reassessed at fixed points.This will ensure that service need at a local authority level is reassessed on a regular, predictable and consistent basis.
- Any change to the basis for assessing need <u>must</u> be carried out in consultation with local authorities.

Component 7: Pooling

Q21: Do you agree that pooling should be subject to the three criteria listed at paragraph 3.50 and why?
Q22: What assurances on workability and governance should be required?

- London Councils agrees that pooling should be subject to the three criteria listed.
- A pooling agreement should be put in place which covers all the pool authorities and which would be subject to the parameters of the national scheme and under the management of a representative governing body.
- It is not clear how the costs of pooling, in particular governance and administration costs, are to be met. The requirements for governance structures should be proportionate to the size of any reward gained from pooling.

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?

- London Councils has no comment on this question.

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

- London Councils is extremely disappointed that the financial incentives for pooling in the proposed system are not more significant.
- It would appear that the only explicit benefit of pooling is the potential for the pool to retain more growth (via a reduced levy) than would have been possible if the authorities had been treated on a stand alone basis. It is not possible to assess the size of this benefit (and how it might impact the funding of individual local authorities within the pool) until the final scheme parameters (levy type, treatment of tariffs and top ups etc) are known.
- For pooling to be a realistic option, the Government would need to ensure that the pool retains more growth than would have been retained if the authorities within the pool had been treated on a stand-alone basis. Within the parameters of the scheme as set out, this would be achieved by pooled authorities seeing a reduction in their levy payment as an incentive to pool. The rate at which the levy would need to be reduced would depend on the type of levy chosen and the mix of authorities in the pool, and as such would need to be decided on a case by case basis with each pool. The levy reduction should be agreed and fixed to provide certainty and stability.

- There is no specific reference in the consultation paper with respect to the costs of pooling (namely governance and administrative costs) and how these would be met. Our assumption is that these costs will need to be met by the pool from their retained growth. For a real pooling incentive to exist, the pool levy must be set in such a way that it builds in enough retention to meet the costs of pooling as well as providing a financial regional growth incentive.
- London Councils is particularly disappointed that the proposed scheme does not include wider and increased autonomy for pool areas as an additional incentive to pool. London Councils would favour a pooling model where pool members had increased autonomy for key components of the retention scheme such as: the assessment and reassessment of spending need/pressures within the pool; managing exceptions and volatility; and managing resets.

Impact on non-billing authorities

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

- London Councils has no comment on the treatment of county councils.
- London Councils has no comment on the treatment of police and fire authorities.

Chapter 4: Interactions with existing policies and commitments

New Homes Bonus

Q26: Do you agree this overall approach to funding the New Homes Bonus (NHB) within the rates retention system?
Q27. What do you think the mechanism for refunding surplus funding to local government should be?

- London Councils notes and welcomes the commitment to make NHB a permanent part of the finance system.
- Funding the NHB from the business rates system will reduce the baseline funding available to each local authority at the outset of the scheme. Top slicing funding from control totals cuts directly into basic need funding for local authorities – the largest monetary cuts will fall on those authorities with the highest needs – this is especially pertinent given the need to strip out NHB funding at steady state levels at the start of the system.
- London Councils agrees that any surplus NHB taken out of the system should be returned to local government and that it must be refunded in proportion to baseline funding. The deduction of NHB from the national pot is artificially holding back the baseline, reducing the baseline proportionately for all authorities. It therefore seems equitable that if not all of this money is needed, that it is paid back in the same proportions.
- We note that the government does not comment on the possibility that the funding set aside to fund NHB at the start of the system may not be adequate to finance the NHB incentive – ie the possibility that the NHB fund could go into deficit. There are no proposals in the consultation paper which set out how such a deficit would be financed and whether this would require an adjustment to the system. London Councils is concerned that financing such a deficit could result in further calls on business rate yield in future years and requests that the government provides further clarity in how it would propose to mitigate this issue without destabilising the system.

Business rates relief

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

- London Councils is disappointed that the Government is not using the LGRR process to undertake a full review of the business rates reliefs system[6].
- In the absence of such a review, we agree that the current system of business rate reliefs should be maintained but ask that our responses to the questions in technical paper 2 are noted in regards to allowable deductions in the calculation of proportionate shares.

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[6] The Lyons Report [2007] recommended that '*The Government should conduct a review of [business rate] exemptions and reliefs to consider the scope for removing inappropriate subsidies and distortions, and to simplify the system*' Lyons [2007]: Place-shaping: a shared ambition for the future of local government – final report, p 311

Chapter 5: Supporting local economic growth through new instruments

Q29: Which approach to Tax Increment Financing do you prefer and why?
Q30: Which approach do you consider will enable local authorities and developers to take maximum advantage of Tax Increment Financing?

- It is not possible to express a preference for either TIF option in the absence of modelling to assess their respective impacts. London Councils requests that the Treasury/CLG provide modelling of these options and their impact on the levy pot (see Q31 and Q33 below).

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

- The direct risk to TIF business rate revenues from resets depends on whether the resets are full or partial. With partial resets, the growth in business rates will be unaffected. Full resets, which redistribute all growth since the previous reset on a national basis, could redistribute business rates away from the TIF scheme and would limit the potential to match additional business rate revenues to debt financing.
- Uncertainty over the impact of resets will have a direct impact on the market for TIF finance. Private sector lenders will build this uncertainty into their debt pricing structures for TIFs making TIF financing for local authorities potentially prohibitively expensive, or in the worst case, unavailable.
- The extent to which the levy would limit a local authority's ability to use TIF depends on the uncertainty it creates in future funding. If the levy rate is fixed at the outset, a local authority could build this into its borrowing proposals and business case for the TIF scheme.
- Under levy option 3 (the proportional levy), the levy would depend on (i) baseline revenue and (ii) the ratio between business rate growth and baseline revenue. If both of these parameters were fixed, the impact of levy would be clear in advance. However, resets could alter the level of baseline revenue, thus impacting the levy rate, and this change would be difficult for local authorities to predict. There is also the risk that the levy rate or levy mechanism could changed by future governments, creating further uncertainty.
- We note the use of the term "securitise" in this question. This word is often taken to mean limiting a local authority's liability for financing a particular debt to a particular revenue stream (which is currently prohibited by the Local Government Act 2003) or other credit arrangement. It is unclear whether this is the intention in this question. The business case for any TIF scheme would need to set out what would happen if the anticipated increase in business rates due to the TIF was not achieved – it would need to set out whether the shortfall would be met by the local authority from its remaining revenues or whether other partners in the TIF scheme would be liable. The interaction between the regulation of TIF, the Local Government Act 2003, the General Power of Competence in the Localism Bill and the Local Authorities (Capital Finance and Accounting) (England) Regulations (including any forthcoming amendments) therefore needs to be considered very carefully.

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

- It is difficult to predict the interaction between pooling and the already complex interplay between levies, resets and TIF in a stand alone authority system.
- It is hard to see how a pooling mechanism, as set out in the consultation paper, would make the levy rate for a pool of authorities more predictable and therefore help financial planning/encourage TIF schemes in pool areas.
- Similarly, it is hard to see how pooling would mitigate risks associated with resets (noted above).

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?

- The consultation paper points out that if take-up under TIF option 2 is large, it would reduce the national levy pool due to option 2 TIF schemes sitting outside the parameters of the business rate scheme. As a result, the Government may need to restrict or limit TIF schemes falling under this option to protect the levy pot.
- The real potential for the levy pot to be impacted negatively by TIF option 2 comes from the risk that businesses previously operating outside the TIF area may relocate to within the TIF area, thus reducing the overall level of business rates subject to the levy on a national basis.
- Overly restrictive Government controls on the number of TIF schemes operating under option 2, could limit the potential for this option to provide a significant mechanism for investment. Also, there is a further risk that a focus on TIF option 2 schemes could deter investment under TIF option 1.
- We request that the Government carry out some modelling of the potential take-up of option 2, and its possible impact on the levy pot through business displacement, in order to fully inform the decision on whether to implement TIF option 2, and if so, whether to place any restrictions on its use.
- If TIF option 2 is implemented, the Government must consult on the method it intends to use to assess which schemes can fall within TIF option 2. Any restrictions, or limits, applying to such schemes or their acceptance should also be fully consulted on, and made clear as part of the relevant TIF guidance.

LGRR Consultation Technical Paper Questions

Technical Paper 1 Questions

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?

- The method proposed by the Government for calculating the set aside is based on projections of growth. As such local authorities will only benefit from business rate growth in the first two years of the scheme if they grow above Government projections.
- London Councils requests that the government provides further clarity on how the system, and local authorities, will be affected if the projections used to calculate the set aside are set too high (either because physical growth is lower or because inflation forecasts were set too high). It appears as if the risk of this (manifested in the set aside being higher than it should have been) is transferred to local government.
- London Councils also requests, at the earliest opportunity, further clarity on how the set aside will be distributed to local government particularly if this funding is to be ringfenced in any way.

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?

- London Councils agrees that any surplus NHB taken out of the system should be returned to local government and that it should be refunded in proportion to baseline funding. The deduction of NHB from the national pot is artificially holding back the baseline, reducing the baseline proportionately for all authorities. It therefore is equitable that if not all of this money is needed, that it's paid back in the same proportions.

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?

- London Councils has concerns regarding the use of the set aside to fund transfers of functions to local authorities either at the beginning of the retention scheme or at a reset. The set aside is simply the excess of national business rates over spending control totals and is funding that is legally required to be redistributed to local government. Reducing the set aside to fund transfers of functions to local government means that local government will be responsible for increased functions without a matching increase in funding.
- While we are forced to accept that business rate yield will exceed the Treasury's spending control total at the outset of the proposed scheme, and that there should be a review of grants, functions and responsibilities as part of the next Spending Review process. We trust that after that review has taken place, all future new burdens and transfers of responsibilities to local government will be fully funded from general taxation and not from any perceived surplus accruing in business rates.

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

- London Councils does not have a comment on this question.

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?

- London Councils agrees with this approach in principle.

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?

- London Councils believes that the position of scaled authorities should be taken into account when setting the baseline for the system. This should be done without disadvantaging current floor authorities. Please see our response to Q1 and Q2 in the main consultation document.

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

- London Councils does not have a view on questions 7 and 8.

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?

- London Councils agrees that this is reasonable.

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?

- London Councils agrees that this is reasonable.

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?
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?
TP1 Q13: If option two is implemented, do you think we should review the relative needs formula for concessionary travel?
TP1 Q14: Do you think we should review any of the other relative needs formulae? If so, which ones and why?

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

- London Councils prefers option 1, subject to our comments on the position of scaled authorities noted in TP1 Q6, and Q1-2 of the main consultation paper.
- We do not have a view on questions 11-15

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?

- London Councils has no comment on this question.

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

- London Councils agrees that new burdens should continue to be fully funded within the new business rates system.
- London Councils agrees in principle with the proposals for funding new burdens as long as the funding provided is genuinely new and comes from general taxation sources. Funding for future new burdens should not be covered from growth in business rates yields as this would further reduce the incentive and reward mechanisms in the system.

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?

- London Councils has no comments on these proposals.

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

- London Councils notes the possibility that Revenue Support Grant (RSG) could be zero at the start of the new scheme, and that the potential need for RSG could be negated in the new system with simply a notional amount of funding remaining for redistribution. However we do not agree with the proposals to make RSG discretionary rather than mandatory [para 6.22].
- The ratio of business rate revenues to local funding need varies over time, and it is possible that in the future, national local spending needs may exceed the amount of national funding raised by business rates. If this is the case, total RSG will be an amount greater than zero and the Government should continue to be legally obliged to redistribute this amount to local government.

Technical Paper 2 Questions

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?

- London Councils agrees with the Government's approach in principle.

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

- London Councils agrees with the proposals.

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?

- London Councils does not have a view on this question.

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?

- London Councils agrees with the allowable deductions but notes that small business rate relief has not been included in the list of allowable deductions and requests clarification on the treatment of this in the calculation of proportionate shares.

Technical Paper 3 Questions

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?

- London Councils has no comment on this question.

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?

- London Councils has no comment on this question.

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?

- London Councils has no comment on this question.

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?

- London Councils has no comment on this question.

Technical Paper 4 Questions

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

- We agree in principle with the proposed approach for administering billing authorities' payments to central government.
- We do not agree with the proposals for fortnightly payments due to the impact on local authority cashflow. It may be more appropriate to align payments under the business rates retention system with those existing payment arrangements for Formula Grant, and, as we understand it, proposals for Universal Credit, which are on a monthly basis.
- We do however note that the system of payments and information flows set out in TP4 is no less complex than that which exists under the current business rates system. Nor is the role of central government in the administration of business rates reduced.

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

- The proposed approach for administering payments from billing authorities to non-billing authorities should be consistent with the approach above.

TP4 Q3: Do you agree with the proposals for year end reconciliation?
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?
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?
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?
TP4 Q7: Do you agree with the proposed approach for administering payments to and from non-billing authorities?

- London Councils has no comments on questions 3-7.

TP4 Q8: Do you agree with the proposed approach for establishing liability for the levy on the basis of an authority's pre-levy business rates income and eligibility for support from the safety net on the basis of an authority's post levy income?

- London Councils agrees that the proposed approach is sensible given the proposed parameters of the system.

Technical Paper 5 Questions

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

- London Councils has no comment on this question.

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?

- London Councils agrees that a pool's tariff or top up should be the aggregate of the tariffs and top ups of its members.
- However, London Councils also believes that pools should be given additional incentives via a reduced levy and increased autonomy.

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

- London Councils agrees.

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

- London Councils is in favour of a proportional levy.

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?

- Yes, London Councils agrees that pools of authorities should be set a lower levy than would have been the case if worked out in the aggregate of member levies. Our preference is that the majority of growth should be retained within the pool.

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

- London Councils agrees.

TP5 Q9: The main consultation document seeks views on whether there should be a safety net for annual changes in post-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?
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?
TP5 Q11: Do you think that for the purposes of the baseline safety net, the baseline should be annually uprated by RPI, or not?

- London Councils has no comments on questions 9-12.

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?

- London Councils believes that the safety net should provide an absolute guarantee of support.
- As noted in our response to question 12 of the main consultation document, London Councils would prefer, dependent on the size of the levy pot and the calls on/structure of the safety net mechanism, that the levy pot should be allowed to remain in surplus (and indeed in deficit) if necessary, to reflect the cyclical nature of growth and the economic cycle. This would limit the need to adjust the levy rate in order to keep the levy pot in balance year on year, and would ensure the central government bears some of the risks of managing the safety net mechanism.
- An excessive, increasing, or ongoing surplus in levy pot funding would suggest that the Government has set the levy rate too high and that it should be reduced and the excess returned to local authorities/pools of authorities in proportion to their levy contribution.

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

- London Councils believes that safety net support should be provided in-year in order to assist local authorities to manage volatility as it occurs.

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

- London Councils agrees that pools should be treated as single bodies as this will maximise simplicity and flexibility for pooled authorities.

Technical Paper 6 Questions

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

- London Councils agrees that the effects of volatility within the system should be managed and that the safety net mechanism proposed is the best way of managing volatility.
- London Councils requests that the parameters of the safety net system are announced in advance and that the operation of the safety net is applied consistently. Any changes to safety net parameters, once the system is up and running, should be communicated in advance to allow local authorities to factor safety net guarantees into their financial planning process.

Technical Paper 7 Questions

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?

- London Councils does not have a view on this question.

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?

- As noted in our answer to Q14 of the main consultation paper, the impact of appeals on volatility can be significant.
- Adjusting tariffs and top ups such that rental growth is excluded from the system but not making subsequent adjustments to reflect the impact of appeals results in an asymmetric treatment of volatility due to revaluation: local authorities cannot benefit from rental growth but will have to manage the volatility in local income stemming from revaluations in the form of appeals (which are outside local control).
- This asymmetry of treatment is inequitable – if the Government does exclude rental growth from the business rate retention system, it must ensure that volatility stemming from appeals due to revaluation errors is also be adjusted for. The alternative is to allow local authorities to benefit from rental growth within the retention system, allowing them to build up a cash buffer (if necessary) either locally or within pools, to manage the impact of appeals.

TP7 Q3: Do you agree that transitional relief should be taken outside the main business rates retention scheme?
TP7 Q4: Do you agree with the Government's proposal for a system of transitional adjustments?

- Transitional relief arises due to changes in rental values at revaluation. If the Government adjusts to neutralise the impact of rental values on retained income then it makes sense to also adjust for transitional relief. However, stripping out transitional relief from the retention system adds an additional layer of complexity to the system which would not have been necessary if a cash based system was permitted to operate and local authorities were able to benefit from rental growth.

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

- London Councils does not agree that the deficit on transitional adjustments should be charged to the levy pot. This puts additional strain on the levy pot (and therefore safety net funding) and levy paying authorities.
- This is particularly pertinent as many levy paying authorities (who will in effect be funding the deficit on a nationally defined transitional relief scheme) will be highly geared urban authorities who are unable to benefit from rental growth in their areas.

Technical Paper 8 Questions

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?

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?

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?

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

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?

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?

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?

- London Councils has no further comments on questions 1-7 – please refer to our answer to question 9 in the main consultation paper.

London Councils
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