Item 3

Cabinet

14 February 2019

Business Rates Retention Reform and A Review of Local Authorities' Relative Needs & Resources – Responding to the Government's Consultation

Recommendations

That Cabinet:

1) Comments on the proposed principles that should underpin the Council's response to the consultation papers, as outlined in Section 2, and approve their use in drafting the County Council's response to the Government's consultation papers.

2) Agrees the County Council's approach on the formal response to the consultation papers attached at **Appendix A** and **Appendix B**, as explained in Section 3.2.

3) Authorises the Assistant Director – Finance & ICT in consultation with the Joint Managing Director (Resources) to make any final amendments needed to the response, in line with agreed principles, before it is submitted to reflect any late information.

4) Authorises the Assistant Director – Finance & ICT in consultation with the Joint Managing Director (Resources) to use a similar approach for any future consultations on the Fair Funding Review and Business Rates Retention reform.

1. Background

Fair Funding Review

1.1. On 13 December 2018, alongside the Provisional Local Government Finance Settlement the Ministry for Housing, Communities and Local Government published the next stage consultation in the Fair Funding Review (FFR). The

FFR aims to determine and introduce a new funding mechanism, including how to treat resources and any transitional arrangements, in time for the 2020-21 Local Government Finance Settlement (i.e. in 12 months' time). This will coincide with implementation of 75% Business Rates Retention, a business rate baseline reset and the 2019 Spending Review.

1.2. The earlier consultation in December 2017 concentrated on establishing cost drivers and principles for a new formula whereas this new consultation is concerned a little more about the methodology and construction of the new allocation formulae.

1.3. The consultation proposes to introduce a population-driven foundation formula to determine allocations for a number of service areas but there will also be several service-specific formulae. There are also a number of areas included in the document where the MHCLG are minded to not implement specific formulae – these include Home to School Transport, Concessionary Travel and Homelessness.

1.4. With regard to the relative resource adjustment the Government propose using a notional council tax figure but are asking for views on what level that should be as well as the treatment of tax base for resource adjustments.

1.5. There are no firm plans yet for the transitional arrangements but the MHCLG have said they would like arrangements to be time limited and affordable. They are considering options where transitional arrangements unwind at different speeds depending on local circumstances (income and pressure) or the "distance from target".

<u>Business Rates Reform</u>

1.6. Also on 13 December 2018, alongside the Provisional 2019-20 Local Government Finance Settlement, the Ministry of Housing, Communities and Local Government (MHCLG) published its Business Rates Retention (BRR) Reform consultation.

1.7. The consultation seeks views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system. The reform of the BRR system will sit alongside the work of the Fair Funding Review (FFR). Nevertheless, the consultation makes clear that MHCLG also believes that the BRR reforms stand on their own merit.

1.8. At present the planned BRR Reform timetable for 2019 and early 2020 is as follows:

- Winter 2019 – Regional events and sector engagement
- February 2019 – Consultation Deadline
- Spring 2019 – Analysis of Responses and continuation of work with the Sector.
- Summer/Autumn 2019 – Consultation on Implementation and Transition
- Winter/Spring 2020 – MHCLG to work with LAs in preparation for April 2020.

2. Principles For A New System

2.1. The range and complexity of the issues outlined in Section 1 means any response the County Council makes to the Fair Funding Review and Business Rates Reform consultation papers will often need to be extremely technical and detailed. It is therefore proposed that the set of core principles which were approved by the Portfolio Holder (Finance & Property) on 8 March 2018 continue to frame our response to any consultation paper regarding Fair Funding and Business Rates Retention. This will continue to ensure consistency over time and provide a basis against which to assess any options that may come forward for consideration.

2.2. Overall for the County Council it is proposed that we should respond to the consultation on the basis that the proposals in our response are in the best interest of Warwickshire County Council and our district/borough authorities.

2.3. Within this overarching principle there are a number of other more specific principles outlined below:

- Local authorities deliver a wide range of important services used by residents on a daily basis, and provide essential support for the most vulnerable people in our society. The local government funding system must therefore offer appropriate levels of stability and assurance to councils to support financial planning.

- Local authorities should have greater control over the money they raise and strong incentives to deliver services efficiently in a way that promotes local economic growth.

- Local Government is a democratic system and must ensure sufficient flexibility for local members to use funding in accordance with local priorities and in response to local demand.

- Funding allocations should reflect the relative ‘need to spend’ both currently and in the future. Past spending patterns cannot deliver this.

- Funding allocations should take into account the capacity of authorities to fund local services through local income but this factor should not be used in both the relative need and relative wealth elements of the formula as this results in double counting.

- The system should be more transparent whilst providing as much discretion as possible to local councils over the use of resources so as to empower the transformation of local services and ensure that councillors are accountable for deciding how funding is used locally.

- Distribution of resources should reflect ‘common sense’ understanding in the differences in need between authorities and should be as simple as is practicable. To support this the link between local circumstances and funding allocations will need to be more visible.

- The new funding formula should be based on the most up-to-date data that is available.

- The new funding formula should be an objective assessment that is not influenced by local decision making or ministerial discretion.

2.4. It is also proposed that the set of core principles which were approved by Cabinet on 8 September 2016 continue to frame our response to any future responses to consultations on the *technical* aspects of Business Rates reform as listed below:

<u>System Design</u>
The new system should:

- Be fair between types of authorities, geographical areas and over time and with other taxpayers
- Be transparent
- Ensure no detrimental effect between authorities/areas that have early/differential adoption and all other areas
- Be clear on how risk is shared and recognised in the system
- Provide an incentive to generate economic growth

- Include a mechanism for dealing with shocks to the system

Needs (Fair Funding)
The new needs and redistribution assessment should:

- Be transparent
- Be fair between types of authority, between tiers and between geographical areas
- Be sustainable and predictable between services and authorities over time
- Reflect actual and relative cost pressures and drivers on the demand for local authority services. (For the County Council this means a new assessment of need does not just replicate the historic patterns of underfunding that have led to the wide variation in council tax levels across the country).

Devolution of responsibilities
The responsibilities devolved to local government should:

- Build on the strengths of local government
- Support the drive for economic growth
- Support improved outcomes for service users and local people
- Consider the medium term financial impact on local government
- Ensure the cost of any new responsibilities are covered by the resources available

3. Responding to the Government's Consultation

3.1. The deadline for responding to the consultation paper is 21 February 2019. The normal approval process for responses to consultations is via portfolio holders. But, given the potential impact of these changes on the future financing of the County Council, it is felt Members more widely need to know what is happening.

3.2. Given the synergies and in order to ensure our response achieves maximum effect, our approach is to make a response which is consistent with the majority of other shire counties. At the time of publication information regarding the wider shire county response to the consultation questions has yet to be received. Once received we will be in a position to fully populate **Appendix A** and **Appendix B** ensuring alignment with the principles in Section 2 at all times. If this is available before the Cabinet meeting on 14

February the draft responses will be circulated to members. Otherwise the final response will be circulated to the Portfolio Holder and spokespeople for comment.

3.3. This report seeks agreement to the principles to be used as the basis of the council's response and recommends the approach explained in Section 3.2 for preparing answers to the questions outlined in **Appendix A** and **Appendix B** as the response to the consultation.

4. Background Papers

4.1. None

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The following Elected Members have been consulted on this report prior to its publication: Cllr Butlin, Cllr Boad, Cllr Birdi, Cllr O'Rourke, Cllr Timms,

Appendix A

Fair Funding Review Consultation Response

Question 1): Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?

We are very supportive of the use of a foundation formula for universal services where the population is the primary cost driver. The decision to include a “traversal” measure in the Area Cost Adjustment is also a welcome development – representing the additional costs of providing services in both significantly urban and significantly rural settings. However, we would like to add that the additional costs are not always just about journey times but can also be incurred when determining service delivery locations to ensure that residents can easily access services.

Regarding the specific formulae; we are supportive of individual needs formulae where services are more targeted, as opposed to universal, or where population is not a key cost driver – such as highways and capital. However, we disagree with the proposal to distribute Public Health Grant via a specific formula. We feel that public health is a universal service, rather than one so closely targeted as social care and hence should be distributed via the foundation formula.

However, we are concerned that, just 10 months away from the planned implementation of the Fair Funding Review, we still have so little information to inform our response to this consultation. In Children’s Social Care, we only have only very vague information about the development of the formula. Together with Adults Social Care, these two areas make up the majority of our budgets and pressures – the ministry needs to ensure that there is adequate information and time in order to respond to the proposals.

The Ministry has shared details of the preferred option for the revised Adult Social Care formula which has allowed us to offer a more considered response. We are pleased to see a shift away from using expenditure-based regressions as we believe that it perpetuates a situation where deprivation measures attract an unfair share of the funding.

However, whilst we support the revision of the out-dated ASC RNF we hold reservations about the accuracy of some of the base assumptions underlying this work. Namely; the assumption that current utilisation is a good proxy for need. We feel this is unlikely to be true. There are numerous examples and independent reports of unmet need within the current system and past funding decisions are certain to impact in the situation where a service is as under such severe demand pressures as Adult Social Care.

Ordinarily property ownership would be a proxy for wealth/income but we are concerned that in the case of social care that it may lead to incentives not to offer care packages in clients’ homes – in direct opposition to government policy.

For example, a formula which includes a measure of home-ownership could be distorted by the extent to which intensive community care is available in a given area. If it is not on offer, then in-effect a high-needs client is forced to opt for residential care, potentially resulting in an empty home that is then sold to pay for care costs. This would reduce costs for the local authority (as they become a self-funder), but the formula would reward the authority through lower rates of home-ownership.

However, if the intensive care package were available then the client can remain in their home, the value of which is excluded from their financial assessments. The result for the local authority is higher net costs but no change to assessed need as the number of home-owners remains unchanged.

We would also wish to seek assurances that deprivation/low income measures will not continue to be weighted unfairly with the continued use of a low-income adjustment in addition to the need formula, which does already capture the means test eligibility. Providing a "double count" on deprivation/low income measures concerns us that the distribution resulting from the new formula will not be significantly different to the one it replaces.

That being said, we remain committed to continuing to support the work of the fair funding review and look forward to further discussions. However, we would like to add that the distribution needs to be seen in conjunction with the quantum. Introducing a new funding regime at a time when funding is reducing is also likely to be challenging without further funds being made available for transition.

Question 2): What are your views on the best approach to a Fire and Rescue Services funding formula and why?

The consultation paper identified Fire & Rescue as an area that warrants a specific formula and we are supportive of that.

We are supportive of further investigation into multi-level modelling but recognise that with the current time constraints that may be unrealistic.

We do not support expenditure-based regression, especially not one based on just 45 data points. Aside from the issue of robustness, there is simply insufficient information presented in the consultation paper to make an informed decision on the methodology used in reaching this simplified formula. We are concerned that the sector is being asked to potentially support a formula that has not been rigorously reviewed.

Question 3): What are your views on the best approach to Home to School Transport and Concessionary Travel?

We welcome the Government's proposal to fund concessionary fares through the foundation formula – which recognises that access to transport should be a universal service. The current funding for concessionary fares is heavily slanted towards bus-boarding data and hence favours urban areas where transport networks tend to be more complex. There are some shire areas which have been forced to cut all, or at least large parts of, subsidised bus routes through lack of affordability. Allocating this funding on a per-head basis will level the playing field.

Whilst Home to School Transport is a "universal service" the eligibility criteria make it such that it becomes a greater issue in rural areas. The Ministry's consultation paper confirms that there will be a measure of rurality in the new Area Cost Adjustment and we welcome this – we look forward to working with the department to determine weightings which adequately reflect the demand for services, such as Home to School Transport, in rural areas.

Therefore, whilst we do feel that home to school transport is a service that is less likely to follow a per head distribution we accept that the aim of the fair funding review is to implement a simpler funding formula. If additional rural costs are adequately reflected in the foundation formula or Area Cost Adjustment then we are content that the services remain in the foundation formula.

Question 4): What are your views on the proposed approach to the Area Cost Adjustment?

We support the proposed approach to the Area Cost Adjustment, specifically the extension of the adjustment to recognise the down-time associated with longer journeys, in both urban and rural areas, and the different service delivery models that are required to service widely dispersed communities. The additional costs associated with very rural locations is not simply and solely associated with journey times but also incurred when determining service delivery locations to ensure that residents can easily access services.

Again, we would hope to see some more detail forthcoming on the construction of the Area Cost Adjustment and the proposed weightings applied to each element as that will be crucial to its success in addressing these issues. For example, it would not be acceptable for the funding directed through the Area Cost Adjustment being less than that currently being received in rural areas through the current rural services delivery grant.

Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?

We support the continued recognition of statutory council tax discounts and exemptions in the tax base calculations, this recognises that local authorities have no control over these discounts.

We also support some recognition of the pressures as a result of the Council Tax Support scheme. Whilst funding was originally transferred with the responsibility, this has now been eroded within RSG. It may be unrealistic, at this time, to expect further grant funding to be forthcoming. However, these pressures could be recognised within the tax base adjustments. We suggest that an adjustment using a notional council tax figure and the number of elderly people will reflect the statutory element of council tax support.

Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?

Yes, an assumption-based approach is something that we would support. As outlined in the consultation paper, our preference would be for Government to assume that each local authority makes the full discount available for empty homes and second homes and that there is no empty homes premium. This would allow authorities who use those discretionary tools to benefit from them. In many cases, these authorities have used these discounts and premiums to manage the local housing economy rather than as additional income. Once the government assumes a certain level of discount/premium then the scheme no longer feels truly discretionary.

Question 7): Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?

As mentioned above, we support the reflection of the number of pensioners eligible for council tax support as this element is statutory.

The schemes that local authorities implement for working age people is discretionary and whilst we recognise the pressure on the scheme the setting of an assumed level of support by Government will effectively remove that discretionary power. For this reason, we do not consider this an appropriate adjustment to make.

Question 8): Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?

We are supportive of the use of a notional council tax level in any resources adjustment. Currently, band D precepts are widely spread with some residents of Inner London benefiting from the lowest bills in the country. We are keen to see local authorities getting the most out of the funding available. Allowing the situation where certain regions are able to set such low council tax is both unfair and represents an untapped resource. Independent analysis estimates that if inner London boroughs increased their band D bills to closer to the national average then there would be over £400m additional funding in the system for local services.

We feel strongly that the notional figure must be close to the national average precept to ensure local services can be adequately resourced without some tax payers getting a better deal than others.

Government has not been clear on the future policy for the ASC precept however, given the ring-fenced nature of the income, we do not feel it should be subject to a resource adjustment.

Question 9): What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?

We support the use of a consistent collection rate as it doesn’t reward poor collection rates by assuming it continues in that manner.

Authorities should be encouraged to collect a standard amount, for which 100% many be unrealistic, but any reasons why some authorities see such low collection rates should be examined. This work may support the determination of where the “standard rate” should fall, given that this figure is calculated after benefits and discounts have been applied.

Question 10): Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?

Clearly, a notional council tax figure will need to be split between the tiers of local government. Our initial thought is that it should have some basis in the tier split between bills in areas of the country where these services are billed separately. However, these areas are all likely to be of a certain type (shires) and this may not be representative of those areas where services are delivered by a single tier. Using actual council tax splits in each area would appear to be adding a spurious level of complexity to a system we are hoping to simplify.

We forward to furthering discussion with the Ministry once more opinions on tier splits have been gathered from the sector.

Similarly, as our response to question 8 highlights, we do not support the ASC levy being included when calculating the tier split.

Question 11): Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?

We are supportive of a move to set the resource amount over the period between resets. It incentivises local authorities to grow their tax bases by allowing them to keep the proceeds of growth.

The OBR use tax base forecasts from the Ministry; meaning that there is no independent measure. In addition, using assumptions about underlying growth usually disadvantages some areas and, for the rest of authorities, makes minimal difference.

Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?
Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?

We support the arguments against using income from sales, fees and charges in the resource adjustment. They are often volatile and counting this income could be perceived as penalising enterprise.

However, parking income is different. In some areas the parking surplus is huge and can be used to invest locally and be a tool to reduce council tax or improve services to such a level that the service becomes an outlier in terms of quality. In cases where parking income is significant it is as a result of traffic control measures rather than any enterprising behaviour by the councils involved.

In most areas parking income is likely to be relatively small and potentially volatile. However, where the income becomes so significant that it is a viable income stream on its own it should be taken into account. We request that the Ministry considers introducing a threshold, possibly relating to budget, current income from precept or spending power, over which income from parking is taken in to account in the calculation of resources.

Clearly this will need further discussion, specifically in dealing with the tier of local government collecting the income. However, an example could be; if an authority's parking income is more than x% of its income from council tax/budget requirement for the 3 years preceding a reset then it should be included in the resource calculation.

Question 14): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?

The principles outlined in the consultation document, namely transparency, stability, time-limited and flexible are broadly supported.

We consider that a successful transition to new allocations should be as soon as possible for those who are to see increases in funding but that those seeing reductions should be protected by a smooth and predictable shift to new allocations. There are not sufficient resources in the current system for other areas of local government to be funding this transition, so funding must be made available centrally to ensure a successful transition to a fair funding distribution.

We are supportive of the methodology being employed in the fair funding review because we think it will result in a fairer system where counties' funding is placed on a fairer footing alongside the other areas of local government. There has been much said over the past year about the fragility of many authorities' financial position and we would not want to see further authorities at risk of collapse as a result of the fair funding review. Pressures on the local services delivered have, arguably, never been greater and many counties are fearful of further funding reductions.

Question 15): Do you have views on how the baseline should be constructed for the purposes of transition?

We agree with the proposals outlined in the consultation paper that it must be the funding available in 2019-20. However, "all funding" needs to be properly defined.

The baseline must reflect a like-for-like comparison between years. So, if the FFR is to encompass the Settlement Funding Assessment, rural services delivery grant and public health grant then these must be included in the baseline. We understand that the future of New Homes Bonus will be consulted on later in 2019 and if that grant does not continue post-2020 then it should not feature in the baseline but be dealt with separately.

Most local authorities will also have benefited from retained business rates and the part of this income that is subject to redistribution at a reset should also be included in the baseline calculations.

Question 16): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

The fundamental principle underpinning the use of allocation formulae is to ensure equal opportunity of access to services for equal need. The conventional way to interpret this principle is that each council should have sufficient net funding so that they can provide an equivalent level of service to all people in their local population who need them.

Funding one area more generously than other areas will ultimately create unfairness. That inequality might be manifest through a "postcode lottery" of service provision, wildly varying fees for comparable services and large variation in council tax.

Counties have a larger elderly population than the rest of the country as well as being home to many other vulnerable groups and service users. An unfair funding system will affect them all.

Appendix B

<u>Business Rates Retention Reform Consultation Responses</u>

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?
Question 2: Please comment on why you think a partial/ phased reset is more desirable.
Question 3: What is the optimal time period for your preferred reset type?

WCC believes that phased resets seem preferable due to the lack of 'cliff-edges' – LAs shouldn't have to delay plans for growth to receive the greatest retained rates reward. Rather, growth achieved should be rewarded similarly regardless of when it occurs.

Regarding the length of time of resets, it is generally assumed that this would be set at or around five years. We think that this is about right however we would like to highlight the fact that longer time periods do not *necessarily* mean larger growth incentives for all LAs (as safety net LAs would lose all incentive whilst large declines were 'on stream').

Question 4: Do you have any comment on the proposed approach to the safety net?

The consultation states that the Government *"believes that funding more of the safety net through a top-slice is fairer because the cost will be shared by all authorities – effectively a form of collective mutual insurance for all local authorities – and not just those who have achieved growth".* However, this fails to consider the fact that, some authorities are more likely to use the safety net.

Unless gearing disparities are dealt with (as they should be), we cannot and will not support a top-slice to fund the safety net. As highlighted later in the consultation document *"no county [has been] in receipt of a safety net payment and… districts [experience] a high level of growth retention".* Should gearing disparities continue, it cannot be fair to expect low geared LAs to pay for a safety net that they are so extraordinarily unlikely to use.

WCC supports the idea of funding the safety net in a manner "akin to mutual insurance" however as is the case with insurance, the likelihood of an LA requiring the safety net must be understood. We would only support a simple top-slice to fund the safety if gearing was equal for all LAs.

To fund the safety net fairly, we propose using either the levy, in a similar manner to the current system, a top-slice weighted according to LAs' gearing (i.e. their likelihood to use the safety net due to the design of the BRR system) or the Central List.

Question 5: Do you agree with this approach to the reform of the levy?
Question 6: If so, what do you consider to be an appropriate level at which to classify growth as 'extraordinary'?

We think that reforms to the levy such that all extraordinary growth is levied is a reasonable one. However, we completely disagree with the proposed levels being set.

Ultimately, unless gearing disparities are dealt with and the system is made fairer, we struggle to see another way of funding the safety net than through the levy. We think that the 'growth part' of retained rates should be used to support the safety net rather than the 'need part' (as the 'need part' is used to fund statutory services).

Given that the levy rate could be doubled from its 50% rate to a 100% cap, a threshold of 110% could take in similar total levy payments to those at present. However, the proposed options in the consultation of 150%, 200% and 250% of Baseline Funding Level far exceed this. We struggle to see how such a large level of growth would incentivise LAs sufficiently more than a lower cap.

Should a more suitable means of funding the safety net be available than that proposed in the consultation then we would be willing to revisit this issue. Until then, we cannot support any of the options given in the consultation.

Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

We agree that a default position is required. Regarding the terminology 'default' is preferred to 'fall-back' it doesn't imply preference to LAs which agree a split locally over those which (for whatever reason) do not. It would be wholly unacceptable to not have a default tier split as a lack of agreement would have no means of resolution nor distribution mechanism – a situation which would completely undermine the Government's two-fold ambition for BRR.

We believe that it is too soon to determine precisely what the default tier splits should be and that it will be necessary to revisit this as two-tier areas once other decisions have been made – such as the funding quantum, the transferring responsibilities and the administration of the system. Tier splits should only be confirmed when the framework of the reformed system is known and should be one of the final decisions to be 'locked-in'.

With this said *it is vitally important that the current 80:20 split is* ***not*** *used as a baseline in establishing the new default tier split*. We feel that this has not worked and that a bigger share needs to go to upper tier LAs reflecting the need to invest in transport/highways and schools due to business (and housing) growth. No matter how the default position is determined, it will be vital to begin from a blank slate, understanding that due to system design reforms and past gearing issues, past tier splits are not a useful baseline in determining future tier splits.

It is our view that a better starting point for determining the future default tier split is Total Service Expenditure.

If gearing were to shift so that upper tier authorities took more growth but equally took more risk, we would encourage the government to carefully consider how appeals provisions are determined and set as, in the current system, upper tier authorities currently have no oversight of appeals provision calculations (which are determined entirely by lower tier authorities in two tier areas) which could become problematic if these figures were to begin to significantly affect upper tier general funds.

Question 8: Should a two-tier area be able to set their tier splits locally?

Yes, subject to a default position. We would also like to stress that using the default tier split should not be viewed as a failure to agree a local tier split. The decision on whether to *attempt* to agree to a local tier split should also be a local decision.

We wish to highlight that this should be subject to fiscal neutrality. Although the alternative could lead to increased retained rates for county councils, we recognise that this wouldn't be fair to all LAs. Put simply, a change in tier split determined locally shouldn't adversely affect an outside LA.

Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

We agree that measures used to incentivise pooling should be fiscally neutral. That said, we question whether pooling should be *incentivised* at all, rather than pools being established on merit.

We would also like to point out that any measures must be available to all LAs on an equal basis. Any opportunities for devolution of responsibilities should be made be available to counties in the same manner as they are made available to cities (including London).

Question 10: On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.
Question 11: On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

Billing authorities are best placed to identify these hereditaments.

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

Though far from perfect, we cannot see a better way to calculate compensation due to LAs for losses resulting from valuation change in the context of alternative administration proposals below.

Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?
Question 14: What are your views on the approach to resetting Business Rates Baselines?

In *principle* (subject to some reservations), we support the proposals. The consultation sets out the proposed methodology well, though any further explanations will help alleviate concerns. Overall, we support the proposals as they represent the best way to deal with appeals and do indeed simplify the administration of the system (though said simplification is most definitely relative).

We are disappointed to see that behavioural factors aren't under greater consideration and would like to see growth driven by LAs rewarded better than incidental growth.

We wish to highlight that a lot of work must be done to proof check that the proposed reforms work; and reserves the right to recall its support for the proposals at any time. Although we support the administration reform proposals in principle, it has a few points which will require understanding before it can fully support implementation. These include:

- For the system to be transparent it will be vitally important that top-ups and tariffs are paid as one (for ease of administration) but are presented split into their three constituent parts (Year X Need, Year X-1 Reconciliation and Year X-2 Growth).

  The effects of any changes due to Government policy (which would be met through section 31 grants at present) would need to be clearly set out in following year. LAs must be able to trace through and understand how their top-up allocation has been determined each year – this will also allow new colleagues to not have to refer back to this reform to understand their top-up/tariff payment and will generally increase the transparency of the system.

- Regarding transition, it will be vitally important not to double-count growth in 2018-19 and 2019-20, whilst trying to implement the system in full as soon as is possible. Further clarity would be welcome regarding how best to transition between systems (including how a phased reset should work during transition).

- Further work must be done to understand any gaming opportunities regarding estimating growth in NNDR1s to be reconciled the year after. Though cash-flow gaming opportunities are deemed relatively unobjectionable, how this interacts with the levy and safety net needs to be fully understood before implementation. Any opportunities for gaming additional retained rates income must be completely negated.

- Understanding the cash-flow effects on LAs with low reserves is also required, particularly lower-tier authorities. Some LAs are outright opposed to the proposals due to the two-year lag of growth payments.

Question 15: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments

We would expect an equality impact assessment to be completed as part of these reforms.