

**Report of Director of Resources**

**Report to Executive Board**

**Date: 17<sup>th</sup> October 2012**

**Subject: Financial Strategy 2013 to 2017**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. The purpose of this report is to update Members on the development of the Council's financial strategy. Work is on-going to develop a medium term financial plan covering the next four financial years from 2013/14 to 2016/17.
2. At present national spending totals are available covering the next two financial years only, however many commentators now expect that the period of economic austerity will continue for at least four more years and therefore a financial plan covering this period is being developed.
3. 2013/14 sees the introduction of significant changes to the way in which Government provide funding for local government through the introduction of the Business Rates Retention Scheme. A Technical Consultation on the scheme was published on the 17th July 2012 which provides further information on the scheme, and also raises a number of significant issues which may impact upon the Council's future funding. There are also concerns as to how the changes will impact upon the future distribution of grant funding in that the system is largely driven by the ability to generate additional growth in business rates, rather than an assessment, however imperfect, of need.
4. It is clear that the Council will need to deliver significant savings over the next four years and it is critical that it continues to ensure that the shape of the budget in four years time is determined by a clear focus on outcomes to deliver our ambitions and by the Council and its partners working together.

**Recommendations**

5. Members are asked to note the contents of this report and the response to the technical consultation, and note that a further report on the development of the Council's financial strategy will be submitted to the December 2012 meeting of the Board as part of the Council's Initial Budget proposals for 2013/14.

## **1 Purpose of this report**

- 1.1 The purpose of this report is to update Members on the development of the Council's financial strategy. It is clear that the public sector will continue to face a significant financial challenge for a number of years coming. Work is on-going to develop our approach to medium term financial planning which takes account of anticipated funding levels and the Council's ambitions for the city. A key dependency to this work is to understand our funding envelope going forward.
- 1.2 2013/14 as well as being the 3<sup>rd</sup> year of the Government's 4 year deficit reduction plan as set out in its 2010 Spending Review, also sees the introduction of significant changes to the way in which funding is provided for local government, through the Business Rates Retention Scheme. DCLG published a Technical Consultation on the scheme on 17<sup>th</sup> July 2012 which raises a number of significant issues.
- 1.3 Based upon the information provided through the consultation, together with analysis undertaken by the Local Government Association, we have been able to update our forecast of what our funding envelope may look like for the next four years. It should be noted however that there remains a significant degree of uncertainty as to this forecast which will be dependent on future government spending decisions.

## **2 Background information**

- 2.1 To date the Council has been able to respond successfully to the present financial environment, achieving savings of more than £90m in 2011/12 and setting a budget to bridge a funding gap of £55m for 2012/13. In 2010 it was forecast that a reduction in staffing numbers of 2,500 – 3,000 over the next four years would be required, and as at the end of March 2012, around 1,800 ftes had left the Council, which excluding school based staff represents a 12.5% reduction in the Council's workforce.
- 2.2 The scale of the challenge that the Council has faced in 2011/12 and 2012/13 has required the Council to respond quickly and has limited our ability to take a more strategic approach to the prioritisation of resources. Whilst a pragmatic approach has to date delivered a robust budget, it has previously been accepted that going forward if we are to deliver the required reductions, and at the same time deliver the Council's contribution to the Best City outcomes, there is a need to develop and refine a more strategic and longer term approach to the Council's financial strategy, which will in turn inform the annual budget setting process.
- 2.3 Recognising the above, we are developing a 'Budget Plus' approach for our financial planning, taking a strong focus on our ambitions, and using an internal service challenge process to help generate ideas and change. It is also important in considering our plans to take account of our relationship with different partners across the city and the contribution they make towards the achievement of the city's ambitions. We have adopted a four year timescale in order to provide a more appropriate timeframe for change.
- 2.4 A key dependency to this work is to understand our funding envelope going forward. This is especially complex as 2013/14 sees the introduction of the Business Rates Retention Scheme. The Business Rates Retention scheme is a complex funding mechanism under which local authorities will be able to retain some of the benefit of growth in local business rates. It has also been designed in the context of the Government's deficit reduction plans. DCLG published a detailed Technical Consultation on the Business Rates Retention Scheme on 17<sup>th</sup> July 2012. As part of this consultation new local government

spending control totals have been published for 2013/14 and 2014/15, which raise a number of issues, outlined below, and have a significant bearing on our understanding of the available funding envelope going forward.

2.5 Appendix 1 provides a detailed overview of the consultation paper, but the key points are as follows:-

- (a) Local government spending totals for 2013/14 and 2014/15 have been amended for
  - a number of specific grants transferring into formula grant
  - funding for central education functions transferring out of formula grant into a new specific grant.
- (b) the local government spending totals for 2013/14 and 2014/15 have been reduced for a number of reasons including an assumed 1% cap on pay awards and annual amounts top sliced in respect of New Homes Bonus.
- (c) There are a number of proposed changes to the formula grant process.
- (d) The data used in the calculation of formula grant is to be updated to include the 2011 Census data.

### 3 Main issues

3.1 Whilst many aspects of the consultation paper are by their nature technical, it does raise a number of issues which will have an impact upon the Council's future grant funding, and these have been reflected in our response to the consultation which is attached at Appendix 2. The main issues include:

3.1.1 **Local Government Spending totals for 2013/14 and 2014/15** – there is clearly a general concern about the further reductions in funding implicit in these figures. The Comprehensive Spending Review set out reductions of 0.8% in 2013/14 and 5.8% in 2014/15 compared to the 2012/13 settlement. These reductions have now been revised to 5.8% in 2013/14 and 8.6% in 2014/15. The table below sets out the explanations for these changes.

	2012/13 £m	2013/14 £m		2014/15 £m	
CSR	23,385	23,196	-0.8%	21,856	-5.8%
1% Pay Award Cap		-240		-497	
New Development Deals		-20		-20	
Fire Grants		-49		-50	
Neighbourhood Planning		-15		-20	
Capitalisation (accounting)		-100		-100	
Safety Net		-245		-245	
New Homes Bonus		-500		-800	
	23,385	22,027	-5.8%	20,124	-8.6%

3.1.2 **Pay Awards** – The Government announced in the Autumn Statement in 2011 that there should be a 1% cap on public sector pay awards. They further stated that as the local government settlement had been built up assuming a 2% pay award, a further reduction in funding would be implemented to take account of this cap.

- 3.1.3 **Capitalisation** – Each year the Government have given approval to requests from individual local authorities to capitalise expenditure which would normally be treated as revenue. This approval does not involve the transfer of any funding to local authorities, but is simply giving approval to additional borrowing. However despite this fact, the settlement figures for 2013/14 and 2014/15 have been adjusted downwards to reflect these approvals.
- 3.1.4 **New Homes Bonus** – The New Homes Bonus (NHB) was introduced by the Government in 2010/11 as “a powerful, simple and transparent incentive which meant that those local authorities which promote and welcome growth can share in the economic benefits, and build the communities in which people want to live and work”. The Government provides additional funding or a 'bonus' for new homes by match funding the additional council tax raised for new homes and empty properties brought back into use, with an additional amount for affordable homes, for the following six years.

In the 2010 Spending Review the Government committed £950m to NHB (£200m in 2011/12 and £250m a year for the following three years) with the balance to come from top-slicing formula grant. For 2012/13, NHB allocations totalling £431m were made, of which £176m was top-sliced from 2012/13 formula grant to help pay for it.

The Technical Consultation states that the Government’s estimate of the amount required to fund the cost of the NHB at its maximum is £2bn. The latest proposal is that in the early years of the scheme, rather than removing the full £2bn, only sufficient money would be removed to fund the cost of NHB in that year. The amount to be held back is estimated at £500m in 2013/14 and £800m in 2014/15, with any surpluses to be returned to local authorities.

This adjustment could have a significant distributional impact as the funding will now be distributed throughout the country on the basis of housing growth rather than the needs based Local Government funding formula.

The Government’s £2bn projection equates to 1.4m properties based on the national average for a Band D property. In order to recover the Council’s share of the £2bn withheld, which is estimated at £30.6m, the Council would have to bring nearly 21,000 properties back into use over the 6 year period, which is equivalent to 3,500 properties per annum.

- 3.1.5 **The LACSEG transfer** – at £1.218bn, we consider that the scale of this transfer is too high. Reductions to Formula Grant for academies have been challenged in 2011/12 and 2012/13 and the transfer has been subject to a rebate and review. This latest calculation is based upon budgeted expenditure for 2011/12 but fails to take adequate account of subsequent reductions in expenditure by local authorities which have been greater than those assumed by the Government.
- 3.1.6 **Formula Grant Methodology Changes** – there are a number of methodology changes which will impact upon the distribution of Formula Grant. These relate to both the Relative Needs and Relative Resources components that make up the national totals and also the formulas used to distribute them between authorities. Within the national spending totals the Relative Needs Formula (RNF) has been reduced in respect of Children’s Services and Concessionary fares and we anticipate that both these changes will be detrimental to the Leeds position, although adjustments to the Relative Resources and Central Allocation blocks will offset this. Many of the formula grant methodology changes including those to

concessionary travel and rural services will shift resources from metropolitan to shire areas, but the change to the size of relative resource block and the central allocation will largely compensate for this. In addition, the new arrangements will fix the needs element at 2012/13 levels and will not take account of any changes in need due to deprivation, ageing populations, more school pupils and any other demographic factors until the first reset in 2020.

- 3.1.7 **Scaling of RSG** – there is a concern that RSG for 2014/15 is to be calculated by using the assumed business rate aggregate for that year. In setting the aggregate the Government will take into account both inflation **and** their estimate of growth in rateable values arising from new properties, etc. This means that the amount of RSG will be scaled back not just by inflation but also by the amount assumed for “real” growth in rateable values. It follows that only local authorities that are able to grow their business rates by more than the Government’s assumptions will see any benefit in 2014/15. Authorities that achieve growth in-line with, or below, inflation will see their funding reduce further. This will penalise all but the highest-achieving local authorities and seems contrary to the principles of the new funding regime.
- 3.1.8 **Population Data** – Population figures indicators will feed into the calculation of start-up funding levels, but the most important factor is how populations have changed compared to other similar authorities. Although the population of Leeds has increased since the 2001 census, the 2011 census does show a significant reduction in comparison to previous estimates, whereas the populations of other similar authorities have gone up or only suffered a marginal decline relative to previous estimates. These changes in population will almost certainly have a negative impact upon Leeds’ start-up funding and further work is needed to try to establish how big the effect will be.
- 3.1.9 **Council Tax Support Grant** – The Government’s assumptions are that claimant numbers will fall, whilst all the evidence is that numbers continue to rise in Leeds. The effect of this is that the Council will either need to reduce discounts to claimants where they can, or identify further funding from mainstream budgets.
- 3.1.10 **Business rates baseline** – The Government propose that there should be a total reset of the system every 7 years, however there is a concern that this is too short a period and would not allow authorities to make long term investment decisions based on business growth. This could also create perverse incentives in respect to any development occurring in the period approaching the reset, as any benefit may potentially be lost. Authorities will only benefit should growth exceed Government expectations. The use of these stretched targets does increase the transfer of risks to local authorities, and it is important for Government to appreciate that managing this risk may mean individual authorities increasing their level of reserves.

## 3.2 The Council’s Funding Position

- 3.2.1 In the 2012/13 budget report to Council in February we forecast that our resource envelope would reduce as follows:

	£m
2013/14	25.0
2014/15	17.8

- 3.2.2 At this moment in time we do not know our grant settlement for any years beyond the current year, and the Government have informed authorities that the provisional grant

settlement will not be announced until late November/early December 2012, and it is not clear at this stage whether it will cover both years, i.e. 2013/14 and 2014/15 of the current Spending Review period or whether it will be confined to just one year. Most commentators are now of the view that there will be further real term reductions in public sector spending for both 2015/16 and 2016/17, and this was confirmed by reductions for these years published as part of the Government's 2011 Autumn Statement. These indicative spending totals would normally be translated down to departmental totals through a Spending Review which should take place during 2013. However, the recent speculation is that it may either be delayed or may not cover a full four year period.

3.2.3 Whilst there may be significant uncertainty as to what our future Government grant settlement might be, it is however important that we inform our budget preparations by forecasting the scale of resource reduction that we will face over the next four years. In undertaking this exercise a number of assumptions have been made:

- a) National totals for local government for 2013/14 and 2014/15 as reflected in the consultation paper.
- b) Indicative public spending totals for 2015/16 and 2016/17 as announced in the 2011 Autumn Statement, consistent with LGA forecasts, and with the assumption that they are proportionately translated down to local government.
- c) That the working of the new funding regime and split between RSG and business rates reflects our understanding as outlined in Appendix 1.
- d) That the transfer in and out of specific grants is cost neutral, or that any reductions are reflected in reduced spending.
- e) Council Tax freeze grant awarded in 2012/13 is withdrawn

3.2.4 Further assumptions have been made in respect of realistic growth in business rates and the Council Tax base and around the Council maintaining an adequate level of reserves. The table below provides an assessment of the reduction in resources available over the next 4 years. It should be noted that this takes no account of inflationary and service cost pressures.

	Variation to Base				Cumulative to 2016/17 £m
	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	
Total Reduction in Resources	-14.8	-16.3	-25.8	-6.1	-63.0
Percentage Reduction	-1.9%	-2.1%	-3.4%	-0.8%	-7.9%

## 4 Corporate Considerations

### 4.1 Consultation and Engagement

4.1.1 This is a factual report and is not subject to public consultation, but it should be noted that the Council's budget proposals will be subject as usual to public consultation.

### 4.2 Equality and Diversity / Cohesion and Integration

4.2.1 This report does not have any specific implications for equality, and diversity nor for cohesion and integration, but it should be noted that the Council's budget process is subject to equality impact assessment as appropriate.

### **4.3 Council policies and City Priorities**

4.3.1 This report in itself does not have direct implications for Council policies and City Priorities, but is recognised that ensuring that the Council's spending is in line with these policies and priorities continues to be crucial.

### **4.4 Resources and value for money**

4.4.1 This is a financial report and as such all financial implications are detailed in the main body of the report.

### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 There are no legal implications arising from this report.

### **4.6 Risk Management**

4.6.1 The Council's current and future financial position is subject to a number of risk management processes. Failure to address medium-term financial pressures in a sustainable way is identified as one of the Council's corporate risks, as is the Council's financial position going into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the Council's risk-based reserves policy. Both these risks are subject to regular review. In addition a financial risk register is maintained that details the risk and consequences, existing controls to mitigate against the risk, the value in monetary terms of the risk, review dates and progress towards managing the risk within existing resources. The register is prepared before the start of each financial year and is monitored on a regular basis.

## **5 Recommendations**

5.1 Members are asked to note the contents of this report and the response to the Technical Consultation attached at Appendix 2.

5.2 Members are also requested to note that a further report on the development of the Council's financial strategy will be submitted to the December 2012 meeting of the Board as part of the Council's Initial Budget proposals for 2013/14.

## **6 Background documents<sup>1</sup>**

6.1 There are no background documents relating to this report.

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

## Business Rates Retention

### 1 Introduction

1.1 DCLG published a Technical Consultation on the Business Rates Retention Scheme on 17<sup>th</sup> July 2012. The three principal parts of the consultation focus on:

- establishing the start-up funding allocations and baseline funding levels;
- setting up the scheme; and
- operating the scheme.

1.2 The consultation asks 83 separate questions, but many appear to be simply seeking assent to the methodologies proposed rather than genuinely seeking views on possible options. The closing date for responses is 24<sup>th</sup> September 2012.

### 2 Establishing the start up funding allocations and baseline funding levels.

2.1 The start-up funding allocations for each local authority will be arrived at by running the 2012/13 formula grant process (with certain amendments) against the 2013/14 local government spending control totals.

2.2 The control totals have been reduced since the 2010 Spending Review as follows:

	2012/13 £m	2013/14 £m		2014/15 £m	
CSR	23,385	23,196	-0.8%	21,856	-5.8%
1% Pay Award Cap		-240		-497	
New Development Deals		-20		-20	
Fire Grants		-49		-50	
Neighbourhood Planning		-15		-20	
Capitalisation (accounting)		-100		-100	
Safety Net		-245		-245	
New Homes Bonus		-500		-800	
	23,385	22,027	-5.8%	20,124	-8.6%

These reductions are in respect to:

- The 2011 Autumn Statement decision to enforce a 1% pay increase cap;
- New Development Deals (£20m per year for 6 years);
- Fire Grants for national resilience;
- Neighbourhood Planning grants (£15m to £20m, but under review);
- Support for capitalisation. Although the Government do not provide any grant to support capitalisation, they justify adjusting the control totals for capitalisation on the grounds that it *“scores as revenue expenditure in the national accounts and so impacts directly on the deficit reduction programme.”*<sup>2</sup>
- Extra funding for the safety net for authorities who suffer reductions in business rates beyond a set percentage;

<sup>2</sup> Business Rates Retention Technical Consultation, Chapter 3, paragraph 13 (page 20)



- The annual cost of the New Homes Bonus scheme (£500m, £800m, but after 2014/15 rising to £2 billion each year). In the early years any excess NHB is to be returned to local authorities as a specific grant pro-rata to their start-up funding.

2.3 There are a number of specific grants also transferring into the formula grant system. They include: -

- continued funding for the 2011/12 Council Tax freeze, (Leeds figure for 2012/13 £6.7m)
- Council Tax Support Grant, (Leeds figure for 2012/13 £47.5m)
- Early Intervention Grant (except for funds to provide free education to 2 year-olds), , (Leeds figure for 2012/13 £32.7m)
- Learning Disability & Health Reform Grant, (Leeds figure for 2012/13 £10.2m) and
- Homelessness Prevention Grant, (Leeds figure for 2012/13 £1m).

2.4 Transferring out of the formula grant system into a specific grant is £1.218bn in respect to funding for central education functions in LACSEG, responsibility for which is transferring to DfE (Leeds estimated spend in 2012/13 £16.5m). This will be used as the basis for reducing funding from Local Authorities in respect to academy transfers

2.5 Taking all these into account, the local government spending control totals are increasing from £23,196m to £24,759m for 2013-14 and from £21,856m to £23,046m for 2014-15. This does not imply that there will be any extra funding for local government, just that more funding streams are to be distributed through the Business Rates Retention scheme.

2.6 Several changes are proposed to the formula grant process, which will provide the starting point for the new system. They are:

- changes to the concessionary travel formula;
- a number of changes to sparsity adjustments to help rural areas;
- restoring the Relative Resource Amount to the same absolute level as in 2010/11 which means changing the percentage from -26.6% to -31.3%, with the Relative Needs Amount being held at 83.0%, and the Central Allocation being increased from 46.6% to 48.3% to compensate.

2.7 The consultation paper models the effects of these changes if they had been applied to the 2012/13 settlement. Some of the changes would move funding away from Leeds, but the adjustment to Relative Resources and the Central Allocation would more than compensate for that. The combined effect would be to increase our formula grant by £1.0m before damping, but after damping there would be a £0.4m reduction. The table below compares our position to that of the other Core Cities.

	2012/13 Settlement	Change before Floor Damping				Combined effect after Floor Damping
		Concess'ry Travel	Rural Services Adjustments	Changes to Relative Resources	Combined Effect of Methodology Changes *	
	£m	£m	£m	£m	£m	£m
Birmingham	646.5	-3.1	-8.6	9.6	0.2	-1.5
Bristol	175.8	-1.1	-4.2	3.8	-2.8	-1.3
<b>Leeds</b>	<b>294.8</b>	<b>-2.7</b>	<b>-5.2</b>	<b>7.3</b>	<b>1.0</b>	<b>-0.4</b>
Liverpool	317.8	-2.1	-4.1	3.6	-1.5	-1.0
Manchester	330.4	-3.7	-4.3	6.7	-0.2	-1.1
Newcastle	160.7	0.0	-2.5	3.2	1.6	-0.5
Nottingham	173.1	-0.1	-2.8	4.8	1.9	0.1
Sheffield	265.7	-0.5	-4.1	5.9	2.6	0.0

\* The combined effect does not equal the total of the individual changes because of the way elements of formula grant have been constrained during the calculation process

- 2.8 The data used in the calculation of formula grant is to be updated as far as possible. The most important are population data. DCLG proposes using figures derived from the 2011 Census. The Census figures for Leeds has a population of 751,500 in 320,600 households, compared to a population of 788,686 in the latest previous estimates the ONS provided. This is a drop of over 37,000 or 4.71%, when compared to the population estimate included in our current formula grant, and is likely to reduce the start-up funding for Leeds, but this will depend upon our changes relative to others, and also the mix of the population change.
- 2.9 For each authority the funding will be split between “a start-up local share” (another name for “baseline funding”) and RSG in the same ratio as the national totals. In 2014/15, when the spending control totals reduce again, RSG will simply be scaled back for each authority to reflect the reduction. The baseline funding will remain the same (up-rated by inflation).

### 3 Setting up the Scheme

- 3.1 DCLG will begin by estimating how much business rates will be collected nationally in 2013/14. They will use the rateable value as at 30<sup>th</sup> September 2012 as the starting point, and then adjust that figure to give a notional net yield for 2013/14.
- 3.2 This national ‘estimated business rates aggregate’ will be split between central and local government, as expected, 50:50. The ‘local share’ is then divided up between each billing authority using “proportionate shares” derived from the business rates collected in each area over the period 2007/08 to 2011/12.
- 3.3 In each area, the “proportionate share” will then be divided between the billing authority and the relevant major precepting authorities. A metropolitan authority like Leeds will receive 98% of the proportionate share which will be the “Business Rates Baseline” that it will compare to its Baseline Funding to determine whether it has to pay a tariff, or receive a top-up. The remaining 2% of the area’s share will go to the Fire & Rescue Authority.



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Our ref MSW/FinDev/Res  
Date 24<sup>th</sup> September 2012

Dear Mr Lock

### **Business Rates Retention: Technical Consultation Response**

Leeds City Council welcomes the opportunity to comment on the Technical Consultation and I enclose our response as a separate document in your preferred format.

The present consultation follows on from the more general consultation last autumn and, quite rightly, concentrates on the more technical aspects of the proposed scheme. However, in submitting our response, we feel that it is important that we restate some of our reservations about the scheme and that we point out some of the drawbacks that seem to be emerging as more details become known. These are set out briefly below:

**Spending Control Totals for 2013/14 & 2014/15** – we are concerned that these have been set too low. Leeds has already delivered savings of £90m for 2011/12 and is on track to successfully bridge a funding gap of £55m for 2012/13. However, it is completely unrealistic to expect Leeds (or any other local authority) to continue to deliver savings on the scale implied by the amended Control Totals set out in the Consultation Paper. Year-on-year cuts of 12.2% for 2013/14 and 8.7% 2014/15 will have a profound impact upon service delivery and upon our capacity to support our most disadvantaged communities. They will also threaten our ability to encourage the economic recovery we are all seeking to achieve.

**Dilution of the Incentive Effect** – when the 2011 consultation came out it was envisaged that the local/central split would be around 80/20, whereas the present proposals are on the basis of a 50/50 split. Although this will ensure that risks are shared more equally with Government, it seriously dilutes the potential rewards for authorities that are successful in driving economic growth, and may act as a disincentive to others who would otherwise be seeking to encourage economic recovery through infrastructure investment.

A second linked issue is the balance of incentives between business rates and New Homes Bonus (NHB). NHB provides a 100% council tax bonus for every new home built whereas the rewards of business rates growth are to be shared with Government and partially clawed back through levies. We fear a widening of the North/South divide, with affluent authorities benefiting from high demand for new housing being able to surge ahead compared to those in some of the more industrial areas of the North.

**Complexity** – the current formula grant system has been widely criticised for its complexity and lack of transparency. It appears that the proposed system, whilst simple in concept, will be equally opaque and difficult to explain. This will do nothing to reduce the democratic deficit, and risks increasing the disconnect between councils seeking to make difficult but fair financial decisions and their electors, who will struggle even more to understand the financial context in which those decisions are being taken.

**Safety Nets** – we are disappointed that Government has not responded positively to the criticism of the proposed safety net threshold. The proposed range of 7.5% to 10% is simply far too high, and leaves local authorities open to financial “shocks” from year- to-year that could have a catastrophic impact upon service delivery. We argue elsewhere in the response that the threshold should be set much lower (perhaps 2% or 3%) and would urge Government to reconsider this issue.

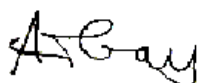
**Revenue Support Grant for 2014/15** – we are concerned that RSG is to be managed down to compensate for assumed growth in business rates between 2013/14 and 2014/15. The effect of this will be to reduce the opportunities for local authorities to benefit from growth during 2014/15 and to reduce the incentive effect. We believe that 2014/15 RSG should be calculated by reference to the 2013/14 business rates so the incentive effect is retained.

**Mandatory Charity Relief** – under the current system the cost of mandatory charity relief (over which local authorities have no control) is borne by the Government. Under the new scheme the cost of new charity relief applications will be shared equally between Government and local authorities. This will place a new burden upon local government and will act as a disincentive to local authorities seeking to expand the activities of the third sector within their areas. It also seems to be in direct opposition to the Government’s “Big Society” agenda.

**Council Tax Support Grant** – the amount to be transferred into the scheme is too low and assumes that claimant numbers are reducing whereas, in reality, as the economic downturn bites numbers are going up. Government needs to reassess the amount of this grant so that local authorities are better able to protect the most vulnerable.

I trust that these additional comments are helpful.

Yours sincerely,



Alan Gay  
Director of Resources

# Technical Consultation on Business Rates Retention

## July 2012

### Response Form

The Government would like your views on whether you agree with the options presented in the Technical Consultation on Business Rates Retention. This paper was published on the 17 July 2012, and can be found at the following address:

<http://www.local.communities.gov.uk/finance/brr/sumcon/index.htm>

For convenience, this preformatted response form contains all the questions in the main consultation document. Please click on the relevant check boxes to activate the 'X' that will indicate your preference. Space is available after each question if you wish to include any additional comments to support your choice. There is no limit on the size of these spaces and the boxes will resize themselves. We also welcome any additional comments and alternative proposals, and these can be made in the section available at the end.

All responses, whether using this preformatted response form, or otherwise should reach us by **5pm on 24th September 2012**.

We particularly welcome responses submitted electronically. Please e-mail responses to [BRRtechnicalconsultation@communities.gsi.gov.uk](mailto:BRRtechnicalconsultation@communities.gsi.gov.uk)

If you are not able to respond by e-mail, please post your response to

Andrew Lock  
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Alternatively, they may be faxed to 0303 4443294.

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## Business Rates Retention Consultation Response

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## Section 2 – Establishing the start up funding allocation and baseline funding levels

### Chapter 3: Local Government Spending Control Total

**Q1: Do you agree with the methodology set out above for calculating the local government spending control total?**

Agree

Disagree

Whilst we appreciate the need to tackle the national deficit, we firstly need to make the point that the Control Totals for local government have been set too low. Leeds has already delivered savings of £90m in 2011/12 and is on target to bridge a funding gap of £55m for 2012/13, and the further reductions for authorities (other than police and fire), equating to 12.2% for 2013/14 and 8.7% 2014/15, will inevitably have a severe effect upon services and upon the communities we support.

More specifically, we believe that the funding withdrawn in relation to the 1% pay cap should be retained within the sector. We are also concerned that funding has been withdrawn for New Development Deals and Capitalisation. These items are merely accounting adjustments that involve no additional expenditure by Central Government. Rather than top-slicing at the outset, in our view it would be better to wait until the actual borrowing has been quantified at the end of 2013/14, and then, if necessary make an adjustment to 2014/15.

**Q2: Do you agree with the methodology set out above for calculating Revenue Support Grant?**

Agree

Disagree

We agree with the proposal to calculate RSG for 2013-14 in the way set out in the consultation paper. However, we are concerned that for 2014/15 RSG is to be calculated having regard to the estimated business rates aggregate for 2014/15. The effect of this will be to reduce 2014/15 RSG by whatever amount Central Government assumes for growth in 2013/14. This will reduce and in many cases completely negate any benefits from growth at a local level and severely restricts the incentive for local growth. For authorities who do not manage to grow their rates at or above the levels assumed by Government, it will mean a further reduction in overall funding, on top of that caused by the reduction in spending control totals.

We believe that to encourage growth, the 2014-15 RSG should be calculated on the basis of the 2013/14 business rates aggregate and that local authorities should be able to retain the rewards of growth in their entirety.

## **Chapter 4: Concessionary Travel**

**Q3: Do you agree with the proposed approach of updating the Concessionary Travel Relative Needs Formula to use modelled boardings data?**

Agree

Disagree

We agree that the current formula for concessionary travel has a number of shortcomings, and that a revised approach is required. The new model appears to be reasonable, but we are concerned that the outputs appear to differ markedly from patterns of actual expenditure. A further concern is that the model appears to move resources away from metropolitan areas towards shire areas and London. In our view a better approach would be to base allocations on historic actual expenditure.

**Q4: Or, do you think it would be preferable to keep using the existing formula?**

Agree

Disagree

## Chapter 5: Rural Services

**Q5: Do you agree that we should increase the population sparsity weighting of super-sparse to sparse areas from 2:1 to 3:1 for non-police services?**

Agree

Disagree

Any further comments

We accept that extremely rural areas are under-compensated by the current sparsity adjustments and that some reform is needed. We are, however, concerned about the scale of the change proposed. The proposed 50% increase in the weightings has a significant distribution effect and would move over £65m from metropolitan areas and London to shire areas (before damping). In our view this transfer is too large; a more appropriate ratio would be 2.5:1.

**Q6: Do you agree that we should double the existing Older People's Personal Social Services (PSS) sparsity adjustment from 0.43% to 0.86%?**

Agree

Disagree

We accept that there is little point in simply moving resources from sparse to super-sparse areas and that a more fundamental approach is required. The exemplifications in the consultation are not entirely clear here, but it appears that the distributional effect, even before damping, would be minimal. However, the discussions within the Baseline Sub-Group seem to have been inconclusive and, indeed, BSG/12/04 states that "*there is no firm evidence on the actual additional costs associated with sparsity*". The change proposed appears to be quite arbitrary and we would welcome a more detailed explanation of how you have arrived at the new percentage.

**Q7: Do you agree that the proportion of the Relative Needs Formula accounted for by the population sparsity indicator under the District Level Environmental, Protective and Cultural Services block should be increased from 3.7% to 5.5%?**

Agree

Disagree

Again, it is difficult from the information available to readily understand the rationale for this change. The distributional effect appears to be more substantial (moving £38m from London and Metropolitan areas to shire areas before damping) and we would question how such a large adjustment can be justified.



**Q8: Should the County level Environmental, Protective and Cultural Services indicator be reinstated at 1.25%?**

Agree

Disagree

Although we concede that there may be some additional costs in relation to libraries and bus services in rural areas, the evidence seems weak and there seems to be no clear rationale for re-introducing an indicator that was discarded eight years ago.

**Q9: Do you agree that we should introduce a Fire & Rescue sparsity adjustment at 1%?**

Agree

Disagree

We accept that there may well be common-sense arguments for introducing such an adjustment, but we are disappointed that it has been proposed without any apparent evidence to support its introduction. This might be acceptable if the adjustment merely affected fire authorities, but the complexities of the formula grant system mean that it would also reduce allocations for authorities such as Leeds that do not have fire responsibilities.

In concluding our response to the questions in this chapter, we feel we need to express our concern about the scale of the overall effect of the proposed changes to rural services. The cumulative effect is to shift £157m (before damping) from London and metropolitan areas to shire areas. Even after damping the total is nearly £48m. At a time when urban authorities are experiencing unprecedented demand for services and severe cuts to specific grants, we would question whether such a large redistribution is justified.

## **Chapter 6: Taking account of Relative Needs and Relative Resources**

**Q10: Do you agree that we should restore the level of the Relative Resource Amount in 2013-14 to that for 2010-11?**

Agree

Disagree

The changes to the percentages for Relative Needs and the Central Allocation in 2011/12 tended to reduce the importance of Relative Resources and benefit authorities with relatively high council tax resources. The effect on individual authorities was often counter-intuitive because it depended on the balance between needs and resources so that authorities with high needs and high resources tended to benefit whereas authorities with lower needs and lower resources tended to see their funding reduce. Although we are surprised that neither of the options presented to the Baseline Sub-group have been pursued, we welcome the proposal to restore the Relative Resource Amount to its 2010/11 level. This will help to compensate some of the most disadvantaged areas with the lowest council tax bases.

**Q11: Do you agree that we should compensate for restoring the level of the Relative Resource Amount in 2013-14 to that for 2010-11 by increasing the level of the Central Allocation only?**

Agree

Disagree

We are pleased that Ministers do not intend to make any adjustments to the Relative Needs amount to balance the change to the Relative Resource Amount. The increase to 83% for 2011/12 increased funding for high needs authorities and was widely supported. The increase to the Central Allocation percentage should impact more equally on authorities, but will be a concern for authorities like Leeds where the 2011 Census shows a reduction in population.

## **Chapter 7: Grants Rolled In Using Tailored Distributions**

**Q12: Do you agree that we should continue to distribute funding for the Grants Rolled In Using Tailored Distributions according to the methodology used in 2012-13?**

Agree

Disagree

A number of concerns regarding the Tailored Distributions were raised at the time of the 2011/12 Settlement but, two years on, any further changes would add an unwelcome level of complexity to what is already going to be a very complex system. We therefore accept that the 2013/14 distributions should be on the same basis as 2012/13.

## **Chapter 8: Transfers and Adjustments**

**Q13: Do you agree that the October 2012 pupil census should be used in the final settlement for removing these services?**

Agree

Disagree

We agree that the transfers should be based on the latest pupil numbers available, and we are prepared to accept a degree of uncertainty in the provisional settlement if the October 2012 figures can be used in the final settlement in January.

**Q14: If not, what methodology would you prefer to use?**

N/A

**Q15: Do you agree with the proposed methodology for removing funding for the education services currently in the Local Authority Central Spend Equivalent Grant?**

Agree

Disagree

We strongly disagree with the proposal to base the transfer on the totals reported on the 2011/12 section 251 statement and then to deflate on the basis suggested. In our view, this significantly overstates the amount that local authorities are actually spending upon Central Spend Equivalent services in 2012/13 and the effect will be magnified for 2013/14. It takes no account of the impact of other service pressures, particularly in relation to social care, that are reducing the resources that local authorities are able to devote to Central Spend Equivalent services.

Also, the proposed deflation factors, which work out at 2.2% for 2013/14 and 2.1% for 2014/15 are far too low when the overall control totals (shown on page 22 of the Consultation) are dropping by 12.2% for 2013/14 and 8.7% for 2014/15.

**Q16: If not, what methodology would you prefer to use?**

We would prefer a transfer based on local authorities' forecasts of actual expenditure for 2012/13, deflated by the control total percentages quoted above.

**Q17: Do you agree that funding for Local Authority Central Spend Equivalent Grant should be removed after floor damping?**

Agree   
Disagree

We accept that the complications around the balance in funding between LEAs and Academies make a transfer after floor damping the most appropriate option.

**Q18: Do you agree with the proposed methodology for rolling in the 2011-12 Council Tax Freeze Grant?**

Agree   
Disagree

We agree that the methodology used in 2012/13 should continue.

**Q19: Do you agree with the proposed methodology for rolling in the Council Tax Support Grant?**

Agree   
Disagree

We have expressed our reservations about many aspects of the Council Tax Support scheme in previous consultations and at engagement events. In response to this particular question, we believe it is important that Council Tax Support Grant continues to be separately identifiable. To ensure that remains the case in future years, we would prefer funding for council tax support to be provided via specific grant. Billing and major precepting authorities will then be able to continue to compare their actual expenditure with the funding they receive.

**Q20: Do you agree with the proposed approach to continue to apply a damping floor to Early Intervention Grant allocations after the removal of the 2 year old funding and the top slice?**

Agree   
Disagree

We accept that the removal of the damping floor at this stage would lead to turbulence and that the present arrangements should continue.

**Q21: Do you agree with the proposed methodology for rolling in the Early Intervention Grant excluding funding for free early education for two years olds?**

Agree   
Disagree

We have concerns that the top-slice is too high but we agree that the proposed methodology seems reasonable and that a transfer after damping is preferable to aid transparency.

**Q22: Do you agree with the proposed methodology for rolling in Greater London Authority General Grant?**

Agree   
Disagree

No comment

**Q23: Do you agree with the proposed methodology for rolling in a proportion of the Greater London Authority Transport Grant?**

Agree   
Disagree

No comment

**Q24: Do you agree with the proposed methodology for rolling in Homelessness Prevention Grant?**

Agree   
Disagree

In the absence of a proposed distribution methodology it is difficult to comment, but the proposal to transfer the grant after damping will at least ensure transparency for the first year. One concern relates to whether the grant can remain responsive to changing needs in future years.

**Q25: Do you agree with the proposed methodology for rolling in a proportion of the Lead Local Flood Authorities Grant?**

Agree

Disagree

In view of the uncertainty about responsibilities between authorities it may be better to leave this as a specific grant.

**Q26: Do you agree with the proposed methodology for rolling in the Department of Health Learning Disability and Health Reform Grant?**

Agree

Disagree

We accept that there is no compelling reason to change the basis of distribution from that used for 2012/13 and that the proposed methodology will ensure transparency.

## **Chapter 9: Population Data**

**Q27: Do you agree that the preferred population measure to use is the Interim 2011-based sub-national population projections?**

Agree

Disagree

As a general principle, we believe that the data used should be the most recent available. As you will be aware, Leeds 2011 Census data showed a relatively large drop in population, and discussions with ONS are continuing. Without seeing the datasets it is difficult to comment further.

**Q28: Do you agree with the hierarchy of alternative datasets which would be used if there are problems with availability of any of the data?**

Agree

Disagree

We accept that in the current circumstances a hierarchy is necessary and that the proposed approach seems reasonable.

## Chapter 10: Taxbase data

**Q29: Do you agree that we should aim to use the council tax base projections as the council tax base measure in order to be consistent with our proposed approach to the population?**

Agree

Disagree

We are not convinced that there is a need to link council base data and population and we would be content for council tax projections to be used.

**Q30: Do you agree that we should switch to the November 2012 council tax base data should population estimates have to be used?**

Agree

Disagree

See our response to Q29.

## Chapter 11: Other Data Indicators

**Q31: Do you agree that we should use data from the Inter-Departmental Business Register in the Log of Weighted Bars indicator?**

Agree

Disagree

The proposed approach appears to utilize a reliable and more up- to-date dataset.

## Chapter 12: Distribution of Revenue Support Grant

**Q32: Do you agree with the proposed methodology for distributing Revenue Support Grant in 2014-15 by scaling the 2013-14 authority-level allocations of Revenue Support Grant to the level of the 2014-15 control total for services funded through the rates retention system?**

Agree

Disagree

We agree that the proposed methodology is reasonable and provides an acceptable mechanism for calculating authority-level RSG allocations for 2014/15. However, as we explained in our response to Q2, we are concerned that 2014/15 RSG is to be calculated having regard to the estimated business rates aggregate for 2014/15. The effect of this will be to reduce 2014/15 RSG by whatever amount Central Government assumes for growth in 2013/14. This will reduce and in many cases completely negate any benefits from growth at a local level and severely restricts the incentive for local growth

## Chapter 13: Floor Damping

**Q33: Do you agree with the proposed approach for calculating floor damping in 2013-14?**

Agree

Disagree

We have always had reservations about the need for floors and ceilings in the calculation of formula grant and would prefer damping to be withdrawn. The proposals seem very complex and quite arbitrary, but we accept that the effects of the reductions in funding will be different for different tiers and, if damping does have to be retained, the proposed approach appears reasonable.

**Q34: Do you agree with the proposed approach for allocating floor damping bands in 2013-14?**

Agree

Disagree

We agree that floor damping bands should be frozen at the same levels as for the 2011/12 and 2012/13 settlements.

**Q35: Do you agree with the proposed approach to splitting 2012-13 formula grant between the service tiers?**

Agree

Disagree

The approach appears to be both complex and rather opaque, but without full access to the Government's formula grant model, it is difficult to identify an acceptable alternative approach.

**Q36: If not, what methodology do you think we should use?**

See response to Q35

## Chapter 14: New Homes Bonus

**Q37: Do you agree that the funding for capitalisation and the safety net should be held back from the surplus New Homes Bonus funding rather than as a separate top-slice?**

Agree

Disagree

As we have indicated in our response to Q1, we do not agree that funding for Capitalisation should be held back. Capitalisation involves no additional expenditure for Central Government and, rather than holding back or top-slicing, in our view it would be better to wait until the actual borrowing has been quantified at the end of 2013/14, and then, if necessary make an adjustment to 2014/15.

We favour the new approach as set out in the Alternative Option paper (see our response to Q84) so do not agree with the option to hold back funding for the safety net from surplus New Homes Bonus funding. We would also question the amount to be top-sliced for the safety net. An amount of £250m for the first year of the scheme appears excessive, particularly as Ministers will have access to the latest September 2012 rateable value totals when calculating the aggregate business rates for 2013/14, on which the safety nets will largely depend. At the very least, the amount should be reduced if Ministers decide to set the safety net threshold higher than 7.5%.

**Q38: Do you agree that the remaining funding should be distributed back to local authorities prorata to the *start-up funding allocation*?**

Agree

Disagree

Please see our response to Q84.

## **Chapter 15: Police Funding**

**Q39: Do you agree with the proposal for setting out the method of calculation of the 2013-14 formula grant element of police funding allocations in a separate document?**

Agree

Disagree

We are not clear why the police allocations need to be set out in a separate document. In our view they could simply be appended to the main Local Government Finance Report

**Q40: Do you agree with the proposed methodology for funding local policing bodies in 2014-15?**

Agree

Disagree

We accept the approach proposed.



## Section 3 – Setting up the business rates retention system

### Chapter 2: Determining the estimated business rates aggregate

**Q41: Do you agree with our proposal not to adjust the estimated business rates aggregate (England) to take into account transitional arrangements?**

Agree

Disagree

Transitional reliefs and payments are entirely outside the control of local authorities and we agree that local authorities should continue to be fully compensated for the effect of the transitional arrangements.

**Q42: Do you agree with our proposal to adjust the estimated business rates aggregate (England) to take into account small business rate relief?**

Agree

Disagree

We agree with this proposal, but we would request that if Ministers are considering extending small business rates relief beyond March 2013, that an announcement is made in the Autumn Statement (i.e. before the draft Settlement) rather than later when local authority budgets have been set.

**Q43: Do you agree with our proposal to adjust the estimated business rates aggregate (England) to take into account mandatory reliefs in this way?**

Agree

Disagree

Again, this is reasonable and acknowledges that local authorities have no control over mandatory reliefs.

In relation to mandatory charity relief, we are concerned that from 2013/14 onwards the cost of all new mandatory charity relief applications will no longer be borne by the NNDR Pool but will be shared equally between central and local government. There is an obvious risk that authorities will lose income as a direct result of schools converting to academies, but there is also a wider risk that it will be a disincentive to local authorities in supporting the third sector. As such, it appears to be in direct opposition to the Government's "Big Society" agenda.

**Q44: Do you agree with our proposal to adjust the estimated business rates aggregate (England) to take into account discretionary reliefs in this way?**

Agree

Disagree

The approach appears reasonable.

**Q45: Do you agree with our proposal to adjust the notional gross yield figure to take account of Enterprise Zones, New Development Deals and renewable energy schemes in this way?**

Agree

Disagree

We agree that the notional gross yield should be adjusted as proposed. All three of these schemes rely for their success on business rates being retained locally.

**Q46: Do you agree with our proposal to adjust the notional gross yield figure to take account of costs and losses in collection in this way?**

Agree

Disagree

We agree that this approach is reasonable and transparent.

**Q47: Do you agree with our proposal not to adjust the *estimated business rates aggregate (England)* to reflect the deferral scheme?**

Agree

Disagree

We agree that it would not be appropriate to make any adjustment for the deferral scheme.

**Q48: Do you agree with our proposal to adjust the *estimated business rates aggregate (England)* to take into account losses on appeal in this way?**

Agree

Disagree

We agree that there is a need to take account of losses of appeal in calculating the aggregate. The effect of those losses is difficult to predict and the proposed approach, which uses the same methodology as in the distributable amount calculation, and will take averages over the same period as the proportionate shares calculation, seems reasonable.

## Chapter 3: Determining proportionate shares

**Q49: Do you agree with our proposal to determine billing authorities' average contribution to the rating pool using *NDR3* forms between 2007-08 and 2011-12 (subject to a number of adjustments)?**

Agree

Disagree

This issue was the subject of extensive discussion at Systems Sub-Group meetings and appears to be a relatively simple and equitable basis for determining local shares of business rates.

**Q50: Do you agree with our proposal to adjust the incomes for 2007-08 to 2009-10 using a local revaluation factor calculated using the methodology set out?**

Agree

Disagree

We agree that the incomes for the earlier years need to be adjusted so that they are comparable to those after the 2010 revaluation and that the suggested approach appears to be the most appropriate and transparent way of achieving this.

**Q51: Do you agree with our proposal not to make an adjustment in the five year average for inflation?**

Agree

Disagree

We agree that any adjustment would be unlikely to have a material effect upon the proportionate shares and would complicate the calculation unnecessarily.

**Q52: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of the transitional arrangements in this way?**

Agree

Disagree

This proposal is consistent with the way the aggregate business rates is to be calculated. Any other approach risks distorting the system.

**Q53: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for either mandatory rate relief, or for the small business rate relief scheme when calculating the proportionate shares?**

Agree   
Disagree

Mandatory reliefs and small business rates relief are reflected in the contributions to the pool and, although it would be possible to adjust for them, it would add to the complexity of the proportionate share calculation and it is not clear that it would provide any additional benefits.

**Q54: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for reductions for empty property rates when calculating the proportionate shares?**

Agree   
Disagree

We agree that the impact of Empty Property Relief is relatively even across the country and is not likely to affect the proportionate share calculation significantly.

**Q55: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for discretionary rate relief when calculating the proportionate shares?**

Agree   
Disagree

We agree with this proposal. Local differences in policies on discretionary rate relief will have only a marginal effect on the proportionate share calculation and an adjustment would add unnecessary complexity.

**Q56: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for costs of collection when calculating the proportionate shares?**

Agree   
Disagree

Costs of collection are calculated using a well-established formulaic approach. The formula is applied consistently to all billing authorities and is unlikely to have a material impact upon the proportionate share calculation.

**Q57: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of losses in collection in this way?**

Agree

Disagree

We believe that the starting point for the new system should be as fair as possible and that authorities that have historically had poor collection performance should not benefit in their baselines for that poor performance. We therefore agree that amounts for bad or doubtful debts should be added back.

**Q58: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of deferral in this way?**

Agree

Disagree

We agree that the two deferral schemes have distorted contributions to the pool and could materially affect proportionate shares if no adjustments were made. We therefore agree that the schedule of payment amounts should be added back.

**Q59: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for charges on property when calculating the proportionate shares?**

Agree

Disagree

We agree the amounts involved nationally are too small to make a material difference to the proportionate shares of authorities and that no adjustment is needed.

**Q60: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for prior year adjustments and interest on repayments when calculating the proportionate shares?**

Agree

Disagree

Prior year adjustments and interest on repayments are already reflected in the contributions to the pool, so we agree that there should no further adjustment for these amounts when calculating proportionate shares.

## Chapter 4: Major precepting authority shares

**Q61: Do you agree with our proposal to confirm the county share at 20% - less the percentage share that will be paid to single purpose fire authorities where the county does not carry out that function?**

Agree

Disagree

We have no strong views on this, because as a metropolitan authority, the county share will not have a significant impact upon Leeds City Council. However, it appears from our initial modelling that a more equal division between counties and shire districts would result in more income being retained within the sector. The volatility of business rates within small districts may also prove difficult to manage.

**Q62: Do you agree with our proposal to set the single purpose fire authority share at 2%?**

Agree

Disagree

We see no compelling reasons why fire authorities should be included within the business rates retention scheme. They lack the levers to influence local growth and their inclusion will add unnecessary complexity to the scheme.

However, if they are to be included a 2% share (which falls at the midpoint of the options put forward) seems reasonable and will allow them to share in the benefits of business rates growth.

**Q63: Do you agree that county councils carrying our fire and rescue functions should receive the full 20% county share?**

Agree

Disagree

This appears reasonable.

## Chapter 5: Treatment of City Offset and the City Premium

**Q64: Do you agree with the Government's proposal to reflect the current arrangements for the City Offset by making an adjustment to the City of London's individual authority business rate baseline?**

Agree   
Disagree

We agree that this will be an effective way of maintaining the current City Offset and its value over time, as the business rate baseline is index-linked.

**Q65: Do you agree with the proposal to take account of the City Offset when calculating proportionate shares?**

Agree   
Disagree

It is important that the City Offset does not adversely affect the calculation of proportionate shares for other authorities. We therefore agree with the proposal that it should be taken into account when these calculations are made, and then added back in.

**Q66: Do you agree with the proposal to calculate the City of London's levy ratio by using its revised individual authority business rate baseline?**

Agree   
Disagree

In principle the proposed approach appears attractive, as the City Offset is meant to be equivalent to council tax, which for any other authority would be income outside the rates retention system, and, therefore, should be outside the business rate baseline for the purposes of the levy calculation. However the City of London will also experience a growth in income from any increase in its business rates tax base via the City Premium. We are not therefore convinced that the levy should be applied to the growth in 'ordinary' business rates using the adjusted business rates baseline. To prevent disproportionate benefit, we believe the Government should reconsider this proposal, particularly as using the adjusted business rate baseline will reduce the levy paid by the City of London and therefore the amount of safety net available to other authorities.

**Q67: Do you agree with the proposal to calculate the City of London's eligibility for the safety net by using its business rates income after the deduction of the City Offset?**

Agree   
Disagree

The City Offset is meant to compensate the City of London for low council tax. For all other authorities this would not be included as business rates income in the safety net calculation. In the case of the calculation of the safety net payments, because it follows a fall in income, the counter arguments identified in Q66 would not apply; we therefore support this proposal.

**Q68: Do you agree that the City Premium should be disregarded in the definition of business rates income used in the rates retention scheme?**

Agree   
Disagree

## **Section 4 – The operation of the rates retention scheme**

### **Chapter 2: Information Requirements**

**Q69: Do you agree with our proposals for information requirements before the start of the financial year?**

Agree   
Disagree

Much of the detail regarding the information requirements has been agreed at Systems Sub-Group meetings and we agree that the approach seems reasonable. We are concerned, however, that the apparent delay to the draft settlement (now, we understand, to be after the 5<sup>th</sup> December Autumn Statement) will give local authorities only about a week between the settlement and the date to provide NNDR1s to DCLG and major preceptors.

**Q70: Do you agree with our proposals for information requirements at the end of the financial year?**

Agree   
Disagree

Again, the proposals have been discussed extensively and appear reasonable.

### **Chapter 3: Schedules of Payment**

**Q71: Do you agree with our proposals for the way in which a schedule of payment will operate for billing authorities?**

Agree   
Disagree



We agree that there should be a single regular payment made between a billing authority and central government which would include the central share, tariff/top-up, and provisional transitional protection payments. Our view is that the current 24, fortnightly payments should remain in place, as this will provide consistency and will aid our treasury management function.

**Q72: Do you agree with our proposals for the way in which a schedule of payment will operate for major precepting authorities and what is your view of the number of instalments on which payments to/from precepting authorities should be made?**

Agree

Disagree

The arrangements should mirror those for billing authorities.

**Q73: Do you agree with our proposals for the way in which a schedule of payment will operate between billing and relevant major precepting authorities?**

Agree

Disagree

We agree with the proposal to give billing authorities and their major preceptors the freedom to agree their own schedule of payments. We also agree with the default arrangements that would apply in the unlikely event that the parties were unable to come to a suitable agreement.

## **Chapter 5: Collection and general funds**

**Q74: Do you agree with our proposals for the operation of the *collection fund*?**

Agree

Disagree

We agree with the proposals as outlined in the consultation, but we are concerned that they lack detail. We would welcome more detailed guidance at an early stage.

**Q75: And do you agree that the reconciliation payment due in respect of *transitional protection payments*, should be built in to the calculation of collection fund surpluses & deficits only once, when outturn figures are available?**

Agree

Disagree

This proposal will simplify the calculations of the payments to be made into and out of the collection fund, although the billing authority will have to take these reconciliations into

account when setting their following year's budget. Again, we would welcome further guidance.

**Q76: Do you agree with our description of the way in which the general fund will operate?**

Agree   
Disagree

The description of the way in which the general fund will operate appears reasonable.

## **Chapter 6: The safety net and the levy**

**Q77: Bearing in mind the need to balance protection, incentive and affordability, and the associated impact on the amount of contingency that will need to be held back, in the early years where, within the range 7.5% - 10%, should the safety net threshold be set?**

Agree   
Disagree

We accept that there is a need to balance protection, incentive and affordability within the scheme, but we feel that the proposed threshold whether 7.5% or 10% is much too high. In order to qualify for a safety net payment, we estimate that Leeds would have to suffer a reduction in gross business rates income of between £23m and £30m (translating into a reduction in retained income of between £11m & £15m). Such a loss, on top of the deficit reduction cuts, would have a catastrophic effect upon service delivery and upon our most disadvantaged communities.

We believe that the safety net should be set at a much more realistic level (perhaps 2% to 3%) and that Government must be prepared to underwrite the system to ensure that communities in areas suffering decline in business rates have a greater degree of protection.

**Q78: Bearing in mind the need to balance protection, incentive and affordability, and the associated impact on the amount of contingency that will need to be held back, do you agree with the Government's proposal to set the levy ratio at 1:1?**

Agree   
Disagree

We agree that the levy rate should be set at 1:1. We believe that a 1:1 ratio will provide a degree of incentive whilst ensuring that authorities in the most economically buoyant areas of the country do not benefit disproportionately from business rates growth occurring independently of them. As we have said in our reply to Q77, we believe that the proposed safety net threshold is too high and that Government must be prepared to underwrite any excess cost of safety nets at least in the early years of the system.

**Q79: Do you agree with the approach set out in paragraphs 16 to 19 for defining a billing authority's net retained rates income for the purposes of the levy and safety net calculations?**

Agree   
Disagree

We agree with this approach, provided that the calculation of the estimated business rates aggregate fully takes into account the effect of appeals.

**Q80: Do you agree with the approach set out in paragraphs 20 to 22 for defining a major precepting authority's net retained rates income for the purposes of the levy and safety net calculations?**

Agree   
Disagree

The proposed arrangements will not apply directly to Leeds City Council, but appear reasonable.

**Q81: Do you agree with the approach set out in paragraphs 23 to 28 for safety net calculations and payments?**

Agree   
Disagree

Notwithstanding our reservations to the proposed safety net threshold, we agree with the approach for calculating safety nets and with the proposal to pay safety nets on account on the basis of NNDR1 predictions.

**Q82: Do you agree with the approach set out in paragraphs 29 to 32 for levy calculations and payments?**

Agree   
Disagree

We agree with the proposed method of calculating levy payments. We also agree that levy payments should not be made on account, but be calculated and paid after the year end on the basis of information supplied in the NNDR3 return.

## Section 5: Reconciliation payments in respect of financial year 2012/13

**Q83: Do you agree with our proposals for closing the 2012-13 national non domestic rating account?**

Agree

Disagree

We agree that the final reconciliation for the NNDR pool should mirror the previous years, whereby local authorities pay or receive payments to adjust for the difference between NNDR1 forecasts and their NNDR3 outturns.

We also believe that should the National Pool be in surplus after those reconciliation payments, then that surplus should be retained by local government and returned to billing authorities by means of section 31 grants.

## Chapter 14: New Homes Bonus – Alternative Option

**Q84: Would you prefer that (a) only sufficient funding to finance the New Homes Bonus in each year is removed, as well as funding for capitalisation and the safety net held back, rather than (b) the full £2 billion required for the entire period is removed, and the money held-back for capitalisation and the safety net is funded through the surplus, with the remainder of the surplus being paid back through section 31 grant in proportion to the start-up funding allocation?**

We have argued consistently that the removal of the £2bn a year (on top of the £250m a year already top-sliced in the 2010 Spending Review) was the wrong approach and we are pleased that Government has put forward this alternative option, which we fully support.

As we have indicated earlier in our response, we believe that there is no need to hold money back for capitalisation and we believe that the quantum to be held back for safety nets is too high, but we accept that the suggested sums to be held back in option (a) for NHB in 2013/14 and 2014/15 are reasonable provided that any excess is returned to local government as section 31 grant.

## Any Other Comments

Do you have any alternative proposals?

Please see our covering letter.

Do you have any other comments?

Please see our covering letter.