REPORT TO:	**FINANCE AND MANAGEMENT COMMITTEE – SPECIAL**	**AGENDA ITEM: 10**
DATE OF MEETING:	**12th October 2011**	**CATEGORY: DELEGATED**
REPORT FROM:	**CHIEF EXECUTIVE OFFICER**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** **CHIEF FINANCE OFFICER** Kevin.stackhouse@south-derbys.gov.uk	**DOC:** u/ks/resource review 201112/NNDR committee Sept 11
SUBJECT:	**LOCAL GOVERNMENT RESOURCE REVIEW IN ENGLAND:** **PROPOSALS FOR BUSINESS RATES RETENTION**	**REF**
WARD (S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 That the Government's proposals for business rates retention are considered.

1.2 That the Committee consider any comments it wishes to make as part of the Government's consultation and that these are structured into a formal response.

2.0 Purpose of Report

2.1 To set out details of the Government's proposals for allowing local authorities to retain a proportion of their business rate income that is raised locally. This is part of a wider Government policy of decentralisation aimed at giving councils increased financial autonomy and a greater stake in their local economy.

2.2 The Government issued 2 consultation papers on 18th July (Business Rates) and 2nd August (Council Tax) with consultation periods running to 24th October and 14th October 2011 respectively.

2.3 As part of the consultations, the Government are seeking responses to a significant number of specific questions/points or general feedback and views on the main sections of each of the consultations.

2.4 The proposals are the 1st phase of the Local Government Resource Review which was announced by the Government in March 2011. This 1st phase is considering the way in which local authorities are funded.

2.5 This report considers business rates. Proposals for the council tax allowance are detailed in a separate report elsewhere on this Agenda.

3.0 Detail

PROPOSALS FOR BUSINESS RATES RETENTION

Introduction

3.1 As announced in the Government's Local Growth White Paper (October 2010) this consultation seeks views on proposals to change the way local government is funded by introducing a **retention of business rates scheme**.

3.2 In addition, it also seeks views on options for enabling authorities to carry out **Tax Increment Financing**, i.e. to borrow against future income through business growth. This would be used to fund the provision of new infrastructure.

Broad Overview

3.3 Currently, councils receive their core central funding through a Formula Grant. This is calculated based on a complex formula designed to measure the social infrastructure of each area.

3.4 The main component of Formula Grant is Business Rates or the National Non-Domestic Rate (NNDR). NNDR is collected by councils from businesses in their areas and paid over to a national pool. The pool is then redistributed on a different basis to fund councils.

3.5 It is considered that this does not provide councils any financial incentive to promote business growth in their area. For example, any business rate receipts from new development are paid to the national pool. These proposals aim to change the current system by enabling councils to keep a **share** of the **growth** in NNDR in their area.

3.6 There are no proposals to make any changes to the way businesses pay tax (NNDR) or the way the tax is set. Rate setting powers will remain under the control of central government. Properties will continue to be revalued every five years. The current framework for business rate supplements will also remain.

3.7 In addition, there will be no changes to the existing reliefs to eligible ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector.

3.8 Subject to the approval of legislation and detailed regulations, which is currently planned for the summer of 2012, the scheme for NNDR retention would replace the current system for financing local government on 1st April **2013**.

The Overall Framework Proposed

3.9 If councils were to keep all of the business rates generated in their areas, some would have a much larger amount than they currently spend, whilst the opposite would exist for other councils where current spending was less than rate income.

3.10 Therefore, to ensure a fair starting position for the new system, the proposals will take an amount away from those in the former situation (referred to as a **Tariff**) and **Top Up** those authorities whose current income is less than their spending. This amount will then remain fixed.

3.11 This means that any **future growth** in business rates an authority receives will be maintained locally. In principle, there will no fixed limit on the amount of growth income that can be kept – the more a council grows its business rates base, the better off it will become.

3.12 Conversely, there is a risk that income could fall from the starting position if the business rate base declines for whatever reason.

3.13 However, some authorities may have large amounts of business property in their area and may stand to gain disproportionate amounts. Where this happens, the Government proposes to take back a share of this growth in the form of a **Levy**.

3.14 The Government propose to use the proceeds from the Levy to:

- Give financial help to those councils who experience significant drops in rates through closure or relocation of a major business, i.e. to provide a **Safety Net**.
- Protect councils who are less able to grow
- Fund regeneration schemes in areas with high growth potential
- To pay for any deficit on transitional relief schemes

3.15 The proposals allow for a **resetting** of the fixed amounts at some time in the future. In addition joint working is encouraged though local partnerships, within county boundaries, etc. allowing collaboration to promote growth and share the financial benefits through a **Pooling** arrangement.

3.16 The overall scheme envisages that the Government will retain inflationary increases in NNDR yield up to 2014/15 and an element of forecast growth above inflation. This will be used to fund the New Homes Bonus and other housing related initiatives.

3.17 Total funding from 2015/16 for NNDR Retention will be considered at the next Spending Review in 2013. This will include the New Homes Bonus for which the Government proposes will be part of the Retention Framework.

Technical Papers

3.18 To back up the broad proposals, eight technical papers have also been released which set out in detail how the proposed scheme will work. These papers touch on a number of points of complexity, in particular on the interaction between the proposed safety net arrangements and the tariff, top-up and levy elements of the scheme.

Technical Paper 1: Establishing the Baseline

3.19 The way in which the new scheme will work for individual authorities is dependent on the baseline figure that is set. The Government intends that overall funding for NNDR retention should be managed within the control totals set out in the 2010 Spending Review. Nationally this funding, excluding growth, is planned to reduce between now and 2014/15, the end of the current Spending Review period.

3.20 The Government proposes that the baseline will be set by reference to its calculation of **Forecast** National Business Rates for 2013/14 and 2014/15. Councils will benefit only to the extent that NNDR actually raised exceeds the forecast level.

3.21 The baseline would also be fixed with reference to a council's current Formula Grant for 2012/13 and this will be the starting point.

3.22 The forecast level will be critical and in particular the Government's expectations for future growth. It is proposed that the amounts of forecast NNDR nationally which are above the existing control totals for 2013/14 and 2014/15 will be **set-aside.** It is expected that this will be used in 2013/14 as a one-off grant to transition councils to the new system.

Technical Paper 2: Measuring Business Rates

3.23 Paper 1 establishes the NNDR national baseline. Paper 2 sets out the detailed methodology for allocating it to individual councils. The proposed basis is the **proportionate share**. Each council's share would be its individual NNDR expressed as a percentage of the aggregate of all authorities. In two-tier areas, there would be a further apportionment between billing authorities and county councils.

3.24 Once set, **this share would be fixed** unless a reset of the whole system was undertaken. It is also proposed to use the share to determine the amount of set-aside and other adjustments. The timing of the assessment of this share will also be critical.

3.25 The Government proposes that this assessment is made mid way through 2012/13 based on estimated NNDR yield for the year (Option 1) or an average income over the previous 2 to 3 years (Option 2).

3.26 The Paper points out that Option 1 could provide the most up-to-date income but it would not necessarily take into account volatility and risks measuring yield at a particularly high or low point. By contrast, Option 2 could have the effect of smoothing the effects of year-on-year volatility and provide an accurate reflection of what councils had collected.

Technical Paper 3: Non Billing Authorities

3.27 This Paper considers how non-billing authorities (county councils, police and fire authorities) would be funded within the NNDR retention scheme.

County Councils

3.28 The Paper proposes that the incentive for growth should apply equally to counties and districts in two-tier areas to reflect that counties are also significant levers for growth. To achieve this, a fixed percentage of all NNDR income collected by districts will be paid to the County.

3.29 The Paper consults on whether this percentage should be calculated on the basis of:

- Fixed national shares – each tier would be allocated a standard proportion of NNDR based on average national spending, or

- Individually tailored shares based on each districts NNDR yield as a proportion of the county total – the preferred option.

Police Authorities

3.30 The Paper discusses that police authorities have limited levers to influence growth and proposes that they will receive a fixed sum of forecast NNDR for 2013/14 and 2014/15. The Home Secretary will decide how that funding is allocated to individual police authorities. A review of police authority funding beyond 2014/15 and any resulting changes would be implemented from 2015/16.

Fire and Rescue Authorities

3.31 The Paper proposes that county fire authorities should be funded in the same way as other county services, i.e. through a percentage share of retained NNDR.

Technical Paper 4: Administration

3.32 This Paper considers how payments and information flows to central government and between billing and non-billing authorities will be administered.

3.33 Potentially, this could be a lot more complicated compared to the current system. This is due to the various calculations needed for growth, tariffs and levies, etc. with the need to reconcile amounts between different tiers of authority and with the Government.

3.34 This will then have a knock on effect with cash flows and payment profiles and be heightened where there is volatility during the year.

Technical Paper 5: Tariff, Top-up and Levy Options

3.35 This Paper is about the design of the tariff and top-up arrangements. It also covers design options for a supplementary levy that might be applied in cases where a council could be said to benefit disproportionately from NNDR retention.

Tariffs and Top-ups

3.36 Paper 1 proposes that the NNDR retention scheme will operate for each council by reference to a baseline, calculated with reference to 2012/13 Formula Grant. This will set the initial funding level.

3.37 Councils that enter the new arrangements with NNDR higher than the initial funding level will pay a tariff to the Government. Councils that are lower than the initial funding level will receive a top-up. A council's status as either a tariff payer or top-up recipient will only be changed thereafter on a reset of the system.

3.38 Once set the Paper discusses two options , either:

- These amounts remain fixed in cash terms, or
- They are increased by reference to RPI inflation

3.39 Clearly councils will have different preferences depending on their status. A fixed tariff is likely to be preferred by councils liable to pay it; by contrast, top-up councils are likely to prefer indexation.

3.40 Arrangements where pooling exists is also considered. The Paper asks that in such an arrangement, the "Pool's" tariff or top-up position should simply be the aggregate of its members' individual tariffs and top-ups.

The Levy

3.41 Once set, the Paper recognises that some authorities may gain significantly more than others from the basic tariff and top-up arrangements. Therefore, the Government proposes to recover "disproportionate" benefit through a levy.

3.42 These proceeds would be redistributed, principally through a safety net, to protect authorities whose NNDR income falls either temporarily or permanently.

3.43 The Paper notes that the levy could be calculated by reference to year on year changes in income, or by reference to change compared with the original funding baseline. A preference for the latter approach is stated with the baseline either fixed or indexed, to follow proposals taken for tariffs and top-ups.

3.44 The design of the levy could either be:

- A flat rate percentage of growth above the baseline.

- A banded percentage of growth above the baseline with progressively higher rates.

- A proportional levy that seeks to ensure that there is a fixed relationship between the percentage increases in NNDR and a percentage increase in retained income.

3.45 The Paper asks whether pooling arrangements should be incentivised. In particular, by councils being allowed a more favorable treatment for the purposes of the levy than would have applied had they not been part of a pooling arrangement.

The Safety Net

3.46 The Paper discusses various options for the design of the safety net:

- It could operate to protect authorities experiencing a significant year on year decline in NNDR income.

- It could operate on a decline in income by reference to the original baseline.

- It could be scaled back if the proceeds of the levy to finance it proved insufficient, or could be recouped from future income.

Technical Paper 6: Dealing with Volatility

3.47 Following on from the Safety Net proposals in Paper 5, this Paper discusses changes in NNDR that come about through changes in rateable value, together with appeals which could be applied back retrospectively over several years. Again, this Paper considers different ways in which councils could be compensated:

- Option 1 – to isolate specific events and provide compensation for those events.

- Option 2 – to adopt an application-based approach under which councils would have to apply for support.

- Option 3 – to put in place a safety net that provided support if income fell below pre-determined thresholds.

3.48 The Government is minded to adopt Option 3 to provide some certainty rather than relying on judgments and decisions from third parties such as the Valuation Office.

Technical Paper 7: Revaluation and Transition

3.49 The proposed Retention Scheme does not involve changes to either the revaluation or the support provided to ratepayers in transitional relief in order to phase in changes in bills. However in reality, these could result in significant turbulence in NNDR income. The next revaluation is due in 2015 and appeals are still outstanding from the 2010 revaluation.

Revaluations

3.50 These are undertaken so that the national yield overall is constant and the Government does not propose to change this approach. This approach means that following a revaluation, the tax base (rateable value) changes, but the nationally set multiplier (rate in the pound) changes so that overall the same amount of income is collected.

3.51 However, within the tax base at a local level changes to individual business payments can be quite significant. Historical evidence suggests that this can affect the overall yield. To address this risk, the Government proposes to adjust each council's top-up or tariff following a revaluation to ensure that their retained income is the same after, as immediately before, revaluation.

3.52 There will be no further adjustments to deal with appeals; the provisions on volatility in Paper 5 are intended to cover this situation.

Transitional Relief

3.53 Relief is also designed to be self-financing at a national level, whereby the phasing in of increases is paid for by decreases. However, from area to area there will be differences as increases may be greater than decreases and vice-versa.

3.54 Clearly this will also affect overall yield and mask that being generated from changes in the tax base. Therefore, the Government proposes to take transitional relief out of the retention scheme and deal with it via transitional adjustments.

3.55 Unlike most elements of the scheme, these adjustments would be reviewed on an annual basis, based on forecasts and adjusted for out-turn figures.

3.56 Even though relief schemes are designed to be self-financing, they can run into deficit in the early years, unwinding in later years to balance out. Currently the cost of any deficit is managed within the National Pool. The Government proposes that any deficit could be charged to the pot of funding derived from the proposed levy.

Technical Paper 8: Renewable Energy

3.57 This Paper sets out the details to allow councils that host **new** renewable energy projects to keep the additional NNDR. The Paper sets out the renewable energy technologies that the Government proposes should qualify. The list includes wind and hydroelectric power, biomass technologies and photovoltaic, etc.

3.58 It is proposed that the definition of new is those projects entered onto the rating list from April 2013. Where existing property is extended or developed, then it is proposed that it is only the NNDR on the extended/developed part where the retained amount can apply, subject to certification of the Valuation Officer.

3.59 The Paper is also seeking feedback on the allocation of revenues with two options offered, either:

- The local planning authority retains it 100%, or

- It is split on the same lines as the New Homes Bonus, i.e. 20% goes to the upper tier authority.

Tax Increment Financing (TIF)

3.60 The Government proposes to implement TIF as a way of funding infrastructure investment to unlock economic growth and regeneration. Effectively, this would allow councils to borrow (within the Prudential Framework) against future growth in their NNDR tax base.

3.61 Clearly the technicalities and to some extent the uncertainty with the proposed Retention System would bring risks with borrowing, unless councils could be certain of keeping their income from growth. In particular, the growth element would need to be protected from the levy or a reset of the system.

3.62 The proposals recognise this risk and are consulting on two broad options. Firstly, to allow councils full flexibility to borrow within the prudential framework using pooling to mitigate risks and allow infrastructure to be developed across a wider area.

3.63 The second option would see the Government retaining control and imposing a limit on schemes but providing a guarantee against the income. This would then provide security for lenders and developers to provide funds.

3.64 Depending on the responses to this consultation, the Government intends to provide further detail on how a TIF scheme would work in practice.

Consultation Questions

3.65 A full list of the consultation questions is shown in **Appendix 1**; this is an extract from the Government's document. There are 33 individual questions (Appendix 1) with a further 63 across the eight technical papers.

3.66 Therefore, in formulating a response, it is recommended that the Committee focus on the broad areas and associated principles, but with regard to some financial modeling as detailed below.

4.0 <u>Financial Implications</u>

4.1 To inform the consultation, the government has provided a financial model which allows authorities to undertake some analysis. Clearly some assumptions have to be made about a detailed scheme, overall resources and there are several options giving numerous permutations within the technical papers.

4.2 However, it does provide an indication of whether the Council would pay a tariff or be a recipient of the top-up (certainly at the outset) and how estimated resources over a longer period pan out compared to current assumptions regarding grant in the Council's MTFP.

4.3 For illustration, an initial projection spanning 5-years have been made based on the following assumptions which are those in the financial model.

- Annual business rates growth is forecast to increase on average by 1.9% per year taking into account inflation, together with the annual historical movement in the Council's tax base for the period 2005/06 to 2009/10. This has actually **fallen** by 5% over that period.

- Current control totals for Formula Grant are used up to 2014/15 with the the base position from 2015/16 increased by inflation. It is assumed that this will be the overall pot for a retention scheme nationally.

- RPI is based on future forecasts issued by the Office of Budget Responsibility

- Current NNDR totals for individual authorities are used to calculate the "proportionate share" and upper/lower tier split as set out in Technical Papers Two and Three.

- Where the levy applies, this is a flat rate of 50p in the pound as used in the Government's model, i.e. 50% of growth in the NNDR yield over and the above the **original baseline** is paid as a levy.

- The Baseline Safety Net is at minus 10% as per the Government's model.

4.4 The projection is then based on indexing the tariffs and top-ups by RPI. The resulting five-year resource forecast is set out in the following table.

Growth 1.9%, Up rate Top-up by RPI, Levy on Growth above RPI, Safety Net plus RPI	**Baseline £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
NNDR Generated	1.588	1.615	1.644	1.675	1.709	1.745
Top-up	2.831	2.928	3.030	3.139	3.259	3.382
Equals pre-levy Income	4.419	4.543	4.674	4.814	4.968	5.127
Less Levy on Growth above RPI	0.000	0.000	0.000	0.000	0.000	0.000
Equals Post Levy Income	4.419	4.543	4.674	4.814	4.968	5.127
Plus Safety Net Payment	0.000	0.000	0.000	0.000	0.000	0.000
Plus Surplus on New Homes Bonus Returned	0.000	0.291	0.222	0.083	0.014	0.000
Plus 2013/14 set-aside adjustment	0.000	0.339	0.000	0.000	0.000	0.000
EQUALS RETAINED INCOME	**5.203**	**5.173**	**4.896**	**4.897**	**4.982**	**5.127**
% Change in retained income		**-0.58%**	**-5.35%**	**0.02%**	**1.74%**	**2.91%**

4.5 This initial forecast shows that based on the Council's current proportionate share of business rates, it would be a **recipient of the top up**. The baseline is included to provide a comparison to the current Formula Grant position.

4.6 Although NNDR is expected to increase, no levy is payable because it is forecasted to be below inflation. Although overall, retained income would fall in 2014/15 due to the one-off set-aside amount falling out, this is below 10% and so a safety net payment would not apply.

4.7 In the later years, overall yield increases, although the increases are below forecasted inflation in those years.

4.8 However, in this scheme, any growth above inflation would be subject to the levy.

4.9 The amounts for the New Homes Bonus are in addition to those being paid under the framework applying to that scheme. They represent a surplus in the system that is being returned to councils in proportion to their baseline starting point.

Comparison to the Medium-Term Financial Plan (MTFP)

4.10 The figures in the above table would become the Council's main funding stream for General Fund services. Currently, the Council's MTFP includes the amounts set out in the 2010 Spending Review for Formula Grant. A comparison to the forecasts in the above table is shown below.

Year	Approved MTFP (£m)	Forecasted NNDR (£m)	Difference (£'000)
2013/14	5,156	5,173	+17
2014/15	5,105	4,896	-209
2015/16	5,105	4,897	-208
2016/17	5,105	4,982	-123
2017/18	5,105	5,127	+22

4.11 The starting point in 2013/14 is fairly neutral as it broadly reflects the Formula Grant position after the top-up. Potentially, if there is little growth in the Council's NNDR tax base after the scheme is implemented, it could have fewer resources available compared to the current system.

Options for the Top-up

4.12 The critical point in the financial model is that the Council's top-up is up rated by inflation each year. The alternative option in the consultation is to fix this amount at the baseline. The result of this option is summarised in the following table.

Growth 1.9%, Fixed Top-up, Levy on all Growth, Safety Net fixed	Baseline £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
NNDR Generated	1.588	1.615	1.644	1.675	1.709	1.745
Top-up	2.831	2.831	2.831	2.831	2.831	2.831
Equals pre-levy Income	4.419	4.446	4.475	4.506	4.540	4.576
Less Levy on Growth above RPI	0.000	0.013	0.028	0.043	0.061	0.078
Equals Post Levy Income	4.419	4.433	4.447	4.463	4.479	4.498
Plus Safety Net Payment	0.000	0.000	0.000	0.000	0.000	0.000
Plus Surplus on New Homes Bonus Returned	0.000	0.291	0.222	0.083	0.014	0.000
Plus 2013/14 set-aside adjustment	0.000	0.339	0.000	0.000	0.000	0.000
EQUALS RETAINED INCOME	**5.203**	**5.063**	**4.669**	**4.546**	**4.493**	**4.498**
% Change in retained income		**-2.69%**	**-7.78%**	**-2.63%**	**-1.17%**	**0.11%**

4.13 In this scenario, the Council's position becomes much worse. Even with growth below inflation, it would become subject to the levy.

Growth

4.14 Clearly, growth is the key element as this is fundamental component of the scheme. Although the council's tax base has fallen marginally in recent years, this may not be a fair reflection of the future. For example, recent and pending business development in and around Swadlincote is not factored into these projections.

4.15 In addition plans and sites currently exist for future industrial and commercial development elsewhere in the District with the opportunity to deliver projects involving Renewal Energy. Clearly, this would improve the situation.

4.16 Therefore, a further iteration of the model was undertaken to illustrate the effects of growth – 4% per year which is slightly above the inflation forecasts included in the model. The result is shown in the following table.

Growth 4%, Up rate Top-up by RPI, Levy on Growth above RPI, Safety Net plus RPI	Baseline £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
NNDR Generated	1.588	1.652	1.717	1.786	1.858	1.932
Top-up	2.831	2.928	3.030	3.139	3.259	3.382
Equals pre-levy Income	4.419	4.580	4.747	4.925	5.117	5.314
Less Levy on Growth above RPI	0.000	0.005	0.009	0.013	0.015	0.018
Equals Post Levy Income	4.419	4.575	4.738	4.912	5.102	5.296
Plus Safety Net Payment	0.000	0.000	0.000	0.000	0.000	0.000
Plus Surplus on New Homes Bonus Returned	0.000	0.291	0.222	0.083	0.014	0.000
Plus 2013/14 set-aside adjustment	0.000	0.339	0.000	0.000	0.000	0.000
EQUALS RETAINED INCOME	**5.203**	**5.205**	**4.960**	**4.995**	**5.116**	**5.296**
% Change in retained income		**0.04%**	**-4.71%**	**0.71%**	**2.42%**	**3.52%**

4.17 This model illustrates the benefits of growth. The best outcome for the Council would be to have baseline top-up protected by RPI, with growth above inflation only, paid over to the levy. It is considered that this would provide incentives for economic growth balanced against a disproportionate amount having to be paid over to the levy.

The Levy

4.18 As regards the levy, no scenarios can be modeled apart from the flat rate option. If growth is high, a progressive or banded levy could be less beneficial to the Council. The flat rate levy does provide a fixed sum which is easier to calculate and brings more certainty for financial planning.

5.0 Conclusion

Formulating a Response to the Consultation

5.1 As previously highlighted, this scheme would become the main source of funding, certainly for district councils. The current Formula Grant system is certain as settlements are known in advance which aids financial planning. NNDR retention could provide more uncertainty and risk.

5.2 Given the broad principles, a starting point which is consistent with the current system, together with the financial modeling, it is recommended that the Committee consider at least the following points if it wishes to provide a formal response to the consultation.

- In principle, is a Retention Scheme welcome?
- Are the incentives and benefits in the proposals greater than the risks?
- Is their potential for too much volatility with the added risk that councils could lose resources from their starting point?
- Should the original tariffs and top-ups in the baseline be fixed or indexed linked?
- Should the measure of the business rates to calculate the original proportionate share in the baseline, be calculated on historic growth or in the year leading up to implementation?
- Should protection be provided to councils less able to generate additional NNDR income, i.e. and operate a levy to provide a safety net?
- The proposed levy – fixed, banded or progressive?
- Is a safety net the best option to protect councils from unforeseen circumstances such as business closures, changes in rateable value stemming from appeals, etc.?

- Should pooling be considered, who with and should all growth be kept in this arrangement to mitigate risk?

- Should planning authorities have some control over where non-billing authorities spend their share of growth generated locally?

- Should all growth from renewable energy projects be kept locally?

- Views on Tax Increment Financing – degree of central control/protection?

6.0 Community Implications

6.1 Depending on the outcome of the consultation, the Council will need to tie in the NNDR Retention Scheme with its Economic Development Strategy.

7.0 Background Papers

7.1 **Local Government Resource Review:**

http://www.communities.gov.uk/documents/localgovernment/pdf/1913801.pdf

7.2 **Local Government Resource Review: Proposals for Business Rates Retention**

http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/

List of consultation questions

Annex B: Summary of consultation questions

Chapter 3: A scheme for rate retention

Component 1: Setting the baseline

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

Q2: Do you agree with the proposal to use 2012-13 formula grant as the basis for constructing the baseline? If so, which of the two options at paragraphs 3.13 and 3.14 do you prefer and why?

Component 2: Setting the tariffs and top ups

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

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

Component 3: The incentive effect

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

Component 4: A levy recouping a share of disproportionate benefit

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

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

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

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

Q10: Do you agree that the levy pot should fund a safety net to protect local authorities:
i) whose funding falls by more than a fixed percentage compared with the previous year (protection from large year to year changes); or
ii) whose funding falls by more than a fixed percentage below their baseline position (the rates income floor)?

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

Q12: Which of the options for using any additional levy proceeds, above those required to fund the safety net, are you attracted to and why?

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

Component 5: Adjusting for revaluation

Q14: Do you agree with the proposal to readjust the tariff and top up of each authority at each revaluation to maintain the incentive to promote physical growth and manage volatility in budgets?

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

Component 6: Resetting the system

Q16: Do you agree that the system should include the capacity to reset tariff and top up levels for changing levels of service need over time?

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

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

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

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

Component 7: Pooling

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

Q22: What assurances on workability and governance should be required?

Q23: How should pooling in two tier areas be managed? Should districts be permitted to form pools outside their county area subject to the consent of the county or should there be a fourth criterion stating that there should always be alignment?

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

Impact on non-billing authorities

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

Chapter 4: Interactions with existing policies and commitments

New Homes Bonus

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

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

Business rates relief

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

Chapter 5: Supporting local economic growth through new instruments

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

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

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

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

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