Appendix 1

John Wheatley
Executive Director Corporate Services

My Refer : BRR
Your Ref :

Tamworth
Borough Council

Marmion House,
Lichfield Street, Tamworth,
Staffordshire B79 7BZ.

Direct Dial : 01827 709 252
Facsimile : 01827 709 271

E-mail : john-wheatley@tamworth.gov.uk

Andrew Lock
Settlement, Distribution & Policy Team
Communities & Local Government
Zone 5/J2, Eland House
Bressenden Place
London
SW1E 5DU
BRRtechnicalconsultation@communities.gsi.gov.uk

27th September 2012

Dear Andrew

Response to Business Rates Retention Technical Consultation

Please find attached a completed response template in relation to the above consultation – required by 24th September 2012.

In addition, we support the points made by the District Councils' Network (DCN) and make the following comments.

1. Incentives

The latest proposals seem to be a significant distance from where the debate started in relation to incentives. One of the original aims was to provide a powerful incentive for local government to help facilitate growth in its business base – the latest proposals seem to fall somewhat short of this due primarily to the 50% central share calculation and subsequently the operation of levies.

We feel that there is a diluted level of incentive funding is too little to have any real influence on behaviour (see also "levy methodology" and the 80 : 20 two tier split).

Whilst recognising that the system has to operate within the national spending limits, we would request that the system does not need to allocate the proceeds from growth in business rates on the same basis as baseline funding allocations – ie, the 50% central share does not need to be applied to growth funding and should be removed or set at a more reasonable level to provide a better incentive.

2. Levy Methodology and the 80 : 20 two tier split

We support the commitment that any growth in business rates is rewarded by paying 80% to Districts and 20% to Counties.

We were very pleased to hear the Secretary of State make an emphatic commitment to this at the recent LGA Conference.

It is therefore with great disappointment that the latest proposals do not uphold this commitment when the figures are worked through the model. In cash terms, the benefits from growth are not actually paid 80/20 due to the operation of the proportionate levy calculation – indeed; the two things are mutually exclusive. We would ask that this is looked at again so that the commitment made by the Secretary of State can be upheld in terms of the actual cash that ends up coming through the system. This further damages the incentive that it is so important to give to planning authorities.

3. Risk / Reward Shift

Whilst there is recognition that there is a shift of risk from central to local government as part of the proposals, the balance of risk and reward (as outlined in the consultation) feels unfair. Local government bears too much of the downside risk whilst not benefiting enough from upward growth - this links to the comments made earlier in the 'incentives' section.

4. Forecast Business Rates

It would be very useful if CLG could provide (at the earliest opportunity) more information about what forecast business rates assumptions are to be used when estimating the national receipts from Business Rates for 2013/14 (the base year).

It appears that Councils will only get their share of growth in the rates if that growth is over and above the Treasury's very optimistic expectations of the growth in the business rates yield.

This is an important point and clearly one that potentially has a major implication for all local authorities when trying to calculate future levels of business growth (and what level of assumed growth we need to exceed before the 'incentive retained share' calculation clicks in).

5. Substitute Funding

The level of the 50% central share together with its proposed usage is an issue which we would express concern about. The proposed practice of using the central share of business rates to fund existing local government grants (eg, Council Tax Benefits) is one of the reasons why there isn't sufficient incentive left in the system.

We would ask for a commitment that the previous practice of using 100% of business rates income to fund local government is maintained and that it is done in an open and transparent way. Part of this would need to involve continuing to separately identify funding such as Council Tax Support Grant so that it can be tracked against future demand and caseload to enable future discussions about its appropriateness to be undertaken.

6. Pooling

We would ask that CLG reconsiders the position to allow local authorities to opt out of a proposed pool (once the annual grant figures are announced) without it necessarily dissolving the rest of the proposed pool.

In light of the importance of stability in pools we support three guiding principles, namely;

a) Joining a pool should not impact on the Council's sovereignty in any way

b) The Council should be 'no worse off' from joining a pool

c) The rewards of growth should be distributed proportionately to those that have generated them

7. New Homes Bonus

The New Homes Bonus Scheme is increasingly being discussed as a powerful incentive to promote growth and supplement grant reductions.

Turning now to the separate consultation on the alternative we see no need to deduct the whole sum when its release will be over six years.

8. Expenditure Control Limits

The limits mentioned on page 22 are very different to those set out in the CSR. Clarification of this situation is needed.

Sufficient protection through damping arrangements for District Councils like Tamworth will be an essential part of the new system. Significant savings / cost reductions have already been made and when combined with a low local council tax level / taxbase means that, without protection to ensure authorities will not be significantly worse off, reductions in front line service provision would be a necessity.

We hope you will find all of the above of use and of course we would be happy to discuss these points at your convenience

John Wheatley
Executive Director Corporate Services & Section 151 Officer

24th September 2012

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