



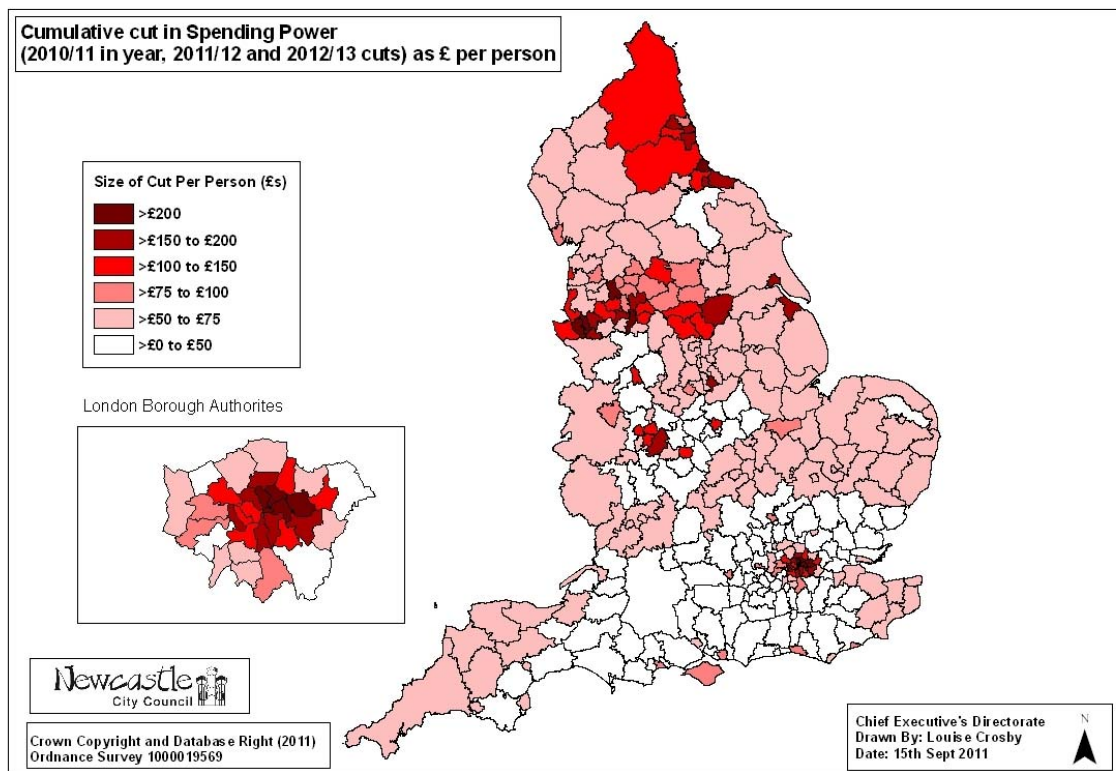
**LOCAL GOVERNMENT RESOURCE REVIEW  
RESPONSE TO MAIN CONSULTATION AND TECHNICAL PAPERS**

<b>Main Consultation Paper</b>	
<b>Q1 (p21)</b>	<b>What do you think that the Government should consider in setting the baseline?</b>
<b>Response</b>	<p><b>Resource Fairness, Equalisation and Need</b></p> <p>Before setting the baseline for a Business Rates Retention system any changes should result in a system that is fair, equitable and takes account of the different needs of different people and places, particularly where economic challenges remain significant. If the Government remains determined to repatriate Business Rates to local authorities, we consider that as part of setting the baseline that the starting point as the consultation states is 'fair' from the outset. For this to happen it is absolutely critical that full resource equalisation to the 2010/11 baseline is restored as a minimum and for this to then be used as the baseline for future allocation from 2013/14. If this does not happen and the system starts out with significant losers, the workings of the system from that point on become peripheral and irrelevant, for losing authorities, as this will be set against a significant initial and permanent loss in resources. The proposed system of Business Rates repatriation contains a myriad of as yet un-quantified variables that have a risk that authorities in areas with strong economies will grow rapidly at the expense of those whose economies are weaker, potentially creating a spiral of decline. Due consideration and sufficient time allowed to fully assess the impact of these proposals is therefore essential in ensuring that the potentially fair reaching consequences secure a fair outcome for all authorities. The following narrative and analysis demonstrate the basis for this determination.</p> <p>'Fairness' was seen as a key principle of local government finance settlements by Government for many years. Resource Equalisation, to rebalance authorities' funding for differences in their Council Tax base, has been an important factor in achieving fairness and a key component of the local government finance system since the introduction of Council Tax in 1993/94. It has narrowed funding differences around the country which has been beneficial to councils in the North East of England with comparatively low Council Tax bases.</p> <p>The changes to resource equalisation in the most recent 2011/12 to 2012/13 local government finance settlements have had a significant adverse impact on the North East and resource equalisation as a principle of fairness appears to have been ignored and eroded as more recent additional priorities have grown in favour such as stability, predictability and incentivisation.</p> <p>The recent cut in resource equalisation has shifted significant resource from poorer more deprived areas to more affluent areas of the country. This means that from this year councils in poorer areas are having to make deeper cuts in services than in wealthier areas and consequently will be unable to provide the same level of service for the same standard level Council Tax.</p>

### Higher Cut in Grant in Poorer Areas

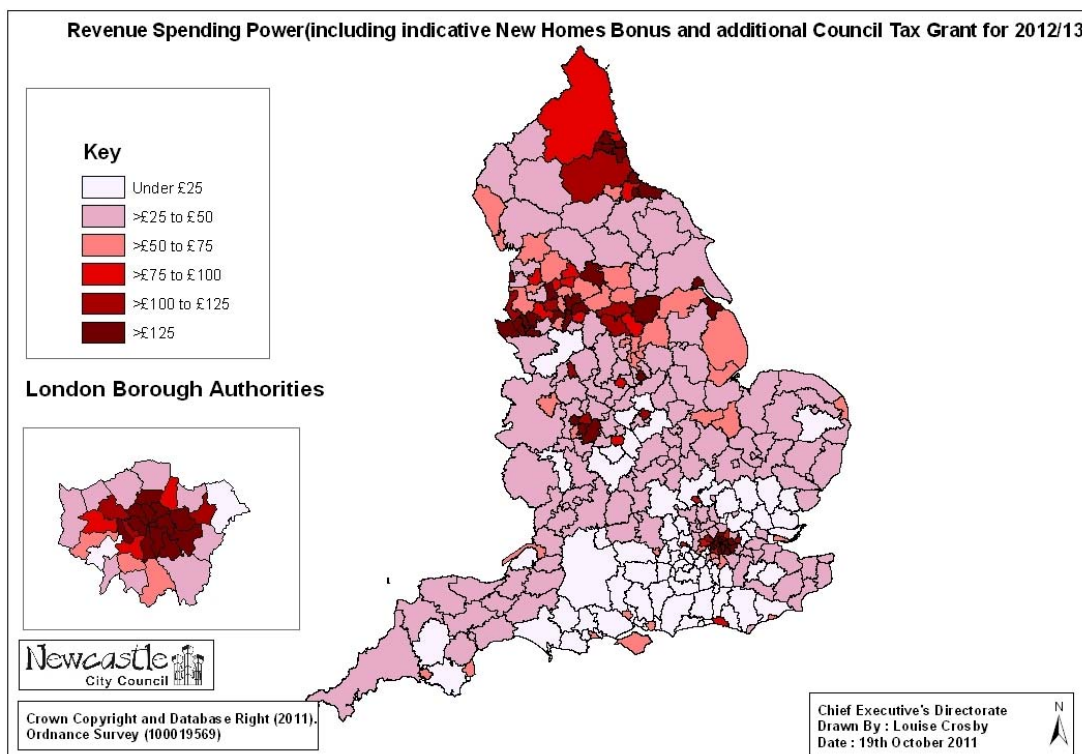
The reduction in resource equalisation is part of the reason why there are much bigger cash grant cuts in the poorer areas compared to the wealthier areas of the country. This explains part of the difference that can be seen in the following heat map, which shows the cut in spending power per head of population for council services (including fire funding but excluding police funding) from the original revenue funding for 2010/11, including in year revenue grant cuts in 2010/11 as well as the changes in 2011/12 and the changes in the provisional settlement for 2012/13. It shows that while the cut in spending power is under £50 per person for many areas of the country, the cuts increase to over £150 and in some cases more than £200 per person in some of the most deprived Northern and Inner London councils.

**Map 1: Change in Spending Power per Head of Population 2010/11 to 2012/13**



By including the additional grant for New Homes Bonus Grant and recently announced additional Council Tax Freeze Grant into the cumulative spending power cuts analysis, it can be seen that despite receiving additional grant across all areas the gap between North and South broadens due in part to both schemes benefiting authorities more with higher Council Tax bases than authorities with lower Council Tax bases.

**Map 2: Revenue Spending Power (including indicative New Homes Bonus and additional Council Tax Grant for 2012/ 13**



At a regional level analysis has shown that the South East region, already experiencing the smallest spending power cuts in England, will also receive the most benefit from the New Homes Bonus and Council Tax Freeze Grant reducing their cut by around 76% to around an average cut of -£31 per head of population. This is due to both schemes benefiting higher taxbase authorities more than low tax base authorities and widening the funding gap. In stark contrast from the South East region, the North East, North West and Yorkshire and Humber still see average spending cuts of well over -£100 per person, more than three times the average cut for Yorkshire and Humber and in the region of four times higher for the North West and North East. The gap between the North East and South East broadens from an already significant -£81 to -£89 per head of population.

**Table 1: Total area cut 2010/11 in year cuts, 2011/12 & 2012/13 Cuts by Region**

	MAP 1 Spending Power Cut 2010/11 to 2012/13 Cumulative change per person	MAP 2 Spending Power Cut 2010/11 to 2012/13 Cumulative change per person
EAST	-£60	-£38
EAST MIDLANDS	-£80	-£60
NORTH EAST	-£135	-£120
NORTH WEST	-£156	-£133
SOUTH EAST	-£54	-£31
SOUTH WEST	-£71	-£44
WEST MIDLANDS	-£113	-£89
YORKSHIRE & HUMBER	-£132	-£107
LONDON AUTHORITIES	-£120	-£97

## Main Consultation Paper

ENGLAND

-£97

-£75

At an authority level Table 2 demonstrates that all North East councils are experiencing significant spending power cuts even after incorporating for potential grant from New Homes Bonus and additional Council Tax Freeze Grant. Before taking account of the potential to receive additional grant income Wokingham's cut was significantly less than any of the North East Councils at approximately -£20 per head of population. This is in stark contrast to Hartlepool's spending power cut at a massive -£200 per head of population, a cut of ten times more per head of population. As demonstrated at the regional level this gap broadens even further when the New Homes Bonus and additional Council Tax are included in the analysis with Wokingham's cut reducing to a mere -£1 per head of population compared to Hartlepool's still extreme -£183 per head of population.

**Table 2: Total area cut 2010/11 in year cuts, 2011/12 & 2012/13 Cuts North East Councils**

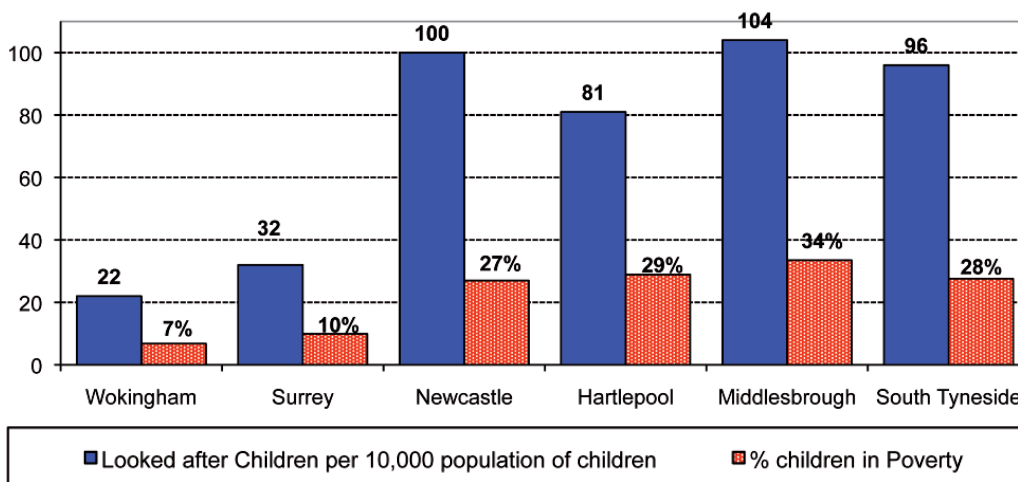
	MAP 1	MAP 2
	Spending Power Cut 2010/11 to 2012/13	Spending Power Cut 2010/11 to 2012/13
	Cumulative change per person	Cumulative change per person
<b>North East Councils</b>		
Darlington UA	-£73	-£57
Durham UA	-£116	-£100
Northumberland UA	-£103	-£85
Gateshead	-£148	-£136
Newcastle-upon-Tyne	-£157	-£144
North Tyneside	-£93	-£77
South Tyneside	-£195	-£183
Sunderland	-£158	-£145
Hartlepool UA	-£200	-£183
Middlesbrough UA	-£172	-£156
Redcar & Cleveland UA	-£152	-£139
Stockton-on-Tees UA	-£117	-£99
* <sup>1</sup> Wokingham	-£20	-£1

In Wokingham, there are 22 looked after children per 10,000 population. In Middlesbrough, which is the 9th most deprived local authority area in England (IMD 2010), there are 104 per 10,000 population - almost five times higher. There are almost seven times more children in Middlesbrough on free school meals than in Wokingham, and double the amount of home, residential and nursing care. Whilst Middlesbrough experiences spending power cuts of over £150 per head of population, Wokingham are experiencing cuts significantly below £50 per head of population.

Chart 1 gives a few examples of the difference amongst different authorities in the number of looked after children, per 10,000 population of children and the % of children in poverty and shows the significant variance between deprived and less deprived areas, which is an example of the very different cost pressures facing deprived councils.

<sup>1</sup> Wokingham has been used as it is often an example quoted by Ministers.

Chart 1



The adjustments for different resources and needs are the reason why different councils can receive a significantly different amount of grant per person and it is justifiable and fair that these differences exist. They ensure that basic national standards of social care, delivered by councils, are the same across the country.

This is why the scale and distribution of spending power cuts demonstrated are so unfair and an alternative system needs to deliver fairness and reverse the erosion of equalisation.

To demonstrate how far resource equalisation has been eroded in the most recent settlement, the figures in Table 3 below show the regional amount of the Relative Resource Amount for 2010/11 to 2012/13 and the change over the two years. As each region is a different size, a change per person has been calculated by dividing the total change by the population used in the 2012/13 grant settlement. This shows the much higher level of gain in the wealthiest regions and the lowest gains in the poorest regions.

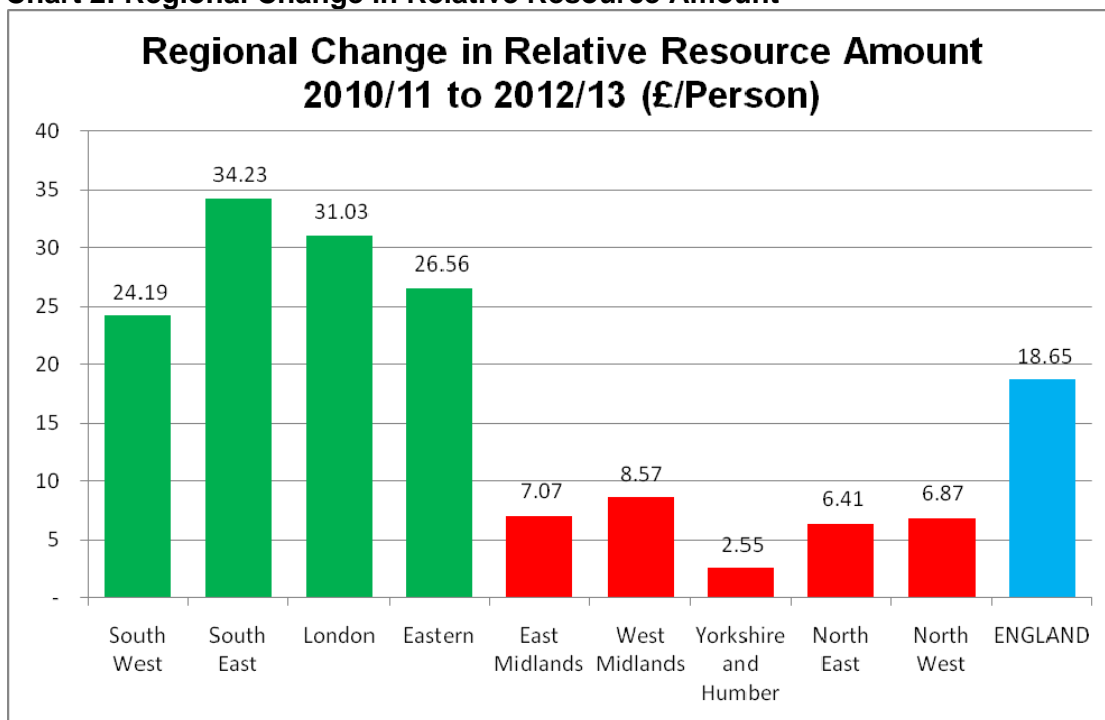
Table 3: Relative Resource Amount 2010/11 to 2012/13

	2010/11	2011/12	2012/13	Change from 2010/11 to 2012/13		2012/13 Population
	£m	£m	£m	£m	£ /Person	People
<b>South East</b>	<b>1,538.60</b>	<b>1,365.60</b>	<b>1,243.20</b>	<b>295.4</b>	<b>34.23</b>	<b>8,630,036</b>
London	1,419.50	1,279.40	1,173.10	246.3	31.03	7,937,553
Eastern	-843.9	-754.8	-686.1	157.8	26.56	5,942,206
South West	-762.5	-693	-632.2	130.2	24.19	5,382,808
West Midlands	-500.5	-491.7	-453.2	47.3	8.57	5,514,828
East Midlands	-366.4	-362.6	-334.1	32.3	7.07	4,574,690
North West	-595	-596.4	-547.2	47.8	6.87	6,965,383
North East	-171.2	-166.2	-154.4	16.7	6.41	2,611,669
Yorkshire & Humber	-351.3	-366.3	-337.6	13.7	2.55	5,394,792
<b>ENGLAND</b>	<b>6,548.80</b>	<b>6,076.10</b>	<b>5,561.20</b>	<b>987.7</b>	<b>18.65</b>	<b>52,953,965</b>

The difference between the benefit of this change to the wealthier South East is over £15 per person compared to the England average but more significantly when compared to the poorer Yorkshire and Humberside is over £31 per person.

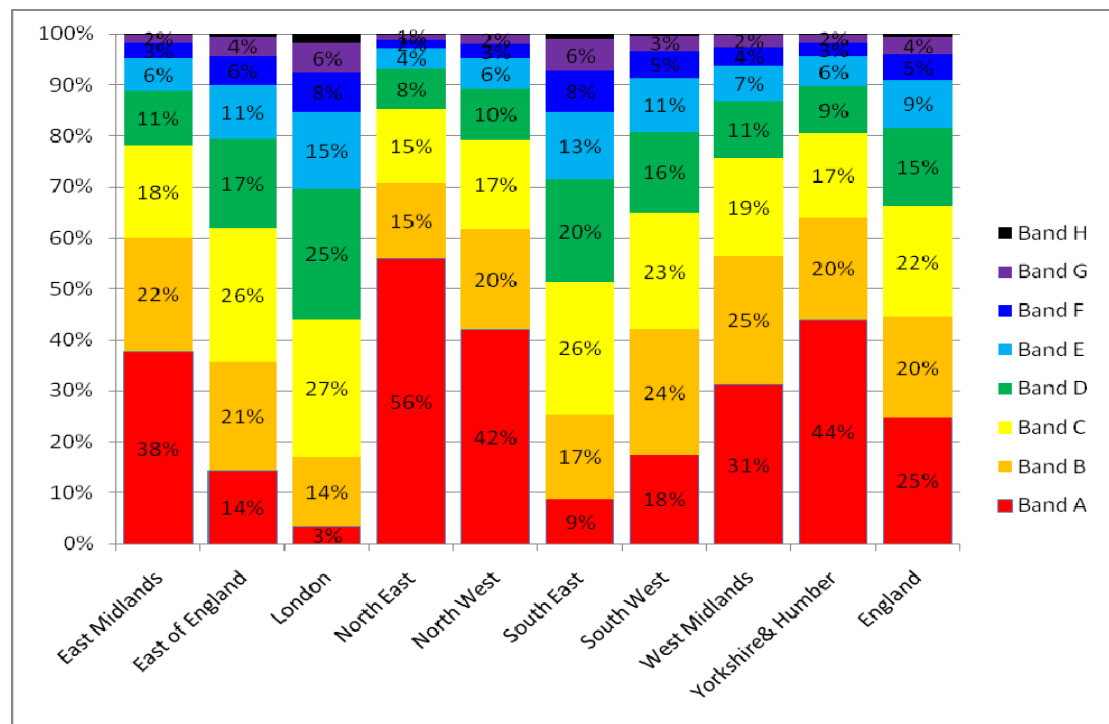
The regional change in resource equalisation is significant, as can be seen in Chart 2.

**Chart 2: Regional Change in Relative Resource Amount**



Equalisation has ensured that funding was distributed to reflect differences in spending needs and costs, as well as to equalise for differences in the ability to generate local funding from setting a standard Band D Council Tax. In future years to provide the same standard level of service poorer councils will either have to charge higher Council Tax, which may not be possible if Council Tax is frozen or capped or the more likely alternative will be having to provide a lower level of service, than in a wealthier areas, resulting in 'poverty postcode services levels'.

**Chart 3: Proportion of Council Tax Banded Properties in each region**

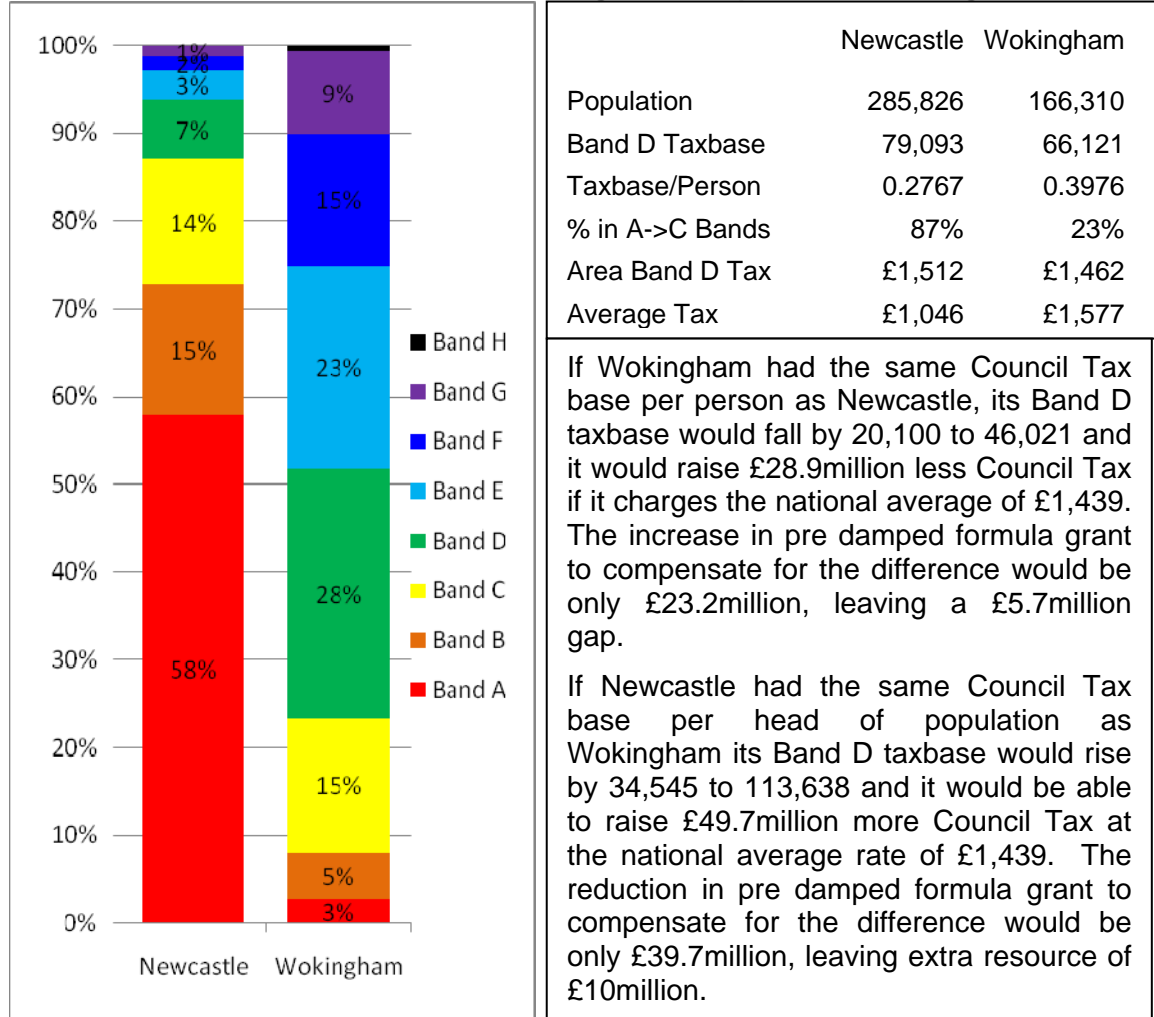


The North East has 56% of its properties in Band A and 86% in Bands A to C. It can raise significantly less Council Tax income from its properties than a wealthier region such as the South East, which has 9% of its properties in Band A and only 51% in Bands A to C.

With these very evident differences, adequate resource equalisation is critical. This is important because Council Tax is a significant source of funding for key statutory services such as social care services as well as discretionary local services. If equalisation for significant variations in Council Tax base does not take place, councils in poorer areas will not be able to generate adequate funding to provide a standard level of statutory service without a significant increase in Council Tax levels. As Council Tax levels are constrained by central Government’s Council Tax freeze level of 2.5% or capping arrangements currently at 3.5%, this would lead to bigger budget cuts in poorer areas and unfair differential levels of service provision between wealthier and poorer areas of the country.

Using a specific example by comparing Wokingham with Newcastle upon Tyne the tax base is very different as highlighted below using the 2010 mix of tax bands and figures for 2011/12. The impact of swapping the different taxbases is modelled and the significant difference in pre-damped spending power of £5.8million in one case and £10million in the other illustrates clearly the extent to which the Resource Equalisation adjustment is no longer effective.

**Chart 4: Illustration, Newcastle and Wokingham – Impact of Switching taxbases**



The principle and the adjustment for resource equalisation has generally and broadly held true and been reasonably effective up to 2010/11. The cut in resource equalisation also has unintended consequences one of which is that councils are no longer adequately compensated for the loss of Council Tax income as a result of student exemptions from Council Tax. It means that councils can no longer provide a similar level of service by charging the same band D Council Tax.

**Wider Failure to adjust for Resource Equalisation**

The decline in resource equalisation can be seen in a number of other Government decisions about resource distribution:

- The way in which the Housing Bonus is calculated, which gives more money to areas with higher Council Tax bases by top slicing formula grant with no resource equalisation adjustment. *This is discussed in further detail in response to Questions 26 and 27 of the main consultation and TP1 Question 2.*
- The calculation of the Council Tax Freeze Grant which allocates the 2.5% compensating grant uplift with no adjustment at all for resource equalisation.
- For Academies the nature of the grant cut to fund them regardless of the number of academies within an authority.
- Another issue for councils in terms of Academies is not only do authorities with below average numbers of Academies lose funding through the top slice but they

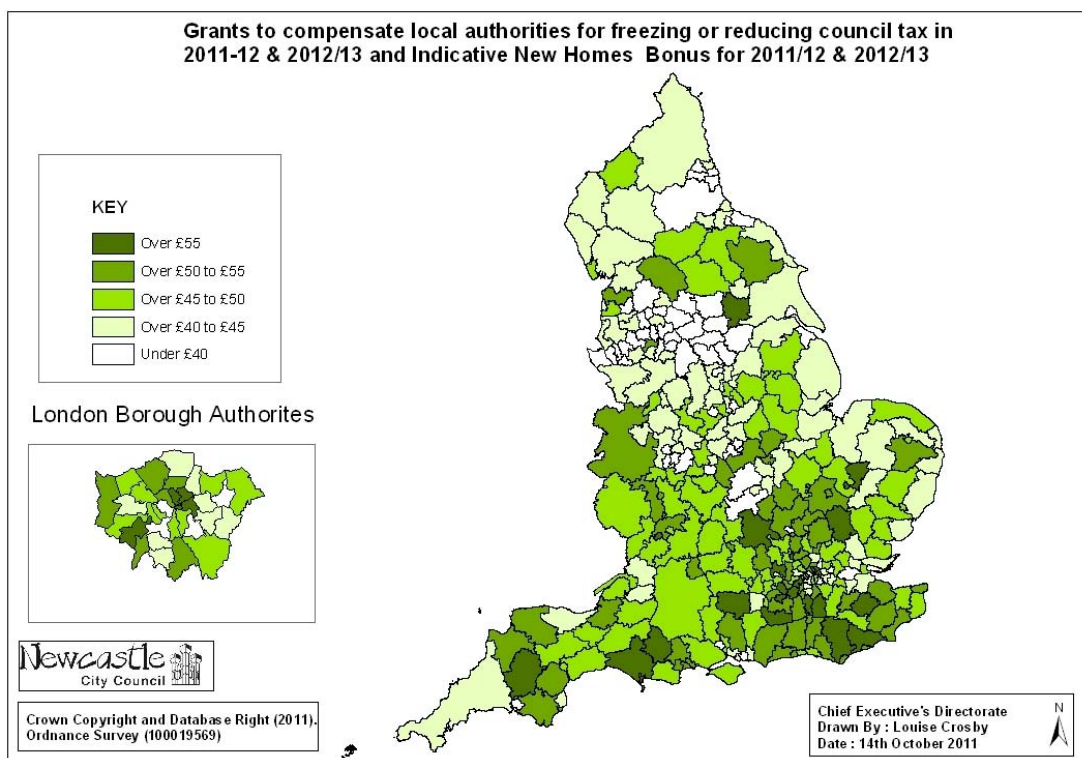
also lose Business Rates funding from the charitable status of the Academy, essentially the council takes a double hit in terms of funding loss.

- Unintended consequence of the failure to compensate adequately for Student Council Tax Exemptions.
- Divergence – as growth rates will naturally vary between areas, after only a few years without any intervention the inequalities between wealthy areas and poor areas with weak economies will widen, resulting in councils being unable to continue supporting services to their communities at the current level. *This issue is discussed in further detail in response to Question 4 in the main consultation.*

**Council Tax Freeze Grant and New Homes Bonus**

The following heat map of England demonstrates that for years 2011/12 and 2012/13, through having no element of resource equalisation built into the way the bonus from these schemes is distributed, Council Tax Freeze Grant and the New Homes Bonus Grant are being distributed in favour of areas with higher tax bases such as the South East.

**Map 3: Distribution of Council Tax Freeze Grant and New Homes Bonus 2011/12 and 2012/13 per head of population**



The variation in the level of exemptions for Council Tax for students is currently compensated for through the resource equalisation adjustment, with the taxbase of each council being divided by the total population including students to arrive at the taxbase per head of population. The reduction of resource equalisation in 2011/12 and its further erosion in the 2012/13 grant settlement means that it will significantly undermine the effectiveness of the compensation for the student Council Tax exemption. This may have significant implications for authorities with above the average level of Student Council Tax exemptions as this was the mechanism for compensating councils for not receiving Council Tax from exempt student properties.

**Academies**

We do not accept the Department’s view that the grant transfer can be matched by savings/income and will be neutral. It is our view that the basis and justification for the level and the method of the funding transfer is unreasonable and ill conceived and that the compounding impact of what is in effect an additional grant cut will adversely impact upon the poorest and most deprived areas of the country, already facing the deepest cuts.

**Student Exemptions**

The extent to which Council Tax resource equalisation was eroded during the most recent settlement has been significant with many people unaware of the scale of the impact of the changes that have occurred. This is partly due to the way resource equalisation is shown in the Four Block Formula Grant model giving the superficial impression that it has not changed as the proportion allocated to the resource has been unchanged at -26.6%.

The reality is very different because the cash amount of resource equalisation adjustment has been cut by almost £1billion – from -£6.55billion in 2010/11to -£5.56billion in the 2012/13 provisional settlement.

The effect of this, as demonstrated in Table 4, is that while in 2010/11 Council Taxbases appear to have been equalised at the margin to an average Band D tax of approximately £1,415 (slightly less than the national average Band D tax of £1,439), this appears to fall significantly to around £1,035 in the 2012/13 provisional settlement. Council Tax bases are relatively unchanged and Band D taxes were frozen in 2011/12 and may also be frozen in 2012/13 and while the need for resource equalisation has not reduced, the equalisation amount has been cut significantly.

**Table 4: Effect of changing the taxbase by 1**

<b>Effect of change in Taxbase by 1 average Band D Taxbase</b>						
Data from FG Grant Models	<b>NEWCASTLE</b>			<b>WOKINGHAM</b>		
	<b>Low Council Taxbase Authority</b>			<b>High Council Taxbase Authority</b>		
	<b>TAXBASE SHARES</b>			<b>TAXBASE SHARES</b>		
	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>
Formula Grant - pre damping	£157.172	£161.621	£147.479	£8.357	£10.448	£9.961
Population	263,924	285,826	287,834	154,372	166,310	168,433
Band D Taxbase	77,978	79,093	79,569	66,792	66,121	66,561
Taxbase per head of pop	0.2955	0.2767	0.2764	0.4327	0.3976	0.3952
Taxbase -1	<b>77,977</b>	<b>79,092</b>	<b>79,568</b>	<b>66,791</b>	<b>66,120</b>	<b>66,560</b>
Revised FGrant - pre damping	£157.173	£161.622	£147.480	£8.358	£10.449	£9.962
Revised Tbase per head of pop	0.2955	0.2767	0.2764	0.4327	0.3976	0.3952
Formula Grant Band D Difference	£1,243	£1,042	£928	£1,247	£1,040	£927
Unitary	87.80%	90.23%	89.86%	87.80%	90.23%	89.86%
<b>Total</b>	<b>£1,416</b>	<b>£1,155</b>	<b>£1,033</b>	<b>£1,421</b>	<b>£1,152</b>	<b>£1,032</b>
Average Band D	£1,439	£1,439	£1,439	£1,439	£1,439	£1,439
	-1.6%	-19.8%	-28.2%	-1.3%	-19.9%	-28.3%

This significant cut in Council Tax resource equalisation in two years (of around 27%) results in higher cash grant cuts in the areas with the lowest taxbases. These are often the most deprived areas in the country and the regions with the lower taxbases are the North East, the North West and Yorkshire and Humberside. The effect is resource

redistribution from poorer to wealthier areas of the country.

For authorities with greater numbers of students it will also result in a larger cut in funding to councils. This is because the resource equalisation arrangement is what compensates councils for the loss of tax income due to the national Council Tax exemption for student properties and this will have fallen by around £380 for every Band D equivalent student exempt property by 2012/13.

**Table 5: Total Student Exemption Numbers and Potential Loss of Resource**

	<b>Total - May 2010</b>	<b>As a % of the Taxbase</b>	<b>Loss of Resource Equalisation £m</b>
Average	813	1.4%	-£0.31
Manchester	15,087	11.6%	-£5.73
Leeds	11,729	4.9%	-£4.46
Nottingham UA	9,772	12.5%	-£3.71
Sheffield	9,519	6.0%	-£3.62
Birmingham	9,428	3.1%	-£3.58
Liverpool	7,512	5.6%	-£2.85
Newcastle-upon-Tyne	7,449	9.4%	-£2.83
Leicester UA	6,493	8.1%	-£2.47
Bristol UA	5,863	4.3%	-£2.23
Camden	5,100	5.2%	-£1.94
Wokingham UA	181	0.3%	-£0.07

Table 5 shows that Newcastle for example has an above average number of Band D equivalent student exemptions due to having two universities and a major further education college in a relatively small city. The loss per student exemption for Newcastle is significant and equates to approximately £2.83m and over 9% of its total taxbase, particularly when compared to the average loss of -£0.31m and authorities such as Wokingham with much lower student numbers (181) and whose cut in this area is much lower at -£0.07m and equates to less than 1% of its taxbase.

**The solution also highlighted in Technical Paper 1 Question 15**

Having considered the issue of the funding baseline for the 2013/14 resource system we are convinced that the 2012/13 settlement is not a fair starting point and that further changes need to be made to the baseline. One such change as in response to Question 15 could for example be to restore the cash value of the resource equalisation adjustment to its 2010/11 level of -£6.55billion as a minimum. This is likely to require an increase in the resource equalisation proportion from -26.6% to around -32.6%, with a compensation +6% increase in the proportion for the needs and/or the central adjustment.

Without a correcting adjustment the significant reduction in resource equalisation means that councils can no longer provide the same level of service by charging a similar Band D tax. With an effective cap on Council Tax increases, this means that the North East has to make deeper cuts in its revenue budgets, thereby putting greater pressure on the delivery of core services.

**Conclusion**

In conclusion the cumulative impact of all these individual decisions by Government together with local circumstances of locality and demographics have created the 'perfect

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	<p>storm' serving to have such a damaging effect on the level of North East councils funding and inability to raise local resource in the future that unless resource equalisation is fully restored to its 2010/11 level or any recognition of the issues surrounding the ability to grow Business Rates is not fully and appropriately considered in the new system the damaging effects will become permanently embedded in a new system.</p> <p>Any new system should have regard to the principles of fairness and equity to ensure that the funding an authority has reflects the authority's need to provide services and its ability to raise sufficient local taxation to deliver those services. Sir Michael Lyons in his 2007 Review recognised the role for equalisation between areas while retaining the scope to introduce financial incentives for authorities. Ignoring the restoration of equalisation in the starting position for deprived authorities with low taxbases would put these authorities at a distinct disadvantage from the outset. Whilst providing an incentive for local economic growth is important in communities, having sufficient resource to enable authorities to provide an equivalent level of service for residents across England, regardless of the resource base of their local areas and to ensure that services between authorities do not fall victim of the post code lottery, is considered essential. Therefore, fairness must remain as a key principle in any new system and equalisation must be addressed in the starting baseline otherwise distribution will remain so unfair that it will be seen by many councils as being an unacceptable starting point for the distribution of funding, this is the position for North East councils.</p>
<b>Q2 (p21)</b>	<b>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?</b>
<b>Response</b>	<p>No, ANEC authorities do not agree with 2012/13 being used as the basis for constructing the baseline in its current form, but Option 3.14 with a more equitable baseline position would be preferred.</p> <p>In terms of fairness, we do not believe that 2012/13 presents a good solution as it permanently embeds the effects of the poor settlement years in 2011/12 and 2012/13, until the system is reset. This negates any previous objective assessment of needs and resources with the principle of equalisation having been eroded in arriving at the 2012/13 settlement position. We would urge Government to use the 2010/112 level of funding as the basis for constructing the baseline as this will restore that equalisation.</p> <p>Choosing Option 1 paragraph 3.13, adjusting the 2012/13 allocations in proportion to the new control totals with no further changes, does nothing to restore equalisation which is fundamental to the starting position for any new system of local authority funding. Furthermore it would not update for data and technical changes which is essential for deprived authorities. Therefore, once a suitable baseline has been established a process of making technical updates to data and formulae, as in paragraph 3.14, would be essential.</p>
<b>Q3 (p23)</b>	<b>Do you agree with this proposed component of tariff and top up amounts as a way of re-balancing the system in year one?</b>
<b>Response</b>	<p>Yes.</p> <p>It is important to include a process of adjustment that recognises that some authorities have a stronger business tax base than others and that some authorities receive more in formula grant. We would therefore support a component that addresses imbalances within the system for year one.</p>

<sup>2</sup> Detailed response to the baseline included in response to Question 1 of the main consultation.

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**Q4 (p23) Which option for setting the fixed tariff and top up amounts do you prefer and why?**

**Response** North East councils believe it is essential from the two options put forward in the consultation Option1, to uprate the year one tariff and top up amounts by RPI.

Although index linking the tariffs and top ups will limit increased growth for tariff authorities it is important that those requiring a top up are afforded this protection so that their funding levels do not fall further behind each year, further eroding the principle of equalisation. It is necessary for an inflationary increase to be built into the system for authorities with high needs and low business base who therefore remain reliant on the top up to fund their services. Authorities need to remain able to fund services such as social care that have increasing numbers and whose service costs are increasing beyond inflation. It is therefore essential that funding keeps pace, particularly as many of these authorities are the same authorities that will experience the most difficulty in growing their business base at the same rate as authorities that currently have a strong business tax base.

While Option 2 would offer more of an incentive for growth, these external factors outside the control of North East councils could further weaken our position. Tariff councils are likely to be in a stronger position from the outset and widening the gap by using through Option 2 will only compound this problem.

**Case Study - Hartlepool**

Table 6 illustrates the potential real term reduction in funding for Hartlepool for three RPI scenarios, the first based on the Bank of England target for RPI of 2%, the second with annual RPI of 3% and the third RPI of 4%

**Table: 6 Real term Funding Reduction**

Annual RPI assumption	Annual real term funding cut if tariffs and top ups not uprated for RPI	Cumulative real term impact over 3 years if tariffs and top ups not uprated for RPI
2%	£0.26m	£0.8m
3%	£0.39m	£1.2m
4%	£0.52m	£1.6m

The analysis in the above table clearly demonstrates the importance of uprating tariff and top up amounts to maintain the financial stability of local government as a whole, not just those authorities which benefit from higher growth in Business Rates. Uprating both tariff and top up amounts would help ensure that some of the benefits of national growth, which is often driven by national factors and investment in national infrastructure, benefitted all authorities. The annual indexing would also help mitigate the inflationary and demographic pressures facing all councils, particularly those responsible for providing children’s and adult services.

The consultation proposals clearly have significantly different implications for different authorities, reflecting their existing financial positions and service needs. For example, comparing Hartlepool, in Table 7, an area with high need and low tax base, with Wokingham, an area with low need and high tax base, it is evident that different authorities will be able to manage the position considerably easier and with much less of an impact on services than other areas.

**Table 7: Comparison of Hartlepool and Wokingham**

	Hartlepool	Wokingham
1) Deprivation measures:		
- Percentage of Council Tax paid as Council Tax Benefit	28%	6%

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- Looked after Children per 10,000 population of children	81	22
- Children in Poverty	29%	7%
2) Financial measures		
- Percentage of net budget funded from Council Tax	43%	80%
- Percentage of properties in Council Tax Bands A and B	73%	8%
- Percentage of properties in Council Tax Band D	7%	28%

The consultation proposals to repatriate Business Rates seem focused on financial issues and incentivising local authorities to promote growth. We believe there are much wider issues to take into account around the wide range of services local authorities provide which affect people's lives – caring for and safeguarding adults and children, creating the conditions for economic growth, skills, health, transport, roads, environment, housing, planning and leisure to name but a few. These are essentially quality of life issues and at the heart of localism. None of these important issues relates directly to Business Rates income and many of these vital services have no impact on increasing this income.

### Divergence

As noted in our response to Question 1 of the main consultation it is critical that a fair starting baseline is put in place for a new Business Rates scheme. However, regardless of this if top ups and tariffs are not updated by RPI there will be a divergence of funding between those areas with strong taxbase growth and those with low taxbase growth.

After only a few years growth rates will differ but without appropriate intervention the inequalities between authorities will increase, with the consequentially detrimental impact on services and outcomes in areas least able to grow.

If the option not to update the top ups and tariffs by RPI is implemented, divergence in funding will increase, with stronger authorities receiving even more resources unrelated to their activities. Analysis has been carried out by SIGOMA colleagues that indicated, before levy and safety net, assuming equal growth we could see differences in cash growth for both Business Rates and Council Tax over the first four years of between 20% and 300%. We clearly believe that this level of divergence is unintended and is certainly unfair.

**Q5 (p23)**

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

**Response**

Whilst the proposed system will have an incentive effect, Government is misguided in thinking that authorities have not for many years, been working together and with the business community to promote economic development in their areas and North East councils are no exception to this. Councils have promoted economic development in their areas for many years encouraging business to create jobs and promoting wealth in their communities as the LABGI scheme is testimony to. Although there may have been flaws within the LABGI business growth incentive it did recognise authorities differing ability to grow their Business Rate base. Therefore, recognition of an authority's ability to grow its business base within a new system should also be considered.

Local factors, market forces and policy decision will all however, impact on how successful councils are in achieving successful business growth. Depending on the actual changes implemented for Business Rates, the protection built into the new system, the links with Council Tax Benefit reform, Council Tax referendum and the New Homes Bonus, these incentives may only benefit authorities in more affluent areas of the country which have previously experienced higher growth and are likely to come out of the recession better and more quickly. Areas serving more deprived communities, like North East councils, are unlikely to see any significant financial benefits and in reality are likely

to face greater challenges as a result of these changes.

**Table 8: Change in National Non Domestic Rates Receipts**

	Total NNDR Receipts	Total NNDR Receipts	Change from 2009-10	Rank	Change per head of Population	Rank
	2009-10	2010-11	2009-10		£	
	£000s	£000s	£000s		£	
<b>Top Increase in per head of population</b>						
City of London	639,649	678,883	39,234	2	£3,035	1
Westminster	1,123,633	1,236,386	112,753	1	£429	2
Camden	337,635	368,575	30,940	3	£130	3
Southwark	157,175	173,997	16,822	4	£57	4
Hillingdon	303,404	317,564	14,160	5	£53	5
Kensington and Chelsea	213,170	222,191	9,021	7	£51	6
<b>NORTH EAST COUNCILS</b>						
Northumberland	61,667	64,238	2,571	26	£8	44
Stockton-on-Tees	67,843	68,853	1,010	46	£5	61
Sunderland	74,834	76,181	1,347	39	£5	64
Newcastle upon Tyne	128,232	129,293	1,061	45	£4	75
Redcar and Cleveland	40,695	40,222	-473	167	-£3	161
South Tyneside	27,067	26,305	-762	194	-£5	184
Durham County*	99,754	96,991	-2,763	293	-£5	189
Darlington	31,031	30,441	-590	178	-£6	197
Hartlepool	24,801	24,179	-622	184	-£7	213
Gateshead	77,005	75,660	-1,345	243	-£7	216
North Tyneside	53,578	51,958	-1,620	264	-£8	228
Middlesbrough	39,688	38,085	-1,603	260	-£11	258
Rank 1 = Highest						

Government policy decisions also impact on an authorities' overall business base, such as national transport and other infrastructure projects. Table 8 above demonstrates that eight of the twelve North East councils experienced negative growth between 2009/10 and 2010/11. The highest growth per head of population was an increase of £8 per head of population. When comparing this with high growth authorities such as Southwark, Hillingdon and Kensington and Chelsea it can be seen that they have experienced around between 6 and 7 times more growth, compared with Camden 16 times and Westminster who have experienced more than 50 times the level of growth of Northumberland.

Whilst nationally Business Rates income is expected to exceed formula grant during the next few years this is not guaranteed to be the case for North East councils. Due to geographical and demographical factors many authorities, including North East councils, are and will remain limited as to how far they are able to grow their business base. These limitations will always mean that it is going to be easier for some councils such as the London authorities shown above to attract high-rateable value business than others.

The incentive may in fact work by increasing growth in the easier to grow areas and conversely have the opposite effect of reduced growth in those areas already finding it hard to grow resulting in a spiral of decline.

Conversely, unless authorities pool together, which may not be desirable or practical, it may well operate as a disincentive. It could reduce the appetite for councils to work jointly on developments with authorities striving to secure developments alone to retain the whole of the associated business growth.

**Local circumstances impacting on growth**

As noted must also be recognised that some authorities like the North East have barriers due to local circumstances outside that will always mean it will be difficult to accommodate future business growth, including:

- The rural nature and sparsity of the area.
- Areas covered by national park.
- The volume of public sector compared to overall business base.
- Limitations of transport infrastructure.
- Reliance on a small number of large business.
- Limited lifetime of some larger business.

The following case studies serve to highlight some of these barriers.

**Hartlepool** currently receive £13m more back in than it collects (£27m) this equates to:

- 18 times the Business Rate they would collect by opening 18 new supermarkets (which is not a practical consideration in a town serving around 92,000 residents) or
- 3 times the annual rates collected from the Hartlepool Nuclear Power station.

**Newcastle** currently receive £39m more formula grant than it collects, this equates to:

- Opening 16 new airports, 18 new hypermarkets or 25 football stadia.

**Northumberland** is officially the most sparsely populated county in England and together with its unique circumstances (highlighted on page 17) is substantially limited in its chances to attract business investment capable of significant Business Rate yield. Coupled with this, there are currently 1,153 Empty Rating assessments, equating to 9.9% of total properties in Northumberland, which underlines existing challenges in attracting new business.

The majority of the County's Business Rates base is comprised of a few larger Business Rate payers and public sector buildings. The largest private sector business generates Business Rates income of over £3m. Changes to this business could result in a substantial loss in income to the Council. The County also retains some opencast coal sites and mines amounting to almost £1m but with potentially a limited life. There is therefore a strong likelihood of significant loss of income over the short term with little prospects for growth.

**Characteristics and issues:**

- **Northumberland's economic growth as measured by Gross Value Added (GVA) lags behind other places.** Northumberland's GVA is 62% of the UK's economic growth (where Tyneside GVA is 92%). Northumberland GVA measured

by pound per head is £12,417 compared to the UK's £20,430.

- **A broad-based economy but with a strong reliance on the public sector for employment and growth.** Over 42,000 people are employed in the public sector. Public administration, education, health and social care provide 39% of all Northumberland's jobs. Tourism, leisure, hospitality, retail and other private services have offset job losses in traditional industries and now provide 37% of all jobs.
- **Predominance of small enterprises and micro businesses in the private sector.** Four fifths of businesses employ less than five staff.
- **There are few large private sector employers.** Less than 1% of all businesses employ more than 250 staff.
- Within the context of the county's geographical constraints, it can be argued there is **a good manufacturing presence.** However, employment numbers are declining (but productivity improvements are more than compensating). This means more is being achieved in less space so this can reduce rates income.
- **Decline in traditional industries,** yet agriculture, forestry and fishing remain of huge importance to Northumberland's sense of place.
- **Significant levels (9.2%) of self-employment overall** but low levels of enterprise in parts of the county.
- **A vibrant and enterprising voluntary and community sector.** There are over 450 organisations, Development Trusts and social enterprises ranging from large organisations to micro operations, estimated to employ between 3,000 and 4,000 people. This sector is under financial pressure with some organisations already failing.
- Northumberland does not have a strong representation in the **service sector** so Business Rates accrual is low from this sector.
- **Retail growth** was a major factor influencing Local Authority Business Growth Incentive (LABGI) - again Northumberland does not see the scale of new investment as with more urban areas and therefore the resulting rates income growth.
- **Significant out-of-county commuting.** Northumberland is the least populated county in England with 311,000 people and no settlement of more than 35,000 inhabitants. Almost a third (28%) commutes to Tyneside. This means that because a significant proportion of the county population work or run businesses outside of the county, Northumberland does not benefit from significant annual growth in rates from either new businesses or growth of existing businesses compared to many areas and especially cities including Newcastle and more broadly Tyne and Wear.

**Business Reliance in Northumberland:**

When looking at the actual Rateable Values (RV) for properties in Northumberland and looking at larger business ratepayers. The following observations can be made:

- A Smelting Plant with an RV of 7,610,000 and rates income of £3,295,130. If this plant closed or relocated out of the area a substantial loss in income would be felt.
- Northumberland also has opencast coal sites/mines and quarries with a rates income amounting to £1.2 million which have a finite lifespan and will eventually cease to operate. This would again lead to a substantial loss in income to the authority.
- Income for the Council's own property portfolio is £5.173 million which would be a substantial loss in income if there was no compensatory mechanism in place to replace the additional return that is currently received from the NNDR pool.
- This issue can be further affected by [Government](#) policy decisions such as with

the Academy status. This would mean that the council having to fund more rate relief discounts instead of realising the Business Rate income and this will only increase as more schools are granted Academy status. Again this issue will have more of a detrimental impact on top up authorities than it will have on tariff authorities.

In Northumberland there are currently 1,153 empty rating assessments which equates to 9.91% of the existing total number of properties in Northumberland. This can be broken down into three main areas:

- Industrial properties account for 38.07% of empty properties
- Offices account for 28.9% of empty properties
- Shops account for 16.8% of empty properties.

This demonstrates that there is existing capacity available in the County without having to create additional growth and highlights the difficulty in attracting new business into the area. It also shows that creating additional growth may have little financial benefit. The total Rateable Value in Northumberland has increased by £3,921,000 since April 2010 which gives a net growth of 1.7% over 2 years. It is likely that any future growth would be slow as Northumberland does not attract new investment generally and the loss of a larger business is felt more. The potential for growth in Northumberland is limited due to the factors highlighted above as larger companies are more likely to locate in areas of higher population density (city areas) in the North East or Scotland rather than a largely rural area in Northumberland. This minimises the risk to their investment. Of the Business Rates collected by the top forty £12.4 m relates to the private sector, of which £4.6 m relates to supermarkets, and £5.3 m to the public sector. The Council is proposing to rationalise property and hence the level of Business Rates will be under pressure. *Annex One lists the top 20 private sector businesses in terms of rate contribution.*

### **Discretionary and Hardship Relief granted by Northumberland County Council**

For 2011/12 the Council has granted discretionary rate relief worth £840,110 to ratepayers and £140,725 in hardship relief.

Putting all these factors together demonstrate that they are reflective of an isolated economy that cannot generate the critical business mass which would create the same levels of business rates as Northumberland County Council receives through formula funding to deliver local services. Further more the Business Rate income profile is relatively flat and is heavily dependent on some facilities within key sectors of the economy. There is a danger that the consultation proposals will 'lock-in' deprivation whilst more affluent areas with superior infrastructure will be able to forge ahead. This impact could be compensated by a national investment strategy focused upon deprived areas and aimed at mitigating market failure.

### **Shocks or fluctuations in the economy**

Areas that gain most of their Business Rates from a small number of large Business Rates businesses are at greater risk of economic shocks that impact on their area.

**Hartlepool** has ten businesses that contribute almost 40% (£11m) of the annual Business Rates collected in the local authority area. One of these businesses contributes 15% of the overall amount collected.

**Sunderland City Council** has a collectable Business Rates gross debit of £83m before charges / allowances are deducted. The largest Business Rates payer within Sunderland is a well known motor manufacturing company with a Business Rate charge of £3.8m currently. Therefore, if Business Rates were to be localised and this company was to

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subsequently cease production from its Sunderland plant there would be an immediate direct loss of income to the City Council of £3.8m, which equates to 4.6% of the collectable gross debit.

In addition to this loss there are a large number of local companies who rely solely upon this company for their entire business. These are classed as tier 1 suppliers. The Business Rates paid by these suppliers has been assessed at over £3.0m each year which would also be either lost or put at risk.

There are also in addition other local companies who rely upon the company for some or part of their business. These are classed as their tier 2 suppliers. It is not known how any potential closure of the company would affect these suppliers but it is possible that some of these companies would also struggle to survive in the short term. The company's prominence within the region means that it is likely that there will be other suppliers in neighbouring authorities which would also be affected by any closure.

The potential impact of losing approximately £7m in Business Rates in any one year together with the resultant loss of spending power of our residents that would be affected by the closure would have a significant knock-on effect to the City's economy (i.e. local shops, businesses and services). This would have a similar effect to the loss of mining and shipbuilding encountered during the 1970's and 1980's.

The potential of a significant loss of income both directly from the loss of Business Rates income and the knock on impact of: loss of jobs and wealth, increased benefit take up, increased demand for council services are all important aspects that a new funding mechanism must fully and appropriately address.

### **Manufacturing Industry**

A further critical influence on future business growth is that under Business Rate localisation manufacturing developments could be seen as a less attractive proposition over retail or commercial developments which generate significantly higher Business Rates than manufacturing. In the North East, commercial and retail rates can generate over £1 million per hectare compared with around £0.2 million per hectare for small business and manufacturing sites.

However, the importance of the manufacturing sector must not be underestimated and needs to be part of a long term national strategy, as well as an integral part of the North East's strategy for economic growth. Currently the manufacturing sector contributes £7.5 billion to the North East economy, currently exporting more than it imports and helping to re-balance the economy.

We would therefore welcome Government consideration on improving the incentive effect of manufacturing industry.

### **National Policy Decisions and the Service Sector**

Given the challenges for the North East in re-balancing the economy, authorities are working with the private sector to identify opportunities and find solutions that will lead to a stronger private sector and reduced reliance on the public sector. In 1971 the North East as a whole had 53% of employees in the service sector, this had increased to 63% by 1981 and between the ten years 1998 and 2008 this had increased by a further 69%. As the North East is heavily reliant on the service sector it is less likely to thrive in a period of low growth particularly with such significant public sector reduction. The scale and impact of job losses in the North East public sector is also having a substantial

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	<p>negative impact on the third sector and the wider economy with limited capacity for the private sector to pick up the fall out. A study in Canada found that for every job in the public sector, 0.77 jobs were supported in the wider economy. Therefore, the scale of the reductions without intervention can only further accelerate the spiral of decline.</p> <p>It is therefore critical that a new scheme acknowledges both local and national limitations for growth and that they are considered in the final model to ensure a fair, level playing field is established to incentivise all authorities not just those areas of the country with the strongest Business Rates yield and greater potential to grow.</p>
<b>Q6 (p25)</b>	<b>Do you agree with our proposal for a levy on disproportionate benefit, and why?</b>
<b>Response</b>	<p>Yes.</p> <p>As noted in our response to Question 5, some authorities will always find it easier to generate increased business growth in their areas due to their geography, demographics, better infrastructure and it therefore seems logical that for those authorities the financial gain is not disproportionate and that growth beyond a reasonable level is used to help mitigate negative volatility across other authorities.</p>
<b>Q7 (p25)</b>	<p><b>Which option for calculating the levy do you prefer and why?</b></p> <p>Option 1 – pence in the pound, same rate all L.A.s</p> <p>Option 2 – bands with different rates</p> <p>Option 3 – % growth in Business Rates income, retain % baseline revenue</p>
<b>Response</b>	<p>Of the options put forward Option 3 would appear to be the fairest and strikes a balance for all authorities as it considers, reducing the gearing effect, avoids cliff edges and allows for an element of incentivised growth for all authorities with the flexibility that the rate can be adjusted.</p>
<b>Q8 (p25)</b>	<b>What preference do you have for the size of the levy?</b>
<b>Response</b>	<p>The levy should be set so that sufficient cover is available to reimburse authorities whose tax base diminishes through unforeseen or uncontrollable circumstances. It is appreciated that this will be a difficult balancing act as the greater the size of the levy, the lower the potential incentive for growth. However in the interests of fairness, high need, low tax base councils need to be adequately and properly funded. There is a real risk that if this does not happen it will impact detrimentally on services particularly in deprived areas where there is less opportunity to increase Business Rates.</p> <p>If there are insufficient funds from the levy then the “set aside” should be used to make up the difference.</p>
<b>Q9 (p25)</b>	<b>Do you agree with this approach to deliver the Renewable Energy commitment?</b>
<b>Response</b>	<p>Yes.</p> <p>In principle North East councils welcome the incentive for local authorities to keep all of the Business Rates generated from new Renewable Energy projects, although, as with other types of business growth the financial reward will vary dependent on the ability of differing councils to deliver renewable energy projects.</p> <p>We do feel however, that this scheme should not only apply to new schemes from 1st April 2013. North East councils believe that all renewable energy schemes should have the same exemptions applied to them regardless of the implementation date. The current proposals penalise those areas that have been at the forefront of renewable energy</p>

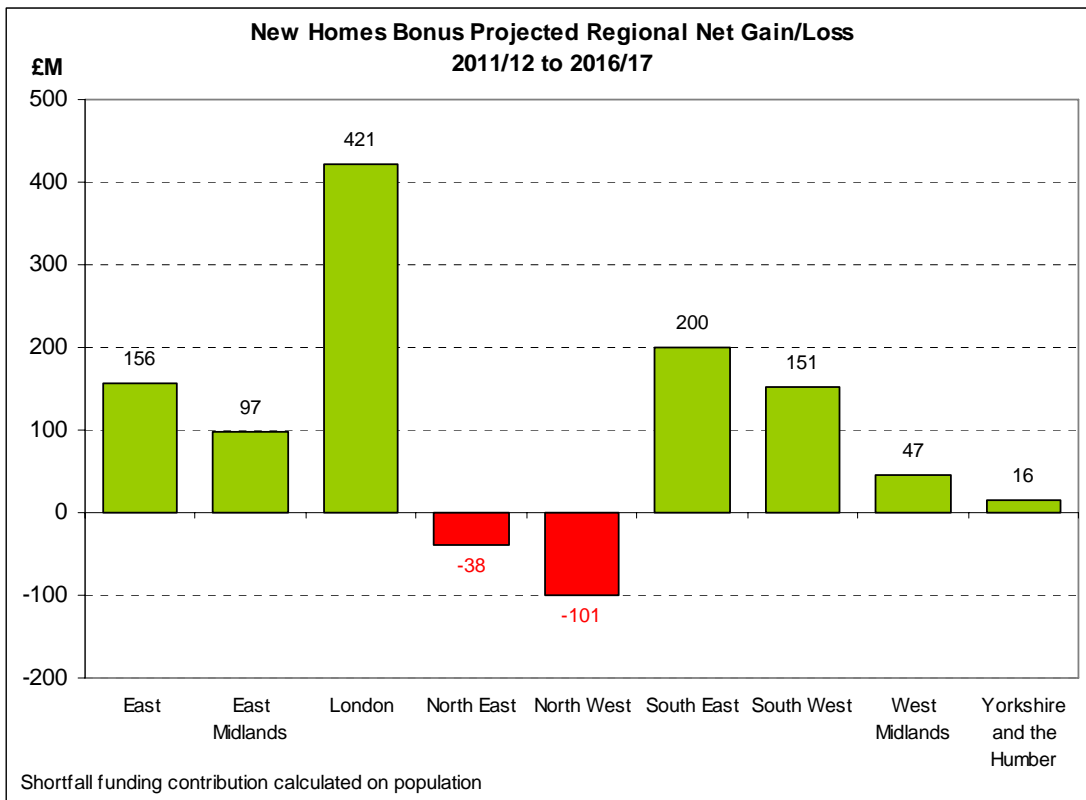
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	<p>initiatives.</p> <p>In addition there are a couple of areas where we have queries in relation to the exact detail of the proposals and these are covered in our response to the detailed questions in Technical Paper 8. In general terms, we believe that solar farms and Solar Thermal and Combined Heat &amp; Power should be included within the scope of Renewable Energy technologies and more detail is required about how the apportionment of sub stations and cables between different local authority areas will be carried out by the Valuation Office Agency.</p> <p>One key problem that could be resolved, for renewable energy schemes, is if Government removed the recently added 1% surcharge by Treasury from the cost of borrowing. This would act as an additional incentive for councils to finance such projects. Also, given the government's conference comments that the UK Carbon Reduction Commitment targets may be revised, how is this likely to impact on the Government's commitment to Renewable Energy in the short-term?</p>
<b>Q10 (p27)</b>	<p><b>Do you agree that the levy pot should fund a safety net to protect local authorities:</b></p> <ul style="list-style-type: none"> <li><b>i) whose funding falls by more than a fixed percentage compared with the previous year (protection from large year to year changes); or</b></li> <li><b>ii) whose funding falls by more than a fixed percentage below their baseline position (the rates income floor)?</b></li> </ul>
<b>Response</b>	<p>Yes.</p> <p>If fairness is to be maintained North East councils believe that the levy pot should fund a safety net to protect local authorities as volatility is a key concern for us and we believe that any system should protect areas of poor growth or rates fluctuation. Instability in Business Rate income are unavoidable and in most case usually beyond the control of local authorities as they tend to arise because of economic conditions or where a major industry ceases trading. This protection is considered essential to the fairness of the system. For example, in areas such as Northumberland a single business can be significant and should it cease would have a major impact on overall income levels. Protection is therefore vital. The level of the floor will need to be considered carefully and may need to take into account the impact on a councils net revenue budget requirement as well as the impact on its Business Rate income to ensure the impact is not disproportionate to its funding.</p> <p><b>Case Study – Shocks or fluctuations in the economy – Sunderland</b>  Sunderland City Council has a collectable Business Rates gross debit of £83m before charges / allowances are deducted. The largest Business Rates payer within Sunderland is a well known motor manufacturing company with a Business Rate charge of £3.8m currently. Therefore, if Business Rates were to be localised and this company was to subsequently cease production from its Sunderland plant there would be an immediate direct loss of income to the City Council of £3.8m, which equates to 4.6% of the collectable gross debit.</p> <p>In addition to this loss there are a large number of local companies who rely solely upon this company for their entire business. These are classed as tier 1 suppliers. The Business Rates paid by these suppliers has been assessed at over £3.0m each year which would also be either lost or put at risk.</p> <p>There are also in addition other local companies who rely upon the company for some or part of their business. These are classed as their tier 2 suppliers. It is not known how</p>

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	<p>any potential closure of the company would affect these suppliers but it is possible that some of these companies would also struggle to survive in the short term. The company's prominence within the region means that it is likely that there will be other suppliers in neighbouring authorities which would also be affected by any closure.</p> <p>The potential impact of losing approximately £7m in Business Rates in any one year together with the resultant loss of spending power of our residents that would be affected by the closure would have a significant knock-on effect to the City's economy (i.e. local shops, businesses and services). This would have a similar effect to the loss of mining and shipbuilding encountered during the 1970's and 1980's.</p> <p>The potential of a significant loss of income both directly from the loss of Business Rates income and the knock on impact of: loss of jobs and wealth, increased benefit take up, increased demand for council services are all important aspects that a new funding mechanism must fully and appropriately address.</p> <p><b>Issues for further consideration and further clarification</b>  Given current market conditions, negative growth may be a big issue, so councils need assurance that they will have sufficient funds to maintain services. In practice authorities might need both options to:</p> <ul style="list-style-type: none"> <li>• Protect against volatility.</li> <li>• Protect from being unable to fund services which could lead to long term support funded from the Safety Net until a reset etc.</li> </ul>
<b>Q11 (p27)</b>	<b>What should be the balance between offering strong protections and strongly incentivising growth?</b>
<b>Response</b>	<p>Whilst growing the local economy is important to councils, a local authority's first priority is to discharge its statutory obligations with regard to service delivery. For those authorities that find growing their business base easy, there is always likely to be at least some benefit from an incentive scheme such as this. It is therefore essential to protect those authorities that have difficulty in growing their business base. This is particularly important when needs and resources will not be reassessed for a number of years and funding requirement can change considerably. Therefore, the balance needs to be in favour of strong protection rather than growth so that authorities remain able to deliver local council services.</p>
<b>Q12 (p27)</b>	<b>Which of the options for using any additional levy proceeds, above those required to fund the safety net, are you attracted to and why?</b>
<b>Response</b>	<p>We feel that generally there should be additional support through the levy for areas with weaker economies to enable them to reach their full potential. This could potentially happen by targeting expenditure on projects to unlock growth and prosperity.</p> <p>Further to this support should be provided by proceeds of the levy to counter inherent volatilities within the Business Rates system and to counter sudden economic shocks due to closure or relocation of major business and to support authorities that experience significant losses that take more than one year to recover from.</p> <p>If over the passage of time a surplus continues to grow the remainder could then be distributed based upon an authorities proportion to their baseline. It may even be prudent to hold an element of the levy back in higher growth years to ensure sufficient funding for the safety net in lower growth years.</p> <p>However, an issue that requires further consideration is what would happen if there is insufficient funding available to fund all requirements of the set aside and how calls on</p>

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	this are dealt with in terms of either scaling all areas back or funding areas in order of preference.
<b>Q13 (p27)</b>	<b>Are there any other ways you think we should consider using the levy proceeds?</b>
<b>Response</b>	<p>North East councils feel that it would be better to ringfence those authorities with weaker economies and least able to generate additional growth (top up councils) and are struggling the most. This may help to reverse some of the inequalities in the system. We have put forward a number of suggestions that we believe all have merit for Government to consider using the proceeds of the levy for:</p> <ul style="list-style-type: none"> <li>• If it decided not to fund damping from the set aside we suggest that the levy could be used as a first call for those authorities that currently receive damping protection, to as not to penalise those authorities that have previously funded damping protection.</li> <li>• Where authorities can demonstrate high increases in demand for statutory services which cannot be met from the authority's budget.</li> <li>• Use some money to reflect changes in demography in the new system earlier than would otherwise be the case.</li> <li>• To create more Enterprise Zones particularly targeted in low tax base areas or to provide grants or low / zero interest loans (this could be linked to TIF's) for infrastructure development areas.</li> </ul>
<b>Q14 (p28)</b>	<b>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?</b>
<b>Response</b>	Yes, this appears to be a reasonable approach to removing volatility in budgets caused by the changes in revaluation outside local authorities' control.
<b>Q15 (p28)</b>	<b>Do you agree with this overall approach to managing transitional relief?</b>
<b>Response</b>	<p>Yes.</p> <p>In principle ANEC authorities believe that the system of transitional relief remain unchanged and therefore it's impact on local authorities is stripped out of the rates retention scheme. It appears that it would have the advantage that authorities like ours are not subject to surpluses or costs from a transitional relief scheme over which we have effectively no control. However, we would want to see that the impact this will have on a new system matches our understanding.</p>
<b>Q16 (p29)</b>	<b>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?</b>
<b>Response</b>	<p>Yes.</p> <p>It is essential that the system includes the ability to reset tariff and top levels for changing service requirements at intervals in order that the key driver for council services of need and ability to raise resources can be recognised within the system.</p>
<b>Q17 (p29)</b>	<b>Should the timings of resets be fixed or subject to government decision?</b>
<b>Response</b>	There needs to be some degree of certainty for budget planning purposes for understanding the timings of resets, so with this in mind North East councils are strongly in favour of fixed resets. The timing at which resets are carried out is also important and by implication involves a judgement on how resources were changing relative to need. The fact that this could take place at any time would mean that financial planning by local

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	<p>authorities will be that much more difficult.</p> <p>We are of the view however that the example period of every 10 years is far too long between resets and consequently we have argued for three yearly resets in our response to consultation Question 18 below.</p> <p>An interim reset may, in exceptional circumstances, be required. However, what would constitute as an exceptional circumstance for ministerial intervention would have to be clearly defined and agreed upon.</p>
<b>Q18 (p29)</b>	<b>If fixed, what timescale do you think is appropriate?</b>
<b>Response</b>	<p>The 10 year period between resets in our view is considered far too long and the argument in favour of shorter periods between resets far outweighs the reasoning for a longer period to retain the incentive for growth.</p> <p>It is essential that demographics and resource equalisation are updated and reflected within local authority funding. The danger with a long fixed reset period is that it fails to be fully reactive to significant changes in circumstances and needs of local authorities. Unless regular resets take place divergence in resources will inevitably continue.</p> <p>We strongly urge Government to consider that resets should be carried out in line with three yearly budget planning cycle, any longer than this period would likely mean that service levels and funding would no longer be aligned. <i>The response to this question should be viewed in conjunction to our response to question 29 of the main consultation where we have further justified our reasons for three yearly resets.</i></p>
<b>Q19 (p29)</b>	<b>What are the advantages and disadvantages of both partial and full resets? Which do you prefer?</b>
<b>Response</b>	<p>Throughout our response to this consultation ANEC authorities have placed priority with need and resource equalisation above a growth incentive and it is this balance that needs to be struck when choosing between the two proposals. Any form of reset would need to take into consideration major fluctuations in changing needs, particularly population and other key drivers of change.</p>
<b>Q20 (p29)</b>	<b>Do you agree that we should retain flexibility on whether a reset involves a new basis for assessing need?</b>
<b>Response</b>	<p>The key driver for council services is need and ability to raise local resources, so it is difficult to comprehend a situation in which need would not have to be re-assessed.</p>
<b>Q21 (p32)</b>	<b>Do you agree that pooling should be subject to the three criteria listed at paragraph 3.50 and why?</b>
<b>Response</b>	<p>Yes, pooling arrangements should be down to local discretion. The three criteria listed in paragraph 3.50 of being voluntary, subject to assurances around governances and workability and if dissolved pool members returning to their individual tariff, top up and levy amounts seems logical.</p> <p>It is worth noting here that in its theoretical sense pooling is going to work much better for some areas of the country such as London and not work as well in others such as the North East.</p>
<b>Q22 (p32)</b>	<b>What assurances on workability and governance should be required?</b>

<b>Main Consultation Paper</b>	
<b>Response</b>	Within any pooling system, effective mechanisms would need to exist to agree the contribution of members and to agree how the proceeds of Business Rate growth would be distributed and spent. It would also be critical for mechanisms to be established to arbitrate and ensure agreement where any members of the pool disagreed.
<b>Q23 (p32)</b>	<b>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?</b>
<b>Response</b>	Districts should be allowed subject to County Council approval to form pools outside their county area. Although retaining the ring fence would appear to offer the greater level of opportunity for working at a county level and gaining larger benefits. If the ring fence is removed it may lead to deterioration in working across tiers within local government.
<b>Q24 (p32)</b>	<b>Should there be further incentives for groups of authorities forming pools and, if so, what would form the most effective incentive?</b>
<b>Response</b>	<p>Theoretically the most effective incentive is likely to be the ability to retain a greater share of the Business Rate growth in return for the overall pooling risk. It is however, unlikely that authorities would want to pool if the majority of authorities in the pool are likely to require support from member authorities within that pool.</p> <p>A key issue for the North East is that further incentives may favour areas of the country with strong economic growth and high Business Rate bases, so there is the potential for the North East to be disadvantaged. It is also more difficult for pooling to work effectively in the North East as it would in some other areas of the country. As one of the Government's criteria as set out in the main consultation document (section 3.50) is that pooling should be "voluntary" then it does not seem to accord with that principle if strong incentives are provided which may by implication effectively force local authorities down that route. This also does not appear to accord with the principles of localism. Therefore our view is that further incentives for groups of authorities forming pools should not be provided at the present time.</p>
<b>Q25 (p33)</b>	<b>Do you agree with these approaches to non-billing authorities?</b>
<b>Response</b>	ANEC fire authorities would like to sit outside the Business Rates retention system until April 2015, followed by a review for the next Spending Review from 2015/16 onwards.
<b>Q26 (p34)</b>	<b>Do you agree this overall approach to funding the New Homes Bonus within the rates retention system?</b>
<b>Response</b>	<p>Despite Government stating in the consultation that they are committed to continuing to fund the New Homes Bonus within a Business Rates retention system, there has always been an issue surrounding the fact that to provide this incentive additional funding was not found and instead it was funded by top slicing formula grant. This will divert funding away from authorities that would have otherwise received grant through the needs based formula and redistribute it to those authorities with higher Council Tax bases as housing growth and payment based upon council tax is the basis of the reward. New Homes Bonus should therefore be funded from the set aside or completely outside the system and not by top slicing formula funding. As it stands top slicing formula grant for this incentive penalises authorities that will through geography, demography and infrastructure restrictions have limited ability to grow their housing stock. Funding the scheme from outside the system will retain incentive whilst restoring an element of the equalisation removed by the last settlement.</p> <p><b>Chart: 5 New Homes Bonus Projected Regional Net Gain/Loss</b></p>



Note: The projected figures assume that numbers of new homes/empty homes brought back into use in future years are the same as 2010 levels.

Charts 5 demonstrates that over the first six year period of the New Homes Bonus North East councils could potentially lose funding from the scheme by formula grant having been top sliced to fund the New Homes Bonus scheme. Whilst areas such as London and the South East who are more able to grow their Council Tax base and will receive more benefit through the scheme by being able to build higher banded properties and consequently receive more reward per property through this scheme. Funding that as previously stated would have originally come through to the North East and North West through the needs and resources in formula funding. This is further evidence of the wider failure in a scheme that does not adjust for resource equalisation and sees funding redistributed from poorer deprived low tax base areas to wealthier high tax base areas.

We therefore strongly believe that If funding for New Homes Bonus was funded outside the system it would not further penalise deprived authorities who would have otherwise have received funding through a needs based assessment for core service provision thus restoring an element of resource equalisation.

Finally, if early resets are agreed upon this would allow for an early review of proposals around the funding of the New Homes Bonus to ensure it is operating as intended.

**Q27 (p34) What do you think the mechanism for refunding surplus funding to local government should be?**

**Response** Surplus funding should be used to compensate authorities which suffered above average “spending power” reductions in 2011/12, particularly authorities which were eligible for Transitional Funding. This would partly redress the inequitable grant reductions made in 2011/12 and re-instate an element of resource equalisation to those authorities with high need and low resource bases.

<b>Main Consultation Paper</b>	
<b>Q28 (p36)</b>	<b>Do you agree that the current system of business rates reliefs should be maintained?</b>
<b>Response</b>	<p>North East councils strongly agree and support the current system of Business Rate reliefs and believe these should be maintained. Advantages for maintaining this approach are in:</p> <ul style="list-style-type: none"> <li>• Providing a consistent national approach.</li> <li>• Providing a continuation of a system that is currently well understood by Business Rate payers.</li> <li>• It has high take up levels.</li> <li>• It is relatively straight forward to administer.</li> </ul> <p>We have however, listed a few points relating to specific aspects of the current system that might help to improve the system overall.</p> <p>While charity relief is desirable, does empty property relief counteract the aims of encouraging growth? Is there a way of improving the system to encourage businesses to maintain their properties (rather than hold them for capital appreciation, etc) or sell them to others prepared to fully utilise them?</p> <p>Clearly, any system should ensure that charities etc are not pushed out of an area in favour of businesses that can generate higher rates revenues.</p> <p>However, to encourage occupation, perhaps we could propose an expansion of the empty shops scheme which, although the grant was small, encouraged arts groups to take up occupation of premises that would have otherwise remained empty, and by doing so, encouraged footfall. Newcastle City Council treated these organisations as charities (80% rate relief) subject to review two years from the date the status was granted.</p> <p>The limitations are that these groups concentrated on central Newcastle so, in order to encourage different types of occupiers in different parts of the community, the scheme could be modified to focus on specific groups outside the arts community. Although the rates collected will be net of the relief, the increased footfall usually ensures that the existing businesses remain, and are not isolated in a sea of empty properties.</p>
<b>Q29 (p40)</b>	<p><b>Which approach to Tax Increment Financing do you prefer and why?</b></p> <p>Option 1 – L.A.s determine whether to invest in TIF but revenues not exempt from retention scheme.  Option 2 – Stronger government controls but guarantee revenues without risk of loss to the levy and reset for 25 years.</p>
<b>Response</b>	<p>When councils embark on large scale infrastructure projects they tend to borrow for periods of around 25 to 30 year periods. Option 2 is therefore the only option that would offer the security required for TIF projects to service the cost of financing the borrowing, as the growth will not be removed through resetting the system. We would recommend that for large schemes where authorities may have to borrow for longer periods than the 25 years in Option 2 that, authorities are able to retain any additional TIF growth for the whole period of borrowing. Option 1 would appear to offer no additional benefit than that of prudential borrowing for authorities.</p> <p>Whilst, the inference that a longer reset period of 10 years may offer a similar level of security, longer reset periods have the significant drawback in that essential re-assessment and updating of needs and resources are not considered, updated and consequently reflected in the system as they would be by having more frequent resets.</p> <p>An additional issue in the current economic climate would be the difficulty in servicing the borrowing costs out of revenue resources in the years between infrastructure</p>

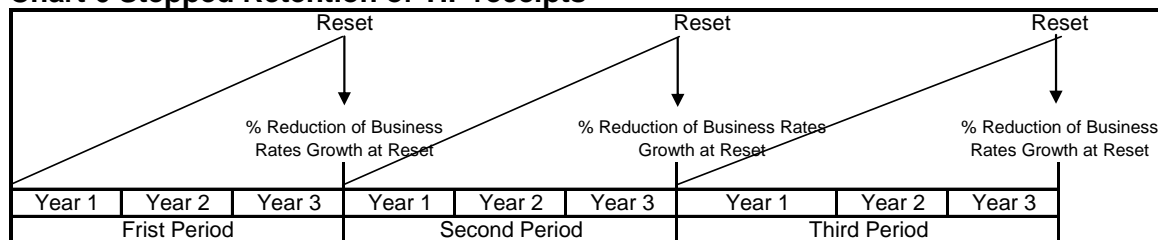
## Main Consultation Paper

development and tax increases. Therefore this may well not support local economic growth at this time unless this issue is addressed.

Whilst our preference is for Option 2 we have put forward a technical solution that Government might wish to consider that would strike a balance between allowing for regular resets and allowing a proportion of TIF growth to flow through to the levy much earlier whilst allowing authorities to retain a proportion of TIF growth for longer than 10 yearly resets.

Chart 6 shows that full TIF receipts are retained for the first three year period after which a reset takes place and a percentage reduction is applied that would allow a proportion of TIF receipts to flow through to the levy and a proportion to be retained by the authority, this stepped reduction would occur at each reset until the end of the 25 year period of borrowing.

**Chart 6 Stepped Retention of TIF receipts**



*The response to this question should be viewed in conjunction to our response to Question 18 of the main consultation where we have further justified our reasons for three yearly resets.*

A further consideration needs to be given to whether Government controls could present potentially difficult bureaucracy and have a focus on larger schemes which may benefit larger authorities over smaller authorities.

**Q30 (p40) Which approach do you consider will enable local authorities and developers to take maximum advantage of Tax Increment Financing?**

**Response** Option 2, due to the security of growth to fund the financing costs in the longer term, however as highlighted in response to Question 29 consideration needs to be given to servicing the cost of borrowing in earlier years until payback can be made from the increase assumed in Business Rate yield in the longer term and any unintended consequences that may have a detrimental impact on smaller authorities.

**Q31 (p40) Would the risks to revenues from the levy and reset in option 1 limit the appetite for authorities to securitise growth revenues?**

**Response** Yes, this would be the likely outcome if Option 1 were chosen.

The risks have been raised as a concern, and are already causing doubts at a senior level. The concern is partly around external factors that the council has no or little control over.

A further point we would like to raise is regarding access to funds which, if limited, should be directed at councils with the greatest need / lowest tax bases and limited opportunity to grow their business base with assurance that authorities will be able to retain TIF growth to finance the borrowing thus reducing scheme risk as in Option 2.

**Q32 (p40) Do you agree that pooling could mitigate this risk?**

<b>Main Consultation Paper</b>	
<b>Response</b>	North East councils will respond individually to this question.
<b>Q33 (p40)</b>	<b>Do you agree that central government would need to limit the numbers of projects in Option 2? How best might this work in practice?</b>
<b>Response</b>	<p>There may well be an increased number of projects put forward through Option 2 due to the potential of increased certainty of being able to retain additional TIF growth to service the cost of borrowing.</p> <p>We do not believe if there is increased certainty of retaining TIF growth and the intention is for Business Rates localisation that central government would need to limit the number of projects. TIF would be used to regenerate “new” growth therefore increasing the overall level of Business Rates at a national level. If the scheme were not successful the risks would sit with the relevant local authority or pool. The current level of set aside / levies should remain unaffected and therefore if at a local level schemes are deemed affordable and achievable there is no reason to have central government control.</p> <p>However, if this is what central government decided it could be that a similar process to that of capitalisation is put in place with clear eligibility criteria. There may also be an argument here for a prioritisation process via Local Enterprise Partnership (LEP) bids but this would need further consideration.</p> <p>A further point we would like to raise is regarding access to funds which, if limited, should be directed at councils with the greatest need / lowest tax bases and limited opportunity to grow their business base with assurance that authorities will be able to retain TIF growth to finance the borrowing thus reducing scheme risk as in Option 2.</p>

<b><u>Technical paper 1: Establishing the baseline</u></b>	
<b>TP1 Q1 (p9)</b>	<b>Do you agree with the proposed approach to calculating the amount of business rates to be set aside to fund other grants to local government? If not, what alternative do you suggest and why?</b>
<b>Response</b>	<p>The proposals as suggested are not completely unreasonable in theory. The whole process of funding other grants to local government from the set aside and assumptions used i.e. level of Business Rates collected needs to be transparent and the starting point for the new system needs to recognise this.</p> <p>However, of fundamental importance here is the level of set side which cannot be forecast until the autumn of 2012 when the forecast of national Business Rates for 2014/15 will be made. The possibility that growth beyond 2014/15 control levels is not fully realised needs to be fully considered now. Whilst a distribution mechanism is being proposed, it is not considered sufficiently robust to factor in future demands and needs for services. Government forecasts of Business Rate yield has to be realistic, updated estimates should be based on adjustments arising from continuing economic indicators. Any undershoot in yield should not fall on local authorities or be carried forward into subsequent years. Therefore, any shortfall in projected Business Rates should be made good by Government.</p> <p>We welcome the Government's commitment made in the consultation paper, that no local authority loses out as a result of repatriation of Business Rates. We would further welcome assurance from Government that the fund will not be used to subsidise central Government cuts over and above those previously disclosed and that reallocation of the set aside will be fairly distributed.</p> <p>Parliamentary scrutiny of calculating the set aside is imperative when setting the baseline.</p>
<b>TP1 Q2 (p11)</b>	<b>Do you agree with the proposed approach for making an adjustment to fund New Homes Bonus payments, and for returning any surplus to local authorities in proportion to their <i>baseline funding</i> levels?</b>
<b>Response</b>	<p><b>Please refer to the more detailed responses to Questions 26 &amp; 27 of the main consultation.</b></p> <p>Government have stated, in the consultation, that they are committed to continuing to fund the New Homes Bonus (NHB) within the Business Rates retention system. However, there has always been an issue that funding for the New Homes Bonus was top sliced from formula grant diverting money away from authorities identified through needs based formula funding.</p> <p>The approach for making an adjustment to fund NHB should ensure that there is no overall detriment / reduction in funding levels. It is important that approximations of future funding should be as accurate as possible.</p> <p>We welcome the Government's commitment to return in full to local government surplus from the bonus not required each year. For returning any surplus to local authorities from the total scheme allocation there are a number of methods that could be used.</p> <p>Any surpluses should be returned to local authorities, although the allocation should take into account the current inequalities within the system and reverse these wherever possible. One suggestion that could be further investigate before returning surpluses is that in early years in particular there is likely to be more NHB surplus. One option could be that it is used to initially fund authorities that require damping up and be unwound each year as the call on NHB increases with the balance returned by one or more of the methods below.</p>

<b>Technical paper 1: Establishing the baseline</b>	
	In later years of the New Homes Bonus where it has been demonstrated in the tables above that some areas will have more difficulty in continuing to grow their housing stock, funding could be brought back to a base position to ensure authorities would not lose from what would have been their needs based assessment under formula funding had the money not been initially top sliced from the overall quantum.
<b>TP1 Q3 (p12)</b>	<p><b>Do you agree with the proposed approach for making an adjustment in the event of any functions being transferred to or from local authorities?</b></p> <p><b>Approach:</b> removing a sufficient amount to fund the <b>maximum cost</b> of a function or responsibility being transferred and returning any surplus funding in proportion to the baseline funding levels by either S131 grant of RSG.</p>
<b>Response</b>	<p>As a general approach there is some logic to top slicing funds where services transferred in or out are generally proportionate across all authorities. However, where this is not the case a more accurate measure, such as available service numbers, should be used to determine a more accurate reflection of costs at an authority level.</p> <p>The general approach to top slicing funds across all councils based on national estimates can have a significant impact on authorities even when the transfer out has little relevance to the actual service delivery numbers. Top slicing was used recently for the Academies Funding Transfer 2011/12 and 2012/13 for expediency rather than as an accurate reflection of the true transfer cost and the true impact on the funding of individual authorities. It is a clear example of when this approach is just not appropriate and the funding transfer proposals appear to result in a potential overfunding of academies, by taking the maximum possible cost, at the expense of other education and children's services. The grant transfers should have been based on actual academy transfers and should reflect the potential for cost savings in the years following the academy transfers and should more reasonably reflect the ability to achieve realistic cost savings not average costs.</p> <p>A further issue for consideration is that the current proposals appear to work at a national level and take no account of service transfers at a regional level (Fire and Rescue combination etc); there is therefore the need to have some mechanism to deal with large scale local transfers.</p> <p>Therefore, we feel that more thought needs to be taken with transfers that are not generally proportionate in nature, so that the transfer better reflects an individual authority's burden.</p>
<b>TP1 Q4 (p13)</b>	<p><b>Do you agree with the proposed approach for making an adjustment to fund police authorities, and potentially also single purpose fire and rescue authorities?</b></p>
<b>Response</b>	<p>Yes.</p> <p>This approach seems logical option to cover the period 2013/14 and 2014/15 with the assumption that with the implementation of the proposed mechanism, as the consultation states, that no authority is worse off than they would have been under the current system.</p> <p>However, it is imperative that the whole issue of how police and fire and rescue authorities are funded for the next Spending Review from 2015/16 onwards is determined as soon as practicable.</p>
<b>TP1 Q5 (p16)</b>	<p><b>Do you agree with the proposed approach for ensuring that no authority loses out in 2013-14 as a result of managing the business rates retention system within the 2014-15 expenditure control total?</b></p>

**Technical paper 1: Establishing the baseline**

**Response** ANEC authorities welcome proposals to ensure that no authority loses out in 2013/14 as a result of managing down the Business Rates retention system within the 2014/15 expenditure control total. However, our response to Questions 1 and 2 of the main consultation are relevant to this response in that a more equitable baseline position should be established i.e. 2010/11 and that data updates are taken into consideration.

**TP1 Q6 (p18)** **Do you agree that we should use 2012-13 formula grant after floor damping as the basis for establishing authorities' baseline funding levels? If not, why?**

**Response** There are differing view points across authorities dependent on whether they are in receipt or contributing towards damping. Therefore, we suggest that the set aside could be used as a first call for those authorities that currently receive damping protection and unwound over time, thereby not penalising those authorities that have previously funded damping protection.

Damping protection is particular important for deprived authorities that are also experiencing high spending power cuts. However, what is noticeable from Table 9 below is that for some of the least deprived authorities in the country whilst they are experiencing some of the lowest cuts in the country they continue to receive huge levels of funding through damping protection. As an example Wokingham the second least deprived authority, with one of the lowest spending power cuts in the country continue to receive damping of over £8m. This contrasts sharply with authorities in the North East and Middlesbrough, Gateshead and Durham, who are all in the highest quartile in terms of deprivation, all experiencing massive pound per head spending cuts greater than £150, £125 and £100 respectively but all who lose significant sums through contributing towards damping protection. Under the new Business Rate retention scheme, if damping is to continue, it is not acceptable for those authorities experiencing such high spending power cuts to also be contributing towards damping protection. We therefore strongly recommend that damping is funded through the set aside with damping protection phased out over a reasonable period of time.

**Table 9: Perverse outcome of Spending Power cuts**

	*IMD 2010	Spending Power £ per head Cut	Damping Protection / Contribution + / -
Middlesbrough	27	>£150	<b>-£2.05m</b>
Gateshead	42	>£125	<b>-£2.09m</b>
Durham	70	>£100	<b>-£9.68m</b>
Windsor & Maidenhead	303	<£50	<b>+£5.3m</b>
Richmond upon Thames	286	<£50	<b>+£10.9m</b>
Wokingham	325	<£50	<b>+£8.3m</b>

\*IMD 2010 average rank, 1 = most deprived of 326 authorities.

**TP1 Q7 (p18)** **Do you agree that we should use 2012-13 allocations as the base position for floor damping in calculating the 2013-14 formula grant equivalent; and use the 2013-14 formula grant equivalent as the base position for floor damping in calculating individual authority's baseline funding levels?**

**Response** North East councils will be responding individually to this particular question.

**TP1 Q8 (p18)** **If not, which years should be used as the base position for floor damping in each of these calculations, and why?**

<b>Technical paper 1: Establishing the baseline</b>	
<b>Response</b>	North East councils will be responding individually to this particular question.
<b>TP1 Q9 (p19)</b>	<b>If option one is implemented, do you agree that we should reduce the formula grant for each tier of services according to its Spending Review profile?</b>
<b>Response</b>	North East councils will be responding individually to this particular question.
<b>TP1 Q10 (p19)</b>	<b>If so, do you agree with the proposed methodology for splitting formula grant between the service tiers for those authorities that have responsibility for more than one tier of service, as described in annex B?</b>
<b>Response</b>	Responses split between no comment and would need to see further exemplifications to see how this would work.
<b>TP1 Q11 (p21)</b>	<b>If option two is implemented, do you think we should update none, some or all of the data sets used in the formula grant calculations? If you think some should be updated, which ones, and why?</b>
<b>Response</b>	<p>Needs and ability to generate local resource have been fundamental to establishing service delivery requirements and associated funding since 1993/94 as stated in our response to Question 1 of the main consultation. Data sets are reviewed through settlement working group and consulted upon and updating these data sets to establish service requirements at authority level does not stop being fundamental to regardless of Governments desire to relocalise Business Rates.</p> <p>This system of review should continue through the settlement working group, or equivalent, and resultant formula consultation process and we would want to see all population and deprivation related indicators updated.</p> <p>Should the Department ultimately decide not to review all data sets, our view is that as a minimum, data that highlights and updates for:</p> <ul style="list-style-type: none"> <li>• Increased need, population changes and population projections, the increasing elderly population and associated costs: the rising cost of social care is increasingly a critical issue.</li> <li>• Deprivation indices: this is particularly important and relevant as it has previously been well documented that deprivation is a key driver of service cost.</li> <li>• Children of Income Support / Job Seeker Allowance claimants (ISKID) and Children of out of work families receiving Child Tax Credit (CTCKIDUNEMP) DATA2 used as the children's income support benefit indicator should be reviewed given comments made on two counts.</li> </ul> <p><b>ISKID Data</b></p> <p>The two main issues regarding the use of the ISKID data within the most recent settlement were with regard to using out dated data when more recent data was available at the time of the settlement and with regard to some of the unpredictable and counter intuitive results in exemplifications leading to a major redistribution of resources.</p> <p>North East Councils feel that it is unsatisfactory to use data from the period 2005-07 as the basis for the replacement as the change when this used data for the period pre-recession. Post recession data (2008) showed a different picture of increased numbers in out of work families in the North East, whereas in relative terms the numbers in London and South East by this period had fallen.</p> <p>Table 10 below demonstrates the impact of the change compared to its IMD ranking.</p> <p><b>Table 10</b></p>

## Technical paper 1: Establishing the baseline

IMD 2007	Northern & London Authorities	Grant Loss £m
1	Hackney	-0.3
3	Tower Hamlets	-0.9
25	Middlesbrough	-1.6
33	Sunderland	-2.7
36	Hartlepool	-0.8
42	Camden	-0.3
153	Hillingdon	4.1
196	Harrow	3.7
240	Sutton	1.3
241	Bromley	1.5

Those authorities benefiting from this change were mostly in London and more well off areas and those authorities losing funding being from more deprived authorities.

Table 11 also demonstrates the counter intuitive change in grant compared with change in claimants.

**Table 11**

IMD 2007	Local Authority	Change in claimants	Change in Grant £m
n/a	Kent	3370	-0.8
5	Liverpool	1,040	-8.1
77	Brighton & Hove	80	-0.6
118	Darlington	40	-0.2
6	Islington	-430	0.5
2	Newham	-440	2.1

The data change moved £21m away from the North East and £49.7m from the North West with funding being redistributed towards London £87.9m, the East £10.1m and the South East of £7.7m. It is crucial due to availability of more recent data and to reduce the perverse effects that this data is updated before the baseline is set.

**TP1 Q12 (p22)**

**If option two is implemented, do you think we should review the formulae for none, some or all of the grants rolled in using tailored distributions? If you think the formulae should be reviewed for some of these grants, which ones, and why?**

**Response**

North East councils will respond individually on this question.

**TP1 Q13 (p23)**

**If option two is implemented, do you think we should review the relative needs formula for concessionary travel?**

**Response**

Yes, we believe that there should be a review of the relative needs formula for concessionary travel. Whilst the option chosen as part of the Local Government Formula Grant consultation undertaken in 2010 was the most generally supported nationally it suffered from the distinct weakness of not being specifically based on concessionary travel variables.

A related and significant issue is in regard to the overall quantum level of funding which appears to be insufficient for concessionary travel. As the population increasingly ages

**Technical paper 1: Establishing the baseline**

	there are likely to be deficits in the financing of concessionary travel. North East council's concern is that it will be local councils such as ours that will be expected to finance the shortfall of what is a centrally dictated scheme.																
<b>TP1 Q14 (p23)</b>	<b>Do you think we should review any of the other relative needs formulae? If so, which ones and why?</b>																
<b>Response</b>	<p>Needs change over time and currently there is a system of reviewing the relative needs formulae. This system of review should continue through the settlement working group and resultant formula consultation process. Key issues raised above regarding the updating of population and deprivation data, to allow for demographic change and particular concerns regarding the children's income benefit support indicator.</p> <p>The children's income benefit support indicator is a particular issue at the current time and noted in our response to Technical Paper 1 consultation Question 11 and raised as part of our response to last year's formula grant consultation we raised significant concerns about the children's income benefit support indicator (DATA2) and the detrimental impact this would have on our authorities. As there is more relevant and updated data available we would therefore like to see this reviewed as a matter of urgency.</p>																
<b>TP1 Q15 (p23)</b>	<b>If option two is implemented, do you think we should alter the balance between service demands and resources; and if so, how?</b>																
<b>Response</b>	<p>Having considered that funding baseline for the 2013/14 resource system North East councils are convinced that the 2012/13 settlement is not a fair funding starting point for several reasons, one of which as discussed throughout this consultation response is resource equalisation, and that therefore further changes need to be made to the baseline.</p> <p>If Option 2 is implemented we would like to see more emphasis placed upon the relative resource amount by restoring the cash value of £6.55bn as a minimum. This is also likely to require an increase in the resource equalisation proportion from -26.6% to around -31.6%, with a compensating +5% increase in the proportion for the needs and/or the central adjustment. Table 12 shows two alternative options of how the needs and central block might change by adjusting the resource equalisation proportion to -31.6%.</p> <p><b>Table 12 : Formula Grant Element Weightings</b></p> <table border="1"> <thead> <tr> <th></th> <th><b>Needs</b></th> <th><b>Resource</b></th> <th><b>Central Adjustment</b></th> </tr> </thead> <tbody> <tr> <td><b>2012/13</b></td> <td>83.0%</td> <td>-26.6%</td> <td>43.6%</td> </tr> <tr> <td><b>Alternative Option 1</b></td> <td>86.3%</td> <td>-31.6%</td> <td>45.3%</td> </tr> <tr> <td><b>Alternative Option 2</b></td> <td>85.5%</td> <td>-31.6%</td> <td>46.1%</td> </tr> </tbody> </table> <p>Without a correcting adjustment the significant reduction in resource equalisation means that councils can no longer provide the same level of service by charging a similar Band D tax. With an effective cap on Council Tax increases, this means that the North East has to make deeper cuts in its revenue budgets, thereby putting greater pressure on the delivery of core services such as social care services. It is already having a greater negative impact on the region's economy as the larger cut in funding means a higher loss of jobs in both the public, private and independent sectors.</p> <p><i>Please note our further detailed response to equalisation to Question 1 of the main consultation response.</i></p>		<b>Needs</b>	<b>Resource</b>	<b>Central Adjustment</b>	<b>2012/13</b>	83.0%	-26.6%	43.6%	<b>Alternative Option 1</b>	86.3%	-31.6%	45.3%	<b>Alternative Option 2</b>	85.5%	-31.6%	46.1%
	<b>Needs</b>	<b>Resource</b>	<b>Central Adjustment</b>														
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<b>Alternative Option 2</b>	85.5%	-31.6%	46.1%														

<b>Technical paper 1: Establishing the baseline</b>		
<b>TP1 Q16 (p24)</b>		<b>Do you agree with the proposed approach for establishing guaranteed levels of funding for police authorities, and potentially also single purpose fire and rescue authorities, in 2013-14 and 2014-15?</b>
<b>Response</b>		This would seem like a reasonable approach as an interim measure and until a detailed examination of this can be carried out for the next Spending Review in 2015/16.
<b>TP1 Q17 (p26)</b>		<b>Do you agree with the proposed approach for funding new burdens within the business rates retention scheme? If not, why?</b>
<b>Response</b>		The funding of new burdens would need to continue to be funded as part of the Business Rates retention scheme to prevent potentially excessive Council Tax increases. The approach suggested here appears reasonable i.e. using section 31 grants and then transferring this to revenue support grant. Any system approach must not simply top-slice funding from local government and reduce any redistributable funding. We must have assurance that cost are to be fully met by departments. Central government savings must not be avoided by simply passing them down to local government. Any cost increases must also be directed appropriately, and not redistributed to the detriment of authorities in need as a result of additional functions as has happened in the latest settlement for more deprived areas.
<b>TP1 Q18 (p28)</b>		<b>Do you agree with the proposed approach for dealing with boundary changes and mergers? If not, what alternative would you propose, and why?</b>
<b>Response</b>		There should be no change to councils that are not affected by a boundary change or merger.
<b>TP1 Q19 (p28)</b>		<b>Do you agree with the proposals on the future of Revenue Support Grant?</b>
<b>Response</b>		No. There appears to be no real justification for changing the current system, so we would propose no changes. Revenue Support Grant should remain mandatory, legally obliged grant to pay each year, rather than discretionary payment to councils regardless of whether this distribution for some individual councils may be zero. The Government's underlying assumptions around future Business Rates growth are unknown and with effectively no Revenue Support Grant, this important safety net for local government funding would effectively disappear. In addition, parliamentary scrutiny and council's opportunity to be consulted around Revenue Support Grant would be lost under this proposal.

<b>Technical paper 2: Measuring business rates</b>	
<b>TP2 Q1 (p8)</b>	<b>In the absence of billing authority estimates for 2013-14 and 2014-15, do you agree with the Government’s proposals for setting the forecast national business rates?</b>
<b>Response</b>	Yes.  Calculation of gross Business Rates using multiplier adjusted for inflation with average rateable value. We would however like clarification on what collection rate assumptions and assumptions on cost of collection government are making as part of these proposals. The figures must be transparent at a national and local level.
<b>TP2 Q2 (p10)</b>	<b>Do you agree with the proposed basis on which proportionate shares would be calculated?</b>
<b>Response</b>	Yes.  With consideration given to earlier comments we agree with the calculation of proportionate shares on the basis of Small Business Rates multiplier and levy less all allowable deductions and exclusive of the impact of transitional relief.
<b>TP2 Q3 (p11)</b>	<b>Which of the options – “spot”, or “average” – do you believe would be the fairest means of determining each billing authority’s business rate yield, upon which proportionate shares would be based?</b>
<b>Response</b>	Average.  At least two years after revaluation year using the NNDR3 return seeming fairer and less open to manipulation.
<b>TP2 Q4 (p15)</b>	<b>Do you agree with the allowable deductions the Government proposes to make to each billing authority’s business rates yield, to reflect differences in the local costs of items such as reliefs, in establishing proportionate shares?</b>
<b>Response</b>	No.  The allowable deductions are mainly unchanged. However, the off-set for Discretionary Rate Relief on the grounds of hardship is excluded – the impact of funding this (and the unchanged economic climate) needs to be considered.

<b>Technical paper 3: Non-billing authorities</b>		
<b>TP3 (p11)</b>	<b>Q1</b>	<b>Of the two options outlined for determining a county council's share of a billing authority business rates baseline (pre-tier split), which do you prefer?</b>
<b>Response</b>		Although this is not an issue for North East councils, Option 2 appears to offer more linkages to local requirements and therefore need.
<b>TP3 (p12)</b>	<b>Q2</b>	<b>Do you agree that police authorities should receive fixed funding allocations in 2013-14 and 2014-15 through an adjustment to the forecast national business rates?</b>
<b>Response</b>		Yes, this appears reasonable as an interim measure, pending the review of police funding as part of the next Spending Review and consistent with the 2010 Spending Review control totals.
<b>TP3 (p14)</b>	<b>Q3</b>	<b>Do you agree that the services provided by county fire and rescue authorities should be funded through a percentage share of each district council's billing authority business rates baselines (pre-tier split), subject to any tariff or top up required to bring them to their baseline funding level?</b>
<b>Response</b>		N/A
<b>TP3 (p14)</b>	<b>Q4</b>	<b>Do you think that single purpose fire and rescue authorities should be funded:</b> a. <b>through a percentage share of each district council's billing authority business rates baselines (pre-tier split), subject to any tariff or top up required to bring them to their baseline funding level; or</b> b. <b>through fixed funding allocations for 2013-14 and 2014-15, through an adjustment to the forecast national business rates?</b>
<b>Response</b>		Both Cleveland and Tyne and Wear Fire Authorities favour Option b. The Fire Authorities understand the need for the LGRR to be all encompassing but would agree with the proposal to remove them from the initial system until 1st April 2015.  The Government may want to consider the funding arrangements for the Police and Fire authorities as a separate case and permanently exclude them from the new retained Business Rates system altogether as they do not directly generate Business Rate income and are dependent upon the district councils they are located within and therefore have little influence over the growth / reduction in Business Rates in their area. This is a powerful argument as such to keep the funding arrangements until sufficient empirical evidence as to the benefits or dis-benefits of the proposed change have accumulated.

<b>Technical paper 4: Business rates administration</b>	
<b>TP4 Q1 (p8)</b>	<b>Do you agree with the proposed approach for administering billing authorities' payments to central government?</b>
<b>Response</b>	Yes, we are generally supportive of the proposed approach for administering billing authorities' payments to central government. The continued use of the NNDR1 is welcome, as are the proposals around the notifications of set aside, adjustments and top ups. Furthermore the proposals that these sums are paid in 24 fortnightly instalments as is currently the case provides a continuation of the current arrangements which seem to work relatively well.
<b>TP4 Q2 (p9)</b>	<b>Do you agree with the proposed approach for administering billing authorities' payments to non-billing authorities?</b>
<b>Response</b>	Yes, we are in general agreement with the proposals for administering billing authorities' payments to non-billing authorities. The proposal for the net payment to be paid by billing authorities to non billing authorities in 24 fortnightly payments appears reasonable.
<b>TP4 Q3 (p10)</b>	<b>Do you agree with the proposals for year end reconciliation?</b>
<b>Response</b>	We are in general agreement with the proposals for year end reconciliations around transitional arrangements, the associated NNDR3 returns and the proposals that non-billing authorities should receive their shares after year end.  Whilst it could be argued that proposals could be formalised, for billing and non-billing authorities to determine how sums due between each other are paid, there is at least flexibility in this area.
<b>TP4 Q4 (p10)</b>	<b>Do you agree with there should be a process for amending payments to non-billing authorities to reflect in-year changes, similar to the current NNDR2 returns?</b>
<b>Response</b>	Yes there should be a process for amending payments to non billing authorities to reflect in-year changes, similar to the current NNDR2 returns. This is important in current economic climate where significant changes may occur to the Business Rates yield for some authorities.
<b>TP4 Q5 (p10)</b>	<b>If there is a process for amending payment schedules, do you think changes should be possible at fixed points throughout the year? How frequently should changes be possible?</b>
<b>Response</b>	Yes.  A process for amending payment schedules would be easier to administer at certain fixed points during the year. There is already a process in place for this through the NNDR2 change process. This could perhaps be carried out via the quarterly returns but monthly would be preferable.
<b>TP4 Q6 (p10)</b>	<b>Alternatively, do you think changes should only be possible if triggered by significant changes in business rates forecasts? What do you think should constitute a significant change?</b>
<b>Response</b>	No.  It will be difficult to establish what constitutes a 'significant' change for each individual authority so it could be measured via the quarterly returns first. As our preferred option is for fixed point payments during the year (as noted in TPQ5 then we do not believe that changes should only be triggered by significant changes in Business Rate forecasts.
<b>TP4 Q7 (p11)</b>	<b>Do you agree with the proposed approach for administering payments to and from non-billing authorities?</b>

**Technical paper 4: Business rates administration**

<b>Response</b>	Seems reasonable.
<b>TP4 Q8 (p13)</b>	<b>Do you agree with the proposed approach for establishing liability for the levy on the basis of an authority's pre-levy business rates income and eligibility for support from the safety net on the basis of an authority's post levy income?</b>
<b>Response</b>	Yes, although consideration needs to be given to the timing of such payments to ensure that there is no detrimental effect to an authority requiring support from the safety net.

<b>Technical paper 5: Tariff, top up and levy options</b>	
<b>TP5 (p11) Q1</b>	<b>Should tariffs and top ups be index-linked, or should they be fixed in cash terms?</b>
<b>Response</b>	<p>Yes.</p> <p>It is essential that tariffs and top ups are index-linked using the Retail Price Index rather than fixed in cash terms.</p> <p>Top up authorities, which all North East councils are, would be severely disadvantaged by using fixed cash tariff and top ups because they would have to grow their business base above inflation just to maintain their funding at the same level in real terms. Therefore not uprating tariffs and top ups by RPI will result in a loss of funding for all North East councils.</p> <p>Please also refer back to our more detailed response to Question 4 of the main consultation.</p>
<b>TP5 (p11) Q2</b>	<b>Do you agree that a pool's tariff, or top up, should be the aggregate of the tariffs and top ups of its members?</b>
<b>Response</b>	Yes, it makes sense that a pool's tariff or top up is the aggregate of its members' tariffs and top ups.
<b>TP5 (p20) Q3</b>	<b>Do you agree that the levy should apply to change in <i>pre-levy income</i> measured against the authority's <i>baseline funding level</i>?</b>
<b>Response</b>	Yes, ANEC authorities agree that on balance the levy should apply to change in pre-levy income measured against an authority's baseline funding level as this should lead to less volatility as could be the case with other approaches adopted as long as the levy and the baseline are indexed on the same basis.
<b>TP5 (p20) Q4</b>	<b>The main consultation document seeks views on which option for calculating the levy you prefer (flat rate, banded or proportional) and why. What are your views about the levy rate that should be applied if a flat rate levy is adopted?</b>
<b>Response</b>	<p>North East councils do not support the use of a flat rate option as it is the least fair option of the proposals put forward and would be weighted very much in favour of tariff authorities, especially those with a high tariff, due to the differences in authorities gearing.</p> <p>The levy should be designed so that it is sufficient to support authorities in need whose tax base diminishes through unforeseen or uncontrollable circumstances and to incentivise authorities to grow income. However, it should not be disproportionate and therefore the rate may have to vary accordingly to achieve this.</p> <p>Other the three options proposed we would support a proportional levy as discussed in our response to Question 7 of the main consultation. This option would appear to be the fairest and strikes a balance for all authorities as it considers, reducing the gearing effect, avoids cliff edges and allows for an element of incentivised growth for all authorities with the flexibility that the rate can be adjusted.</p> <p>The relationship between growth and retained income should be the same e.g. 1:1 ratio would ensure that levied authorities percentage increase in income will be the same as their percentage growth in business rates. However, prior to setting the ratio consideration needs to be given to the impact on other aspects of the system. For example if a lower is set there may be insufficient funding to meet the demands</p>

<b>Technical paper 5: Tariff, top up and levy options</b>	
	on the levy pot. This is an aspect of the proposed system that would benefit from further modelling by government of the impact of different ratios before the ratio is set.
<b>TP5 Q5 (p20)</b>	<b>If a banded levy is adopted, should the bands be set on the basis of an authority's gearing, or on some other basis; how many bands should there be and what levy rates that should be applied to each band?</b>
<b>Response</b>	<p>Insufficient information has been provided for this option, we would need to see more detailed proposals for it to be fully explored. A banded levy by its very nature can cause cliff edges with authorities close to the margins being in a worse position than if they were in the next band or the bandings being constructed slightly differently.</p> <p>This could be the subject of another consultation to show how the new system once designed will work in practice. It would have to be published well in advance of 1st April 2013.</p>
<b>TP5 Q6 (p20)</b>	<b>Under a proportional scheme, what is your view of the levy ratio that should be applied?</b>
<b>Response</b>	North East authorities would support a proportional levy please see further detailed response as discussed in our response to TP4 and question 7 of the main consultation.
<b>TP5 Q7 (p20)</b>	<b>Do you agree that pools of authority should be set a lower levy rate, or more favourable levy ratio than would have been the case if worked out on the aggregate of the pool member's levy?</b>
<b>Response</b>	No.
<b>TP5 Q8 (p25)</b>	<b>Do you agree that safety net payments should be triggered by changes in an authority's <i>retained income</i>?</b>
<b>Response</b>	Yes.
<b>TP5 Q9 (p25)</b>	<b>The main consultation document seeks views on whether there should be a <i>safety net</i> for annual changes in post-levy income. If so, what percentage change in annual income do you think that authorities could reasonably be expected to manage before the safety net kicked-in?</b>
<b>Response</b>	<p>Nil. There is inherent volatility in income collection and it is important that councils have some certainty surrounding budgets. Deprived North East councils have been faced with managing greater reductions (refer to heatmap) over more affluent, less deprived areas of the country, we therefore believe that for North East councils this percentage should be nil. There is no perceived slack available in budgets and unlike more affluent areas across the country there will be less opportunity to grow income and consequently less ability to manage falls in income.</p> <p>Again some form of banding could be considered especially between tariff and top up authorities which would help to indicate where a fall in income could be more easily managed.</p>
<b>TP5 Q10 (p25)</b>	<b>The main consultation document also seeks views on whether there should be a safety net against absolute falls in income below an authority's baseline funding levels. If so, at what percentage below baseline should the safety net kick-in?</b>

**Technical paper 5: Tariff, top up and levy options**

<b>Response</b>	Whilst North East councils support this feature within the scheme we believe that due to local conditions discussed throughout this response the percentage for North East councils should be set at nil.
<b>TP5 Q11 (p25)</b>	<b>Do you think that for the purposes of the baseline safety net, the baseline should be annually updated by RPI, or not?</b>
<b>Response</b>	The baseline safety net should be annually updated by RPI in the same way as top ups and tariffs are to give authorities real term protection, please refer to our response Question 1 of the main consultation regarding equalisation and Question 4 updating of top ups and tariffs where the same arguments apply.
<b>TP5 Q12 (p25)</b>	<b>Do you think that the safety nets should provide an absolute guarantee of support, or should financial assistance be scaled back if there is insufficient funding in the levy pot?</b>
<b>Response</b>	In a perfect world with sufficient resource in the safety net we would want an absolute guarantee of support. However, we have noted throughout this consultation response our concern regarding insufficient growth and the consequentially impact on levy pot. In such a case some form of scaling back would seem logical, particularly if generally the climate is such that the following years support might be insufficient. However, if the pot was insufficient due to additional unfunded burdens being brought in from other departments, then support should not be scaled back and sufficient funding should be transferred in to the levy pot.
<b>TP5 Q13 (p25)</b>	<b>Should safety net support be paid in year, or after a year- end?</b>
<b>Response</b>	Ideally regular payments throughout the year with maybe a final adjustment made at year end as appropriate.
<b>TP5 Q14 (p25)</b>	<b>Do you agree that pools should be treated as single bodies?</b>
<b>Response</b>	Yes.

<b><u>Technical paper 6: Volatility</u></b>		
<b>TP6 (p12)</b>	<b>Q1</b>	<b>Do you agree that some financial assistance should be provided to authorities for the effects of volatility?</b>
<b>Response</b>		<p>Yes.</p> <p>Agree that a proportion of the levy pot be set aside to help manage the impact of significant negative volatility.</p> <p>There can be many reasons for a decline in Business Rates income and by default many of the reasons for this can be difficult to predict and can be outside the immediate control of a single local authority. It is therefore important as part of the new system that adequate financial assistance is provide to compensate authorities for negative volatility. Please refer to our detailed responses to Questions 5 and 6 of the main consultation.</p>
<b>TP6 (p12)</b>	<b>Q2</b>	<b>Of the options set out in the paper, which would you prefer? Do you agree with the Government’s analysis that a safety net, instead of an events-based, or application-based approach offers the best way of managing volatility?</b>
<b>Response</b>		<p>Yes.</p> <p>The preference would be for an automatically triggered safety net to allow authorities a level of guarantee should rates income fall below pre-determined thresholds.</p> <p>This option appears the most advantageous given that it provides certainty to authorities if retained income fell below pre-determined levels. <sup>3</sup>In addition, it has the advantage over the “application based approach” that it is requires no additional work for local authorities as payments would be made on the basis of annual returns.</p> <p>The application based approach would appear to require additional work by local authorities to prepare and for Government review applications. This would also cause uncertainty for councils financial planning.</p>

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<sup>3</sup> Refer to points raised in response to Question 10 of the main consultation.

**Technical paper 7: Revaluation and transition**

TP7 Q1 (p9)	Do you agree that <i>tariffs</i> and <i>top ups</i> should be adjusted at a Revaluation to ensure that authorities' <i>retained income</i> is, so far as possible, unaffected by the impact of the revaluation?
Response	Yes.
TP7 Q2 (p9)	Do you agree that, having made an adjustment to <i>tariffs</i> and <i>top ups</i> , there should be no further adjustments to reflect subsequent appeals against the rating list?
Response	<p>No.</p> <p>Appeals will be ongoing throughout the five year life of the list and the rateable value / income can be significantly affected therefore adjustment to reflect appeals will need to be considered within the system.</p> <p>There will need to be a debate as to whether certain issues, such as if there is a temporary dip in income as a result of back dated appeals or for example where a demolition takes place prior to development, are covered by the floor or whether a floor payment is clawed back when income recovers.</p> <p>Authorities will depend more than ever on the Valuation Office Agency (VOA) to produce accurate and timely revaluations if authorities are to avoid having to make provisions for appeals.</p> <p>Situations also arise through companies seeking to avoid Empty Property Rates by a series of devices such as going in to liquidation and not appointing a receiver, this could become an issue if we authorities are unable to offset any consequent income shortfall against the national levy.</p> <p><b>Case Study - Revaluation Issue – Sunderland</b></p> <p>Every five years businesses have their business rateable values re-valued independently by the Government's Valuation Office Agency (VOA) which forms an essential element of the calculation used to arrive at how much they must pay in Business Rates each year (i.e. rateable value (RV) x rate poundage = Business Rates payable each year).</p> <p>All businesses have the right of appeal against the revaluation assessment to the VOA who will then consider the facts and make a decision to either reduce or keep the RV at the original value. Most appeals are made by agents on behalf of businesses especially those with the largest RVs with varying degrees of success. The Government currently accounts for these reductions in income by setting a buoyancy factor each year in anticipation of reductions in RV. The VOA has targets to achieve settlements for outstanding appeals which could influence decisions taken to settle appeals in favour of the appellants to allow them to meet their targets. Agents are aware of this and in some instances will use the system to their advantage by deliberately refusing to agree to a reduction until as late as possible.</p> <p>Sunderland City Council has monitored the position over the past five year revaluation period 2005/06 to 2010/11 and has noted that it has 'lost' £11m in Business Rates income over this period because of repayments it has made to businesses who have successfully appealed against their revaluation. Most of the amounts refunded were most noticeably made during the last two years of the list (over £6.7m) which excludes statutory interest paid.</p>

**Technical paper 7: Revaluation and transition**

		It is a concern that the new proposed system must ensure that this feature is fully acknowledged and then fully funded so that councils are not seeing shortfalls in their Business Rates income because of the independent actions of the VOA. It would also help if councils were given a statutory power to challenge any settlements or appeal against any valuations where it thought the value was in fact too low. This would put pressure on the VOA to be more robust in their initial valuations and could help to reduce the number of appeals especially if agents knew they could be challenged by local authorities.
<b>TP7 (p14)</b>	<b>Q3</b>	<b>Do you agree that transitional relief should be taken outside the main business rates retention scheme?</b>
<b>Response</b>		Yes, no council should be better or worse off due to revaluations, as they are outside their control.
<b>TP7 (p14)</b>	<b>Q4</b>	<b>Do you agree with the Government's proposal for a system of <i>transitional adjustments</i>?</b>
<b>Response</b>		Yes.
<b>TP7 (p14)</b>	<b>Q5</b>	<b>Do you agree that any deficit on <i>transitional adjustments</i> should be charged to the levy pot?</b>
<b>Response</b>		Response to be confirmed.

**Local Government Resource Review: Proposals for Business Rates Retention  
Technical paper 8: Renewable energy**

<b>TP8 (p10)</b>	<b>Q1</b>	<b>Do you agree that the generation of power from the renewable energy technologies listed above should qualify as renewable energy projects for the purposes of the business rates retention scheme?</b>
<b>Response</b>		Yes, the list of renewable energy technologies should qualify as renewable energy projects for the purposes of the Business Rates retention scheme, although we believe both Solar Farms and Solar Thermal and Combined Heat and Power have been omitted and should be included to the list.
<b>TP8 (p14)</b>	<b>Q2</b>	<b>Do you agree that establishing a baseline of business rate income from existing renewable energy projects against which growth can be measured is the most effective mechanism for capturing growth. If not, what alternative approach would you recommend and why?</b>
<b>Response</b>		<p>We are generally supportive of the proposals in this area. However, there are a few issues of clarification required and information to ensure the appropriate allocation of Business Rates income.</p> <p>We would like to see the detailed proposals for the apportionment of rateable values between substations and cables to ensure that rates income is returned to the appropriate authority. It is important that this is carried out correctly given that in almost all cases cables will run across a number of different local authority areas. In terms of capturing growth, can this be done more easily by simply ring fencing any new projects as and when they appear on the rating lists?</p> <p>Furthermore the proposal is that this would only apply to new schemes from 1st April 2013, and North East councils believe that all renewable energy schemes should have the same exemptions applied to them regardless of the implementation date. The current proposals penalise those areas that have been at the forefront of renewable energy initiatives. Issues highlighted:</p> <ul style="list-style-type: none"> <li>• If an authority has had a policy of pro-actively encouraging renewable energy projects so that we may not have a pressing need for any new projects by 2015, therefore do not benefit from this initiative.</li> <li>• What potential, areas, and resources, exist for new projects.</li> <li>• How is growth measured – for example, increased energy from existing resources – how is that captured?</li> <li>• The amount of initial investment required before the NNDR return determines what funding is due and when it becomes available to the authority (no idea on the cash flow difficulties).</li> </ul>
<b>TP8 (p14)</b>	<b>Q3</b>	<b>Do you agree with the proposal to define “renewable energy projects” using, as a basis, the definition in previous business rates statutory instruments?</b>
<b>Response</b>		Yes, as long as the definition remains flexible enough to be updated to cover new technologies.
<b>TP8 (p15)</b>	<b>Q4</b>	<b>Do you agree with the proposal for identifying qualifying business rates income from new renewable energy technologies installed on existing properties?</b>
<b>Response</b>		Yes.
<b>TP8 (p15)</b>	<b>Q5</b>	<b>Do you agree with the proposal that the business rates income from Energy from Waste plants that qualify as being from a renewable energy project should be determined by the Valuation Office Agency apportioning the rateable value attributable to renewable energy generation? If not, what</b>

**Local Government Resource Review: Proposals for Business Rates Retention  
Technical paper 8: Renewable energy**

	<b>alternative would you propose, and why?</b>
<b>Response</b>	Agree in principle, provided that the Valuation Office Agency have sufficient resources in place to avoid any unnecessary delays determining projects.
<b>TP8 Q6 (p17)</b>	<b>Do you agree with the proposal that the billing authority should be responsible for determining which properties qualify as a renewable energy project?</b>
<b>Response</b>	Detailed statutory guidelines would have to be issued to ensure a consistent approach nationally. If responsibility lay with the billing authority there would have to be sign off from the VOA as there may well be a conflict of interest particularly where two tier authorities have a difference of opinion. Furthermore the VOA are more likely to have sufficient relevant expertise to determine which properties qualify as renewable energy projects than billing authorities.
<b>TP8 Q7 (p18)</b>	<b>Do you agree that the revenues from renewable energy projects should be retained, in two tier areas, by the local planning authority, or do you consider that the lower tier authority should receive 80 per cent of the business rates revenue and the upper tier authority 20 per cent?</b>
<b>Response</b>	Not applicable.

## **ANNEX One: The top 20 private sector businesses in terms of rate contribution**

<b>NAME</b>	<b>ADDRESS</b>	<b>Rateable Value</b>	<b>Rate 2011/12</b>	<b>Charge</b>
Alcan Smelting & Power U.K.	Lynemouth Smelter, Lynemouth, Northumberland, NE63 9YH	7610000	£3,295,130.00	
Asda Stores Ltd	Lintonville Road, Ashington, Northumberland, NE63 9UN	2150000	£ 930,950.00	
S C A Hygiene Products U K Ltd	Kimberley Clark Ltd, Princess Way, Low Prudhoe, Prudhoe, Northumberland, NE42 6HE	1880000	£ 814,040.00	
Tesco Stores Limited	Hexham, Northumberland, NE46 3PL	1770000	£ 766,410.00	
Egger (U K ) Ltd	Anick Road, Hexham, Northumberland, NE46 4JS	1730000	£ 953,518.89	
Asda Stores Limited	Cowpen Road, Blyth, Northumberland, NE24 4LZ	1600000	£ 692,800.00	
Simpsons Malt Ltd	Tweed Valley Maltings, Tweedside Trading Estate, Berwick-Upon-Tweed, TD15 2UZ	1325000	£ 573,725.00	
Sainsbury's Supermarkets Ltd	Manor Walks Shopping Centre, Cramlington, Northumberland, NE23 6SD	1080000	£ 467,640.00	
Wm Morrison Supermarkets Plc	North Road, Berwick-Upon-Tweed, TD15 1UN	1000000	£ 433,000.00	
Bourne Leisure Ltd	Haggerston Park, Haggerston, Berwick-Upon-Tweed, TD15 2NZ	855000	£ 383,874.48	
H J Banks & Co Ltd	Shotton Opencast Coal Site, Seaton Burn, NE23 8AU	855000	£ 370,215.00	
Tesco Stores Ltd	Ord Road, Tweedmouth, Berwick-Upon-Tweed, TD15 2XG	835000	£ 361,555.00	
Asda Group Ltd	Manor Walks Shopping Centre, Cramlington, NE23 6UT	815000	£ 352,895.00	
Devere Hotels & Leisure Limited	Slaley Hall, Slaley, Hexham, Northumberland, NE47 0BY	725000	£ 313,925.00	
Sainsburys Supermarkets Limited	Willowburn Avenue, Alnwick, Northumberland, NE66 2JH	715000	£ 309,595.00	
Merck Sharp & Dohme	Windmill Industrial Estate, Cramlington, Northumberland, NE23 3JU	665000	£ 294,149.28	
Wm Morrison Supermarkets Plc	Regent Street, Blyth, Northumberland, NE24 1LQ	650000	£ 260,540.39	
Npil Pharmaceuticals (Uk) Ltd	Whalton Road, Morpeth, Northumberland, NE61 3YA	645000	£ 280,750.00	

Renolit Cramlington Ltd	Bassington Avenue, Bassington Industrial Estate, Cramlington, Northumberland, NE23 8AD	645000	£ 285,169.76	
Procter & Gamble Product Supply (Uk) Ltd	Avenue Road, Seaton Delaval, Whitley Bay, Tyne And Wear, NE25 0QJ	635000	£ 280,680.00	

It is telling that nine out of the top twenty are supermarkets. The County has sufficient supermarkets with no future growth anticipated.

**Northumberland County Council Case Study for re-localisation of Business Rates, North Eastern economies, NCC information**

**The top 20 public sector businesses in term of rate contribution**

NAME	ADDRESS	Rateable Value	Rate 2011/12	Charge
Ministry of Defence	Otterburn Camp, Otterburn, Newcastle Upon Tyne, NE19 1NX	1920000	£	820,132.76
Northumbrian Healthcare Nhs	Wansbeck General Hospital, Woodhorn Lane, Ashington, Northumberland, NE63 9JJ	1780000	£	770,740.00
HM Prison Service	Hm Prison Acklington & Castington, Acklington, Morpeth, Northumberland, NE65 9XF	1220000	£	528,260.00
Northumberland Tyne And Wear NHS Trust	Hexham General Hospital,, Hexham General Hospital, Hexham, NE46 1QJ	1220000	£	528,260.00
Northumberland County Council	County Hall, South Road, Morpeth, Northumberland, NE61 2EF	950000	£	404,131.78
Northumbria Police Authority	Police Headquarters, North Road, Ponteland, Newcastle Upon Tyne, NE20 0BL	900000	£	407,379.84
Ministry of Defence	Albermarle Barracks, Harlow Hill, Newcastle Upon Tyne, NE18 0PX	645000	£	270,351.18
Northumberland County Council*	Woodhorn Museum Archives And Country Park <sup>4</sup> , Woodhorn Colliery, Ashington, Northumberland, NE63 9YF	545000	£	235,985.00
Ministry of Defence	Raf Boulmer, Boulmer Road, Longhoughton, Alnwick, Northumberland, NE66 3JF	475000	£	205,675.00
Northumberland Tyne And Wear NHS Trust	St Georges Park, East Cottingwood, Morpeth, Northumberland, NE61 2NU	445000	£	192,785.00
Bede Academy	Bede Academy, Sixth Avenue, Blyth, Northumberland, NE24 2SY	382500	£	32,698.40
HM Court Service	Bedlington Magistrates Court, Schalkesmuhle Road, Bedlington, NE22 5PQ	302500	£	130,982.50
Ministry of Defence	Raf Boulmer, Boulmer, Alnwick, Northumberland, NE66 3BW	285000	£	121,920.87
Northumberland County Council	Hexham Queen Elizabeth High School, Whetstone Bridge Road, Hexham, Northumberland, NE46 3JD	282500	£	121,439.68
Northumberland County Council	King Edward Vi School, Cottingwood Lane, Morpeth, Northumberland, NE61 1DX	267500	£	115,827.50
Northumberland County Council	Hepscott Park, Stannington, Morpeth, Northumberland, NE61 1NF	234000	£	101,322.00
Northumberland County Council	Prudhoe County High School, Moor Road, Prudhoe, Northumberland, NE42 6LA	232000	£	100,456.00
Northumbria Police Authority	Northumbria Police, Headquarters, Schalksmuhle Road, Bedlington Northumberland, NE22 5PQ	231000	£	94,167.37
Northumberland County Council	Bedlington County High School, Palace Road, Bedlington, Northumberland, NE22 7DR	220000	£	84,900.97
Northumberland County Council	Coquet High School, Acklington Road, Amble, Morpeth, NE65 0NG	216000	£	92,749.60

<sup>4</sup> Woodhorn Museum receives 100% relief