

DISCUSSION PAPER – NOT A STATEMENT OF GOVERNMENT POLICY

Aim

1. This paper explores the options provided to the system design working group around how the system could balance rewarding growth and ensuring sustainable funding for local services. This working group will want to consider whether any of the issues raised in the most recent system design working group meeting have particular implications for local government accounting and for the balanced budget requirement that render them impractical to implement.
2. The aim today is for the group to look at the broad approach to the design of the system covered by the systems design working group and to provide commentary and advice on the factors that need to be considered as part of that process.
3. The government will publish an 100% Business Rates Retention consultation document in July. This consultation will ask for comments on the high level principles of the reforms. Work on the detailed design of the system will continue over the summer and the preferred design choices are likely to be the subject of a more detailed consultation later in the Autumn. This will provide time for an iterative process of system design to take place.
4. The questions included in this paper are to be read alongside the more detailed information in the paper presented to the System Design working group and the minutes of that meeting, which will follow once available.

Resets

5. To find the right balance between rewarding growth and sustainable funding, we expect to need to 'reset' the system on a fixed basis, to allow us to reconsider relative need and to reset the redistributable amounts (top-ups and tariffs).
6. The systems design group considered three main options:
 - Frequent full resets of the system for need at a fixed date
 - Infrequent full resets of the system for need at a fixed date
 - Partial resets of the system for need

Partial reset

7. Further detail about how a partial reset option set out above would work:
 - On day 1 the entire quantum of business rates income would be redistributed according to an assessment of relative need.
 - Thereafter, a proportion of the resource – which could represent the resource needed for specific demand-led services – would be reset at relatively frequent intervals. This would be on the grounds that the relative need for such services is more likely to change frequently as a result of demographic or other changes.
 - The remaining portion of funding would be reset only infrequently, and authorities would be entirely dependent on their growth in local taxes for increased funds to deliver other services.

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- Under this option a proportion of growth would be included as part of a regular reset, and a proportion would remain with the local authority on a longer term basis.
 - This would give local authorities a strong growth incentive that would be maintained across resets, and a greater confidence that a proportion of growth could be used for longer term investments.
8. The key outstanding question for this approach is what proportion of funding might be reset. This question will require further work, to be informed by the work of the Fair Funding Review group, about the possible proportions that could be reset, and the impact this would have.

Q1 does either the infrequent or frequent fixed reset period provide any additional challenges for either accounting or the balanced budget calculation?

Q2 would there be any implications for BR accounting or the balanced budget calculation if a partial reset system was adopted?

Redistribution between local authorities

9. The Government has always been clear that we will still need a system of redistribution between local authorities to balance revenue with relative need. The Fair Funding Review will identify relative need for each local authority and we will need to find a way to redistribute business rates income according to that.
10. Under the 50% system, the Government has used a system of top-ups and tariffs to redistribute funding from those local authorities that collect more in business rates than their identified need, to those who do not collect enough for their need. The Government expects to use the same type of system under 100% business rates retention.
11. Under the 50% system the impact of top-ups and tariffs is primarily disclosed in the detailed information supporting the annual Local Government Finance Settlement. Under the new system, with no RSG, the annual Local Government Finance Settlement may not be necessary.

Q3 what is the best way to disclose the impact of top-ups and tariffs on each local authority's business rates income? Can this be disclosed in the Collection Fund Account or is some form of central Parliamentary reporting still preferable? Are there any other options that we should consider?

Mayoral Combined Authorities

12. Directly elected Mayors have democratic accountability to their area, and we know that some have expressed a wish to be given greater responsibility for the distribution of resources within the Combined Authority area.
13. We are interested in exploring whether a Mayoral area (which covers multiple local authority areas) could be given a single 'baseline' of relative need, and therefore a single tariff or top-up based on the wider area. A future safety net would also operate at

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this level – ie the safety net threshold would be based on the Combined Authority's baseline.

14. The aim would be to help stimulate coherent decision making across local authority boundaries, with growth gains being generated and used at a strategic level.

Q4 Would there be accounting or accountability implications of moving to a single needs based assessment covering all authorities in a Combined Authority area, either in year one, or in future years once retained growth needed to be apportioned?

Distribution in existing two tier areas

15. The other matter that the system design working group discussed was distribution between tiers in existing two tier areas. As the discussion focussed on whether the current distributional split best met relative need, we have assumed that there are no new issues for accounting and accountability.

Q5 Is this assumption correct?