
Cabinet
Council

11th September 2012
18th September 2012

Name of Cabinet Member:

Cabinet Member (Strategic Finance & Resources) – Councillor Duggins

Director approving submission of the report:

Director of Finance and Legal Services

Ward(s) affected:

City Wide

Title:

Response to Consultation – Local Government Resources Review: Proposals for Business Rate Retention

Is this a key decision?

No

Executive summary:

Council approved a report on 18th October 2011 giving its response to the Local Government Resources Review: Proposals for Business Rates Retention scheme. The key impact of the scheme, set out within the current Local Government Finance Bill, will be that a proportion of future local increases or decreases in Business Rates will be retained or managed by local authorities. Currently these local movements in Business Rates are balanced within national funding arrangements.

As part of developing these proposals the government has issued a technical consultation paper, setting out the detail of the way the scheme and the wider resource allocation system will operate. The response to this consultation needs to be submitted by 24th September. The scheme will entail a move away from a needs based resource allocation system, to one based in part on the level of business rates increase in an area. This raises the possibility that Coventry will suffer a reduction in funding over time.

This report sets out a proposed response to the consultation, the main focus of which is that any new system should adequately take into account the assessment of need when allocating resources.

Recommendations:

Cabinet is recommended to consider the consultation response in Annex 1 and propose any changes for consideration by Council;

Council is recommended to approve the consultation response including any changes proposed by Cabinet

List of Appendices included:

None

Other useful background papers:

Business Rates Retention papers. 3rd Floor Christchurch House

Has it or will it be considered by scrutiny?

No

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

Yes, 18th September 2012

1. Context (or background)

- 1.1 As part of its Local Government Resource Review, the government has been developing proposals for the replacement of a needs based mechanism for the distribution of Business Rates with one founded on the retention of rates income within the area in which it is earned. The stated purposes of the proposed changes are to provide incentives to encourage local economic growth and to shift power from central to local government.
- 1.2
- 1.3 In response to an earlier consultation on Business Rates Retention, in July 2011, Cabinet set out the City Council's opposition to the retention proposal, on the basis that it would not align resources with need.
- 1.4 On the 17th July 2012 the government issued a 250 page technical consultation, which goes into more detail than the July 2011 exercise, and includes some proposed changes in the way the scheme would operate.
- 1.5 This report sets out how the proposed Business Rates Retention system will operate, what the key issues are and includes a proposed response for Cabinet's approval (summarised in 3.3, detailed in Annex 1).

2. Current System of Local Government Funding

- 2.1 Local Authorities collect Business Rates on behalf of Central Government. Any income is paid into a national pool that is then redistributed as part of the annual Local Government Settlement. In the Settlement the Government determines how much Formula Grant each authority should receive using a complex set of calculations that attempt to take into account both relative spending pressures and relative Council Tax incomes for each authority. The Formula Grant contains two elements: redistributed business rates; and Revenue Support Grant (RSG).
- 2.2 The amount of Business rates collected locally in 2011/12 was £110.5m, compared to Coventry's £146.2m share of the pool.
- 2.3 It is also important to note that there is an adjustment, known as 'damping', which aims to prevent large changes for individual authorities. This adjustment results in Coventry receiving significantly less Formula Grant than a purely needs based assessment would deliver. In 2012/13 Coventry lost £4.7m as a result of 'damping'. We have consistently lobbied Central Government to remove this inequity.

3. Proposed System of Local Government Funding ~ Business Rates Retention

- 3.1 The main elements of the proposed scheme are:-
 - The establishment of 2 technical baselines for every local authority for 2013/14: (i) the "funding baseline", reflecting a needs based assessment as at the start of the new scheme and (ii) the "business rates baseline", representing level of rates income collected in the area. The baselines will be "re set" periodically, possible every 10 years;

- In year 1, as the level of business rates collected in an area will almost certainly not equal the needs funding baseline, there could be a sudden gain or a loss at the start of the new system. To address this and “balance” the system in 2013/14, authorities will either pay a tariff or receive a top up to match the level of retained business rates to the needs funding baseline;
- Once the scheme is operational, at a national level, total rates income will be split 50/50 between central and local government. Certain resources will be top sliced before the local/central split in business rates is calculated. These will include a number of elements such as mandatory and discretionary rate relief;
- The government’s 50% share of rates income will be distributed through a need based assessment;
- The local government 50% share of rates income will be subject to the following arrangements:
 - Over time, if business rates income grows, local authorities will be able to keep some of any growth over and above the business rates baseline. To prevent excessive gains where business rates rise, a levy will be applied to any growth in rates beyond the baseline, so that authorities will not be able to retain 100% of rates growth. The baseline will increase annually by RPI;
 - Over time if business rates income falls, local authorities will suffer a reduction in income. However, a safety net will be applied so authorities will not lose out by more than a specified amount. It is proposed that the safety net is set at between 7.5% and 10% below the business rates baseline. Government will fund the safety net through the levy applied growth in rates income or part of its 50% share of total business rates.

3.2 In addition, the consultation sets out a number of changes to the technical mechanism of calculating formula grant and the data that underpins the formula.

3.3 The key issues to consider are:

- Although the central government 50% share of rates income will be allocated on a needs base, the proposed scheme still retains a significant element that is not needs based. It is proposed that the response to the consultation stresses the importance of maximising the needs based element;
- There is still scope for losses if business rates fell over time. The point at which the safety net (7.5% - 10% reduction) would trigger would equate to a £5m loss in business rates for Coventry. In essence, this represents the potential impact of a switch away from a purely needs based system;
- The scheme will be massively complicated. A number of variables will increase uncertainty and instability in local government resourcing. It is proposed that the response to the consultation suggests that introduction of the scheme is delayed 12 months to allow all parties to thoroughly evaluate the potential changes and their impact e.g. to fully consider transitional relief and other significant aspects;
- Funding levels for local authorities under the proposed scheme will in part be dependent on the level of business rates income. To maximise resources available under the new scheme it will be in the interest of every authority to seek to promote business rates growth in its area. To that end the Council will need to actively consider

how these new developments can be worked into the it's strategic approach, for example with regard to investment strategy and business growth;

- The development of business rates pooling between local authorities will be an important tool in managing the risk that the proposed scheme creates. Following the report to Cabinet on 10th July 2012 officers are actively pursuing opportunities for business rates pooling;
- It is proposed that the response urges the government to remove the “damping” feature within the needs based assessment, on the basis that it is inequitable in that it tends to maintain resources in areas where need is reducing. Within the context of a significant shift away from a needs based approach it is inappropriate to maintain this form of protection for lower need authorities.

4. Options considered and recommended proposal

- 4.1 The options are to not respond to the consultation or to approve the attached detailed response.

3. Results of consultation undertaken

- 3.1 Officers and members have been consulted in the drafting of this report.

4. Timetable for implementing this decision

- 4.1 Responses are required by 24th September 2012, with implementation planned for 2013/14.

5. Comments from Director of Finance and Legal Services

5.1 Financial implications

The main financial implication for the City Council is the potential for the loss of funding as a result of the changes, as set out in the main body of this report. This will be subject to so many future variables factors that it is very difficult to make a robust estimate of future funding.

5.2 Legal implications

There are no legal implications arising from this report.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

The achievement of jobs and growth is one of the Council's key strategic objectives and this is closely aligned with the Government's intention for a new Business Rate Retention scheme to be a vehicle to strengthen the incentives to support growth. However, there is an underlying risk that the Council might suffer a loss of funding over time.

6.2 How is risk being managed?

The potential to pool business rates with other local authority areas offers a significant opportunity to reduce some of the risk of lost income. Proposals are currently being investigated with Warwickshire authorities to maximise the City Council's resource position through the establishment of a pool.

6.3 What is the impact on the organisation?

The main impacts are financial and are dealt with above.

6.4 Equalities / EIA

None.

6.5 Implications for (or impact on) the environment

No implications.

6.6 Implications for partner organisations?

None.

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Summary of Questions

Question 1: Do you agree with the methodology set out above for calculating the local government spending control total?

Disagree ~ Coventry City Council is opposed to changes that reduce the extent of the alignment of resources with need. The allocation of New Homes Bonus sums in the way described has this effect. Separately, there needs to be clarity about whether or not the cost of capitalisation is reflected in the calculation of formula grant. It is not reflected in the current system, but the consultation implies that it will be in future. If this is to be the case there needs to be clarity about how this is achieved

Question 2: Do you agree with the methodology set out above for calculating Revenue Support Grant?

Agree

Question 3: Do you agree with the proposed approach of updating the Concessionary Travel Relative Needs Formula to use modelled boardings data?

Agree ~ Coventry City Council is in favour of a system that is technically sound and uses up to date, relevant data.

Question 4: Or, do you think it would be preferable to keep using the existing formula?

n/a see Q3 response.

Question 5: Do you agree that we should increase the population sparsity weighting of super-sparse to sparse areas from 2:1 to 3:1 for non-police services?

Disagree ~ The City Council does not believe that the consultation paper sets out a convincing evidence based case for the proposed changes. As such, it is not apparent that the changes reflect a greater level of need.

Question 6: Do you agree that we should double the existing Older People's Personal Social Services sparsity adjustment from 0.43% to 0.86%?

Disagree. See Q5 response

Question 7: Do you agree that the proportion of the Relative Needs Formula accounted for by the population sparsity indicator under the District Level Environmental, Protective and Cultural Services block should be increased from 3.7% to 5.5%?

Disagree. See Q5 response

Question 8: Should the County level Environmental, Protective and Cultural Services indicator be reinstated at 1.25%?

Disagree. See Q5 response

Question 9: Do you agree that we should introduce a Fire & Rescue sparsity adjustment at 1%?

Disagree. See Q5 response

Question 10: Do you agree that we should restore the level of the Relative Resource Amount in 2013-14 to that for 2010-11?

Agree ~ To the extent that the changes will flow through to greater needs funding, the City Council supports data and system changes. However, in spite of the fact that exemplifications are included in the consultation paper, the inherent complexity of the system inhibits transparency.

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

See Q10 response.

Question 12: Do you agree that we should continue to distribute funding for the Grants Rolled In Using Tailored Distributions according to the methodology used in 2012-13?

Disagree ~ Although the City Council does not disagree with the tailored distribution mechanism, the continued use of damping within this context is a concern.

Question 13: Do you agree that the October 2012 pupil census should be used in the final settlement for removing these services?

Agree ~ Coventry City Council is in favour of a system that is technically sound and uses up to date, relevant data.

Question 14: If not, what methodology would you prefer to use?

n/a see Q13 response.

Question 15: Do you agree with the proposed methodology for removing funding for the education services currently in the Local Authority Central Spend Equivalent Grant?

Funding should be removed on a basis that ensures that the adjustments are resource neutral for local authorities and equitable. The City Council has responded separately on the government's detailed LACSEG consultation.

Question 16: If not, what methodology would you prefer to use?

see Q15 response

Question 17: Do you agree that funding for Local Authority Central Spend Equivalent Grant should be removed after floor damping?

see Q15 response

Question 18: Do you agree with the proposed methodology for rolling in the 2011-12 Council Tax Freeze Grant?

Agree ~ The City Council supports the transfer of this grant into the start up funding allocation after floor damping, on the basis of transparency and equity.

Question 19: Do you agree with the proposed methodology for rolling in the Council Tax Support Grant?

Agree ~ The City Council supports the inclusion of Council Tax Support Grant in start up funding after floor damping, thereby ensuring that grant is not subject to the inequities of

the damping mechanism. Given the magnitude of the grant, it is crucial for local authorities that the mechanism through which Council Tax Support Grant is distributed remains transparent.

Question 20: Do you agree with the proposed approach to continue to apply a damping floor to Early Intervention Grant allocations after the removal of the 2 year old funding and the top slice?

see Q21 response

Question 21: Do you agree with the proposed methodology for rolling in the Early Intervention Grant excluding funding for free early education for two years olds?

The City Council supports the transfer of this grant into the start up funding allocation after floor damping, on the basis of transparency and equity.

Question 22: Do you agree with the proposed methodology for rolling in Greater London Authority General Grant?

The City Council does not hold a particular view on the Greater London Authority General Grant methodology.

Question 23: Do you agree with the proposed methodology for rolling in a proportion of the Greater London Authority Transport Grant?

The City Council does not hold a particular view on the Greater London Authority Transport Grant methodology.

Question 24: Do you agree with the proposed methodology for rolling in Homelessness Prevention Grant?

Agree ~ The City Council supports the transfer of this grant into the start up funding allocation after floor damping, on the basis of transparency and equity.

Question 25: Do you agree with the proposed methodology for rolling in a proportion of the Lead Local Flood Authorities Grant?

Agree ~ The City Council supports the transfer of this grant into the start up funding allocation after floor damping, on the basis of transparency and equity.

Question 26: Do you agree with the proposed methodology for rolling in the Department of Health Learning Disability and Health Reform Grant?

Agree ~ The City Council supports the transfer of this grant into the start up funding allocation after floor damping, on the basis of transparency and equity.

Question 27: Do you agree that the preferred population measure to use is the interim 2011-based sub-national population projections?

Agree ~ The City Council supports the use of the most up to date and appropriate data.

Question 28: Do you agree with the hierarchy of alternative datasets which would be used if there are problems with availability of any of the data?

Agree ~ The City Council supports the use of the most up to date and appropriate data.

Question 29: Do you agree that we should use aim to use the council tax base projections as the council tax base measure in order to be consistent with our proposed approach to the population?

Agree ~ The City Council supports the use of the most up to date and appropriate data.

Question 30: Do you agree that we should switch to the November 2012 council tax base data should population estimates have to be used?

Agree ~ The City Council supports the use of the most up to date and appropriate data.

Question 31: Do you agree that we should use data from the Inter-Departmental Business Register in the Log of Weighted Bars indicator?

The City Council supports the use of the most up to date and appropriate data.

Question 32: Do you agree with the proposed methodology for distributing Revenue Support Grant in 2014-15 by scaling the 2013-14 authority-level allocations of Revenue Support Grant to the level of the 2014-15 Revenue Support Grant?

The City Council supports the use of the most up to date and appropriate data.

Question 33: Do you agree with the proposed approach for calculating floor damping in 2013-14?

Disagree ~ The City Council is strongly opposed to the use of floor damping within the funding mechanism. Damping is not equitable, in that it dilutes the needs element of the distribution formula. Damping acts as a safety net for authorities whose need to spend is falling, thereby allocating grant where it is not needed.

Question 34: Do you agree with the proposed approach for allocating floor damping bands in 2013-14?

Disagree ~ See response to Q33

Question 35: Do you agree with the proposed approach to splitting 2012-13 formula grant between the service tiers?

Disagree ~ See response to Q33

Question 36: If not, what methodology do you think we should use?

The City Council's view is that the funding mechanism should exclude damping.

Question 37: Do you agree that the funding for capitalisation and the safety net should be held back from the surplus New Homes Bonus funding rather than as a separate top-slice?

Agree ~ The City Council believes that using the New Homes Bonus allocation to meet the cost of capitalisation and the safety net is a practical way to fund those costs.

Question 38: Do you agree that the remaining funding should be distributed back to local authorities prorata to the start-up funding allocation?

Agree

Question 39: Do you agree with the proposal for setting out the method of calculation of the 2013-14 formula grant element of police funding allocations in a separate document?

The City Council does not hold a particular view on police funding.

Question 40: Do you agree with the proposed methodology for funding local policing bodies in 2014-15?

The City Council does not hold a particular view on police funding.

Question 41: Do you agree with our proposal not to adjust the notional gross yield figure to take account of transitional arrangements?

The City Council will be keen to see how this process operates in practice and in particular, whether the effect of the proposal will be to materially increase instability in funding, as a consequence of periodic revaluations.

Question 42: Do you agree with our proposal to adjust the notional gross yield figure to take account of small business rate relief?

Agree ~ The basis of adjustment seems reasonable

Question 43: Do you agree with our proposal to adjust the notional gross yield figure to take account of mandatory reliefs in this way?

Agree ~ The basis of adjustment seems reasonable

Question 44: Do you agree with our proposal to adjust the notional gross yield figure to take account of discretionary reliefs in this way?

Agree ~ The basis of adjustment seems reasonable

Question 45: Do you agree with our proposal to adjust the notional gross yield figure to take account of Enterprise Zones, New Development Deals and renewable energy schemes in this way?

Agree ~ The basis of adjustment seems reasonable

Question 46: Do you agree with our proposal to adjust the notional gross yield figure to take account of costs and losses in collection in this way?

Agree ~ The basis of adjustment seems reasonable

Question 47: Do you agree with our proposal not to adjust the notional gross yield figure to reflect the deferral scheme?

Agree ~ The basis of adjustment seems reasonable

Question 48: Do you agree with our proposal to adjust the notional gross yield figure to take into account losses on appeal in this way?

Disagree ~ The City Council believes that the mechanism through which appeals are taken into account can have an adverse impact on local authority resources. Where an authority pays a levy, and has outstanding appeals, it will in effect pay levy on sums subject to appeal. In future years, if an appellant is successful, the authority will bear the impact of the refund as a reduction in rates income, but without reimbursement of the associated levy. Where appeals are settled in year there would be no impact.

Question 49: Do you agree with our proposal to determine billing authorities' average contribution to the rating pool using NNDR3 forms between 2007-08 and 2011-12 (subject to a number of adjustments)?

The City Council supports any mechanism that ensures that, as far as possible, proportionate shares reflect the underlying business rates baseline of authorities, and recognises that this could be achieved by using data from an extended period (2007-08 to 2011-12) and/or by making adjustments for material exceptional items. The proposals

referred to in Questions 49 – 60 appear to achieve this. However, the inherent complexity of the scheme does inhibit transparency.

Question 50: Do you agree with our proposal to adjust the incomes for 2007-08 to 2009-10 using a local revaluation factor calculated using the methodology set out?

See response to Q49.

Question 51: Do you agree with our proposal not to make an adjustment to the five year average for inflation?

See response to Q49.

Question 52: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of the transitional arrangements in this way?

See response to Q49.

Question 53: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for either mandatory rate relief, or for the small business rate relief scheme when calculating the proportionate shares?

See response to Q49.

Question 54: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for reductions for empty property rates when calculating the proportionate shares?

See response to Q49.

Question 55: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for discretionary rate relief when calculating the proportionate shares?

See response to Q49.

Question 56: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for costs of collection when calculating the proportionate shares?

See response to Q49.

Question 57: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of losses in collection in this way?

See response to Q49.

Question 58: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of deferral in this way?

See response to Q49.

Question 59: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum charges on property when calculating the proportionate shares?

See response to Q49.

Question 60: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for prior year adjustments and interest on repayments when calculating the proportionate shares?

See response to Q49.

Question 61: Do you agree with our proposal to confirm the county share of the billing authority business rates baseline at 20% - less the percentage share due to single purpose fire and rescue authorities where the county does not carry out that function?

The City Council does not hold a particular view on the level of the county share.

Question 62: Do you agree with our proposal to set the single purpose fire and rescue authority share of a billing authorities' business rates baseline at 2%?

The City Council does not hold a particular view on the level of the on the fire and rescue authority share.

Question 63: Do you agree that county councils responsible for fire and rescue services should receive the full 20% county share of the billing authorities' business rates baseline?

The City Council does not hold a particular view on the level of the county share.

Question 64: Do you agree with the Government's proposal to reflect the current arrangements for the City of London Offset by making an adjustment to the City of London's individual authority business rate baseline?

The City Council does not hold a particular view on the City Offset and City Premium calculation.

Question 65: Do you agree with the proposal to take account of the City of London Offset when calculating proportionate shares?

See response to Q64.

Question 66: Do you agree with the proposal to calculate the City of London's levy ratio by using its adjusted individual authority business rate baseline?

See response to Q64.

Question 67: Do you agree with the proposal to calculate the City of London's eligibility for the safety net by using its business rates income after the deduction of the City of London Offset?

See response to Q64.

Question 68: Do you agree that the City of London Premium should be disregarded in the definition of business rates income used in the business rates retention scheme?

See response to Q64.

Question 69: Do you agree with our proposals for information requirements before the start of the financial year?

Agree

Question 70: Do you agree with our proposals for information requirements at the end of the financial year?

Agree

Question 71: Do you agree with our proposals for the way in which a schedule of payment will operate for billing authorities and what is your view of the number of instalments by which payments to/from local authorities should be made?

The payment process set out in the consultation paper, and referred to in Questions 71 – 73, does not take into account pooling. Some of the payments referred to, namely in respect of transitional protection and the 50% central share of business rates are outside the business rates retention scheme. Consequently, where pooling arrangements operate, it is unlikely that the net payment process envisaged in the consultation paper could operate as envisaged.

Question 72: Do you agree with our proposals for the way in which a schedule of payment will operate for major precepting authorities and what is your view of the number of instalments on which payments to/from precepting authorities should be made?

Agree ~ The City Council believes it is appropriate to align the schedule of payments to/from precepting authorities with that to/from billing authorities, subject to any inter authority pooling agreements.

Question 73: Do you agree with our proposals for the way in which a schedule of payment will operate between billing and relevant major precepting authorities?

Agree ~ The City Council supports the principle that the schedule of payment between billing and precepting authorities should be subject to the agreement of the relevant parties.

Question 74: Do you agree with our proposals for the operation of the collection fund?

The City Council recognises that, under the retention scheme, transactions in respect of business rates will be reflected in the collection fund or the general fund, as appropriate. In addition, it needs to be noted that any pooling arrangements will impact upon the processes referred to in Questions 74 – 76.

Question 75: And do you agree that the reconciliation payment due in respect of transitional protection payments, should be built in to the calculation of collection fund surpluses & deficits only once, when outturn figures are available?

See response to Q74

Question 76: Do you agree with our description of the way in which the general fund will operate?

See response to Q74

Question 77: Bearing in mind the need to balance protection, incentive and affordability, and the associated impact on the amount of contingency that will need to be held back in the early years where, within the range 7.5% - 10%, should the safety net threshold be set?

The City Council's view is that, within the stated range, the safety net should be set at 7.5% in order to ensure that, as far as possible, funding is based on need.

Question 78: Bearing in mind the need to balance protection, incentive and affordability, and the associated impact on the amount of contingency that will need to be held back, do you agree with the Government's proposal to set the levy ratio at 1:1?

Agree ~ The City Council's view is that for the scheme to be credible authorities should not be able to benefit by more than the increase in business rates.

Question 79: Do you agree with the approach set out in paragraphs 16 to 19 for defining a billing authority's net retained rates income for the purposes of the levy and safety net calculations?

Agree

Question 80: Do you agree with the approach set out in paragraphs 20 to 22 for defining a major precepting authority's retained rates income for the purposes of the levy and safety net calculations?

Agree

Question 81: Do you agree with the approach set out in paragraphs 23 to 28 for safety net calculations and payments?

Agree ~ The City Council considers that, whilst the approach is logical, the scheme will become very complex and risk the establishment of an "industry" in allocating resources. This cannot be to the advantage of any stakeholder.

Question 82: Do you agree with the approach set out in paragraphs 29 to 32 for levy calculations and payments?

Agree

Question 83: Do you agree with our proposals for closing the 2012-13 national non domestic rating account?

Agree

Other Comments

Given the complexity of the proposed system, and the number of variables at play within the various elements of the system, the City Council believes that the introduction of the scheme should be delayed 12 months to allow all parties to thoroughly evaluate the potential changes and their impact.