Report author: Mike Woods

Tel: 395 1373

Report of Director of Resources

Report to Executive Board

Date: 2nd November 2011

Subject: Local Government Resource Review Consultation

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	☐ Yes	☒ No
Are there implications for equality and diversity and cohesion and integration?	☒ Yes	☐ No
Is the decision eligible for Call-In?	☒ Yes	☐ No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	☐ Yes	☒ No

Summary of main issues

1. The Government has published a series of consultation papers as part of the Local Government Resource Review. The papers set out proposals for local retention of business rates that have been developed over the last few months by a DCLG-led working group.

2. The consultation proposals represent a fundamental shift in the funding arrangements for local government from a system based largely on an assessment of "needs" and "resources" to one based almost entirely on the capacity to grow business rates.

3. This report summarises the main points of the consultation and includes, as an appendix, the detailed response that was submitted to DCLG on 24th October.

Recommendations

4. Members are requested to note the response submitted to DCLG and to authorise officers to continue dialogue with DCLG and others in order to improve and refine the proposals.

1 Purpose of this report

1.1 To inform members of the progress of the Local Government Resource Review and to give details of the consultation response submitted by the Council on 24th October 2011.

2 Background information

2.1 The Government began a major "Resource Review" of local government in March 2011. The review is to have two phases:

- Phase 1 – Business rates and economic growth
- Phase 2 – Community Budgets

2.2 The first phase of the review culminated in the publication of a consultation paper - *"Local Government Resource Review: Proposals for Business Rates Retention"* - on 18th July. The consultation paper itself is a high level document, concentrating on the broad principles of the proposals, and it has been supplemented by a series of eight *"Technical Papers"* and an *"interactive calculator"* (all published on 19th August) which provide much more of the detail.

2.3 Although business rates retention is simple in concept, the details are complex which makes it easy to overlook the far-reaching nature of the proposals and to underestimate the impact they are likely to have on local authority finances.

2.4 Under the proposals the current Formula Grant system would cease and, instead, from 2013-14 onwards, local authorities would be allowed to keep a proportion of their growth in business rates locally. A system of top-ups and tariffs would be applied to balance resources between those authorities whose funding would exceed their business rates income and those where the opposite would apply. A system of safety-nets is proposed to protect authorities that suffer negative growth, which would be funded by levies on authorities that experience high levels of growth. A more detailed summary of the how the system would work is given in Appendix I.

2.5 The closing date for responses was 24th October but DCLG officials have indicated that they would like to continue to work with local authorities on the details of the scheme after the formal consultation has closed.

3 Main issues

3.1 Leeds' response to the proposals is shown in Appendix II. The response is long and, of necessity, quite technical in places, but the main issues are summarised in the following paragraphs.

3.2 The proposals represent a fundamental shift in approach to funding local authorities: from a system based, however imperfectly, on an assessment of needs and resources, to one that is based heavily on just one factor: the capacity to grow the business rates tax base over time. The obvious problem with this is that business rates growth depends upon a whole range of factors, such as proximity to key markets, transport links, land availability, demographics and changing economic conditions, which are largely outside the control of local authorities, or which they can only influence at the margins.

3.3 There are real fears that local authorities that are fortunate enough to have successful local economies will continue to forge ahead compared to those whose economies are less well-developed or not as buoyant, and the gap between rich and poor areas will continue to widen.

3.4 Another major concern with the proposals is that they would transfer the risk associated with business rates from central government to local authorities. At present, business rates are paid into a national pool and redistributed to local authorities as part of the local government finance settlement, with any surpluses or deficits being managed nationally. Under the rates retention proposals, the Government would make a forecast of business rates and if actual growth exceeded that forecast local government would retain that excess. However, should the forecast prove over-optimistic, local government would bear the entire burden.

3.5 Before the consultation was published, there was considerable speculation about the levels of funding under the new system, particularly as growth in business rates is predicted to exceed local government Spending Review control totals from 2013-14 onwards. The consultation confirms that the new system will not provide any additional funding for local government. Expenditure will be constrained by the limits set out in the Spending Review 2010 and will reduce in-line with the Spending Review for 2013-14 and 2014-15. The excess business rates (the difference between the total collected nationally and the control totals) is to be *"set aside"* to "fund other grants to local government". DCLG officials have confirmed that the grants may include those provided by other central government departments (and thus outside the local government control totals) but would not include Direct Schools Grant.

3.6 Although the main principles of the rates retention proposals are simple, there are many variables within the system and the interactions between them are complex and not easy to understand. Whilst some aspects can be modelled, it is not possible to predict the full effect of the proposals on individual authorities with any accuracy. As a result, our response to the consultation has had to be limited to comments on the general principles of the system.

3.7 Ministers are keen to see greater co-operation between local authorities and the proposals would allow groups of authorities to "pool" their income under the new system. Where this happened, the pool would be treated as a single body for the purposes of tariffs, top-ups, safety-nets and levies and the Government are suggesting that no group of authorities operating a pool would be worse off than if they were treated individually. There could be limited financial incentives to form pools. The pooling arrangements could give the opportunity for regions to support the more economically disadvantaged authorities within their groupings. A regional pool could perhaps give more opportunities to close the gap between rich and poor and drive up the performance of the region as a whole, but the political consequences and the governance arrangements would need to be carefully thought through.

3.8 There is a potential overlap between pooling and the arrangements for enterprise zones. Business rates growth within enterprise zones would be excluded from the rate retention calculations altogether. Growth within an enterprise zone would be retained by the LEP partnership and would be used to further the priorities agreed by the LEP board. This means that an authority with an enterprise zone, that was experiencing most of its growth within that enterprise zone, could find itself receiving less income than if the zone had not been created.

3.9 The starting point for calculating tariffs and top-ups is to be the formula grant allocations for 2012-13 that were announced in December 2010. For Leeds the allocation is £288.1m, a reduction of £25.3m or 8.1% over the adjusted figure for 2011-12. This comes after an unprecedented 12.1% reduction between 2010-11 and 2011-12 and severe reductions in Supporting People grant. Thus, the starting point for Leeds will be poor, although not significantly worse than the other Core Cities.

3.10 At present Leeds contributes more to the National Non-Domestic Rating Pool than it receives back in formula grant. It is, therefore, almost certain that Leeds will be a "tariff" authority under the Government's proposals. Leeds also has the 5th highest business rates tax base in the country so may be better placed than some other authorities in the region, provided business growth can be maintained.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 This is a factual report and is not subject to consultation.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 The change from a needs-based funding system to one based principally on business rates growth may have an impact upon equality and diversity which will need to be mitigated.

4.3 Council Policies and City Priorities

4.3.1 The extent to which the proposals would affect the Council's policies and priorities is not clear at this stage. They do, however, highlight the importance of on-going economic development activities.

4.4 Resources and Value for Money

4.4.1 The proposals will change the basis of the Council's funding, but the full implications are difficult to predict at this stage.

4.5 Legal Implications, Access to Information and Call In

4.5.1 There are no legal implications arising from this report.

4.6 Risk Management

4.6.1 The proposals represent a significant risk for the Council, particularly if economic growth cannot be sustained.

5 Conclusions

5.1 The Government's business rates retention proposals represent a profound change to the funding regime for local authorities, with the emphasis switching from an assessment of need and resources (based on around 100 different indicators), to a system based on just one indicator, growth in business rates.

5.2 If the proposals are implemented in their present form, there is a real risk that authorities with the most successful local economies will be able to forge ahead compared to those whose economies are not as well developed, and the gap between rich and poor areas will continue to widen.

6 Recommendations

6.1 Members are requested to note the details of the response submitted to DCLG and to authorise officers to continue dialogue with DCLG and others in order to improve and refine the proposals.

7 Background documents

7.1 Local Government Resource Review: Proposals for Business Rates Retention, DCLG, 18th July 2011.

7.2 Local Government Resource Review: Proposals for Business Rates Retention: Technical Papers 1 to 8, DCLG, 19th August 2011.

7.3 Spending Review 2010, H. M. Treasury, October 2010.
