TYNE AND WEAR FIRE AND RESCUE AUTHORITY **Item No 5**

MEETING: POLICY AND PERFORMANCE COMMITTEE 24TH OCTOBER 2011

SUBJECT: LOCAL GOVERNMENT RESOURCE REVIEW

JOINT REPORT OF THE CHIEF FIRE OFFICER AND THE FINANCE OFFICER

1. INTRODUCTION

1.1 The purpose of this report is to brief Members on the Government's consultation paper on future funding of local authorities including business rate retention; and to seek Member approval of our position on this review.

2. EXISTING APPROACH TO FUNDING

2.1 At present, all businesses pay National Non Domestic Rates (NNDR, also known as business rates) at a rate set by Government. These rates are collected by Councils, pooled nationally and then redistributed as part of the Government funding of local authorities, including FRAs. Some local authorities with larger business rates bases receive less through this than they collect; whilst others with smaller tax bases receive more than they raise.

2.2 TWFRA currently receives 40% of its funding (£23.749m in 2011/12) from Council Tax and 60% (£32.191m) from Government grant. Of this amount, £7.601m is revenue support grant and £24.590m is redistributed NNDR.

2.3 In July 2010, Government produced a consultation paper on proposed changes to the funding arrangements for local government; this was supported by a set of technical papers published in August. The closing date for the consultation is 24th October.

3. THE PROPOSALS

3.1 In the consultation paper, Government argues that there is currently a disconnect between Council finances and the local economy, with insufficient incentive for local authorities to promote growth. There is also reference to local authorities being too dependent upon central Government and a wish for as many authorities as possible to be "self sufficient".

3.2 It is therefore proposed to fundamentally change local government finance by allowing local authorities to retain a significant proportion of the business rates raised locally. The consultation paper is not on whether to do this, but how.

3.3 There are seven components to the proposals:

Setting the Baseline

3.4 Government proposes to set out a baseline position in 2013-14 for each local Authority, broadly based on current levels of grant funding. A proportion of the business rates would be set aside and allocated to local government through grants to maintain some stability of funding during this period.

3.5 If this proposal were to be adopted, there is a concern that as these levels are based on the current formula grant level funding they will build on any existing inequalities in the current grant distribution mechanism; there is also consultation, and therefore lack of clarity, over whether the baseline would be based on the “dampened” level of grant funding received by authorities. As this Authority received significant damping then it is important that this measure is retained in the proposed system. Those contributing towards the damping arrangements would disagree with this position and is as such an area that will have to be resolved fairly by the government.

3.6 Both of these issues could make a significant difference for TWFRA. In terms of the distribution of Formula Grant, Metropolitan areas were disproportionately affected by the current formula changes with Tyne and Wear receiving the greatest % grant reduction of all FRAs. Floor damping mitigated this to some degree as the table below illustrates.

Authority	**2010/11 grant £m**	**2011/12 Grant after formula applied**	**% reduction or increase**	**% reduction or increase after floor damping**	**2011/12 grant after floor damping**
Tyne and Wear	**35.57**	**28.70**	**-19.31%**	**-9.5%**	**32.19m**
Shropshire	8.27	6.85	-17.17%	-9.5%	7.48m
Merseyside	46.30	38.71	-16.40%	-9.5%	41.91m
South Yorkshire	36.77	30.81	-16.21%	-9.5%	33.28m
West Midlands	80.81	67.86	-16.02%	-9.5%	73.14m
Essex	32.37	33.87	+4.64%	-0.17%	32.32m
Hampshire	29.27	30.80	+5.24%	+0.23%	29.33m
Cheshire	18.62	19.61	+5.29%	+0.94%	18.67m

Tariffs and Top-Ups

3.7 It is proposed that authorities whose business rates income is higher than their baseline would pay the difference to Government as a ‘tariff’. Those whose business rates are less than their baseline would receive the balance as a ‘top-up’. TWFRA would be a “top up” authority in line with all other 12 Councils in the North East. The tariff and top up grants would remain fixed in future years although Government is consulting on whether they should be adjusted by inflation.

The Incentive Effect

3.8 The proposal is that authorities would be able to retain any increases in local business rates in future years, and that this would provide an incentive for Councils to maximise economic growth through their engagement with and support for businesses, and their regeneration policies.

3.9 There are concerns in local government that this could in effect simply reward those authorities which already have the most successful business rates base and are some of the most affluent areas of the country – in the words of the Local Government Group, "moves towards localisation of business rates must be done in a way which recognises the advantages that national infrastructures give to some authorities over others".

3.10 The relationship between ability to generate additional business rates revenue, and the varying needs of communities in terms of service provision (based on demographics, deprivation factors, community risks etc) is not fully explored in the proposals.

Disproportionate benefit

3.11 To manage the possibility that some local authorities with high business rate tax bases could benefit disproportionately from relatively small increases in growth, Government proposes to collect a levy from those Councils with the highest business rate income, who would otherwise see a disproportionate financial gain. Any money raised from this would initially be used to help manage any large, unforeseen negative volatility in individual authorities' budgets (for example, caused by an economic shock such as the closure of a major employer) and in addition could be used to target areas with lower growth to helkp rebalance the economy.

Adjusting for Revaluation

3.12 The tariff and top-up for each local authority would be adjusted when business rates are revalued (eg every 5 years), to ensure the balance between top-ups and tariffs is retained.

Resetting the system

3.13 Government proposes retaining the right to reset the system at a future time, if it feels that the results of the system no longer reflect changing service requirements. There is no detail on how often this might be done, but the longer the period between resets, the greater level of certainty about future funding for individual authorities but this measure could also 'lock-in' unfairness if the baseline position or starting point is unfair.

Pooling

3.14 Government proposes that local authorities could come together voluntarily to form a pool, perhaps in two tier areas or Local Economic Partnership areas. This would be treated as a unit in the system, with a single tariff and top-up and a single levy based on an amalgamation of the tariffs and top ups of the authorities operating in the pool. Pools would decide for themselves how they distribute business rate growth amongst their members. Although voluntary, Government favours pooling and could offer incentives such as allowing a greater proportion of business rates to be retained to encourage collaboration.

4. POLICE AND FIRE AUTHORITIES

4.1 In the original consultation paper, it was proposed that Police and Fire Authorities should, for 2013-14 and 2014-15, be funded without being impacted by the new business rates retention scheme which is to become operational form 1st April 2013. This would mean that total funding for the Police and Fire services would be at the levels set out in the 2010 Spending Review, but beyond that there will be a full review of future funding arrangements for Police and Fire authorities. In parallel with this, Government will consider more closely aligning the functions and responsibilities of local authorities with business rate income.

4.2 However, one of the technical papers published in August deals specifically with proposals for those authorities which do not collect Business Rates ("non billing authorities"), and this includes Combined and Metropolitan ("single purpose") FRAs. County FRAs are assumed to be part of their host County Council and as such would be included in that Council's funding arrangements.

4.3 This paper asks whether:

- (Option A) Single purpose FRAs should also be funded through business rates (a percentage share of each District Council's business rates baseline subject to tariff and top up)
- (Option B) Single purpose FRAs should have guaranteed funding for 2013-14 and 2014-15 based on the levels agreed in the 2010 Spending Review (which would mean making an adjustment to the forecast national business rates). This would be in line with proposals for Police Authorities.

4.4 From a FRA's perspective, it can be argued that we have a limited role in promoting economic growth and therefore being exposed to the risks of fluctuating business rate income is not desirable. Under this arrangement our future funding would, to a large degree, become dependent upon the success, or otherwise, of the district councils that cover its area to be able to foster economic development and growth.

4.5 It is therefore suggested that TWFRA's position on this matter should be as set out in the following paragraph:

The Authority favours option b. The Fire Authority understands the need for the LGRR to be all encompassing but would agree with the proposal to exclude 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; they therefore have little influence over the growth / reduction in business rate in their area. However it is important that the method of grant allocation to FRAs is further exemplified and agreed as soon as possible to assist them in longer term financial planning both in the interim, and for beyond 2015/16..

4.6 There remains a lack of clarity about whether the current grant distribution and floor damping arrangements would remain in place. As noted in section 3.6 above, this of itself could have an impact on our Formula Grant funding position for 2013/14 and 2014/15.

4.7 The proposals include the continuation of the New Burdens principle which has seen additional funding being made available where Government places specific new responsibilities on local authorities. There is a need for transparency on what this might mean for Fire in terms of the future funding of national resilience capability

5. FINANCIAL IMPLICATIONS

5.1 This report has no direct financial implications at this stage although it clearly deals with matters which will have a significant impact on future funding arrangements.

5.2 The Authority is currently reviewing both its Medium Term Financial Plan and its Integrated Risk Management Plan with the latest financial position which will be reported to the Authority at its November meeting.

6. RISK MANAGEMENT IMPLICATIONS

6.1 The emerging risks associated with the business rates retention proposals are explored in sections 3.6, 3.9 and 4.4. It is considered that the position set out in 4.5 is the most appropriate response in terms of mitigating some of these risks at the current time; however risk will need to be further explored as more information about the proposals becomes available, and in the light of any decisions made by Government as to the funding arrangements for the Fire service.

7. RECOMMENDATIONS

7.1 Members are recommended to:

i. Note the content of the paper and endorse the position set out in paragraph 4.5
ii. Receive further reports as appropriate.

BACKGROUND PAPERS

The following background papers refer to the subject matter outlined above

Local Government Resource Review: Proposals for Business Rate Retention (DCLG July 2011)
Local Government Resource Review: Technical Paper 3: Non Billing Authorities (DCLG August 2011)
Local Government Resource Review: Local Government Group briefings