LG Group Fire Commission
14 October 2011

Item 3

Local Government Resource Review

Purpose of report

For discussion and direction

Summary

This paper sets out issues for fire authorities arising from the publication by the government of consultation documents on the introduction of a Retained Business Rates Scheme and a proposed response from FSMC to that consultation.

Recommendations

Members are asked to consider the outline proposed consultation response set out in paragraphs 10 to 26, particularly the 7 recommendations relating to:

1. the level of set aside;
2. fairness;
3. risk management;
4. incentives;
5. national resilience;
6. low growth, high demand areas; and
7. reset mechanisms.

Action

Officers to progress work subject to Members' comments.

Contact officer: Eamon Lally
Position: Senior Adviser , LGA
Phone no: 020 7664 3132
E-mail: eamon.lally@local.gov.uk

Local Government Group

LG Group Fire Commission
14 October 2011

Item 3

Local Government Resource Review

Background

1. FSMC considered the Local Resource Review at its meeting on 16 September July 2011 and asked that a draft response to the consultation be prepared for consideration at the Fire Commission meeting on 14 October.

2. The Government published its consultation on the Business Rates Retention Scheme on 18 July 2011. The consultation document outlined the proposed scheme and trailed the publication of a series of Technical Papers. Eight Technical Papers were published on 19 August. Technical paper 3 relates to non-billing authorities.

3. The initial consultation document and the Technical Papers form the basis of the consultation. Responses are due back with CLG by 24 October 2011.

4. In summary the proposals outlined in the consultation are:

   4.1 The proposed business rates retention scheme will initially work within the expenditure limits set as part of Spending Review 2010.

   4.2 Any forecast business rates income above this will be set aside and directed to local government through other grants. Local authorities will benefit from growth in business rates above forecast levels.

   4.3 Rate setting powers will remain under the control of central Government. The revaluation process will be unchanged.

   4.4 At the next Spending Review, the Government will consider the total spending figures for local government with a view to more closely aligning local authority functions and responsibilities with business rates income from 2015-16.

   4.5 Police authorities will, for 2013-14 and 2014-15, receive guaranteed funding at the levels set in Spending Review 2010. Fire authorities may be treated in the same way, or may be brought into the new scheme from the outset.

   4.6 The detailed arrangements provide for authorities to be rewarded for growth in their business rates income subject to a ‘levy’ on growth regarded as excessive, and a ‘safety net’ where business rates income falls below a pre-determined level. The ‘levy’ will fund the ‘safety net’ arrangements and possibly other provisions that might be needed to deal with volatility in business rates income. It is recognised that periodic ‘resets’ in which local authorities’ needs are re-assessed may be required, and authorities’ views are sought on the operation of

resets including, in particular, the manner and frequency at which they are triggered.

4.7 The detailed proposals also cover how the new scheme might interact with business rates revaluation; the possibility that authorities might combine resources through pooling – which the government wishes to encourage; and the way in which the proposals on Tax Increment Finance (TIF), New Homes Bonus and Enterprise Zones operate in the context of the new scheme.

5. Technical paper 3 considers in more detail the issues for non-billing authorities. It recognises the range of governance and funding arrangements for fire and rescue services and notes the additional complexity this brings in considering arrangements for a Business Rates Retention Scheme. The technical paper draws the distinction between fire and rescue services that are the responsibility of county and unitary authorities and those which are single purpose fire authorities. In doing so, it argues that county fire authorities and those of unitary authorities should be funded in years 2013-14 and 2014-15 through retained local business rates (plus where appropriate top-up funding from central government). The question posed for single purpose fire authorities is whether they should be funded through Retained Business Rates or through fixed funding allocations for 2013-14 and 2014-15.

6. The LGA has done a great deal of work with local authorities as they consider the proposals and it is clear that there is much support for the principle of putting business rates under local control. However, in many cases fire authorities have indicated that the current level of information on the proposed scheme makes it difficult to develop an unequivocal response to the consultation.

7. The consultation papers raise a very wide range of detailed issues. On many of these, it will be very difficult for FSMC to develop a clear consensus as individual elements of the scheme design will affect individual fire authorities in very different ways. For example, the consultation raises an important question about whether tariffs and top-ups should be index-linked. Authorities that are in a tariff position will almost certainly not want this result, whereas the reverse will be true for top-up authorities. In such situations, and given that the scheme overall will need to operate within the total business rates yield available, it is suggested that the focus of the FSMC consultation response should be on the underlying principles that are considered to be of the greatest importance for all authorities. The consultation paper was thought to have set out the planned funding levels for fire authorities in 2013/14 and 1014/15 being -3.5% and -4.6 per cent respectively. However, CLG has subsequently indicated that fire authorities should expect reductions of 8.5 per cent in 2013/14 and 5 per cent in 2014/15. It is not yet known what individual

fire authorities will receive and this adds to the level of uncertainty that fire authorities are experiencing in responding to the consultation.

8. In making decisions about the benefits or otherwise of being included in a Retained Business Rates Scheme, fire authorities will need to consider expectations about future funding streams. Staying out of the Retained Business rate system will give fire authorities certainty in funding for years 2013-14 and 2014-15, based on the 2010 CSR settlement. However, CLG have not ruled out revisions to the funding distribution formula for fire authorities for 2013-14 which could mean changes to the data used and the damping arrangements. Any such changes could affect funding allocations for individual fire authorities.

9. A further issue is the extent to which it is important for fire authorities to be seen to be part of local government and treated in the same way as other parts of local government. A decision not to be part of the Retained Business Rates Scheme will place single purpose fire authorities in a very distinct position

Key issues for consultation response

Set-aside

10. The government's proposals assume a "set-aside" arrangement under which the Treasury retains part of the income from business rates, at least up to 2014-15. Under the government's proposals, the level of forecast business rates that it expects local government to raise in 2014-15 will be compared to the spending control total that has already been fixed for local government in the 2010 Spending Review. A similar comparison will be made for 2013-14. The amounts by which the forecast business rates exceed the spending control totals will be used to fund other grants to local government. Local government only stands to benefit from the new scheme in aggregate if the business rates yield for 2013-14 and 2014-15 exceeds the government's forecast.

11. The government's proposals to remove the set-aside are doubly disadvantageous to local government. Firstly they allow the Treasury, rather than the sector, the benefit of a major slice of business rates revenue. Secondly they give the government the benefit of extra yield attributable to higher than forecast inflation, without any recompense for local authorities which now face funding cuts that are, in consequence, larger in real terms than the 28% figure set out in the Spending Review.

12. As it stands, set aside presents a significant issue in terms of the primary purpose of the re-localisation of business rates, which is to incentivise local

authorities to develop their local economies. In addition, whatever the medium and long-term benefits might be for fire authorities, the set aside proposals reduce the short term incentives to join the scheme.

13. **FSMC might consider asking government to reconsider the level of proposed set aside in the first two years and that the government give clear assurances that, beyond the current spending review period, there will be no "set-aside" and that authorities will have unrestricted use of the full business rates yield.**

Fairness

14. FSMC, in line with the LGA, is concerned to ensure that the proposals are fair; this indeed is also the stated position of government. In particular fire authorities want to know that they will be no worse off as a result of entering the Retained Business Rate Scheme.

15. The government has not made any detailed statements about the level of protection that would be delivered through the 'safety net' arrangements, or fully exemplified its likely approach to the use of the levy to fund areas in need of support. All authorities, including, fire authorities have faced difficulties in understanding whether the proposed arrangements are likely to meet their needs. Legitimate concerns have, for example, been expressed about whether, over time, the system would produce results that benefitted authorities with stronger local economies at the expense of authorities entering the system from a position of historic low growth and high levels of need.

16. **FSMC's response to the government consultation might be to encourage the development of more detailed options for business rates retention that can be properly exemplified at individual fire authority level for the purposes of more detailed consultation on the scheme design.**

Risk

17. Entry into the Retained Business Rate Scheme will bring exposure to the variability in business rate income which can be significant. Currently the risk of business rate income being lower than expected is borne by the government and the "pool" has in the past run deficits as high as £2 billion. Under the proposed scheme design this risk is potentially transferred to the local government sector.

18. **FSMC might want to consider seeking assurances from the government that risk management issues be the subject of much more in-depth analysis and consultation, and that the government should stand ready to transition the full risk of the scheme to the sector gradually if that appears desirable.**

Incentives

19. The scheme design creates an incentive that operates in a completely different way for 'tariff' authorities than for 'top-up' authorities. The proposed arrangements have an inbuilt gearing effect that means that, in terms of the level of increased resources available for each percentage point of growth in business rates yield, 'tariff' authorities have more to gain – in some cases considerably more – than top-up authorities. The proposed 'levy' arrangements deal with this issue in part, in particular the option for a 'proportional' levy – although that option leaves substantial downside risk in place for high 'tariff' authorities.

20. **FSMC could ask the government to consider alternative options such as that proposed by the LGA. This envisages that if an authority grows its business rates by x percent in real terms, then it should receive a real terms increase of the same x percent in its resources and that authorities whose business rates decline in real terms then share the remaining business rates.**

National resilience and national infrastructure

21. As well as carrying out their duties in respect of their local responsibilities, fire authorities have a key role in national resilience. There is an expectation that in the future fire authorities will take on a greater role in the direct planning and delivery of the national resilience capability. This planning is likely to take place on a local level through Integrated Risk Management Plans. Transparency in funding will be crucial to fire authorities as the transfer of this responsibility takes place.

22. **FSMC could ask government to ensure that there is a mechanism within the scheme to ensure that any new responsibilities associated with national resilience are properly funded and that funding for national infrastructure is taken into account.**

The impact on low growth high demand areas

23. Areas that have low growth and therefore low or no increases in business rates are also those associated with high levels of deprivation. The factors that

determine deprivation are also factors that are associated with high levels of demand for fire authorities.

24. **FSMC could seek assurances from government that in future years the Retained Business Rates Scheme will be responsive to the needs of fire authorities in low growth areas as well as providing business rate uplift to fire authorities in areas experiencing higher growth, including in years 2013-14 and 2014-15.**

Risk assessment as a basis for service planning

25. Fire authorities plan their services on a risk basis rather than a demand basis. This should not an issue at the outset of the Retained Business Rates Scheme, because current funding levels will be used as a baseline. However, fire authorities will want any reset process in the Retained Business Rates Scheme to be sensitive to changes in risk levels. A further risk management issue arises because of the possibility that, as the scheme develops, authorities' resources from business rates and council tax might diverge sharply from underlying levels of need for funding to provide services.

26. **FSMC might ask that the government should maintain the capacity and evidence base for the assessment of needs, and that any decision to invoke a reset of the system should be capable of being triggered by the local government sector on the basis of evidence.**

Next steps

27. It is proposed that FSMC submits a general response based on the issues outlined above, rather than a detailed response to the individual consultation questions, many of which are specific to the detail of the proposed scheme responses to which will vary across fire authorities.

28. Following the Fire Commission meeting officers will draw up a final consultation response.

Recommendation:

29. Members are asked to consider the outline proposed consultation response set out in paragraphs 10 to 26:

30. **FSMC might consider asking government to reconsider the level of proposed set aside in the first two years and that the government give clear assurances that, beyond the current spending review period, there will be no "set-aside" and that authorities will have unrestricted use of the full business rates yield.**

31. **FSMC's response to the government consultation might be to encourage the development of more detailed options for business rates retention that can be properly exemplified at individual fire authority level for the purposes of more detailed consultation on the scheme design.**

32. **FSMC might want to consider seeking assurances from the government that risk management issues be the subject of much more in-depth analysis and consultation, and that the government should stand ready to transition the full risk of the scheme to the sector gradually if that appears desirable.**

33. **FSMC could ask the government to consider alternative options such as that proposed by the LGA. This envisages that if an authority grows its business rates by x percent in real terms, then it should receive a real terms increase of the same x percent in its resources and that authorities whose business rates decline in real terms then share the remaining business rates.**

34. **FSMC could ask government to ensure that there is a mechanism within the scheme to ensure that any new responsibilities associated with national resilience are properly funded and that funding for national infrastructure is taken into account.**

35. **FSMC could seek assurances from government that in future years the Retained Business Rates Scheme will be responsive to the needs of fire authorities in low growth areas as well as providing business rate uplift to fire authorities in areas experiencing higher growth, including in years 2013-14 and 2014-15.**

36. **FSMC might ask that the government should maintain the capacity and evidence base for the assessment of needs, and that any decision to invoke a reset of the system should be capable of being triggered by the local government sector on the basis of evidence.**