

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.

Recommendation

Members are asked to consider and comment on the issues raised in this paper and to identify other issues that individual fire authorities and FSMC might consider in responding to the consultation.

Action

Officers to progress work programme subject to Members' comments.

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Background

1. FSMC considered the Local Resource Review at its meeting on 18 July 2011. Since that meeting, the Government has 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. These Technical Papers can be accessed on the same website as the main consultation document. Technical paper 3 relates to non-billing authorities.
2. The initial consultation document and the Technical Papers form the basis of the consultation. Responses are due back with CLG by 24 October 2011.
3. The LG Group and individual local authorities are now working through the many challenging issues raised in the consultation documents. At this stage it is too early for any firm conclusions to be reached.
4. Fire authorities are indicating that they are not yet in a position to make the decision on whether they should be in the Retained Business Scheme. Individual Fire Authorities are discussing these issues. In addition, Fire and Rescue Services are involved in the reference group that has been established by CLG and the LG Group is working with the Fire Finance Network on these matters. The Retained Business Rate Scheme will also be discussed at CFOA's next board meeting.
5. The outcomes of this work can help to inform FSMC's own response to the consultation. However, given the timescales for the consultation, members may want to consider meeting before the next scheduled meeting.

Proposals for Fire Authorities

6. The main consultation document stated that, because fire authorities have more limited levers for driving business growth, the government is proposing to treat them differently to billing authorities and county councils and that rather than having their funding affected by fluctuations in business rate income in 2013-14 and 2014-15 "the police and fire sectors will receive guaranteed funding at the levels agreed in the 2010 Spending Review for these years".
7. 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).

8. 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.
9. The consultation papers have set out for the first time planned funding levels for fire authorities in 2013/14 and 2014/15. Fire authorities have been expecting reductions in funding for this spending review period of around 25 per cent. However, the planned spending levels indicate that in 2013-14 the average reduction will be 3.5 per cent and in 2014-15 the average reduction will be 4.6 per cent. This would bring the total reduction for the four year period to around 12.4 per cent. However, the figures announced in the consultation are control totals and it is not yet known what individual fire authorities will receive. Other factors will also be important in determining actual funding outcomes including inflation and the level of specific grants. Fire authorities will need to get information on their allocations soon to support their business planning processes.

Issues for all Local Authorities

10. There are a number of issues for fire authorities to consider in determining what approach might be more appropriate. However, first it is worth considering some general issues that will affect all authorities.

Retention of the Business Rates by the Government

11. The LG Group has previously made clear that fairness must be at the heart of any new system. All local authorities need to be satisfied that the reforms will deliver a fair deal for their local communities. It is therefore disappointing that the Technical Papers envisage that the government might retain a large proportion of any business rate growth. The LG Group's briefing has noted that a scheme in which "all the yield attributable to higher than expected inflation, and quite possibly yield attributable to an initial estimate of real growth in business rates in 2013/14 and 2014/15 would operate to local government's disadvantage and give most of the benefit of incentives for growth to the Treasury, rather than to local people and local businesses".

Determining the Baseline

12. The government is proposing that a baseline will be established for each authority for 2013/14 based on the current position, in practice the 2012-13 Formula Grant.

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Under the current Formula Grant arrangements a system of damping applies which, within the spending control limits, sets an allocation floor for local authorities. The consultation document sets out two approaches to establishing the baseline, using the 2012-13 Formula Grant before or after damping. Removing damping would benefit some fire authorities, but would have a big negative affect on others. An underlying principle in the proposed reforms has been to achieve stability in moving from the old to the new system and fire authorities might want to take this into account when considering the options for determining the baseline.

13. In establishing the baseline local authorities entering the new arrangements with a level of Business Rates higher than the 2012-13 Formula Grant level will pay a *tariff* to the government. Local authorities that enter the new arrangements with Business Rates that are lower than the initial funding level will receive a *top-up*. The authority's status as a tariff payer or top-up recipient will only be changed thereafter on a reset of the system. Technical Paper 5 discusses two options for tariff and top-up amounts. Either:

- 13.1 these amounts can remain fixed in cash terms; or
- 13.2 the tariff and top-up amounts can be increased by reference to RPI
- 13.3 inflation.

14. The Technical Paper illustrates that different local authorities are likely to have different preferences, and seeks view on the options. A fixed tariff is likely to be preferred by authorities liable to pay it; by contrast, top-up authorities are likely to prefer indexation of the top-up amount.

Scheme Administration

15. The Technical Papers also consider the administration of the new system. As a general point, it is essential that these proposals ensure a transparent and efficient system for both billing and non-billing authorities. Any additional process costs for authorities should be funded as a new burden.

Issues for Fire Authorities

16. In addition to the general points set out above there are specific issues for Fire Authorities to consider.

Uncertainty about future funding awards

17. 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

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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.

18. Being in the Retained Business Rates Scheme will mean that fire authorities become subject to the risk of business rate fluctuations from 2014-15. This is of particular interest now as growth forecasts are reduced.
19. Fire authorities will also want to take a view on whether damping should be retained in the establishment of baselines for the Retained Business Rates Scheme.

National resilience and national infrastructure

20. 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 the Fire and Rescue Service 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 FRSs as the transfer of this responsibility takes place. There needs to be a mechanism to ensure that new responsibilities are properly funded. Within the Retained Business Rates Scheme, these could be treated under the new burdens principle. It will also be important to ensure that funding for national infrastructure is taken into account.
21. The consultation sets out the prospect that fire authorities could be funded through two routes, with county and unitary fire authorities within the Retained Business Rates Scheme and single purpose authorities being funded through Formula Grant. This could present difficulties for the service generally as it aims to provide national resilience.

The impact on low growth high demand areas

22. 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. In future years Fire authorities will want to be assured that the Retained Business Rates Scheme is responsive to the needs of Fire and Rescue services 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

23. Fire authorities plan their services on a risk basis rather than a demand basis. This is 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.

Being part of local government

24. 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.

Conclusion

25. Decisions on a Retained Business Rates Scheme are challenging for all local authorities, including fire authorities. The details are important and the range of options outlined in the Technical Papers on how the scheme might be introduced will affect different fire authorities in different ways.
26. Fire authorities are indicating that they are not yet in a position to make the decision on whether they should be in the Retained Business Rates Scheme. Decisions will be taken based on the financial implications for individual authorities, but wider issues also need to be considered, such as the importance or otherwise of a single financing system for fire authorities, particularly in the context of national resilience responsibilities. The value of being treated in the same way as other local authorities will also need to be assessed.

Recommendation:

27. Members are asked to consider and comment on the issues raised in this paper and to identify other issues that individual Fire Authorities and FSMC might consider in responding to the consultation.