Local Government Association

Fire Services Management Committee
23 January 2012

Item 4

Local Government Finance Reform

Purpose of paper

For discussion and direction.

Summary

On 19 December, the Government has published its response to the consultations on the Local Government Resource Review and localising support for council tax and presented the Local Government Finance Bill, which will enact these reforms, to Parliament. The paper sets out key issues for fire authorities.

Recommendation

Members are asked to consider issues related to the Retained Business rate Scheme.

Action

Officers to progress work programme subject to Members' comments.

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Background

1. FSMC wrote to Bob Neill MP with its response to the consultation of retention of business rates on 24th October 2011. The response noted that local government finance reform would affect individual fire authorities in very different ways and focused on issues relating to the underlying principles of the reform.

2. The proposals for reform were published in the government's response to the consultation on 19 December at the same time as the Local Government Finance Bill which provides the legislative framework required to introduce a rates retention scheme.

Key issues for fire authorities

3. In its original consultation the government proposed that fire authorities attached to local authority county councils should be treated in the same way as local authorities and be funded through retained business rates. At the time it left open the question of whether single purpose fire authorities should also be funded through the retained business rate system or funded through the formula grant. **The government has now decided that all fire authorities including single purpose fire authorities should be part of the retained business rate scheme.**

4. All fire and rescue authorities will be funded though a percentage share of each district or borough council's billing authority business rates baselines (pre-tier split), subject to the tariffs and top ups required to bring them to their baseline funding level.

5. The government's response recognises that single purpose fire and rescue authorities have fewer levers for growth. It proposes that the percentage share of billing authority business rates that single purpose fire and rescue authorities receive reflects this and provides them with a degree of protection within the scheme. The details of the protection still need to be worked out. Fire authorities would expect that as a minimum the level of funding matches what they would have received under the fixed grant system in the years to 2015.

6. The decision to include all fire authorities in the Retained Business System could have implications for how the proposed budget reductions in 2012-13 and 2014-15 are distributed. The options are to distribute the budget reductions by formula as previously, or by a flat rate. This decision could make the latter more likely.

7. Additionally, the proposed 10 per cent cut in the grant for council tax benefit (worth £500 million) means councils will be forced to make tough decisions about the services they provide if they don't want to raise council tax, particularly for those who are least able to pay. The tight timeframe for implementing this places an even greater burden on councils and we continue to urge the Government to give councils the necessary time to do this in the most considered, flexible and cost-effective way possible.

Setting local and central shares

8. FSMC argued in its response to the consultation that the government should reconsider proposals for set-aside and that all business rates should be retained. However in the scheme that the government is proposing, local government will **not** have access to the full real terms growth in business rates in 2013-14 and 2014-15 In setting the share of business rates that is localised the government will have regard to the 2010 spending review.

9. The government has committed to reviewing the scope for further simplification and alignment of funding between business rates collected by local authorities and the functions and services which they fund.

10. The government will set out the percentage share of business rates that is to be localised, together with the mix of functions and services to be funded through retained business rates, in the spring of 2012. The government retains the right to alter the localised share of business rates.

Establishing the baseline

11. In determining the business rate baseline the government will use authorities' average rates over several years. Baseline funding levels will be based on 2012-13 formula grant (excluding the 2012-13 transition grant). Each local authority's baseline position will be arrived at by applying the process used to determine their 2012-13 formula grant allocation to the local government spending control totals for 2013-14, while updating all datasets

and making some limited, technical updates to the formula. The government will determine baselines using numbers after floor damping.

12. FSMC in its response to the consultation wanted assurances 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 Government has stated that it will continue to provide for new burdens through a new Revenue Support Grant.

Levy

13. The scheme will have a proportionate levy which will allow an authority to retain growth in an equivalent proportion to its baseline revenue. The actual ratio will be set after discussions with local authorities. The approach that the Government is taking is in line with the option preferred by the LGA.

Resets

14. The system will be reset every 10 years. This is a relatively long period and does not allow for a more responsive evidence based approach.

'The Safety Net'

15. This will be available to any authority that sees its funding decrease by more than a set percentage below their baseline funding level. Baselines will be up-rated in line with RPI to determine whether the authority is eligible for support and ensure the protection from the safety net is in real terms. The Government will consult in 2012 on the specific level at which the trigger point for the safety net should be set. The levy and the safety net must be self-funding, although there is the possibility of it balancing out over a number of years rather than per financial year. Benefits may be accrued during growth years to mitigate for adverse changes in low growth years. In the event that there is levy income over and above the level needed to ensure long-term safety net funding, this will be redistributed back to local government following a government consultation. The approach taken by the Government to the safety net is broadly in line with the view of local government.

Next Steps

16. The government will continue to provide detail to the retained business scheme over the next few months and FSMC will have an opportunity to consider relevant issues.

17. We are working the Fire Finance Directors' Network to ensure that there is a wide understanding of the issues. The Bill has its Second Reading on 10 January and as the Bill enters Committee Stage, we will be tabling appropriate amendments to ensure that local authorities fire authorities and their communities get the most benefit from the rates retention scheme.

18. As some of these issues are highly technical, FSMC might want to consider whether there would be value in organising a seminar for members of fire authorities on this issue. This could be a two hour session facilitated by finance officers form LGA and CFOA. The session could be timed to take place in spring-early summer to support members in budget planning discussions.