

## **Retained Business Rate Scheme Technical Consultation**

### **Purpose of report**

For discussion and direction.

### **Summary**

This paper contains details of the Retained Business Rate Scheme Technical Consultation which was published by the Government on 17 July 2012. The paper also sets out proposed key points of an FSMC response to the consultation.

### **Recommendation**

Members are asked to consider and comment on the draft consultation and agree key points for inclusion in an FSMC response.

### **Action**

Officers to action as directed.

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## **Retained Business Rate Scheme Technical Consultation**

### **Background**

1. The LGA was successful in lobbying government for the inclusion of all fire authorities in the retained business rate scheme. On 17 July 2012 the Government launched a consultation on a range of technical issues concerning the transition from the current formula grant system and the implementation of the new business rates retention scheme in April 2013.
2. Broadly, the consultation considers the establishment of the start up funding and baseline, the setting up of a retained business rate scheme and its operation. The consultation document can be found at:

<http://www.local.communities.gov.uk/finance/brr/sumcon/index.htm>

3. The consultation closes on 24<sup>th</sup> September 2012.
4. The technical document is very long and complex. This paper concentrates on a limited number of points. In particular it discusses the reductions to the overall control total as a result of money held back for the safety net (this pays for the floor below which retained rates income is not allowed to fall). The paper also highlights the impact of proposed changes to the relative needs formula which have a variable impact on fire authorities. Further the paper notes the proposed relative shares of business rates that will come to fire authorities and comments on the hitherto optimistic treasury forecasts of business rate levels.

### **Key points related to fire authorities**

5. The consultation document addresses some important issues that will affect the funding of fire authorities in future years. The key points of a draft consultation response is set out in paragraphs 20 to 29.

### **Start up funding and baseline for fire**

6. The Government shows how the control totals that it will use can be derived from those in the last Spending Review. It confirms that it will make further cuts to account for the assumption that public sector pay will go up by 1 per cent in 2013/14 and 2014/15 and take away £120 million (spread over six years) from general local authority funding to pay for the New Development Deals for Newcastle, Nottingham and Sheffield. The effect is to reduce the local government spending control totals by £260 million for 2013/14 and by £517 million for 2014/15.
7. Some fire grants that were to have been rolled into formula grant will remain as separate grants, as will any funding for neighbourhood planning, yet to be determined.
8. The Government is holding back £100 million to pay for capitalisation and up to £250 million for the safety net, which will eventually be funded out of the levy. This money will be taken mainly from the surplus new homes bonus (NHB).

9. The Government will also be removing £2 billion out of each year's spending control total, up to 2020, to fund the NHB. Any money that is not needed will be returned to local government as described below.
10. The effect of all these changes means that there is a substantial decrease in the control total for all local government including police and fire. The control totals for fire set out in the spending review have been subsequently reduced by the decision to take out the amount paid for New Dimensions, the maintenance of equipment used for national resilience, which is around £50 million per year in 2013/2014 and 2014/2015 out of the business rates scheme and retain it as a separate grant. The control totals have been further reduced by the decision to hold back £7 million of fire funding to support the safety net in the early stages of the schemes implementation.
11. As a result changes to the control total for fire will be -9% in 2013/14 and -5.4% 2014/15. The changes are summarised in the table below.

		Spending Control Totals for fire				
		2010/11 £'m	2011/12 £'m	2012/13 £'m	2013/14 £'m	2014/15 £'m
Original Spending Control Totals		1057	996	988	911	866
Chancellor Pay assumption					- 5	- 9
Less Safety Net/Capitalisation Deduction					- 7	- 7
Final Spending Control Totals for Fire		1057	996	989	899	850
Percentage Reduction	%		- 5.8	- 0.7	- 9.1	- 5.5
Cumulative Cash Cut	£'m		61	68	158	207
Cumulative Percentage Cut	%		-5.8	-6.4	-14.9	-19.6

12. The total cash cut for the fire and rescues service is £207m or 19.6%. In cash terms this is approximately the same as general local government cuts. In the first two years the spread of the cuts/increases around the country was very varied between fire and rescue services.

#### **Other proposed changes that will impact on funding**

13. The consultation document proposes changes to the relative needs formulae, including a variety of changes to the weightings for sparsity in various relative needs blocks and a new judgemental sparsity top-up for the Fire and Rescue Relative Needs Formula at 1% — this is intended to provide support towards the additional costs of providing a fire and rescue service in a rural area, for example, the greater distance covered by appliances to fire incidents and road traffic collisions, which results in additional fuel costs.
14. The government also proposes changes to the Relative Resources block, returning the amount to its 2010/11 level to take account of the fact that the amount of council tax raised by authorities (and the ability to raise council tax) has remained roughly constant while grant has decreased.

15. The combined effects of these proposed changes to the relative needs formula are neutral across fire authorities as a whole (excluding county and unitary fire authorities which are not accounted for separately), but will have different impacts on individual fire authorities. The government has performed some exemplifications of the impacts. In essence if:
- 15.1 Judgemental sparsity factor is included then this would see resources move towards more rural areas.
  - 15.2 If the amount in the Relative Resources block is increased resources would move towards those authorities with weaker council tax bases. In general these are the more deprived/urban areas.
16. In addition the government proposes updating all data sets used within the formula as they establish a baseline for the resource review system. In particular population figures will be updated to reflect latest census data. The current formula is based upon forecasts, so for individual authorities the impact of new population data will depend upon how the latest data compares to the forecasts that have been used in the past (not the absolute change in the data). In overall terms population has been growing faster in London and South East than in most other areas in recent times.

**All fire authorities will be top-up authorities under the proposed scheme**

17. The design of the business rates retention scheme will ensure that fire and rescue authorities are top-up authorities. This will mean that a significant proportion of fire and rescue authorities funding will be protected, and will be uprated by RPI each year. However for the next two years the RPI increase will not be applied since the government intends sticking to its spending control totals and new spending control totals may be set and applied for future spending review periods.
18. The Government proposes that single purpose fire and rescue authorities should receive a 2% share of the local share of the business rates and that each single purpose fire and rescue authority's share of each billing authority's business rate baseline in its area should also be 2%. This share is in the middle of the estimated potential range of 0% to 4% (the lower the percentage share the lower the risk associated with fluctuating business rate income). This share will ensure that each single purpose fire and rescue authority will be a top-up authority and aims to provide some protection against fluctuations in business rate income. Because of the national split of non domestic rates between central /local government this will effectively be 1% of local business rates received directly
19. There are 11 county fire and rescue authorities in two tier areas with direct responsibility for fire and rescue services. The Government proposes that such councils should receive the full 20% of its billing authorities' business rates baseline. Any difference between the share of individual authority business rates baseline and the baseline funding levels of

such councils, including its fire and rescue service responsibilities, will be reflected in the top-up payment received by the County Fire and Rescue Authority.

**Key points for consultation response**

20. The fire services management committee welcomes the opportunity to contribute to Retained Business rate Scheme Technical consultation.
21. FSMC notes that the funding reductions for fire have been back loaded and this has given time for fire services to plan changes. However, the significant variation in the level of reductions in the first two years of the spending review together with the individual grant totals for the next two years not being announced until December will make proper local planning very difficult. FSMC calls on the government to give fire authorities information on individual grants as soon as possible.
22. Back loading funding reductions also means that initial cuts in front line services have been feeding through slowly. This makes it difficult for the government to risk assess the overall impact of the reduced funding in this spending review on community safety and national resilience.
23. The larger funding reductions in the next two years will hit FRA's at the same time as a range of other significant changes which will impact on funding including:
  - 23.1 council tax benefit localisation;
  - 23.2 increasing pressure for pay increases;
  - 23.3 the impact of all pension changes and revaluations on the cost of pensions schemes; and
  - 23.4 the potential need to plan for further cuts in the next spending review period.
24. This makes it challenging for FRA's to assess and plan for the overall impact on firefighter safety, community safety and any impact on the ability to contribute to national resilience.
25. FSMC agrees with the overall Local Government Association (LGA) that in developing the detailed arrangements for business rates retention, the Government is putting the interests of the Treasury ahead of those of local authorities.
26. In particular, Government forecasts for overall business rates yield have, in recent years, been consistently over optimistic. Retaining this optimism bias will significantly reduce the benefit authorities might gain from localised business rates. The LGA thinks that the forecasting process should be more transparent and that local authorities should retain all real terms growth in business rates.
27. In establishing the control total the Government is taking out up to £350 million as insurance funding for the safety net and capitalisation. Under the proposals £7 million will

come from funds that would otherwise have gone to Fire and Rescue Authorities. The impact on fire authorities is to future reduce the control total in 2013/14 and 2014/15, resulting in overall reductions on the 2012/13 funding of -9% and -5.4% respectively. Even if some of this money is subsequently returned to local authorities, it will be far too late for it to be taken into account in budgets. The LGA calls on the Government to take its share of the risk on funding for the safety net, rather than requiring local authorities to pay for that.

28. The introduction of the Fire & Rescue sparsity adjustment at 1%, and other changes to the relative needs formula, have a differential impact on fire and rescue authorities. The reasons for the proposed changes need to be clearly understood by fire authorities, but the consultation paper does not provide the context or the detailed reasoning for the changes. The impact of these changes need to be more fully explained and exemplified. The changes also need to be understood in the context of the 2013-14 settlement for individual authorities.
29. The Government proposes to set the single purpose fire and rescue authority share of a billing authorities' business rates baseline at 2%. This has the effect of making all single purpose fire and rescue authorities top-up authorities. The consultation document states that fire and rescue authorities will have the confidence that a significant proportion of their funding will be protected, and may be uprated by RPI in future years. This is welcomed by FSMC, but it is recognised that the Fire and rescue service will still have significant cash cuts applied in years 3 and 4 of the current spending review period as government sticks to its spending control totals.

### **Conclusions and next steps**

30. Following discussion and agreement by FSMC a consultation response will be finalised and sent to DCLG to meet the consultation deadline.

### **Financial Implications**

31. Addressed in the body of the report.