

## **Local Government Resource Review Consultation**

### **Purpose of report**

For decision.

### **Summary**

This report seeks the Executive's approval of the main elements of the LGA response to the Government's recent consultation on the proposals for business rates retention. The LGA Finance Panel is considering the response to the more detailed issues in the consultation and a report back from the Panel's meeting (which takes place on 14 September) will be made to the Executive.

### **Recommendations**

The Executive is recommended to endorse a strategy that, in the medium term, pursues improvement of the current proposals for business rates retention whilst recognising their significance as a step towards desirable reform; and in the short term, seeks specific changes to: improve the clarity, transparency and power of the growth incentive; reduce downside risk for local authorities; remove the entirely unjustified hold-back of £345 million proposed in the July consultation; and provide a greater degree of assurance and stability over the future funding of local government.

### **Action**

Director of Finance and Resources.

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## **Local Government Resource Review Consultation**

### **Background**

1. Issues around the Business Rates Retention scheme were last considered by the Executive at its June meeting. At that point, the Government had issued a number of 'Statements of Intent' setting out the way in which it intended to implement proposals for local authorities to keep 50% of all business rates raised locally.
2. The Executive noted that these proposals would give the Treasury wide-ranging control of the overall funding figures, and that there was further detail from the Government yet to be released. Members discussed the issues and raised concerns that the Resource Review could affect the sustainability of councils in the future, given the scale of savings they would be required to make. Members agreed that the Group Leaders should have a further discussion on the Local Government Resource Review.
3. The Government published a consultation document on 17 July setting out its detailed proposals for the implementation of the business rates retention arrangements. The consultation paper runs to 250 pages and seeks views on over 80 questions. Many of these relate either to very detailed issues on which individual authorities are likely to take different positions, or to elements of the mechanics of implementation of the changes that are unlikely to be controversial but that need to be properly understood – for example the accounting arrangements as between central and local government. The consultation document does not address in terms the issues that were concerning the Executive in its June debate.
4. The Chairman and Group Leaders have in the meantime met to consider the wider issues, and this paper reports the conclusions from that discussion.
5. The LGA Finance Panel is meeting to consider the detailed issues arising from the Government's consultation to which the LGA can respond on behalf of local government as a whole. The Panel meeting takes place on 14 September and its conclusions will be reported orally when the Executive meets.
6. The purpose of this report is, therefore, to seek the Executive's approval of the principal points that the LGA should make about the introduction of the Business Rates retention scheme.

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**Discussion**

7. The LGA's consistent position has been to advocate a fair and simple local government funding system that gives councils greater financial autonomy, supports local services and encourages economic growth. The principle of full business rate localisation, which also ensures fair treatment of councils in areas with weak economies, would be a powerful move towards localism and a driver of economic growth.
8. The proposals now on the table do not deliver full localisation, and they enable the Treasury to continue to squeeze total local government funding over the period to 2020. However, it is worth recalling that the Coalition Agreement of May 2010 did not promise explicitly to return full control over the business rate to local government but rather to "promote the radical devolution of power and greater financial autonomy to local government and community groups. This will include a review of local government finance".
9. The proposals, furthermore, have to be seen against the backdrop of the priority that the Government has given to its deficit reduction strategy. Current economic conditions do not provide the most straightforward environment in which to make a major reform of local government finance, to put the position in understated terms.
10. However, whatever their shortcomings, the proposals do give local authorities access, in principle, to a greater degree of control than in the past over a revenue stream worth more than £10 billion. Secondly, they support the creation of more direct relationships between local authorities and the business community who pay business rates. Thirdly, the legislative framework within which they are set gives scope for local government to develop, and in due course win, arguments for more meaningful, full and effective localisation of business rates over the longer term.
11. The conclusion of the discussion of the Chairman and Group Leaders was that it would best serve the interests of local government as a whole to view the current proposals as a significant step in the direction of the kind of funding system that we are seeking, whilst being very clear with Government about those areas in which substantial improvement is needed. A number of key areas for improvement are ones where change would be likely to support local economic growth.

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**Improving the proposals**

12. The proposals in their current form fall well short of what local authorities would like to see in a number of key respects. Tying them so firmly to Treasury control over funding considerably dilutes the potential growth incentive. It also, as has been noted in earlier discussions, makes the proposals complex, difficult to understand and lacking in transparency in a number of key areas; and it carries significant implications for councils' financial sustainability, as demonstrated in the overall modelling of local government funding that was presented at the LGA Conference.
13. The proposals could be improved if changed in the following ways:
  - 13.1. Local government should have full access to all the real terms business rates growth in 2013-14 and 2014-15, without compensating cuts in our other funding, so that the new scheme operates as a powerful incentive giving local authorities genuine rewards for promoting growth. This could be achieved by basing the scheme around an "ex-growth" forecast for the future yield from business rates. Such a change would also address the complexity and lack of transparency introduced by basing local government's reward on beating a forecast for business rates that has in the past been very susceptible to optimism bias.
  - 13.2. Furthermore, because our Spending Review cuts have been so severe, the Government should take its share of the risk arising from matters outside local government's control and guarantee that the sector's total funding does not fall below the Spending Review totals in the event of an unexpected decline in business rates income. This would give the sector greater confidence to promote local investment in growth without detriment to the funding of major public services.
  - 13.3. Holding back a further £345 million, as the Government's detailed consultation now proposes, represents an additional cut impacting services to local people and is not acceptable. Neither the rationale for the hold-back, nor the calculation of the amount, are adequately justified in the consultation.
  - 13.4. The way in which the Government is continuing to cut local authorities' funding outside of business rates is a cause for great concern. It is not surprising that authorities that have high needs and low income are particularly concerned about the impact on their residents. The Government must therefore ensure relative stability in the funding of all local authorities and, as the LGA has previously said, this should be independently overseen. Technically, this could be achieved by further improvement of the 'safety net' arrangements in the scheme.
14. There are quite a large number of more detailed points that we need to press. These have been set out in a report to the Finance Panel that will have been discussed by the time the Executive meets. A report back will be made at the meeting.

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**Recommendation**

15. The Executive is recommended to endorse a strategy that, in the medium term, pursues improvement of the current proposals for business rates retention whilst recognising their significance as a step towards desirable reform. In the short term, the focus should be on immediate improvements to:
  - 15.1. improve the clarity and transparency of the growth incentive by giving local government full access to all real terms business rates growth without compensating cuts in other funding;
  - 15.2. de-risk the scheme by a Government guarantee that local authorities' funding will not, because of wider economic events outside their control, fall below the amounts announced in the Spending Review;
  - 15.3. remove the entirely unjustified hold-back of £345 million proposed in the July consultation; and
  - 15.4. provide a greater degree of assurance and stability over the future funding of local government.

**Financial implications**

16. This is core work for the LGA which is funded from existing budgets.