

WIRRAL COUNCIL

COUNCIL EXCELLENCE OVERVIEW AND SCRUTINY COMMITTEE

12 JULY 2011

SUBJECT	LOCAL GOVERNMENT RESOURCE REVIEW
WARD/S AFFECTED	ALL
REPORT OF	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER	COUNCILLOR STEVE FOULKES
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 This report provides details of the Local Government Resource Review which was launched by the Government on 17 March 2011. The vision is of 'self-funded' councils that keep their local business taxes with central grant dependence scaled back except where it is needed to protect the interest of taxpayers. The Review is expected to conclude in July 2011.

2.0 RECOMMENDATIONS

2.1 That actions be taken to protect, as far as possible, the Council's financial position.

2.2 That support be given to any responses from SIGOMA (Special Interest Group of Metropolitan Authorities) and the Liverpool City Region which seek to ensure that those local authorities with a low income from business rates and a high level of Government grant support are not adversely affected.

3.0 REASON FOR RECOMMENDATIONS

3.1 Many northern local authorities receive more Government support from the re-distributed Business Rates pool than they collect locally and pay into the Business Rates pool and so proposals for equalisation are critical to the financial viability of these authorities. This includes Wirral as in 2011/12 Wirral will collect approximately £60 million locally whilst receiving £130 million from re-distribution by the Government.

4.0 BACKGROUND AND KEY ISSUES

4.1 On 17 March 2011 the Government launched the Local Government Resource Review. The vision is of 'self-funded' councils that keep their local business taxes with grant dependence scaled back except where it is needed to protect the interest of taxpayers.

- 4.2 Launching the review Local Government Secretary Eric Pickles said: 'By letting councils repatriate their business rate income you make the system more straightforward and councils more self-sufficient in one fell swoop, whilst deprived councils would still get the support they need. Scaling back central government's historic control and redistribution of this local business tax would also give councils a sudden shot of financial adrenaline and a legitimate stake in their economy with direct benefits for supporting new business and growth. It is what councils want and precisely what we mean by localism. Localism doesn't mean higher taxes. Indeed, councils' dependency on the whims of Whitehall has had a knock on effect for council tax bills in many areas. But greater local autonomy will require greater local accountability and local transparency to ensure sound finances. We will stand up and protect the interests of local taxpayers, as they've been taken for granted for too long.'
- 4.3 The terms of the review are clear that any change must protect the interests of local taxpayers and the vulnerable, be fair for all councils, and encourage growth. Councils which are more deprived will continue to receive Government support. The terms of reference also include: the localisation of Council Tax from 2013/14, as outlined in the recent Welfare Reform Bill; implications that the move away from central grants might have on other policies, further scope for financial freedoms for local government; and how future business rate revaluation and relief should work.
- 4.4 The first phase of the review is to consider ways to establish a new system for Business Rates and Government Grant, which protects the interests of taxpayers, rewards local growth and job creation, and delivers a more self-sufficient income for councils. It seeks the best way to balance funding between councils that would raise little income from business rates and those that would raise substantial amounts. Currently councils across England collect £20 billion of business rates, which is then redistributed by the Government across all local authorities through an extremely complex grant system.
- 4.5 As part of this first phase there will be extensive engagement with interested parties, including businesses of all sizes. The Review will conclude in July 2011 and be followed by the necessary steps to implement the conclusions. The Terms of Reference set out what will be considered by Ministers and include:-
- the best way to allow local authorities to retain their business rates to incentivise growth, whilst ensuring that all have adequate resources to meet the needs of their communities
 - the extent to which these proposals can set councils free from dependency on central funding, along with further financial freedoms, whilst protecting the interests of local taxpayers
 - to ensure the right safeguards are in place: including how to fund those who collect insufficient business rates and keep control of Council Tax levels; the position of councils that collect more than current spending levels; and ensure protections for business
 - implications for other policies such as New Homes Bonus, Business Rate Relief and Tax Increment Financing which allows councils to borrow against future revenue.

4.6 There will be a second phase, which was due to commence in April 2011, that will focus on the role of Community Budgets. It will be taken forward in parallel with the continued roll out of these Budgets. The Terms of Reference have yet to be published.

5.0 RELEVANT RISKS

5.1 The major risk is financial if local authorities are to retain locally collected Business Rates as Wirral collects less than it receives back from the Government in grant support. The Government has stated that Councils which are more deprived will continue to receive Government support.

6.0 OTHER OPTIONS CONSIDERED

6.1 There are none in this particular case as the Council is responding to a Government consultation.

7.0 CONSULTATION

7.1 The Review will take account of the responses made to the questions in 'Local growth: realising every place's potential'.

7.2 The Government has stated that it will conduct extensive engagement with interested parties, including businesses of all sizes, to ensure that all views and perspectives are taken into account.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are none arising directly from this report.

9.0 RESOURCE IMPLICATIONS

FINANCIAL

9.1 As stated in Section 3.1 Wirral will suffer financially if Business Rates collected locally are retained as Wirral benefits from the re-distribution of Business Rates. Therefore any means to equalise the distribution of the sums collected nationally are critical to Wirral's financial viability.

9.2 There are no staffing or IT implications arising from this report.

10.0 LEGAL IMPLICATIONS

10.1 There are none arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are none arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are none arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are none arising directly from this report.

REPORT AUTHOR: Tom Sault
Head of Financial Services
telephone: 0151 666 3407
email: tomsault@wirral.gov.uk

FNCE/106/11

APPENDIX

Local Government Resource Review : Terms of Reference.

REFERENCE MATERIAL / SUBJECT HISTORY

Council Meeting	Date
Cabinet	14 April 2011

LOCAL GOVERNMENT RESOURCE REVIEW: TERMS OF REFERENCE

Phase 1

The first phase of the Review will consider the way in which local authorities are funded, with a view to giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies.

It will look at ways to reduce the reliance of local government on central government funding, increase local accountability and ensure that the benefits of economic growth are reflected in the resources authorities have.

The review will include consideration of changes to the business rates system, and focus in particular on:

- a) the optimum model for incentivising local authorities to promote growth by retaining business rates, whilst ensuring that all authorities have adequate resources to meet the needs of their communities and to deliver the commitments set out in the Spending Review;
- b) the extent to which these proposals can set local authorities free from dependency on central funding;
- c) considering how to fund authorities where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils who do not collect business rates, such as upper tier authorities, recognising that some parts of the country are currently more dependent on government funding;
- d) reviewing the scope for greater transparency and localisation of the equalisation process;
- e) the position of councils whose business rate yield would be significantly higher than their current spending;
- f) how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;
- g) how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;
- h) how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;
- i) examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers, and

- j) the wider implications of rates retention for related policies, including the work of the Commission on the Funding of Care and Support and the Government's other incentive schemes (the New Homes Bonus and the commitment to allow communities to keep the business rates for renewable energy projects).

The Review will take account of the responses made to the questions in "*Local growth: realising every place's potential*". It will also conduct extensive engagement with interested parties, including businesses of all sizes, to ensure that all views and perspectives are taken into account.

Following the announcements at the Spending Review and through introduction of the Welfare Reform Bill that Government will localise Council Tax Benefit, the Review will also consider the design of the new scheme (to be launched in 2013-14) and what flexibilities local authorities should have to help keep overall council tax levels down.

The first phase of the Review will conclude by July 2011, followed by the necessary steps to implement the concluded reforms.

Phase 2

The second phase of the Local Government Resource Review will commence in April 2011 and will focus on Community Budgets. It will be taken forward in parallel with the continued roll out of these Budgets. Detailed Terms of Reference will be published shortly.