WIRRAL COUNCIL

CABINET

22 SEPTEMBER 2011

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

1.0 EXECUTIVE SUMMARY

1.1 Phase I of the Local Government Resource Review (LGRR) was launched by the Government on 17 March 2011. The vision is of 'self-funded' councils that keep their local business taxes with Government grant dependence scaled back except where it is needed to protect the interest of taxpayers.

1.2 On 18 July 2011 a consultation was issued in relation to Business Rates Reform which is due to conclude on 24 October 2011. The headline is that through a series of tariffs and top-up payments local authorities would receive the same share of Government support in 2013/14 as from Formula Grant in 2012/13. The subsequent release of eight technical papers has provided additional commentary on the consultation proposals.

1.3 The LGRR seeks to change the distribution of funding for local authorities rather than the system of taxation and so Business Ratepayers will be unaffected. The Government intends to put the required legislation in place during 2012 in order that the funding changes can be implemented for the 2013/14 financial year.

2.0 RECOMMENDATIONS

2.1 That responses to the consultation are made which protect, as far as possible, the Council and which support the responses from SIGOMA (Special Interest Group of Metropolitan Authorities) and the Liverpool City Region.

2.2 That, recognising that the further papers require detailed technical analysis which is taking place during September and October, the detailed Council response be reported to the next meeting of Cabinet.

3.0 REASONS FOR RECOMMENDATIONS

3.1 Wirral, receives more Government support from the re-distributed Business Rates pool than is collected locally and so proposals for equalisation are critical to the financial viability of Wirral (and many other local authorities). In 2011/12 Wirral will collect £60 million locally whilst receiving £121 million from re-distribution. The proposals would result in funding for 2013/14 based on the share of the available Formula Grant for 2012/13. In the following years it is not clear how the Government would vary its support to reflect increasing needs / demands for services. It presently does this as part of the annual Local Government Finance Settlement.

3.2 Whilst the consultation has now been supplemented by a series of technical papers these do not give a full understanding of the detail. Councils are trying to ascertain the detailed impact. However, it could be that the detailed workings will not be available until later in 2012 and possibly not until the time of the Local Government Finance Settlement for 2013/14.

4.0 BACKGROUND AND KEY ISSUES

LOCAL GOVERNMENT RESOURCE REVIEW

4.1 On 17 March 2011 the Government launched phase 1 of the Local Government Resource Review. The vision is of 'self-funded' councils that keep their local business taxes with Government grant dependence scaled back except where it is needed to protect the interest of taxpayers. The details were reported to Cabinet on 14 April 2011 along with the Terms of Reference of the Review.

4.2 Phase 1 of the review was 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 sought the best way to balance funding between councils which would raise little income from business rates and those which 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.

4.3 A report was presented to Cabinet on 14 April 2011 advising that the LGRR would include Community Budgets and the localisation of Council Tax Benefit from 2013/14, as outlined in the Welfare Reform Bill. Cabinet received an update on Community Budgets on 1 September 2011. A report on the proposed localisation of Council Tax Benefits is included elsewhere on this agenda.

PROPOSALS FOR BUSINESS RATES RETENTION

4.4 The Department for Communities and Local Government (DCLG) released consultation proposals for Business Rate Retention on 18 July 2011 with a deadline of 24 October 2011 for responses. It is proposed that the new arrangements will commence in 2013/14.

4.5 Launching the consultation, the Secretary of State for Communities and Local Government, Eric Pickles said: "Our proposals to repatriate business rate income are balanced, fair and equitable creating self-sufficiency, the right incentives for all areas to grow and protecting the most vulnerable places. It will be much more straightforward, by letting councils keep the products of enterprise we will end their disparaging dependence on government handouts, finally start rewarding economic growth and support local firms and new jobs. The top-up and tariff measures will safeguard those places that have relied on grant by making sure successful areas share a slice of their income - from the offset no area will see less funding than they would have got under the old grant system. There will be no change to the way business pays the tax, who is eligible for discount, or the way it is set nationally''.

4.6. Under the initial proposal to allow local authorities to retain their own receipts there would have been significant winners and losers and the issue of equalisation was an important consideration. The representations made have resulted in the proposal which gives local authorities a funding level based upon their share of the 2012/13 Formula Grant allocations in 2013/14. This is to be achieved through a series of 'top-up' and 'tariff' adjustments. An option will exist for periodic 're-setting' of top-ups' and 'tariffs and the detailed mechanism will be set out later but the key features of the proposal are:-

- Fair starting point

  The base-line position for 2013/14 will be within the overall spending control total set by the Government with each local authority allocated a share in line with the 2012/13 grant allocations. To address the issue of equalisation there will be top-ups and tariffs with those collecting above this baseline paying a tariff whilst those below it would receive a top-up from Government. This adjustment could be fixed (in which case there is less protection to those with low taxbases and high needs) or annually uprated by the Retail Price Index.

- Strong growth incentive

  In future years from 2014-15 local authorities would keep a significant proportion of increase in their business rates whilst those whose rates declined would experience negative growth. However, the influence of local government on economic growth is subject to question and the Treasury has previously stated that local government has limited impact on creating economic growth.

- Levy to recoup disproportionate growth to keep stability in the system

  To address disproportionate gains the Government would create a levy to recoup a share of this financial gain. Based on the circumstances of each local authority this would be used to manage significant unforeseen falls in business rates income. The system would also be adjusted to take account of changes resulting from five yearly revaluations.
  The Government has committed to the uplift in business rates revenues from within the Enterprise Zone, above the current baseline, being retained for 25 years from April 2013 to support the priorities of the Local Enterprise Partnership. These additional revenues are therefore excluded from the levy arrangements.

- An ability to reset to ensure levels of need are met

  This allows the Government to adjust top ups and tariffs to balance out changes in local circumstances. A long period between resets would create a greater incentive whilst a shorter one would allow frequent reassessment of budgets. This reset could be fixed or decided by Government.

- A mechanism for collaberating

  Local authorities could group together voluntarily to form a 'pool' which would be subject to a 'pooled' tariff and levy with the constituent members determining the allocation of revenues. This would enable the wider economic area to benefit from growth and reduce any volatility. However there are the issues of distribution which raise similar arguments to those against the current method of distributing business rate revenues.

4.7 There would be no change for business ratepayers. Rate setting powers will remain with the Government and the revaluation process will be unchanged. Rate relief will be unaffected meaning no adverse change to charities, amateur sports clubs, voluntary groups, those in hardship, and those eligible rural or small firms. Councils will continue to bill and collect the income.

4.8 Tax Increment Financing will allow councils to pay for future infrastructure developments by borrowing against projected growth. Councils are not currently permitted to retain rates and so they cannot borrow against future income. The consultation paper sets out options which are to be explored in a further technical paper.

4.9 The Government has stated that the Spending Review 2010 funding levels for local authorities for 2013/14 and 2014/15 will remain the same. At the next Spending Review, the Government will review the total spending figures for local government with a view to more closely aligning local authority functions and responsibilities with business rates income from 2015/16.

IMPLICATIONS FOR WIRRAL

4.10 The proposals could adversely affect Wirral and similar authorities with low Business Rate tax bases and limited potential to increase the base. Authorities with high tax bases are predominately in the South-East and would gain because after the initial top-up adjustment those areas with a high base and lower needs will generate (and potentially retain) substantially more than an area with a low tax base and high needs.

4.11 Wirral is a net exporter of jobs and the growth in Business Rates in surrounding areas will provide no additional direct income but Wirral will need to fund services for those living in Wirral but working outside. Whilst 'pooling' may offer one means of addressing this, membership of any 'pool' would be voluntary.

4.12 The Enterprise Zone and Tax Increment Financing proposals are of interest given the Wirral Waters and International Trade Centre schemes, with the retention of increases in business rate revenues and also being allowed to borrow against potential future increased business rates uplifts from economic regeneration and investment. The contents of the detailed technical paper are awaited.

5.0 RELEVANT RISKS

5.1 The major risk is financial if local authorities are to retain locally collected Business Rates. Wirral collects less than it receives from the Government in grant support to meet needs. Whilst the Government has stated that Councils which are more deprived will continue to receive Government support the proposals have the potential to limit future income whilst demands / needs for local services continue to increase.

6.0 OTHER OPTIONS CONSIDERED

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

7.0 CONSULTATION

7.1 The Government consultation paper will include 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. The Government has indicated that Business Ratepayers will be unaffected by the proposals and that existing reliefs will remain.

9.0 RESOURCE IMPLICATIONS

FINANCIAL

9.1 Wirral expects to collect £60 million in Business Rates in 2011/12 which is paid into the national pool. Wirral receives £121 million in Government Grant from the re-distribution of the pool. If the Government proposals are implemented then Wirral will retain the Business Rates collected and receive a ‘top-up’ grant so that Wirral will receive the same income in 2013/14 as for 2012/13..

9.2 Looking ahead there will no longer be an annual Local Government Finance Settlement which seeks to allocate Government support to areas based upon needs. It would be for Wirral to meet any increased pressures from within the Business Rates collected locally plus the ‘top-up’ grant although the Government is proposing the option of re-setting the system if it was felt that resources were no longer meeting pressures within local authority areas. This could offer some protection to Wirral and other local authorities with low growth options.

9.3 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.

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BACKGROUND PAPERS

The Department for Communities and Local Government 'Local Government Resource Review : Proposals For Business Rates Retention consultation paper was issued on 18 July 2011 and can be found at:-
www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates.

The plain English guide to rates retention is available at:-
www.communities.gov.uk/publications/localgovernment/resourcereviewplainenglish.

REFERENCE MATERIAL / SUBJECT HISTORY

Council Meeting	Date
Cabinet - Local Government Resources Review	14 April 2011