DEVON & SOMERSET
FIRE & RESCUE AUTHORITY

REPORT REFERENCE NO.	**DSFRA/11/24**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY**
DATE OF MEETING	**29 SEPTEMBER 2011**
SUBJECT OF REPORT	**DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT (CLG) FUNDING CONSULTATION PAPERS ON THE LOCAL GOVERNMENT RESOURCE REVIEW AND DISTRIBUTION OF FIRE CAPITAL GRANT**
LEAD OFFICER	**Treasurer to the Authority**
RECOMMENDATIONS	***That publication by the Department for Communities and Local Government (CLG) of the two documents relating to funding issues be noted and the Resources Committee delegated to approve, at its meeting on 19 October 2011, a response on behalf of the Authority to the documents.***
EXECUTIVE SUMMARY	The Department for Communities and Local Government (CLG) has recently published two funding consultation documents, each of which will have a significant impact to future funding streams of the Authority. The first consultation relates to the *Local Government Resource Review*, which makes proposals to radically change the way local authorities are funded from 2013-14. The proposed new system will allow local authorities to retain local business rates collected, rather than the current system whereby business rates are paid to the government and then redistributed by way of formula grant. This consultation period runs until the 24 October 2011. The second consultation is a Fire specific issue, *Distribution of Fire Capital Grant*, which makes proposals for the distribution of £210m of Fire Capital Grant (£70m per annum over the next three years from 2012-13) amongst fire and rescue authorities. This consultation runs until the 21 October 2011. It is proposed that formal responses to both consultations are drafted by the Treasurer in time for consideration and approval at the next meeting of Resources Committee, to be held on 19 October 2011.

RESOURCE IMPLICATIONS	Whilst the proposals within the consultation papers clearly have significant financial consequences for the Authority, there are no financial issues apparent in providing a response to the consultations.
EQUALITY IMPACT ASSESSMENT	There are no differential impacts on any particular section of the Community arising from this report.
APPENDICES	A. *Local Government Resource Review:* Proposals for Business Rates Retention – A Plain English Guide.
LIST OF BACKGROUND PAPERS	Full consultation papers are available: www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates www.communities.gov.uk/documents/fire/pdf/1986537.pdf

1. INTRODUCTION

1.1 The Department for Communities and Local Government (CLG) has recently published two funding consultation documents, each of which will have a significant impact on future funding streams for the Authority.

1.2 The first consultation relates to the *Local Government Resource Review, which* makes proposals to radically change the way local authorities are funded from 2013-14. The new proposed system will allow local authorities to retain local business rates collected, rather than the current system whereby business rates are paid to the government and then redistributed by way of formula grant.

1.3 The second consultation is a Fire specific issue, *Distribution of Fire Capital Grant*, which makes proposals for the distribution of £210m of Fire Capital Grant (£70m per annum over the next three years from 2012-13) amongst fire and rescue authorities.

1.4 Given the significance of both issues the Authority will no doubt wish to respond to both consultations. It is proposed that formal responses to both consultations are drafted by the Treasurer in time for consideration and approval at the next meeting of Resources Committee, to be held on the 19 October 2011.

2. LOCAL GOVERNMENT RESOURCE REVIEW

2.1 The CLG published a consultation paper on 18 July 2011 which outlined proposals for the local retention of business rates from 2013-2014. The paper outlined the principles of the approach and suggested some questions that Authorities might like to consider. A summary document *Local Government Resource Review: Proposals for Business Rates Retention – A Plain English Guide* is attached to this report as Appendix A.

2.2 On 19 August eight technical papers were published to supplement the original consultation paper, which included a number of technical questions around the operation of the new system.

Existing Arrangements

2.3 At present, businesses pay National Non-Domestic Rates (NNDR), also known as business rates, based on a calculation involving the notional market rental value of their premises multiplied by 43.3% (although the actual rate is expressed as 43.3p in the pound). It is the responsibility of Central Government to set the multiplier rate. NNDR is collected by councils, pooled nationally and then redistributed as a part of Government funding of local authorities according to a complex formula. In total some £19bn a year is collected in business rates from over 1.7m properties with a rateable value.

2.4 The Devon & Somerset Fire & Rescue Authority (DSFRA) currently receives 59% of its funding (£44m) from Council Tax and 41% (£31m) from Government grant. This latter figure is further analysed into £7m of revenue support grant and £24m of redistributed NNDR.

2.5 In the consultation paper, the Government argues that this arrangement creates a disconnect between the success of the local economy and council finances, which distorts the way that local authorities behave. The paper also highlights the significant influence that Council's can have on economic growth through planning, investment in local infrastructure, managing the local environment and supporting the private sector.

Proposals for New System

2.6 There are seven components of the proposed scheme:

(a) *Setting the Baseline* - The Government will set out a baseline position in 2013-14 for each local authority.

(b) *Setting Tariffs or Top-ups* - Authorities whose business rates income is higher than their baseline would pay the difference to Government as a 'tariff'. Those whose business rates are less than their baseline would receive the balance as a 'top-up'.

(c) *The Incentive Effect* - From 'year one', all local authorities would stand to benefit from retaining increases in business rates. This would provide an incentive for Councils to engage with businesses in their area to maximise growth.

(d) *Disproportionate Benefit* - The Government proposes to collect a levy from those Councils with the highest business rate income.

(e) *Revaluation* - The tariff and top-up for each local authority would be adjusted when business rates are revalued, so that the sum of top-ups and tariffs was the same as before revaluation.

(f) *Resetting the System* - The Government may decide that a fixed period for resetting the underlying tariffs and top-ups is necessary i.e. reset the baseline, or to keep the incentives in the 'system' for longer, it may not.

(g) *Pooling* - The Government proposes that local authorities could come together voluntarily to form a pool; the pool would be treated as a unit in the system, with a single tariff and top-up and a single levy. Pools would decide for themselves how they distribute business rate growth amongst their members. The Government is keen to encourage pooling.

Police and Fire Authorities

2.7 In the original consultation paper, it was proposed that Police and Fire Authorities should, for 2013-14 and 2014-15, be funded without being impacted by the business rates retention scheme. This would mean that total funding for Police and Fire would be at the levels set in the 2010 Comprehensive Spending Review, but beyond that there will be a full review of future funding arrangements.

2.8 However, in technical paper 3, published in August, the Government proposes that all county fire authorities should be funded through retained business rates plus, where appropriate, any top up funding from Government. The paper then asks whether single-purpose fire authorities (such as ourselves) should also be funded through business rates? Of the total of ninety six specific questions included in the consultation document, the questions in technical paper 3, around how single-purpose fire authorities are to be treated, are probably of most interest to this Authority.

3. DISTRIBUTION OF FIRE CAPITAL GRANT

3.1 Capital grant was a new, un-ringfenced, funding stream in the Comprehensive Spending Review 2007 (from 2009-10) for fire and rescue authorities and was distributed in part according to population levels. This funding was introduced following the end of Private Finance Initiative funding. This is the only capital funding stream that is continuing. It increased from £45m per annum to £70m per annum in 2011-12.

3.2 The funding for 2011/12 was distributed by allocation of a fixed sum to every authority with the balance distributed according to population. For example, £500k baseline for every fire and rescue authority and the rest divided by population, bar the Isles of Scilly which received £75k. Based on this formula the Devon & Somerset Fire & Rescue Authority has been allocated a capital grant for 2011-12 of £2.021m.

3.3 Capital Grant funding is intended to be used to drive efficiency savings in the fire and rescue service at a time when there are significant cuts in resource funding. The funding is designed to help fire and rescue authorities to make the efficiency changes they need in order to live within their spending review allocation from 2013 onwards, when the largest portion of the reductions will apply.

Proposed option

3.4 CLG is seeking views on a proposal to distribute future funding based on a combination of:

- An efficiency fund, administered via a bidding process, and
- A pro-rata distribution using current distribution method.

3.5 The rationale behind this approach is to introduce a two-track system whereby a portion of the grant is distributed to provide some continuity to the sector, and put in place a competitive bidding process to drive efficiencies. The consultation asks seven specific questions around the split between the two elements, and how the bidding process will operate.

4. SUMMARY AND RECOMMMENDATIONS

4.1 This report provides an overview of the proposals contained in two recent CLG consultations concerning future funding issues, which have significant impact to the future funding of the Authority.

4.2 The Treasurer will prepare draft responses on behalf of the Authority to both consultations in time for submission to the CLG within the deadlines. Given that there is not a further meeting of the Authority before the deadline dates, it is recommended that consideration and approval of those responses be delegated to the meeting of Resources Committee to be held on the 19 October 2011.

KEVIN WOODWARD
Treasurer to the Authority

Local Government Resource Review: Proposals for Business Rates Retention

A Plain English Guide

What are we changing and why?
At the moment, local councils receive their funding from three main sources: grants from central government; council tax; and other locally generated income (such as fees and charges for services). Britain's local government finance system is one of the most centralised in the world and our councils get more than half of their income from central government grant.

Central government grants can be received as 'specific grants', which can come with restrictions on what they can be spent on, or through 'formula grant', which has no restrictions and can be used by the authority for any purpose. The formula grant funds a wide range of local services, including children's services, adult social services, police, fire, and highways maintenance, and is distributed to all local authorities using a complex formula.

One of the main components of formula grant is National Non-Domestic Rates, commonly known as business rates. Business rates are collected by local authorities from businesses in their areas like shops, offices, warehouses and factories, but they are currently paid into a central pool to be redistributed as part of formula grant.

This system means that local authorities do not have any financial incentive to promote business growth in their area, as they will not receive any of the business rates receipts from new development.

This dependence on central government funding also means there is a greater incentive to design services in order to secure government funding, rather than to respond to local communities' needs or align spending with citizens' service preferences; councils may feel they can generate better results for their area by lobbying government for more resources or demonstrating their need, rather than driving cost efficiencies or investing in local growth.

The Government wants to change the current system by enabling councils to keep a share of the growth in business rates in their area. This will make councils more financially independent from central government and give them a strong incentive to promote local business growth.

We are not proposing to make any changes to the way businesses pay tax or the way the tax is set. Rate setting powers will remain under the control of central government.

Councils can already raise additional revenues from the rating system through a Business Rate Supplement in order to fund a specific project which promotes economic development, or they can encourage Business Improvement Districts to form – where businesses themselves agree to pay an additional amount to fund improvements in the area. In both these examples there are protections for businesses. There must be a referendum of local businesses before a Business Improvement District forms and the Localism Bill is changing the law so that the same applies for any Business Rate Supplement proposal, rather than a ballot of businesses happening only when certain criteria are met. The Localism Bill is also amending the law to allow councils to introduce local business rates discounts, funded by the council.

There will be no changes to the existing reliefs available to eligible business ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector.

Our proposals for change
If we allowed all councils to keep all of the business rates generated in their areas, some areas would have a much larger amount than they need to deliver their services whilst some others would have much less than they need.

So, to ensure a fair starting position for the new system, we will take an amount of business rates away from those with too large an amount in comparison to their current spending (this is referred to as the “tariff” in the consultation document) and top up those authorities with too little, again in comparison to their current spending (this is referred to as the “top up” in the consultation document).

In future years the amount of business rates that central government gives or takes from each local authority will remain fixed. This means that any growth in business rates an authority achieves will be kept by them. This creates a strong incentive effect to promote growth.

There would be no fixed limit on the amount of business rates growth an authority can benefit from under the new system. The more any authority grows its business rates base, the better off it will become.

However, some local authorities with large amounts of business property in their area and may stand to gain disproportionate amounts. Where this happens, we are proposing to take back a share of their growth (this is referred to as the “levy” in the consultation document).

We are proposing to use the proceeds of this to give financial help to those authorities who experience significant drops in business rates, for example caused by the closure or relocation of a major business. We are also proposing to protect those authorities who are less able to grow. Depending on the amounts raised, the proceeds could also be redistributed to authorities with lower growth, or fund schemes, for example, for regeneration, in areas with high growth potential.

In the future, the Government may judge that the level of a number of councils’ business rates no longer meet changing pressures on local services. In this situation, we could choose to ‘reset’ the fixed amounts of business rates that were either taken from councils with too high levels of business rates or given to those with too low levels. This would probably involve a new assessment of local authorities’ need.

The whole system could also work for groups of councils working together, for example those in local enterprise partnerships or districts and counties, who want to form voluntary groups, allowing them to collaborate to promote growth and share in the benefits.

What do these proposals mean in practice?

Members of the general public will find their local council’s budget is more strongly linked to local business growth. In general terms, the more new business premises are developed in your area, the more funding (outside of council tax, fees and charges) your local council will have to provide local services and investment, as well as having positive impacts on employment and the local economy more widely. The proposals include protections to ensure that local authorities are able to meet local service needs in their area.

Business rates payers see no change in the way in which their business rates bills are calculated. The Government is not proposing to change the way that properties are valued or business rates levels are set. However, it should mean that the rates you pay have more impact on local authority budgets in your local area, and that your local authority has more incentive to work closely with the Valuation Office Agency to ensure that all businesses in your area have their properties valued correctly and are paying the right amount of tax.

Developers will find local authorities have greater incentives to grant planning permissions for appropriately-sited and well-planned non-residential development and go for growth. This is especially true of new renewable energy projects that start paying business rates from year one of the system, as councils would keep all of the business rates paid by such projects. Local authorities would also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure.

Billing authorities (district councils, unitary authorities) still bill and collect business rates, as now. But instead of contributing all business rates into the central pool and receiving formula grant, under these proposals, some of your business rates would be retained locally. Your baseline level of funding would be set so that at the start of the system, your budget is equivalent to what it would have been under the current system. From then on your funding would grow if the business rates base in your area grows, but could fall if your business rate base declines. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

County councils will receive a share of business rates revenues from the districts in your area (and a top up from other areas if relevant), rather than receiving formula grant. Your baseline level of funding would be set so that at the start of the system your budget is equivalent to what it would have been under the current system. From

then on, your funding would grow if the business rates base in your area grows, but could fall if your business rates base declines. You will want to consider with your districts, and possibly neighbouring areas/your local enterprise partnership, whether you could form a pool to make decisions about the distribution of funding locally. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

The police and fire sectors will receive the level of funding for 2013-14 and 2014-15 that was agreed as part of the 2010 Spending Review. Your funding will therefore not be affected by fluctuations in business rates in your area. The way in which you are funded will be fully reviewed in time for changes to be made at the next Spending Review, from 2015-16. You might want to respond to this consultation.

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