# DEVON & SOMERSET
# FIRE & RESCUE AUTHORITY

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| **REPORT REFERENCE NO.** | **DSFRA/12/21** |
| **MEETING** | **DEVON AND SOMERSET FIRE AND RESCUE AUTHORITY** |
| **DATE OF MEETING** | **30 JULY 2012** |
| **SUBJECT OF REPORT** | **DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT (CLG) CONSULTATION PAPERS** |
| | **Treasurer to the Authority** |
| **RECOMMENDATIONS** | ***That publication by the Department for Communities and Local Government (CLG) of the following two consultation documents be noted, and the Treasurer authorised to respond on behalf of the Authority (following e-mail consultation with Members):***<br>***1) Business Rates Retention – Technical Consultation.***<br>***2) Draft Local Audit Bill - A consultation.*** |
| **EXECUTIVE SUMMARY** | The CLG has recently published two consultation documents providing an invitation for the Authority to respond to the questions raised within each document.<br>The first consultation relates to the *Business Rates Retention Scheme*, and seeks views on a range of detailed and technical issues concerning the transition from the current formula grant system and the initial implementation of the business rates retention scheme from April 2013. This consultation period runs until the 24 September 2012.<br>The second consultation is the *Draft Local Audit Bill*, which sets out the proposed new audit framework for local public bodies, the process for the appointment of auditors, and the regulatory framework for local public audit. This consultation runs until the 31 August 2012.<br>Given that the next scheduled meeting of the Fire Authority is not until November 2012, this report proposes that formal responses to both consultations are drafted by the Treasurer and circulated to Members electronically in order that each of the consultation deadlines can be met. |

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| **RESOURCE IMPLICATIONS** | Whilst the proposals within the consultation may have potentially 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** | None |
| **LIST OF BACKGROUND PAPERS** | Full consultation papers are available:<br>http://www.info4local.gov.uk/documents/consultations/2183244<br>http://www.info4local.gov.uk/documents/consultations/2175065 |

## 1. INTRODUCTION

1.1 The Department for Communities and Local Government (CLG) has recently published two separate consultation documents, each of which invites a response from the Authority to the specific questions raised.

1.2 The first consultation relates to the implementation of the new Business Rates Retention Scheme which will 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. This consultation seeks views on a range of detailed and technical issues concerning the transition from the current formula grant system and the initial implementation of the business rates retention scheme.

1.3 The second consultation relates to the Draft Local Audit Bill which following the government decision to disband the Audit Commission sets out the proposed new audit framework for local public bodies, the process for the appointment of auditors, and the regulatory framework for local public audit.

1.4 Given the significance of both issues the Authority will no doubt wish to respond to both consultations. However given that the next scheduled meeting of the Fire Authority is not until 5 November 2012, which is after the deadline dates for both documents, it is proposed that formal responses to both consultations are drafted by the Treasurer and submitted on behalf of the Authority following consultation (electronically) with Members. The only other practical option would be to hold a special meeting of the Fire Authority at the end of August 2012.

## 2. BUSINESS RATES RETENTION SCHEME – A TECHNICAL CONSULTATION

2.1 This consultation seeks views on a range of detailed and technical issues concerning the transition from the current formula grant system and the initial implementation of the business rates retention scheme from April 2013. It will be of particular interest to local authority finance departments.

2.2 Business rates retention is at the heart of the Government's reform agenda and will help achieve two of Government's key priorities: economic growth and localism.

2.3 Under the current system Non-domestic rates – or business rates as they are commonly known – are collected by local government, pooled centrally by the Government and redistributed to local authorities as central government grant. This nurtures a culture of dependency on central government and means that there is no direct financial benefit to councils who succeed in growing their local economy.

2.4 The principal driver behind the rates retention scheme is to provide a strong incentive for local authorities to change their behaviours and go for growth, whilst ensuring all local authorities have adequate resources to provide services to local people. It will give authorities every possible reason to use the influence they have over planning, investment in skills and infrastructure and their relationship with local businesses to create the right conditions for local economic growth.

2.6. In December 2011, following wide consultation, firm proposals for the business rates retention scheme were published6 and at the same time the Government introduced a Local Government Finance Bill to give effect to the proposals.

2.7. This technical consultation covers, in detail, the issues needed for the one off transition from formula grant and the practical implementation of the scheme. It focuses in particular on how the Government proposes to calculate local authority *start-up funding allocations* and *baseline funding levels* as well as other parameters which are required for the set up and operation of the scheme. Transitioning from the current complicated arrangements inevitably means there is a degree of complexity to the set-up of the new scheme.

2.8. Once the new scheme is set-up, however, authorities will know what proportion of business rates they can keep, how much they are to pay as a *tariff* or receive as a *top-up*, the rate at which their growth will be levied and the floor below which the *safety net* will prevent their retained rates income from falling. All of these parameters will be fixed until 2020, providing into the future a reformed system securing a simple, clear incentive to go for growth.

2.9 A summary document *Local Government Resource Review: Proposals for Business Rates Retention – A Plain English Guide* is attached to this report as Appendix A.

## 3. DRAFT LOCAL AUDIT BILL

3.1 In August 2010 the Government announced its intention to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice to the private sector and put in place a new local audit framework. In this framework, local bodies would be able to appoint their own auditors from an open and competitive market. A robust regulatory framework would be established, ensuring that high standards of auditing continue to be upheld.

3.2 The reforms to local audit complement and enhance the Government's programme to make councils more open and accountable to the electorate by increasing transparency at these bodies. Importantly, the reforms proposed in this draft Bill will protect the rights of taxpayers to inspect the accounts and raise objection to the statement of accounts if they think there are matters that the auditor should report on in the public interest, or items of unlawful spending or ensuring that local people can continue to use this mechanism to hold their local bodies to account.

3.3 The Government also intends to give greater force to the code of recommended practice on local authority publicity by putting compliance with the code on a statutory basis. They will publish proposals on this separately in due course and will seek to legislate at the earliest opportunity.

3.4 Between March and June 2011 the Government consulted on its proposals for the new audit framework. More than 450 responses were received, and the Government response to the future of local audit consultation was published in January 2012. This set out the key themes and views that were raised by the consultation, and what the Government now proposes for the audit of principal local public bodies (bodies with an annual turnover above £6.5m). A copy of the Government response is available at: http://www.communities.gov.uk/publications/localgovernment/localauditgovresponse

3.5 This draft Local Audit Bill abolishes the existing regime and sets out the proposed new audit framework for local public bodies which were previously covered by the Audit Commission regime. It sets out the process for the appointment of auditors, and the regulatory framework for local public audit. A full explanation of the policy content of the draft Bill can be found in Chapter 2: Policy Overview, along with consultation questions on the clauses. The draft Bill should also be read in conjunction with the Explanatory Notes at Chapter 6.

## 4. SUMMARY AND RECOMMMENDATIONS

4.1 This report provides an overview of the proposals contained in two recent CLG consultation documents.

4.2 Given the fact that the next meeting of the Fire Authority will be held in November, after the deadline for submissions of responses to both consultations, it is proposed that to meet the deadlines the submission of the Authority responses be delegated to the Treasurer following consultation (electronically) with Members.

4.3 If Members are minded to agree to this proposal it would avoid the need to hold a special meeting of the Fire Authority towards the end of August 2012 to specifically approve the draft responses.

**KEVIN WOODWARD**
**Treasurer to the Authority**

## Local Government Resource Review: Proposals for Business Rates Retention

### A Plain English Guide

**Why are we changing the system?**
Government wants to give councils more freedoms and flexibilities. This is since we want to reduce Whitehall interference and give more power to local people. We also want to give councils stronger incentives to create and support local jobs and local firms.

The local government finance system is one of the most centralised in the world with councils getting more than half of their income from a central government grant. Under the existing system all businesses - shops, offices, warehouses and factories - pay a tax to their local council (called business rates). Although the local council collects the bills, it doesn't keep the money. It goes into a Treasury pot and is then redistributed back to local authorities, via an extremely complex formula.

There are a number of problems with the current scheme. It fails to reward local authorities for increasing new business in their area. No matter how many new businesses start up in their locality, councils don't get a penny extra. They could even lose out for having to stump up the cost of providing additional services to new companies. Instead of encouraging businesses, the system encourages a 'begging bowl' mentality with councils looking to be rewarded for being worse off. It's a system in need of reform.

Government's proposals will shift more financial power from Whitehall to the town hall allowing councils far greater influence over the money they earn. Overall, councils will now get to keep 50 per cent of what they earn giving them a real incentive to go for growth and encourage enterprise and job creation. It has been estimated that these reforms could boost economic growth by £10 billion over the next seven years. If economic activity increases, the total amount of money raised from business rates will grow too. This means there will be more money 'in the pot' both for prosperous councils and to support less well-off areas.

They will also have much greater flexibility to pool their business rates to encourage growth across their areas. And the scheme also enables local authorities to borrow money against future business rate growth to fund infrastructure projects in their area.

Meanwhile, councils that struggle to increase their business will have protection for basic services. And all local authorities will now have much greater certainty about their budgets over a longer period of time - allowing them to plan ahead.

**How will the new scheme work in practice?**
Instead of business rates going straight into the Treasury coffers without touching the sides of the local authorities, town halls will now get to keep a proportion of their hard earned cash.
But the reality is that some wealthier authorities earn more in business rates than they used to receive from the current formula grant. While there are other authorities who earn much less.

So Government is levelling the playing field through a mixture of "top-ups" and "tariffs".
In the first instance, Government will calculate a funding level for every local authority for 2013/14. Should a local authority receive more in business rates than its funding level then Government will pocket the difference (the "tariff"). This will be used entirely to "top up" local authorities who receive less than their funding level. Government intends that this will be fixed for seven years.

Once underway the scheme allows councils to keep 50 per cent of the additional funds they generate. But without adjustment the scheme would be weighted towards richer authorities. This is because, for a comparatively small investment in growth, councils with a large amount of business property can gain large increases in their revenue. Whereas hard-pressed councils who put a lot in would get comparatively little out.

For example, in an authority with business rates income of £100 million and funding level of £50 million, a 5 per cent increase in business rates income produces a 10 per cent increase in income compared to its funding level. A town hall with a different rate base (£10 million) and the same funding level (£50 million), would find the same 5 per cent increase in rates income only produces a 1 per cent increase in income compared to its funding level.

So Government is evening up the odds to encourage enterprise in councils whatever their resources. Where a council's increase in revenue outstrips the increase in its funding level. Government will again take the difference through a levy. So if an authority grows its rates by 2 per cent and its funding level growth is 4 percent, it will get to keep 2 per cent of that growth. However, this money will still be ploughed back into local authorities. In this case it will be used as a shock absorber to protect other authorities that see their income drop to a particular level, for example, as a result of big business going under. Government is consulting on where between 7.5 per cent and 10 per cent this level should be set.

**What do these proposals mean for you?**
*Local residents* - should see greater investment in local services as authorities see their business rates revenue increasing. Equally, spending is protected even if it suffers a significant decrease in its business rates revenue.

*Businesses* will see no change in the way their business rate bills are calculated. But they will have more influence on council’s decisions, including their budget as the council’s income is directly linked to the successful of businesses in its areas.
*Charities and voluntary groups* which currently receive tax relief on their bills will see no change, as such relief will continue.

*Councils* will have much greater incentive to grow businesses in their areas and much greater certainty about their future funding - allowing them to plan ahead, manage risk, budget for the long term and plan for worst case scenarios. They will also want to work more closely with the Valuation Office Agency (the body which helps calculate the amount of business rates that firms should pay) to ensure local firms are having their properties valued correctly and paying the right amount of tax.

*Developers* will find a more conducive atmosphere with councils actively seeking to encourage appropriately-sited and well-planned non-residential development. This is especially true of new renewable energy projects that start paying business rates from year one.

The *police authority* will not be affected by fluctuations in business rates in your area.

All *single purpose fire and rescue authorities* will be funded through a two percentage share of each district or borough council’s business rates income. They will receive a top-up to bring their funding up to their funding level.

**More information about business rates**
Information on how business rates bills are currently calculated can be found at

http://www.businesslink.gov.uk/bdotg/action/layer?r.i=1080387285&r.l1=1086951342&r.l2=1087348731&r.l3=1081626979&r.l4=1080387124&r.s=m&r.t=RESOURCES&topicId=1081626979.