

POLICY & FINANCIAL AFFAIRS COMMITTEE

28 SEPTEMBER 2011

REPORT OF HEAD OF CENTRAL SERVICES

BUSINESS RATES CONSULTATION

1 PURPOSE OF REPORT

- 1.1 To inform Members of the issues arising from the Government's document on the Business Rates Consultation and propose a way forward regarding the Council's response.

2.0 RECOMMENDATIONS

2.1 *It is recommended that:*

Members give delegated authority to the Head of Central Services to consider and where relevant support suggested submissions for response to the consultation in addition to specifying any specific issues to this Council;

3. KEY ISSUES

- 3.1 The document "Local Government Resource Review: Proposals for Business Rates Retention" was released on 2011 and requested responses to the consultation by 24 October 2011. This main consultation document is attached at appendix A to this report. This document was summarised in the August Members Newsletter and this is also attached at Appendix B. In addition to the consultation document are a further eight technical papers which, due to their complexity and the fact they are around 200 pages in total have not been included as appendices here, but are available to members on request. Also attached at Appendix C is a flowchart highlighting the key features of the Business Rates Retention Scheme (BRR), whilst this looks quite complicated it is a good representation of the proposals.

- 3.2 Due to the complexity of the documents it is suggested that rather than draft an individual full response we consider and support, as appropriate, responses from representative organisations, such as; SPARSE, Society of District Council Treasurers, District Council Networks and the Local Government Association. We are aware of the intention of SPARSE to hold a session on this response for Finance Representative members, and prepare a response which will be available approximately 2 weeks before the deadline date. In addition the District Councils Network is holding a session which the Chief Accountant will attend. Delegated authority to the Head of Central Services is recommended to consider these and other responses and add any items which are specific to this Council:

- One specific item is the suggestion that the damping used in the current grant formula be continued into the new proposals, this means that we will continue to lose out as we have been, with no chance of change. This is an aspect we would wish to highlight as one we cannot support.
- Another is that we would require that the sparsity and fixed costs elements of the relative needs formula should be reviewed. The question whether we

would continue to receive the cost of collection allowance, would also need to be clarified.

- We would need to fully ascertain the effects on the Council, as a two tier authority of the changes to the system; including how the split of growth is distributed and when. The proposals offer 2 options on distribution: a) fixed national shares based on spending patterns in two tier areas and b) individual tailored shares; the district's percentage share of the county area yield would be the percentage of the baseline it would retain. As Melton has a low proportion of business rates it would be best to take option a) on the basis that this would ensure that resources are more fairly matched to need and would not be of detriment to those mainly housing districts who still need to support the community and infrastructure required.

3.3 Local Authorities could choose to form voluntary pools, allowing them to share the benefits of growth and smooth the volatility over a wider economic area. This would ensure spending on economic development by County Councils does not have to be evenly spread or disadvantage one area over another. The proposal for each pool is that the sum of the individual authority tariffs and top-ups applied would be used as the single tariff/top-up, and that a single levy for the pool would be calculated on the aggregate income and growth rather than a separate levy for each authority. As well as benefits there are also clear potential challenges and practical considerations associated with ensuring the geographies are right and the reliance on significant co-operation and agreement to ensure the workability and stability of the pool. The proposals suggest the practicality of district councils pooling with their counties. The consultation indicates there could be additional incentives for authorities that pool.

At a meeting of all Leicestershire Treasurers representatives it was agreed there was merit in exploring the possibility of pooling. As such, guidelines are being drafted by Leicestershire County Council for districts to consider. Certainly there is some merit in looking at common policies on items such as; relief etc.

4.0 **POLICY AND CORPORATE IMPLICATIONS**

4.1 The proposals and resulting scheme will have significant corporate implications for the Council as it concerns the Council's main funding stream.

4.2 The Council would have the opportunity to choose to work in partnership with other districts and/or the County Council. This would allow it to share the benefits of growth and smooth the impact of volatility over a wider economic area. This would be a corporate and voluntary decision for the Council.

5.0 **FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 Financial implications have been partially addressed in the main in section 3 above. The Council currently receives £3,043k in formula grant which consists of £2,324 of non-domestic rates and £719k in revenue support grant.

5.2 DCLG have provided a calculator to assist Councils, although they make it clear that it does not enable a local authority to predict the outcome of the rates retention scheme on their finances, but just to allow us to look at some of the possible option combinations. The calculator requires authorities to make a number of assumptions on the baseline, the funding levels and future growth rates.

5.3 Furthermore, there are a number of key issues that the calculator does not take into account, each of which could be potentially significant. They are:

- The relative importance of inflation versus tax base growth

- An indication of business rates volatility
- The authority's potential reliance on the safety net (it is proposed that authorities which experience a significant shortfall in growth will be able to draw on a pool made up from a percentage of other authorities increases in growth)
- The potential split between district and county rates retention
- The potential advantages and disadvantages of pooling
- The impact of linked initiatives

5.4 Public Sector Consultants, who have been providing information on the proposal, have completed their own model, for which they have had to use their own numerous assumptions. The conclusion we have read from this is that even if we take into account all the Council's New Homes Bonus for revenue expenditure in real terms we will only just break even against existing funding levels. A further consultancy firm has offered their own calculator, using their assumptions but this would be for an additional substantial fee.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 There are no other legal implications directly arising from this report.

7.0 COMMUNITY SAFETY

7.1 There are no direct links to community safety arising from this report.

8.0 EQUALITIES

8.1 There are no direct equalities issues arising from this report.

9.0 RISKS

9.1 The risks are considered in the table below:

Probability



Very High A				
High B			2,3	1
Significant C				
Low D				
Very Low E				
Almost Impossible F				
	IV Neg- ligible	III Marg- inal	II Critical	I Catast- rophic

Impact →

Risk No.	Description
1	Overall Funding – a significant drop in overall funding would result in cuts to services
2	Stakeholder Expectations – Expectations on the Council to utilise a variety of new funding streams which will not be realised
3	Volatility – if the Council chooses not to pool the full risks associated with volatility will be held entirely with the Council

10.0 CLIMATE CHANGE

10.1 There are no climate change issues directly arising from this report.

11.0 CONSULTATIONS

11.1 The consultation document has been produced by CLG to all local government authorities.

12.0 WARDS AFFECTED

12.1 All wards are affected.

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Date: 8 September 2011

Appendices: Appendix A – Local Government Resource Review: Proposals for Business Rates Retention
Appendix B – Members Briefing August 2011
Appendix C – BRR Scheme Flowchart

Background Papers: Local Government Resource Review: Proposals for Business Rates Retention

Reference: X: C'tees, Council & Sub-C'tees/PFA/280911/DG – Business Rates Consultation