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Shropshire and Wrekin Fire and Rescue Authority
Strategy and Resources Committee
18 November 2011

Local Government Resource Review – Business Rates Retention

Report of the Treasurer

For further information about this report please contact Rachel Musson, Treasurer, on 01743 252007 or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

This report details the Fire Authority's response to the consultation on the proposed retention of business rates income by local authorities.

The consultation period ended on 24 October 2011.

2 Recommendations

The Committee is asked to note the response to the consultation, which was delegated to the Chief Fire Officer and the Head of Finance.

3 Background

Currently, local authorities receive their funding from three main sources: grants from the Government; council tax; and other locally generated income, such as fees and charges for services.

Grants from the Government are paid in the form of specific grants, which come with restrictions on how they can be spent, and formula grant, which has no restrictions and can be spent by the local authority on any purpose.

One of the main components of formula grant is national, non-domestic rates, or business rates. These are collected by local authorities from businesses in their areas, and paid into a central pool, to be redistributed as part of formula grant. This means that local authorities have no incentive to promote local business growth, as this does not result in increased revenue from business rates in the local area.

As the first part of the Local Government Resource Review, the Government is proposing that the current system is changed to facilitate the retention of business rates in the local area, which will enable councils to retain growth in business rates in their areas. A consultation document was published by Communities and Local Government (CLG), to which responses were required by 24 October 2011. A summary of the main points within the consultation is provided below, together with the responses given.

4 The Consultation

The seven core components of the consultation were designed to:

- Ensure a fair starting point for all local authorities
- Deliver a strong growth incentive where all authorities can benefit from increases in business growth
- Include a check on disproportionate benefits
- Ensure sufficient stability in the system, and
- Include an ability to reset in the future to ensure levels of need are met.

Component 1 – Setting the baseline

In order that the Government does not compromise its commitment to manage within spending control totals set out in the 2010 Spending Review, the baseline will be based on the 2014-15 control total.

Forecast national business rates above these totals will be set aside to fund other grants to local authorities.

Component 2 – Setting tariffs and top ups

Individual authority baselines will be established by applying the 2012-13 formula grant allocations to the national business rate baseline. To ensure that no individual authority is worse off, the loss between the 2013-14 and 2014-15 control totals will be paid back as section 31 grants, or revenue support grant.

The Government is minded to establish individual authorities' baseline funding levels on the basis of 2012-13 formula grant after damping.

To ensure a fair starting position for the new system, an amount of business rates would be taken away from those with too large an amount in comparison to their current spending (tariff) and top up those authorities with too little in comparison to their current spending (top up).

Component 3 – The incentive effect

The amount of business rates that the Government gives or takes from each authority will remain fixed. Any growth in business rates, which an authority achieves, will be kept by them. This creates a strong incentive to promote local growth.

Component 4 – A levy recouping a share of disproportionate benefit

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

However, if authorities with large amounts of business property in their area stand to gain disproportionate amounts, a share of this growth may be taken back as a levy. This would then be used to offer financial help to those authorities, who experience significant drops in business rates, for example the closure or relocation of a major business.

Component 5 – Adjusting for revaluation

The tariff and top up for each authority would be adjusted when business rates are revalued, so that the sum of top ups and tariffs is the same as before revaluation.

Component 6 – Resetting the System

In the future, new assessments of local authorities' needs may be carried out, to reset the amounts of business rates either taken from authorities with too high levels of business rates, or given to those whose business rate levels were too low.

Component 7 – Pooling

Local authorities, for example those in local enterprise partnerships, or districts and counties, could choose to form voluntary pools within the system, allowing them to share the benefits of growth and smooth the impact of volatility over a wider economic area.

5 Police and Fire and Rescue Authorities

The consultation document recognises that police and fire authorities have a more limited role in promoting business growth, and it, therefore, proposes that these authorities are treated differently within the system. Rather than having their funding affected by fluctuations in business rate income in 2013-14 and 2014-15, the police and fire sectors will receive guaranteed funding at the levels agreed in the 2010 Spending Review for these years.

The Government will fully review the way in which police and fire authorities are funded beyond this point in time to allow for the changes to be implemented from the beginning of the next Spending Review in 2015-16.

Q25: Do you agree with these approaches for non-billing authorities?

Response:
The suggested approach recognises that, as single purpose fire authorities are limited in their ability to promote business growth, they should not be exposed to the risks of fluctuating business rates income. Whilst we would not benefit from growth in business rates income, we would be guaranteed to receive the funding included in the 2010 Spending Review.

However, the Government released eight technical papers, covering detailed aspects of the Business Rates retention scheme, and paper 3 suggests that county fire and rescue authorities could be funded through a percentage share of each district council's billing authority business rates baseline, whilst single purpose authorities could be funded in the same way, or separately as detailed above.

Technical Paper 3

Q4: Do you think that single purpose fire and rescue authorities should be funded:

a. **through a percentage share of each district council's *billing authority business rates baselines (pre tier split),* subject to any *tariff* or *top up* required to bring them to their *baseline funding level*; or**
b. **through fixed funding allocations for 2013-14 and 2014-15, through an *adjustment* to the *forecast national business rates*?**

Response:
Single purpose fire authorities should be funded through an adjustment to the national forecast business rates, which would eliminate exposure to fluctuations, over which they had little or no control, in anticipation of the full review of funding fire authorities to be completed prior to the 2015 Spending Review.

6 Financial Implications

There are no direct financial implications arising from this report.

7 Legal Comment

There are no direct legal implications arising from this report.

8 Equality Impact Assessment

Officers have considered the Service's Brigade Order on Equality Impact Assessments (Personnel 5 Part 2) and have decided that there are no discriminatory practices or differential impacts upon specific groups arising from this report. An Initial Equality Impact Assessment has not, therefore, been completed.

9 Appendices

There are no appendices attached to this report.

10 Background Papers

There are no background papers associated with this report.