Appendix 3

Local Government Resources Review

The Secretary of State introduced the Local Government Finance Bill on 19 December. The Bill seeks to take forward proposals designed to encourage local economic growth, reduce the financial deficit and drive decentralisation of control over local government finance.

This legislation represents a radical change to the local government finance system, which complements a wide package of financial measures that the Government is pursuing.

The Bill is intended to:

- Enable local authorities to retain a proportion of the business rates generated in their area, providing them with strong financial incentive for them to promote local economic growth.
- Enable local authorities to carry out Tax Increment Finance, giving them the ability to undertake borrowing against future business rates growth, supported by the forecast tax increment that accrues from additional development.
- Provide a framework for the localisation of support for council tax in England, which, alongside other council tax measures, will give councils increased financial autonomy and a greater stake in the economic future of their local area, while providing continuation of council tax support for the most vulnerable in society, including pensioners. The localisation of council tax support will enable the England share of an around £500m saving on expenditure across Great Britain to be realised.
- Make changes to council tax rules to provide further flexibility on the council tax local authorities can charge on empty properties, and other small changes aimed at modernising the system.

The Local Government Finance Bill was published alongside the following paper from the Department of Communities and Local Government (DCLG):

Local Government Resource Review – Proposals for Business Rate Retention. Summary of Responses

http://www.communities.gov.uk/publications/localgovernment/resourcereviewsummaryresponses

Local Government Resource Review – Proposals for Business Rate Retention. Government Response

http://www.communities.gov.uk/publications/localgovernment/resourcereviewgovtresponse

and a plain English guide

http://www.communities.gov.uk/publications/localgovernment/resourcereviewplainenglishres

Localising Support for Council Tax in England: Government's response to the outcome of consultation

http://www.communities.gov.uk/publications/localgovernment/localisingtaxresponse

The headlines from these responses are detailed below.

Business Rate Retention

The Government's response confirms that the Business Rate retention scheme is intended to be introduced from April 2013. The main features of the scheme are as follows:

- Initially the distribution method is all that will change, and will be managed by a series of 'tariffs' and 'top-ups'. A 'tariff' is paid into a central pot where the amount of business rate generated are greater than the baseline funding. A 'top up' is where the amount collected in business rates is less than the baseline funding required and is therefore topped up by to the baseline funding level. Nationally tariffs and tops up will be self funding.

- Prior to initial distribution the datasets that underpin the current settlement process will be updated. Specifically, the relative need formula will be updated to reflect the cost of running rural services and concessionary travel.

- The council tax compensation grant for **2011-12 <u>will</u> be included** in the baselining. The council tax compensation grant **for 2012-13 <u>will not</u> be included.**

- Business rate growth is then kept by local authorities on a basis of an 80:20 split between Districts and County Councils.

- Any disproportionate growth in business rates will be centralised as a 'levy'. This levy will beheld centrally and will be used to act as a 'safety net' for business rate reductions for authorities that see their rate levels drop below by a set percentage below the baseline funding level.

- An aspiration to re-set the scheme at 10 yearly intervals except in exceptional circumstances.

- Authorities will be able to engage in Tax Increment Financing (TIF). This is the ability to borrow to enable businesses growth with the ability to use the additional business rate income to fund the cost of the initial borrowing . A limited number of the schemes will be exempt from any levy or reset for 25 years.

- The effect of business rate re-evaluations (which take place every five years) will be neutralised through tariffs and top ups.

- Police authorities will be excluded from the scheme and funded through fixed allocations for 2013-14 and 2014-15

- Fire and Rescue Services are included in the scheme with combined and single purpose authorities be treated in the same way.

- Business rate increase on renewable energy projects will be kept by local authorities. This will not be split 80:20 but kept in its entirety by the local planning authority. Where the local planning authority is a national park authority the additional income will be retained by the billing authority.

- Local authorities are allowed to work collaboratively on schemes within and outside of County boundaries subject to a number of safeguards.

- All of the above will not have an impact on the Business Rates paid by businesses. The current scheme and impact on businesses will remain unaltered.

Localising support for Council Tax in England

The Government's response confirmed the approach set out in the consultation paper on localising support for Council Tax in England. The main features of the scheme are:

- Reduction of 10% in current funding levels confirmed
- Support for the most vulnerable, including pensioners and that vulnerable pensioners should delivered through a national framework of criteria and allowances. The rules and regulations will be broadly similar to those in operation now.
- The support will not be extended to all pensioners.
- Localised schemes need to be in place by April 2013, prior to the implementation of Universal Credit in October 2013.
- Local schemes should provide incentives to get people back into work.
- Support will be offered as reductions or discounts on Council Tax bills.
- Localised schemes will be subject to consultation with precepting authorities and the public.
- Schemes must be adopted by 31 January of the preceding year.
- Schemes can be revised on an annual basis.
- Default scheme will be imposed if local schemes are not agreed by 31 January. The default scheme will broadly reflect the current benefit scheme and therefore will be financially detrimental to an authority.
- The financial risks are managed through the collection fund and therefore the risk will be proportionate to the Council Tax collected.
- Monthly amounts paid to precepting authorities could be amended to reflect collections in the month so billing authorities do not face the cashflow implications of a poor months collection on its own.
- The grant (which replaces the Council Tax benefit subsidy) will be paid to all major precepting authorities, but the Government still needs to understand and work this approach through in more detail.
- The Government is keen to enable the sharing of information between agencies to reduce administration costs and speed up the application process.
- Timetable:
    - Spring 2012 - Technical consultation on grant distribution
    - Summer 2012 – Local authorities designing local schemes and scoping IT changes
    - Autumn/Winter 2012-13
        - Grant allocations published
        - Local schemes established including consultation
        - Local authorities set budgets and adopt schemes