

Report to: *Budget Panel*
Date of meeting: *12 June 2012*
Report of: *Head of Strategic Finance*
Title: *Business Rates Retention*

1.0 SUMMARY

1.1 This report follows on from the previous report to the Budget Panel on 25th October 2011 (**see Appendix A** for copy of earlier Paper). Since October 2011, Herts Finance Officers have engaged a consultant to carry out some financial modelling based upon work initially carried out by the Society of County Council Treasurers. The cost of the consultancy work has equated to £2k per authority and represents a value for money approach to this complex issue.

1.2 Since the original report to Budget Panel, the Government has clarified a few issues:

- any growth to the business rates base will be split 50% to local authorities and 50% to the Treasury. The share retained by the Government is apparently to be returned to local authorities as funding for specific initiatives.
- Should an authority suffer a reduction in its business rates base then such a loss would have to equate to between a 7.5% to 10% reduction in funding before any safety net protection would kick in.

The Local Government Association is not happy with either decision as it reduces the degree of reward to authorities through growing their rates base, whilst at the same time providing little relief for those authorities suffering business reductions.

1.3 The Government has also reversed its earlier proposal so that where the business rate base increases then the amount allowed to be kept by local authorities is to be split 80% to the District and 20% to the County Council.

1.4 The purpose of this further report is to receive a presentation from the consultancy company, CIPFA, of the modelling it has carried out to date and will include:

- basics of new scheme
- DCLG timetable
- forecasts for Watford Borough Council
- risks and opportunities
- pooling across county areas

Copies of the presentation will be available at the Budget Panel Meeting.

1.5 Central Government funding for district councils in general will comprise:

- receipt of business rates (rather than Revenue Support Grant Formula Grant)
- continued allocation of New Homes Bonus funding.

In the case of NHB, Watford Officers are in the process of analysing likely future grant from this source and a Paper will be circulated at the Budget Panel meeting. This analysis will be more reflective of the situation within Watford when compared

to the broader brush approach of the SCT Model.

1.6 Finally the Council's Economic Development Officer is in the process of providing a short paper upon future trends that may affect the Council business rates base in the Medium Term and this again will be circulated at the meeting.

1.7 Running parallel with this major change to the way in which local authorities will be funded are:

- it is anticipated that there will be a further resource review carried out by the DCLG in the autumn with further government grant reductions being announced.
- the Government has announced it will reduce council tax benefit subsidy by circa 11.4% with effect from 1st April 2013. This will be in addition to the previously announced reduction in Housing Benefit Administration Grant. Both these issues are discussed within the next report on the Agenda of the Budget Panel.
- There has also been a very recent announcement that housing benefit administration staff will not automatically transfer to the Department for Works and Pensions when the 'Universal Credit' system is introduced. TUPE will not apply and there may well be an increased incidence of redundancy costs falling to administering authorities (including Watford).

1.8 It is the intention therefore that all these major issue (as well as local ones such as the condition of the Council's commercial rent portfolio) will be reported as part of a revised Medium Term Financial Strategy to Budget Panel on 11th September and Cabinet on 17th September 2012. It is hoped that, in the intervening period, clarification on a number of these issues may be known.

2.0 **RECOMMENDATION**

2.1 The Budget Panel is requested to consider this report on Business Rate changes and make comment to Cabinet as it feels appropriate.

Contact Officer:

For further information on this report please contact: Bernard Clarke or Phil Adlard
telephone extension 8189 / 8023

3.0 IMPLICATIONS

3.1 Financial

The Head of Strategic Finance comments that the financial implications will not be fully understood until the Government Grant Settlement is announced in December 2012.

3.2 Legal Issues

The Head of Legal and Property Services comments that the legal implications as they are known at present will be in the presentation.

3.3 Equalities

Watford Borough Council is committed to equality and diversity as an employer, service provider and as a strategic partner. In order to fulfil this commitment and its duties under the Equality Act 2010 it is important to demonstrate how policies, practices and decisions impact on people with different protected characteristics. It is also important to demonstrate that the Council is not discriminating unlawfully when carrying out any of its functions. In this specific instance the way in which local authorities are to be funded will not directly impact upon equalities. How the Council responds to funding variations may have an impact but that can only be evaluated once the amount of money available is known.

3.4 Potential Risks

Potential Risk	Likelihood	Impact	Overall Score
That the Council's business rates base/ new homes bonus actually falls and requires budget cuts or short term use of reserves	2	3	6

3.5 Staffing & Accommodation

There are no staffing or accommodation implications arising out of this report

Appendices

Appendix A previous report (and appendices) submitted to the Budget Panel on 25th October 2011.

