PART A **APPENDIX A**

Report to:	Budget Panel
Date of meeting:	25 October 2011
Report of:	Head of Strategic Finance
Title:	Local Government Resource Review: Business Rates Retention Consultation

1.0 SUMMARY

1.1 This report informs the Budget Panel of significant changes to the financing of local government which are due to take place from 1st April 2013. The proposed changes are potentially extremely complex and, as a result, all authorities have delayed making any response. The effect for Watford is that the consultation period ends on 24th October 2011 before the meeting of the Budget Panel. In reality the comments submitted to Central Government are of a general nature.

1.2 It is important that the Budget Panel is aware of the proposed changes as they will increase the potential volatility to the medium term financial planning process.

2.0 RECOMMENDATIONS

2.1 That the Budget Panel notes the content, effect, and Watford response (to follow) of this Government Consultation Paper.

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3.0 Detail

3.1 It should be appreciated at the outset that district councils do not have ‘technical officers’ able to devote their time to extensive dissection of Government Consultation Papers involving great complexity. The Consultation Paper was accompanied by eight technical papers and asked 96 questions many of which would require significant research. In order to take a view on such papers, district councils subscribe to the Local

Government Association where technical expertise does exist. In addition Herts County Council also has the capacity to devote time and energy to forwarding a detailed response.

3.2 Working ‘smarter’ therefore does mean tapping into these resources rather than replicating work already carried out. Attached at **Appendix 1** is a Cabinet Report (17th October 2011) produced by the Director of Resources & Performance at HCC which provides an overview of the content of the Consultation Paper.

Attached at **Appendix 2** is a briefing paper produced by the LGA into the content of the eight technical papers.

3.3 The essential feature of the system is that authorities should see a direct financial benefit from increasing their business rate income whereas at the present time any increase disappears into a national business rates pool. The downside to this relates to the fact that business rate income may actually fall as large companies either relocate or close. The paper at Appendix 1 provides a lot more detail about how the system will operate including safety nets/ top ups/ and tapers. This covering report will not repeat that information but will attempt to highlight some of the issues affecting Watford.

4.0 Potential Effect Upon Watford

4.1 The East of England Local Government Association (EELGA) has analysed by area the relative contributions into the national Business Rate Pool and this is shown below.

Contribution to the national business rate pool by region 2010-11

	Contribution to pool (£m)	**Proportion of contribution to pool (%)**	**Proportion of total population (%)**
North East	703	3.7	5.0
North West	2,164	11.4	13.3
Yorkshire and Humber	1,540	8.1	10.1
East Midlands	1,251	6.6	8.6
West Midlands	1,701	9.0	10.4
East of England	1,894	10.0	11.2
London	5,159	27.3	15.0
South East	2,960	15.6	16.3
South West	1,554	8.2	10.1
Total – England	**18,924**	**100.0**	**100.0**

4.2 The East of England is a net contributor and pays a cumulative tariff of circa £330m into the pool (Watford contributes circa £57m more than it gets back). Simplistically this will set the base for when the new financing system becomes operational (April 2013). The essence of the system is to what extent individual authorities will grow their business rates income after the base has been set. Again the EELGA has examined business rate growth in the 51 authorities within the region over a 5 year period. The ‘winners’ and ‘losers’ are shown in the table below.

The largest and lowest growth in business rates by billing authority (2005-06 to 2009-10 annual average)

Largest average growth		**Lowest average growth**	
Broxbourne	7.43%	Bedford	1.21%
Mid Suffolk	6.13%	Watford	1.79%
South Norfolk	5.75%	Great Yarmouth	1.81%
Broadland	5.57%	East Hertfordshire	2.10%
Castle Point	5.49%	Cambridge	2.19%
Welwyn Hatfield	5.46%	North Hertfordshire	2.24%

4.3 Watford has had the second lowest growth in business rates out of the 51 authorities (albeit it was starting from a high base position) and should this continue then it would not augur well for the future. Essentially Watford would be unlikely to accrue more income through the new business rate retention scheme and might possibly need to be in receipt of safety net protection. Obviously there may well be other areas of the country where business rates may actually fall and it will be this interaction nationally that will determine winners and losers. It is not encouraging that within our own region we have had one of the lowest increases and emphasises the need for business development initiatives such as the Health Campus, Watford Junction, and the Western Gateway.

5.0 Process and Timescale

5.1 It is probable that the Revenue Support Formula Grant for 2012/2013 will be used as the base position for the new business rates retention scheme. At the present time Watford has been provisionally notified that its Formula Grant for 2012/2013 will be £5,214k and which is a combination of Revenue Support Grant and re-distributed business rates. For 2013/2014 this will be funded solely from the business rates it collects (with the additional rates collected being passed as a ‘tariff’ into the national pool). The process for establishing a base position will be similar to the present except that all Watford’s Formula Grant will come from its own business rate collection.

5.2 The Government intend to restrict local authorities to the Spending Review 2010 Control Totals for 2013/2014 & 2014/2015. This has included a forecast, at that time, of business rate income anticipated to be generated. Modelling carried out at the LGA suggests that the business rate total income will be above that forecast but the proposal within the Consultation Paper is that the Treasury should receive any surplus business rate income. Exact details of the affect upon individual authorities will not be known until autumn 2012. Future forecasts of business rate income will also include assumptions on collection levels and may set authorities unrealistic targets.

5.3 Under the proposals for business rate retention, local authorities will from 2013/2014 retain a share of business rates growth (split between county councils and district councils in two tier areas) as it is argued that County Councils play a large part in economic development in any area. It is likely that data relating to Revenue Account (RA) returns will be used and would result in an approximate 77%/ 23% County to District split. Police Authorities will not feature within this process and will be guaranteed a fixed level of funding from 2013/2014 onwards.

5.4 The new system will include safety nets and levies to protect authorities affected by extreme volatility within the system where by business rate income either plunges dramatically or rises significantly. In order to try and reduce this volatility within areas the Consultation Paper suggests authorities might wish to 'pool' their business rates across district boundaries or indeed across county boundaries. The complexity of this proposal has been identified and is not being significantly supported at the present time.

5.5 The Consultation paper proposes that the New Homes Bonus should be incorporated within the business rate retention scheme. This would be a retrograde step as any reward for increased housing supply would be 'lost' within a complex process. The Paper also anticipates Tax Increment Financing (whereby authorities can borrow in advance of future development (e.g for Watford an option for the Health Campus) should also come within this all encompassing rates retention scheme. A separate paper is to be issued in due course explaining this in greater detail.

5.6 The proposals within the Consultation Paper and accompanying technical releases make medium term financial planning extremely difficult to predict. Appendix 1 attached from HCC includes the Financial Implications statement…''At this stage it is not possible to quantify the impact for Hertfordshire''.

6.0 Response to the Consultation

6.1 At the commencement of this report it was indicated that many of the issues identified are of a technical and complex nature. It is not the intention therefore that Watford should comment upon all 96 questions to which it is invited. Discussions will be held with the Portfolio Holder for Finance and Watford's response will be circulated as soon as it has been agreed. At the present date the only consultation response that has been received has been a draft response from HCC. The LGA and other Herts Districts have not finalised their own responses and is indicative of the complexity of the issues.

6.2 The response from Watford is anticipated to include:

- that fairness must be at the centre of the new system and that Ministerial judgement and top slicing of funding by the Treasury should be kept to an absolute minimum.
- maximum stability at its inception must be the highest priority. Authorities are already having to deal with severe funding reductions without further turbulence being introduced.
- going forward, the system must be predictable and transparent. It must reward authorities where business rates growth has occurred but must also have safety net procedures for depressed areas of the country.
- It needs to be readily explained to the business community and other stakeholder.
- It should not become all encompassing and distinct initiatives such as the New Homes Bonus must remain a separate income stream which clearly rewards authorities for increasing the local housing supply and where an 80% reward feature is distributed to district councils.

7.0 IMPLICATIONS

7.1.1 **Financial Issues**
The financial effects of this change to local authority financing may well be profound but at this point in time it is not possible to quantify.

7.2 **Legal Issues** (Monitoring Officer)

The Head of Legal and Property Services comments that there are no legal implications arising directly out of this report.

7.3 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
That Watford will be disadvantaged by the change in government funding arrangements to be introduced in April 2013.	2/3	4	8/ 12

7.4 **Staffing**
No Direct implications as a result of this report.

7.5 **Accommodation**

None Directly

Appendices

1 – Herts County Council Cabinet Report
2– LGA Technical briefing

Background Papers

Consultation Paper Local Government Resource Review
Eight Technical Papers Local Government Resource Review