

RESOURCE REVIEW BRIEFING OCTOBER 2011

- Radical change in the funding arrangement for local authorities.
- Havering base position (equivalent to current grant) will be based on 12/13 formula grant
- Havering will be a “Tariff” paying authority subsidising other local authorities.
- The final design of the scheme and funding allocation will not be finalised until February 2013

1. Summary

On the 18th July 2011, the Department for Communities and Local Government published the consultation setting out proposals to create a rates retention scheme to replace the current financial settlement process as part of the localism bill. A further 8 technical papers were launched in August providing local authorities with further details of how the scheme will work in 2013/14.

Under the scheme, local authorities will be able to retain all or an apportion of their business rates depending on the amount of funding local authorities received through the current formula grant. The deadline for responses to the proposal is the 24th of October 2011

2. Proposals – Baseline Calculation

From the consultation document and technical papers it is evident that the localisation of business will be as complicated as the current formula grant funding method. Formula grant will still be used in the background to ensure that the perceived needs for local authorities remain in line with the retention scheme.

Under the proposals, the 12/13 formula grant will be used as a basis for the starting position for all authorities’ with adjustments to take into account the coalition government austerity measures and any proposals, if required, in updating any indicators or rolled in grants to the formula process. This is due to the lack of correlation of formula grant to business rates in the current financial model therefore to ensure stability for authorities, the base position is to be set using 12/13 formula grant.

The base position adjustments will be calculated on the 14/15 CSR figures with a one-off grant paid in 13/14 to take account of the difference between 13/14 and 14/15 deficit reduction programme.

As the amount of business rates and formula grant are so different from authority to authority, a “tariff” and “top-up” methodology has been created. Authorities who collect more business rates than their base position will pay a tariff to central government which will fund those authorities who collect less business rates than their formula grant calculation. Havering collects substantially more business rates than formula grant therefore Havering will pay a “tariff” to be reallocated to “top-up” authorities.

As part of the tariff and top up calculation a business rate baseline / target needs to be set up to calculate the tariff or top-up. The difference between the business rate baseline and the base position will calculate the tariff / top-up. The difference will either be funded or paid over to government depending on whether it is a top-up or tariff authority. However this amount can either be fixed or will increase with RPI, which DCLG are asking for our opinions on in the consultation. Therefore in the event of a reduction in business rates below the business rate baseline this will potentially have to be funded by the authority.

3. Proposals – Growth Calculation

As part of the proposal, government are also giving local authorities incentive to achieve business rate growth. These details are still at the early stage however for those authorities who achieve growth over above their baseline, they will be able to retain a proportion of their business rates. Three options have been put forward including:

- a flat rate levy for each authority
- A banded levy dependent on the size of an authorities business rates
- A proportionate levy (i.e. 1% growth in business rates could result in a 1% increase on an authority’s baseline.

The government intends to use this “proportion levy pot” to manage negative volatility in individuals business rates however the safety could be set high to ensure further incentive for the scheme to work. For example set the safety net at 10% below the base position.

4. Proposals – Resets.

To avoid resources being too divergent from the perceived needs calculated by the formula grant process, the consultation has identified options to reset the system. A couple of options have been exemplified as to when / how they may occur..

- Government decide frequency of a reset
- Set period for resets
- Partial resets (excluding growth)
- Full resets

5. Proposals – Pooling

The government have also proposed to allow local authorities to group together voluntarily to create a pool. This would combine the tariffs and top-up of authorities and would result in the pool paying a single levy or receive a single top-up. The distribution of resources within the pool would be determined locally.

6. Havering

- The core issue affecting Havering is setting the baseline position at the 12/13 formula grant. The current formula grant method of reallocating resources is detrimental to Havering. We have suffered for a number of years as a result of the method of allocating resources through the formula grant as the indicators used do not reflect the pressures or demographics of the borough.
- As elements of the tariff / top-up will be fixed, any increase in mandatory relief which was previously funded by central government could potentially be funded through the general fund however until the final design of the proposal is released this is still open to interpretation.

7. Conclusion

- This is a radical change to the way local authorities are funded. The consultation has only given us a perception on how the scheme will work however with little details of how this will work in practice.
- There is still a large degree of unknown how these proposals will affect local authorities. This will become clearer in the summer of 2012 once more details are released by the Department for Communities and Local Government.
- This new scheme will be implemented in 13/14 however the final design and figures of the scheme will not be available until February 2013.