

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

22 June 2011

Report of the Director of Finance

Part 1- Public

Executive Non Key Decisions

1 LOCAL GOVERNMENT RESOURCE REVIEW

A report informing Members of the work of the Local Government Resource Review (LGRR) and of two consultation papers issued by the Local Government Association (LGA) with regard to the Review. This report requests Members to approve a response to the LGA's consultation papers.

1.1 Introduction

- 1.1.1 Members will probably be aware that the government has established the LGRR to consider how it can re-cast the distribution of business rates and formula grant to deliver a more effective income stream for councils. **The government's stated aim is that as many local authorities as possible should be freed up from dependency on central government funding and that there should be better incentives for local authorities to promote economic growth in their areas and to benefit financially from that growth.**
- 1.1.2 The LGA intends to submit a response to the LGRR in July and has issued two consultation papers to local authorities seeking their input to its response. It asked for responses to the papers by 20 May. Along with, I suspect, many authorities, I informed the LGA that such a deadline was unrealistic. The LGA accepted, because of local elections and other factors, the points that I had made, but would be happy to accept responses after that date.
- 1.1.3 The two consultation papers are entitled 'Local Government Resource Review – Initial Consultation by the LGA' and 'Local Government Resource Review – Detailed Consultation Paper on Local Retention of Business Rates'. The former is what I would term a 'high-level' consultation paper, which seeks answers to matters of principle. The latter is, as its title makes clear, a consultation paper asking views on matters of detail.
- 1.1.4 The text of 'Local Government Resource Review – Initial Consultation by the LGA' is attached at **[Annex 1]**. The text of 'Local Government Resource Review – Detailed Consultation Paper on Local Retention of Business Rates' is attached at

[Annex 2]. My suggested response to the consultation papers is attached at **[Annex 3]**.

1.1.5 Both consultation papers are discussed below.

1.2 Local Government Resource Review – Initial Consultation by the LGA

1.2.1 As Members will see, the LGA starts by identifying criticisms of the current system, which I do not disagree with. There is no doubt that, although we have the burden of collecting business rates from the businesses within the Borough, we have very limited control over either the amount of the rates that are charged and, consequently, the income that is generated. Many businesses are unaware of this and we are therefore left to defend a system over which we have little influence. There are frequently occasions when local discretion over the amount charged would be of benefit to a business, or the Borough as a whole, but we are powerless to act. Although the proposals in the Localism Bill (see my report to the meeting of the Finance and Property Advisory Board of 24 May) would give us greater freedom in individual cases, they would not solve the wider issues over control of income and financial dependency on central government. Furthermore, I accept the concerns of the LGA on such matters as the formula grant system.

1.2.2 The above having been said, the LGA is right to state that the present system does have some advantages, such as giving local authorities a measure of certainty. Although not stated within the consultation paper, I believe that one should also bear in mind two other issues.

1.2.3 First, the present system was introduced in order to give businesses a level of certainty as to what their rates burden would be, irrespective of where they were in the country, and in recognition of the fact that some authorities were, through the rate in the pound that they were charging, perceived as placing an undue burden on businesses in their area.

1.2.4 Secondly, whatever system ultimately comes out of the Review, a balance should be struck between the proportion of local authority income derived from business and that derived from council tax payers.

1.2.5 My proposed responses are as shown at **[Annex 3]**. It is not my intention to go through the consultation paper in detail at the meeting on 22 June, as it is a technical document. If Members have any questions, I would be grateful if they could contact Paul Griffin (876083), the author of this report, in advance of the meeting.

1.3 Local Government Resource Review – Detailed Consultation Paper on Local Retention of Business Rates

1.3.1 The consultation paper is broadly concerned with presenting the arguments for and against various options for reform. As Members will note, there are seven areas in which the paper goes into considerable detail. These are:

- Pooling mechanisms;
- Equalising resources and identifying needs;
- Incentives to promote economic growth;
- The setting of the business rates multiplier (rate in the pound);
- Revaluations;
- Discounts and reliefs; and
- Administration.

1.3.2 My proposed responses are as shown at **[Annex 3]**. It is not my intention to go through the consultation paper in detail at the meeting on 22 June, as it is a technical document. If Members have any questions, I would be grateful if they could contact Paul Griffin (876083), the author of this report, in advance of the meeting.

1.4 Overall Impressions and Implications

1.4.1 There is clearly some way to go with this Review, but, if the broad proposals were to be agreed, this would mean a significant shift in the way local government is financed.

1.4.2 Presently, for example, this Council predicts that it will collect, in 2011/12, approximately £49.2 million in business rates, £48.6 million of which will be passed over to central government. As part of the formula grant process, this council receives £3.7m back. It should also be remembered, of course, that the major precepting authorities also receive a share of the overall business rates income as part of formula grant, but it is true to say that Kent as a whole is a net contributor to the business rates pool.

1.4.3 The present system is anomalous and, as I have said above, although we have the burden of collecting business rates from the businesses within the Borough, we have very limited control over either the amount of the rates that are charged or, consequently, the income that is generated. Many businesses are unaware of this and we are therefore left to defend a system over which we have little influence.

1.4.4 This Council has long argued for a return to the localisation of business rates, and, although early days, this consultation seems at least to be a step in the right direction.

1.4.5 Finally, I believe that it is worth emphasising that, whatever the conclusions of the review, there will always be 'winners' and 'losers'. The ability to raise money from businesses, via business rates, is finite. The specific effect, on this authority, of

the outcomes of this review, assuming they are passed into law, will be largely dependant on the detailed regulations that would have to be drawn up.

1.5 Legal Implications

1.5.1 None

1.6 Financial and Value for Money Considerations

1.6.1 None at present.

1.7 Risk Assessment

1.7.1 There is no risk presently. Risk will not be a factor until the conclusions of the Review are known.

1.8 Equality Impact Assessment

1.8.1 See 'Screening for equality impacts' table at end of report

1.9 Recommendations

1.9.1 Members are **RECOMMENDED** to consider the draft response set out at **Annex 3**; make any amendments as appropriate; and authorise the Director of Finance to respond accordingly to the LGA.

Background papers:

contact: Paul Griffin

Consultation papers as shown at annexes 1 & 2

Tel: 01732 876083

Sharon Shelton
Director of Finance

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	The decision merely asks for approval of a response to consultation papers.

Screening for equality impacts:		
Question	Answer	Explanation of impacts
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	No	The decision merely asks for approval of a response to consultation papers.
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		Not applicable.

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.