

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 5 JULY 2011

Title:

LOCAL GOVERNMENT RESOURCE REVIEW

[Portfolio Holder: Councillor Mike Band]

[Wards Affected: All]

Summary and purpose:

This report gives Members background to the Government's ongoing Local Government Resource Review into the way local authorities are funded and details the key questions arising from Phase 1 of the review and the Council's current position on these questions.

How this report relates to the Council's Corporate Priorities:

This report relates to the Council's Government funding which is part of the resources used to deliver Council priorities.

Equality and Diversity Implications:

There are no direct equality and diversity implications relating to this report.

Resource/Value for Money implications:

This report updates Members on this major ongoing review which will affect one of the Council's main funding source for services.

Legal Implications:

There are no direct legal implications relating to this report.

Introduction

1. On 17 March 2011, the Secretary of State for Communities and Local Government published the Terms of Reference for Phase 1 of the Local Government Resource Review (see Annexe 1).
2. Phase 1 (due to be completed by July 2011) is considering the way in which local authorities are funded. Phase 1 aims to establish a new system for Business Rates and Government Grant, which protects the interests of taxpayers, rewards local growth and job creation, and delivers a more self-sufficient income for councils.

3. Phase 2 will focus on Community Budgets. The Department for Communities and Local Government (DCLG) are currently scoping the exercise and will shortly be publishing terms of reference.
4. Individual local authorities have not been consulted on the review so far but on 3 May 2011, the Local Government Association (LGA) launched two consultation papers:
 - Local government resource review initial consultation; and
 - Local government resource review detailed consultation paper on local retention of business rates.
5. The deadline for responses to both papers was 20 May 2011 and it is expected that the LGA will submit its response to the review by early July 2011.

Waverley Borough Council's grant position

6. Waverley's total Formula Grant is made up of Redistributed Business Rates and Revenue Support Grant as follows:

	2010/11	2011/12	2012/13
	£	£	£
Redistributed Business rates	5,292,289	3,415,939	
Revenue Support Grant	768,490	1,055,877	
Total Formula Grant	6,060,779	4,471,816	3,829,708

7. Total Formula Grant is the result of a complex calculation which takes into account the relative needs and resources of local authorities, a per capita allocation and damping which aims to stabilise grant changes between years.
8. Formula Grant has declined rapidly in the three year period referred to in the above table and although still significant to Waverley is significantly less than the proportion paid to other local authorities. The overall comparative reduction in Government grants in 2011/12 for Waverley was 18.2% (taking into account changes in services). For 2012/13 there will be a further reduction in Government Formula Grant of 13.5% (again taking into account changes in services).

Waverley Borough Council's Business Rates totals

9. In 2011/12 Waverley will collect £34 million in Business Rates and will get back only £3.4 million (shown above in Redistributed Business Rates from the Government pool). It is this inequitable redistribution which has shaped officers' comments in the consultation questions to the LGA.

Phase 1 Relocalisation of business rates

10. The Terms of Reference states that the first phase of the review will consider the way in which local authorities are funded with a view to giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies. In

addition to the relocalisation of business rates the review necessarily also examines the existing formula grant system as more than 80% of formula grant is funded by pooled business rates.

11. Key questions from the review include:
 - What principles should underpin a reformed system of business rates?
 - Whether a reformed grant mechanism should continue to assess needs and resources in order to ensure some degree of resource equalisation and if so, what body should do the assessing?
 - Is a pooling mechanism the best way to redistribute resources?
12. The outcomes of the Government reforms are expected to be implemented in 2013/2014.

Officers' responses to the two LGA consultation papers on Phase 1

13. The Deputy Chief Executive replied to the two LGA consultation papers by the deadline of 20 May 2011 with the following main comments:
14. Although the principles of:
 - 1) making authorities less dependent on central government, and
 - 2) restoring the link between councils' finances and the prosperity of local businesses – by allowing authorities to retain business rates income,were positive, the Council does not agree that a pooling system is needed. Authorities should be allowed to keep all the business rates income they set.
15. Authorities' needs and available resources should still be assessed, although not then overridden by damping mechanisms (floors). This should be carried out independently of ministers by an independent body, which should not be the LGA.

Phase 2 Community Budgets

16. The Government's proposals for "Community Budgets" would pool and align various national and local funding strands into a single local funding pot for tackling specific community needs. On 29 March 2011 the Secretary of State confirmed the first 16 pioneer areas (which excluded Surrey) to be established on 1st April 2011. This second phase of the Local Government Resource review, focusing on Community Budgets, will be running in parallel with the continued roll out of these budgets.

Future consultations

17. DCLG have advised officers that they will publish their proposals on Phase 1 of the review by the end of July 2011 after which they expect to consult individual authorities probably at the end of July into August 2011.

New Homes Bonus

18. The Government has recently announced its New Homes Bonus grant allocations for 2011/12. The New Homes Bonus, based on the increase in numbers of dwellings on council tax valuation lists, provides local authorities with grant to mitigate the strain of an increasing population. Waverley will receive £311,255 per annum for house growth to October 2010 in 2011/12 and for the next 5 years, as well as further grants as new homes are built.
19. The Government has, so far, created a pot of £950 million to cover the 4 years of the current Spending Review. However if, as expected, house building accelerates, and payments of the New Homes Bonus outstrip the £950 million grant pot, the Government has said that it will claw back any excess from Formula Grant.
20. The Council, in its response to the initial LGA consultation on the Local Government Resource Review, commented that the potential claw back of Formula Grant should not be part of the New Homes Bonus scheme especially if new house building is not sustainable in local authority areas.

Conclusion

21. Officers will continue to keep members informed about progress of this important review.

Recommendation

It is recommended that the Executive support the relocalisation of business rates discussed in the Government Review of Local Government Resources and subsequent phases of the review.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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