

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

24 SEPTEMBER 2012

1. **BUSINESS RATES RETENTION – TECHNICAL CONSULTATION**

Joint report of the Chief Fire Officer and Treasurer.

RECOMMENDED

THAT the Committee approve the draft response to the consultation exercise and that the Chair of the Authority, in conjunction with the Director of Resources, amend the current wording, if appropriate, in order to align the response with any submission made by the Association of Metropolitan Fire and Rescue Authorities.

2. **PURPOSE OF REPORT**

This report is submitted to seek the Committee's approval to the draft consultation response to business rates retention.

3. **BACKGROUND**

3.1 The Department for Communities and Local Government issued a consultation on proposals to allow local authorities to retain future growth in their business rate revenues in July 2011: 'Local Government Resource Review/Proposals for Business Rates Retention'.

3.2 Following that exercise, the Government intends to introduce a Business Rates Retention Scheme from April 2013 and has issued a further consultation on a range of technical issues concerning the transition from the current formula grant system and the initial implementation of a Business Rates Retention Scheme. The full consultation is available on the CLG website using the link below:

<http://www.communities.gov.uk/publications/localgovernment/businessratestechnical>

- 3.3 Under existing arrangements, non-domestic rates (or business rates) revenue collected by local authorities is pooled for redistribution to local authorities (including Police and Fire Authorities) in England via formula grant.

This means that local authorities have no direct incentive through the business rate system to attract companies to locate to their area (or grant planning permissions for new developments). The additional revenues are transferred to central government and redistributed nationally. The proposals are to change this system to allow local authorities to retain an element of their local business rate growth to incentivise the promotion of economic growth.

- 3.4 The document is broken down into a number of Sections as follows:

- Section 1 – Introduction.
- Section 2 – focuses on establishing *baseline funding levels* for each local authority, as well as the methodology for allocating Revenue Support Grant which will continue to be paid. In line with the aim to maintain stability where possible, these will be calculated on the basis of the 2012-13 formula grant process with updated data sets and some limited technical updates. The section includes proposals for making those calculations and includes exemplifications of the proposed options and also covers transfers and adjustments to the local government spending controls total and includes proposed methodologies for incorporating those separate grant funding streams being included in the business rates retention scheme from April 2013.
- Section 3 – outlines other parameters which need to be determined when setting up the business rates retention system, particularly in relation to establishing individual local authority business rate baselines.
- Section 4 – details proposals on how the system will operate once it has been set up. It particularly focuses on the information and data flow requirements between central and local government, including detail on what the new scheme will mean. The calculation of *levy and safety net* payments is also set out in this section.

- Section 5 – covers the proposed approach to closing the 2012-13 national non-domestic rating account.
- Section 6 – contains a summary of the consultation questions (the questions are also contained within the relevant individual sections throughout the document).

3.5 The paper comprises 250 pages, includes 83 different questions which form the basis of the consultation. Of these questions only two relate specifically to the Fire Service. In addition there are some general questions which will have an impact on this Authority. These are contained in Appendix 1.

3.6 To ensure there will be a consistent response, a meeting of the Finance Representatives of the 6 Metropolitan Fire Authorities will take place on 19 September when the final responses will be collated. This will take the form of an individual response for each Fire Authority along with a response on behalf of AMFRA (the Association of Metropolitan Fire and Rescue Authorities). The detailed technical response will be tabled at the Authority meeting for approval.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out.

5. **LEGAL IMPLICATIONS**

There are no legal implications arising from this report.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report but the funding of the Authority in future years will be determined by the final proposals from the outcome of the consultation process.

BACKGROUND PAPERS

Local Government Resource Review: Proposals for Business Rates
Retention, Executive Committee Meeting 10 October 2011

VIJ RANDENIYA
CHIEF FIRE OFFICER

STUART KELLAS
TREASURER

APPENDIX 1

1. Fire Specific Questions

Question 9

Do you agree that we should introduce a Fire and Rescue sparsity adjustment at 1%

Following lobbying from the Combined and Shire Fire Authorities the paper proposes to top slice 1% from the fire relative needs formula to be redistributed using population sparsity as the basis of distribution. The purpose of this is to reflect the additional cost of providing cover in rural areas using extra fuel costs owing to the need to cover greater distances as justification.

If implemented, this change, in isolation, would take grant away from the Metropolitan Brigades.

This change is fundamentally flawed for a number of reasons, the principal one being that it would once again move resources away from the areas of high deprivation when it has been proved that there is a direct link between deprivation and fire risk.

Question 62

Do you agree with our proposal to set single purpose fire and rescue authority share of billing authorities business rates baseline at 2% ?

With effect from April 2013 the Fire Authority funding will come from three sources

- Revenue support Grant
- Top up grant
- Share of billing authority's business rate baseline.

In theory the first two elements will be fairly stable (notwithstanding future reductions in government funding) with revenue support grant provided by central government and the top up grant increased annually in line with RPI.

The final factor which is the share of the Authority's business rate baseline is likely to be the most volatile as it is dependent upon economic activity in the area. Each billing Authority will keep 50% of its business rates income with the other 50% being paid over to central government to fund the top and tariff system and the proposed safety net. Under this proposal 2% of the billing Authority's share would be paid to the fire authority as part of its overall funding.

It is felt that 2% probably delivers the correct balance by allowing the Fire Authority to share in the economic growth or decline of the region whilst at the same time maintaining a degree of stability over fire service funding.

2. Non Fire Specific impacting on the FRA

Taking Account of Relative Needs and Relative Resources

Question 10

Do you agree that we should restore the level of relative resources amount in 2013-14 to that for 2010-2011

Question 11

Do you agree that we should compensate for restoring the level of the resources amount in 2013-2014 to that for 2010-2011 by increasing the level of the central allocation only?

The purpose of the Relative Resources Element of the Revenue Support Grant formula is to compensate those authorities with a low tax base for their inability to raise council tax by giving them more grant. The aim of this being that when grant and council tax income are taken into account, the cost of providing the same level of service in any authority should result in the same level of council tax.

As part of the deficit reduction programme the government reduced the amount of money included in the relative resources element which had the impact of taking grant away from the most deprived areas which are least able to replace it with council tax income.

Following representation, the Government are proposing to reverse this change and remove the grant from the relative needs block instead. They are therefore consulting on options to make this change. If implemented, this change in isolation would direct additional grant to the Metropolitan Brigades.

Floor Damping

Question 33: Do you agree with the proposed approach for calculating floor damping in 2013-14?

Question 34: Do you agree with the proposed approach for allocating floor damping bands in 2013-14?

Question 35: Do you agree with the proposed approach to splitting 2012-13 formula grant between the Service tiers?

Question 36: If not, what methodology do you think we should use?

Floor damping is a mechanism which can be used to ensure that individual Authorities receive a maximum decrease in grant year-on-year. A significant element of this Authority's (and AMFRA's) representation to Government following the grant allocations in Years 1 and 2 of the current CSR period has been to encourage a flat line grant reduction to all Fire Authorities in Years 3 and 4. Floor damping would be a key issue if this approach is adopted and so the question on floor damping will be considered in depth at the meeting of the 6 Metropolitan Fire Authority's financial representatives on 19 September to ensure the response is consistent with previous and current focus on this issue.