MP briefing
Local finance – changes fail to put councils in the lead

MAKING CHANGE COUNT

England's local government funding system needs to change. It is one of the most centralised in the world.

It is wrong, however, to see **any** change as improvement. Current Local Government Finance Bill proposals risk upheaval without significant benefits – leaving councils no better off.

For example, business rate localisation has been seen as a panacea for greater local control over income and spending – but in fact it will deliver little change. This short briefing from South East England Councils (SEEC) asks for your support in making the case for further change that will support localism with genuine local financial responsibility.

THE EXISTING FLAWED SYSTEM

Under the existing 4-block formula, the vast majority of councils' spending is funded by central government grants. Grants are allocated and controlled by central government using a highly complex formula and behind-the-scenes decisions that obscure accountability. The value of local democracy and localism is in question while such a small percentage of spending is raised locally by council tax.

CURRENT PROPOSALS RISK ANOTHER FLAWED SYSTEM

Initially, Coalition plans to update local government finance by allowing local retention of business rates appeared to have potential to give councils more control over local income and spending.

But now details are clearer, it is obvious that the plans need more work if they are to deliver change.

Current business rate proposals will have only marginal impact. They provide councils with precious little extra funding, no reduction in complexity, no increase in transparency and still maintain a large of degree central control.

Plans to localise council tax benefits also create problems by cutting funding without giving councils the freedom to offset their costs by changing tax rates for other more affluent council tax payers.

BUSINESS RATES – WHY CURRENT LOCALISATION PROPOSALS WON'T SOLVE OUR PROBLEMS

Localisation of business rates is seen by many as a simple route to giving councils more control over raising income to spend on local needs. The reality is different and many councils expect no significant change in spending power:

- **Localisation of business rates will replace current centrally-allocated formula grants – it is not an additional source of funding.**
  For the South East: LGA estimates that in 2013-14 our authorities are likely to receive £1bn less in localised business rates than they received in formula grant in 2012-13.
- **The Treasury will automatically keep 50% of all business rates and reallocate the money nationally to councils as grants using a centrally-determined formula.**
  For the South East: LGA estimates a likely rise of some £1bn in grants received by South East authorities from central government in 2013-14. While this is likely to offset the reduction above, it does not deliver localism or accountability as it retains a complex, centralised approach to funding local needs.
- **A complicated centrally-run system of 'tariffs' and 'top-ups' will be applied to councils' business rate income to avoid big winners and losers.**
  For the South East: Many South East councils will be 'tariff' authorities. This means they will receive less than 50% as their local share of business rates, with 'tariff' payments going to subsidise income for other councils across the country.

- **Local authorities have no control over setting business rates so cannot vary the level of charges to offer incentives or raise more money.**
  For the South East: Councils cannot alter business rate levels to incentivise economic growth or to raise additional funds to support essential infrastructure investment.

BUSINESS RATES – WHAT NEEDS TO CHANGE?

For the South East, localisation of business rates will bring no significant change in funding, spending power or influence over raising income. The system will not provide significant extra money and therefore will not provide the sums necessary for investment in infrastructure to support economic growth.

We have outlined areas below where your support can help deliver a fairer deal for councils. More control over locally-raised funding will support local services and investment in future economic growth:

- **Councils should keep 75%-100% of locally-collected business rates**
- **Treasury should cut its business rate share below 25% & consult councils on why and how any of this money needs to be centrally distributed**
- **Business rate incentives should encourage knowledge-based and hi-tech growth needed for a modern economy, not just focus on large scale property development**
- **Review tariffs and top-ups to ensure fairness and avoid creating a disincentive to growth in the South East by drawing away too much funding**
- **Expand 'city deal' funding packages to non-city areas in the South East to help fund essential infrastructure that will support economic growth**
- **Greater government investment in the South East as the engine room of the UK**
- **Allow councils input into setting local business rates**
- **Allow councils freedom on setting council tax, encouraging direct accountability to local electors.**

COUNCIL TAX BENEFITS – WORKABLE SYSTEM NEEDS MORE LOCAL FREEDOM

The Local Government Finance Bill includes plans to transfer responsibility for council tax benefits from central government to local councils. The government's current budget will be reduced by 10% then transferred to councils to help fund this new responsibility.

SEEC welcomes the principle of transferring powers to local government but councils need greater control over related factors to make the new system work with 10% less money. Central government retains too much power over other aspects of council tax to allow local authorities the freedom to innovate and deliver an effective system at lower cost. Local authorities need the following changes to make the new system work:

- **Councils need full local control of decisions on exemptions, discounts and defining 'vulnerable groups' who qualify for reduced council tax.**
  Why? Centrally-imposed rules on groups entitled to reductions – such as pensioners – restrict councils' ability to respond to local circumstances where other groups may be in equal need of help. Enforced protection for some people will mean that other needy groups will have to be penalised to keep within the reduced budget.
- **Councils need flexibility to prevent council tax charges becoming a disincentive to work for the low paid**
  Why? Central regulation risks a disproportionate effect on low income workers. If councils have no flexibility or budget to reduce council tax for working households, the big jump in council tax bills between the unemployed and low paid workers will act as a disincentive to work.
- **Councils need more freedom to balance the budget – for example by changing discounts offered to single person households.**
  Why? Allowing authorities to reduce council tax discounts on empty homes or second homes will not be enough to fund the 10% cut in funding. Councils need more flexibility to raise income to fund the level of council tax support needed locally.