SOUTH EAST ENGLAND COUNCILS
EXECUTIVE COMMITTEE MEETING

Date: 8 March 2012

Subject: **Local Government Finance Bill Update**

Report of: Heather Bolton, SEEC Director

Recommendations:
SEEC Executive members are asked to:
i) Note update on the Local Government Finance Bill and the LGA's influencing work
ii) Discuss key issues in the Bill and consider whether they wish to brief MPs and Lords on SEEC views or concerns

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Background

1.1 The Local Government Finance Bill completed its committee stages in the House of Commons on 31 January 2012. Next steps will be Report Stage and Third Reading in the Commons before the Bill proceeds to the House of Lords. The Bill outlines the principles of an amended local government finance system, including changes in four key areas:

i. Allowing local authorities to retain a proportion of locally-collected business rate revenue. In two tier areas, 80% of proceeds will go to district councils and 20% to counties. In unitary areas, local authorities will receive 100%.
ii. Giving local authorities direct responsibility for council tax relief, with a 10% cut in the funds available to reduce council tax bills.
iii. Giving local authorities greater flexibility on council tax discounts and exemptions offered – eg for empty properties.
iv. Allowing authorities to borrow against future business rate growth in a small number of TIF (Tax Increment Finance) schemes to be approved by Government. TIF schemes will be able to retain business rates growth for up to 25 years.

1.2 The Bill reflects some of the concerns raised in SEEC's response to consultation last year on business rate localisation. For example, the Bill now sets out that councils will receive a percentage share of locally-collected business rate income rather than funds being dependent on centrally-forecast levels of business rate growth. Although the scheme remains complex, this change should help ensure a greater incentive for local authorities.

1.3 While the principle of devolving greater responsibility to councils is welcome, more detail is awaited in a number of important areas – for example on the proportion of locally-collected rates that councils will be able to retain and the rules that will govern approval of TIF schemes.

2. Potential areas of concern

2.1 Share of business rates

i. Detail is awaited on the proposed share of business rates that will be made available to local government. An announcement is expected in spring 2012. Once the Government's plans are published SEEC members may want to take a view on whether the proposals reflect local government's needs and aspirations and offer an appropriate level of incentives for local authorities.

ii. Detail is also awaited on the share of business rate income that central government will retain. Potential concerns on this are twofold:
    - The potential scale of the set aside, which will be used by central government to fund grants to local government.
    - This approach could retain too much central control over councils' finances rather than offering a more localist system.

iii. There are also concerns that the new system remains complex and does not meet SEEC's preference for a simpler, more openly accountable approach to funding local government.

2.2 Localisation of council tax relief – Although there are some positive examples of joint working to agree cross-border approaches to council tax relief, there remain concerns in a number of areas:

i. The difficulty in managing the 10% (£500m) cut in funding for council tax relief without detrimental impacts on less well-off residents. This cut, coupled with reductions in overall funding for councils, will place significant financial and service delivery pressures on many local authorities.

ii. Central Government's inflexible rules on protection of certain groups of residents (such as pensioners) will mean that cuts in council tax relief could be concentrated on a small number of other vulnerable groups.

iii. The short timescale for implementing changes is increasing the administrative burden on councils. Local council tax reduction schemes must be in place by January 2013.

iv. There is no provision for reviewing the total sum for council tax relief provided nationally to respond to rising demand.

2.3 Council tax discounts – While this offers some welcome flexibility for councils, several local authorities feel the Bill and consultation on other changes to council tax do not go far enough:

i. Local authorities have welcomed proposed changes to primary legislation in the Bill that will give councils the option of charging a higher rate of council tax on homes have been empty for two years.

ii. Consultation on further changes outside the scope of the Bill will allow councils to remove council tax reductions on second homes

iii. While these measures are welcome, some members would like to see this greater flexibility over council tax extended – for example to allow some local discretion over single person discounts.

2.4 Tax incremental Financing (TIF) – Local authorities support TIF as a route to helping fund the cost of essential long term infrastructure projects that will support growth. However there are concerns that the proposals for TIF schemes to be tightly regulated and approved by Government will reduce councils' ability to make use of TIF. Some members would like to see the rules on TIF schemes relaxed to allow local authorities greater freedom to deliver key projects for their communities.

3. **Next steps**

3.1 The LGA finance team continue their work to influence the Local Government Finance Bill and will provide a verbal update on this at the meeting.

3.2 The Executive is asked to highlight any key concerns with the proposed Bill in order to:

- Identify any key issues on the Bill that SEEC may wish to highlight in a briefing for MPs and Lords.
- Inform the LGA work on the Bill as it continues its progress through Parliament.