LOCAL GOVERNMENT NORTH YORKSHIRE AND YORK

24 JUNE 2011

LOCAL GOVERNMENT RESOURCE REVIEW – LGYH RESPONSE

REPORT OF THE HONORARY SECRETARY

1.0 PURPOSE OF THE REPORT

1.1 To advise LGNYY of, and invite Members' comments on, the draft response of LGYH to the Local Government Resource Review.

2.0 BACKGROUND

2.1 Councillor Tom Fox (Scarborough Borough Council) received an email from LGYH's Strategy Manager on 14 June 2011. The email was also addressed to Councillors Houghton (Barnsley), Parnaby (East Riding) and Khan (Kirklees). The email advised as follows:-

> "At the last meeting of the LGYH Executive it was agreed that a small 'working group' or 'sounding board' of Leaders should be consulted on a draft submission from LGYH in response to the Local Government Resource Review, in advance of a final draft being circulated for approval at the LGYH AGM on 8 July. It has been suggested that you would provide an excellent cross-Party, cross-sub region group of Leaders to represent such a sounding board.
>
> Following a detailed discussion session with Chief Executives, Finance Directors, HM Treasury, LGA and others last Thursday, I've prepared the attached working draft submission, on which I would welcome your comments.
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> I would be very happy to meet with you to discuss these issues further, perhaps with your Finance Directors, if that would be helpful?
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> The paper will need to be finalised for circulation with the rest of the AGM papers by Friday 1 July - but I would very much welcome any initial comments/thoughts you may have as soon as possible, so that I can revise the submission and re-circulate to you as necessary, on an ongoing basis, over the coming days.
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> The background to the Resource Review can be accessed here: www.lga.gov.uk/lga/core/page.do?pageId=18228777<http://www.lga.gov.uk/lga/core/page.do?pageId=18228777> and www.communities.gov.uk/documents/newsroom/word/1866550.doc <http://www.communities.gov.uk/documents/newsroom/word/1866550.doc>. Please do let me know if you need any further information."

2.2 The draft response of LGYH to the Local Government Resource Review is appended to this report.

3.0 ISSUE FOR CONSIDERATION

3.1 Councillor Tom Fox has asked for the above information to be submitted to today's LGNYY meeting for information and Members' comments.

4.0 RECOMMENDATION

4.1 Members are invited to comment on the draft response of LGYH to the Local Government Resource Review.

RICHARD FLINTON
Honorary Secretary to Local Government North Yorkshire and York

County Hall
NORTHALLERTON

16 June 2011
RAG

LOCAL GOVERNMENT RESOURCE REVIEW: [DRAFT] RESPONSE FROM LGYH

Local authorities across Yorkshire and Humber are in agreement that the Local Government Resource Review must deliver on its ambition to give greater financial responsibility and autonomy to local government – both individually as authorities and collectively and as a sector – so that it can become ***less reliant on the complex grant system and hand-outs from National Government***.

This paper sets out the principles that need to define the model of business rates re-localisation that is due to emerge from the first phase of the Resource Review, so that it can deliver what local government in Yorkshire & Humber needs. It also sets out how future phases of the Resource Review need to be managed, in order to deliver a reformed finance system owned by the sector.

The Need for Reform: Y&H Context

Over the last decade local economies across Y&H have become particularly dependent on public expenditure as a source of employment and growth. ***Publicly funded employment accounted for almost 80% of all new jobs in Y&H over the last 10 years***. Public spending cuts can be expected to hit the Y&H economy particularly hard - both in terms of direct employment as well as the impact of reduced public sector spending in the private and voluntary sectors.

Local authorities are already dealing with an average real terms cut in budgets of 8% in the current year, which equates to a ***cut of over £200m in councils' grant funding across the region in 2011/12*** – with the highest rates of cut, up to 14%, in areas of greatest deprivation. Whilst authorities are doing all they can to focus savings on non-frontline activities, the degree of front-loaded budget reduction is having an ***inevitable impact on these frontline services***, with councils estimating unavoidable average cuts of 8% in frontline service budgets over the next two years. The impact on council jobs is also expected to be severe, with up to ***15,000 jobs expected to go***.

This context makes it critical for the Local Government Resource Review to deliver a genuinely progressive deal for local government, to return powers and decision making around revenue-raising to the local level – where there is also direct democratic accountability to local communities. ***Councils are determined to do all they can to protect front-line services and need greater financial autonomy to do so***.

Local government in Y&H is encouraged by the Government's clear acknowledgment that local government is far too dependent on the complexities and instabilities of Central Government grant. Ministers have been clear on their intention for both a de-centralised and more "incentivised" system – and this must provide a ***fair, sustainable settlement with clear incentives for all kinds of local authority, not just those with the strongest business bases***. For example, the new system must not simply advantage those areas that may not even need to try to meet any incentive threshold for business rates growth Government may set.

Equally it must be recognised that ***some areas cannot easily accommodate future growth*** – e.g. National Parks and more remote rural locations, which will always be to the detriment of business growth and business rate income in such locations. Growth centres relative to functional economies are not always functions of administrative boundaries that create any equity from an income base point of view on their own.

Authorities understand why Government wishes to focus the first phase of the Resource Review on business rates – the sector's finance system is in desperate need of reform and breaking down the Review into more manageable themes, rather than seek to tackle the entire LG Finance System in one go, may actually lead to much needed change. But there must be an acknowledgment throughout this work that business rates relocalisation alone is not the answer - Government must also concede that ***wider change in local fees and charges, borrowing and tax-raising powers is vital***, to reflect the local circumstances of authorities that differ radically across the country.

Business Rates Re-localisation in Yorkshire and Humber: Core Principles

The Government’s focus on greater flexibility and local discretion around local government budgets is welcomed by local government in Y&H; but if implemented without great care some local areas would lose out considerably from a system of purely localised business rates. Assurances from Whitehall on this issue have been welcomed to date, in terms of the continuing need for equalisation – and it is critical that Ministers give an explicit and unequivocal assurance that the new re-localised system will able to fully equalise business rates income with local spending need across the country.

The final system in Y&H must balance the following five principles of fairness, stability, re-distribution, clear “incentive” and economic resilience – and to do this, it must be a system approved and ‘owned’ by the sector:

i. ***Fairness of any change from the outset*** – the starting point for any new distribution mechanism must be seen as fair and credible from the outset by the sector.

ii. ***Stability & Predictability*** is needed to allow authorities to plan strategically for the future and take full advantage of prudential borrowing opportunities etc.

iii. ***Equalisation & Redistribution*** is critical to ensure that spending need at local level can continue to be matched with funding provision, so that local services are not put at further risk.

iv. ***Incentives & Economic Growth*** must be integral to the new system, in such a way that all tiers and type of authority can take advantage of strategic decision making over the right places to achieve economic growth that support identified functional economies (i.e. not limited to only those with already successful economies or business bases). Re-distribution must factor in the need for re-balancing of economic growth across the country, not simply match funding to existing spending levels. There is a real opportunity to ensure future redistribution can act as a catalyst for growth; but also a real danger of a “zero sum gain”.

v. ***Ability to deal with economic shocks*** – the system must have a mechanism built in to ensure spending needs in any local area can continue to be funded, if a major economic shock reduces the business rates take (e.g. major factory closure), and help support the means to recover from that shock.

It is vital to also recognise that the circumstances within any defined economic geography are not in the sole control of local authorities – in most cases, councils only have very little control over some of the factors that determine economic success and growth. The key priority must be to match funding with need and build in a means of encouraging and incentivising future growth in areas dependent at present on equalisation and redistribution.

It is also important to recognise that this is <u>not</u> a “*North vs. South*” issue, as some are keen to portray it. Within any defined region of the country there are considerable ‘winners’ and ‘losers’ in the current system – this is no different in Y&H, with three of our fifteen ‘upper tier’ councils set to contribute £624m into the national pot for 2012/13. The reality is that the current system is skewed by a very small number of authorities that have enormous business rates revenue – which bears no relation to the levels of service/spending need at the same geographical level. This further emphasises the need for effective equalisation and redistribution that can also rebalance growth.

What the Resource Review must deliver: Relocalised Business Rates and beyond

- The basis of reform should be to ***give power back to the sector*** in the area of business rates revenue and redistribution, within the context of the wider Formula Grant and local government finance system. It cannot be about individual councils being allowed to ‘keep’ the business rates take in their local authority areas, as this bears no relation whatsoever to local spending needs or the ability to raise business rates in a local context. The new model must, therefore, be agreed and owned by the sector – hence the ***need for the LG Group to finalise the model***, in full consultation with councils.

- It is critical that the basis of business rates relocalisation is rooted in a transparent assessment of ***spending “need”*** at local level – its starting point must not be to recreate existing actual council spending levels or the effects of “dampened” grant. If relocalisation is to help achieve genuine local autonomy, then the final model has to allow councils to deliver the services it needs to, based on an agreed needs assessment [*Note: can we refer to any particular precedent set for this in the ‘Supporting People’ programme?*]

- In the immediate term, local government in Y&H is supportive of retaining a ***national system of redistribution and equalisation***, to match revenue provision with spending need and manage the financial risks involved. It may well be that, over time, local authorities could choose to manage such pooling at a more local level – e.g. across City Region partnerships – but this will take time to evolve and may also need complementary powers to vary the business rate itself.

- The new system of re-localisation must go beyond a ‘zero sum gain’ and not simply recreate the existing distribution in a different way. To do this successfully it must have built in a ***genuine incentive*** so that the sector as a whole and *all* authorities at the local level can benefit – even those that rely at present on significant amounts of support through redistribution.

- This incentive, over time, should also factor in the ***anticipated future increase in business rates revenue***. If local government is to help manage business rates as a genuine incentive to future economic growth, then at least a significant element of future business rates growth needs to be retained by the sector.

- Authorities are concerned about the ***impact of regular ‘rebasing’*** of the re-localised system – this could regularly undermine the level of incentive and open the system to abuse or brinkmanship at particular points in the cycle. It is critical that the system is made predictable and stable [*over at least a 5 year period?*] without any built in shocks or “cliff edges” as a result of rebasing.

- The new system must be as simple and transparent as possible and ***‘owned’ fully by the sector***. In this regard it is vital the LG Group – in partnership with membership bodies such as LGYH – have a key role in agreeing any final model before it is introduced, and work to build the capacity of councils to make the most of it (e.g. by improving business rates collection). [*Should we call explicitly for a delay to allow for this, e.g. to 2013/14?*]

- ***Political ownership is also critical*** – there must be a central role for local authority Leaders and other Elected Members to drive forward this change and we are calling upon the LG Group to establish a high-level, cross-Party panel to achieve this, which the Government must work with as the model is agreed and finalised. We are complementing this within Y&H by establishing a cross-Party group of Members to agree and articulate what is really needed from finance reform in Y&H.

- Detailed ***analysis is needed as to why particular areas have been successful*** in growing their business rates base and becoming a net contributor in the current system – this needs to be led as a priority at national level by the LG Group, DCLG and HM Treasury to ensure that all councils can be familiar with the kind of industrial, social and demographic circumstances that can decrease reliance on redistribution.

- ***Corresponding reform of the planning system*** at local level is also needed. At present, new development in an area cannot be fully assessed in terms of the possible council revenue benefits it could bring – and, whilst there will clearly be highly sensitive issues associated with it, this must be re-considered in the context of greater incentives within the local government finance system. A further, detailed debate is needed on this, in parallel with business rates reform.

- Government must acknowledge that, ***in the long term, local government will need to have devolved to it the ability to set and vary the business rate*** at local level, working in partnership with their private sector partners (e.g. through Local Enterprise Partnerships where they are established).

- Government must be explicit in its commitment to work with the sector beyond Phase 1 of the Resource Review so that councils can be provided with *all* the necessary means of becoming more independent and stable in financial terms. The ***'Terms of Reference' for Phase 2 of the Review must be drawn up and agreed by the sector itself*** (through the LG Group). From a Y&H perspective, this must include comprehensive powers around the ***setting of fees and charges*** across the board and ***freedom from all forms of low level regulation*** (e.g. around local media advertising) and complete ***local flexibility around council tax rates***. These are not matters that any Government committed to 'localism' should be seeing to control from Whitehall