MEDIUM TERM FINANCIAL STRATEGY – UPDATE ON KEY ISSUES

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WHY HAS THIS REPORT COME TO RESOURCE PLANNING WORKING GROUP?

To inform Members of key issues relating to the Medium Term Financial Strategy (MTFS) and any key issues impacting on future budget planning projections. These will be considered further as part of the ongoing budget process for 2012/13.

SUMMARY:
The report gives an update on key issues impacting on the MTFS and outlines progress on future planning assumptions. The report also gives outline details on two Government consultation documents received in the past few days, and which will impact considerably on future budget assumptions.

RECOMMENDATIONS:
There are no specific recommendations however Members are asked to note the issues raised in the report and comment as appropriate.

1. INTRODUCTION

1.1 This report identifies the key current issues for members in considering its financial strategy including:

- Medium Term Financial Strategy – update on planning assumptions.
- Governments' Local Government Resource Review

2. MEDIUM TERM FINANCIAL STRATEGY 2011/12 to 2014/15

2.1 The MTFS for the four year period was approved by Council on 22nd March 2011, and members received a reminder of the forecast revenue savings projections at their meeting of 14th June as set out below:

Financial Year	Projected shortfall £000	Note
2011/12	1,771	Target £2,007k. Balance of £236k met from Reserves
2012/13	1,472	
2013/14	652	
2014/15	605	
Total Projected Shortfall	**4,500**	

2.2 The forward projections are monitored and revised throughout the year, both as part of the ongoing budget monitoring process and also as new information comes to light.

2.3 The budget monitoring for Quarter One 2011/12 (April to June) is currently taking place and is considered elsewhere on the agenda for both Capital and Revenue. The report also includes progress to date against the 2011/12 savings proposals. The reports will be considered formally by the Executive on 23rd August.

2.4 As part of the ongoing MTFS monitoring, scenario planning against the forecasts is carried out to assess the current forecasts against a variety of known and possible outcomes. This gives an indication of best / mid / worst case scenarios so that options can be considered as we move further into the budget process. Currently this exercise is being developed and will be refined once the first quarter budget monitoring is complete. Currently a ‘Big Issues’ paper is being developed which will detail the most significant items impacting on the financial planning forecasts, and more details on this will be brought to a future meeting. One of the most significant items affecting current forecasts is in relation to the Governments proposals for relocalisation of Business Rates and Council Tax Benefits which will impact from 2013/14 onwards. Further information is given on these items in paragraph 3.

3. LOCAL GOVERNMENT RESOURCE REVIEW

3.1 Information was given to Members at the last meeting setting out information known to date regarding the review of the method of allocating resources to Local Government from 2013/14 onwards, which will concentrate on the following:

- Changes to the Business Rates system
- Localisation of Council Tax Benefits

3.2 **<u>Business Rates</u>**

(i) With regards to changes to the Business Rates system, the Government has now issued a consultation document with options for change. The Plain English Guide to the proposals is attached at **Appendix A**. The consultation commences on 18th July and will run until 24th October. Following the consultation the Government will review the responses and announce the final decisions on the rates retention model.

(ii) The basis of the new business rate system is that the baseline will be set at the start so that each authority's budget is equivalent to what it would have been under the current system. Thereafter funding would grow or fall as business rates grow or fall in the area, with a system of protection for those authorities who are less able to grow and a system of 'clawing back' disproportionate gains. The document also includes options to enable authorities to carry out Tax Incremental Financing (TIF), which is basically a method of borrowing against the value of future uplift in local taxes, and is intended to work as a way of funding infrastructure investments to unlock economic growth and regeneration.

(iii) Unfortunately the consultation proposals issued are not yet complete and it is not known, for instance, what the Government would consider to be a 'disproportionate gain'. A series of 'technical papers' will be published during August to provide further details on a range of issues. It is not therefore possible to provide Members with an analysis of what the proposals might mean for Copeland BC or what our consultation response should be. Further reports will be brought back to the RPWG in September and October once further information is received.

3.3 **<u>Council Tax Benefit</u>**

(i) The background to this issue is that between 2013 and 2017 Universal Credits will be introduced and is intended to replace Housing Benefit, Income Support, Job Seekers Allowance, Working and Child Tax Credits and other Employment and Support Allowances. The Universal Credit is currently planned to be administered at a national level.

(ii) As announced in the Spending Review 2010, it is also intended that there will be an overall 10% reduction together with a redesign of Council Tax Benefit - this will become the responsibility of the Local Authority through a locally determined scheme from 2013/14.

(ii) The consultation document on Localising support for Council Tax in England has recently been received. The consultation will run from 22nd July to 14th October.

(iii) The consultation document proposes the following principles to underpin the local schemes:

- Local Authorities will have a duty to run a scheme to provide support Council Tax in their area.
- For pensioners there should be no change in the current level of awards as a result of this reform.
- Local authorities should consider ensuring support for other vulnerable groups.
- Local schemes should support work incentives, and in particular avoid disincentives to move into work.

(iv) Localisation of support for Council Tax will mean a significant change in the role of local authorities. Currently local authorities administer council tax benefit in accordance with national criteria set by the Department for Works and Pensions and are fully reimbursed by the Department for the rebates that are determined in this way. In future:

- Local authorities will need to design schemes for working age claimants, taking into account available funding and the support to be provided to pensioner claimants. This could have a significant impact on the Council's budget, given that a 10% cut in funding equates to roughly £550,000, and increases the risk attached to monitoring and control of the budget as we will no longer be reimbursed for the actual cost of the scheme but will be allocated a fixed grant.

- There will also need to be a framework developed for sharing financial pressures between billing (e.g. Copeland Borough Council) and precepting (e.g. Cumbria County Council and Police Authority) using the mechanism of the collection fund to reduce the exposure of small District billing authorities to financial risk.

- The administrative impact on the Revenues and Benefits Shared Service will need to be considered. The consultation document suggests that local authorities may need or want to work together to design, administer and manage risks for local schemes, and consider the type of arrangements that might be needed to support joint working.

(v) A series of questions have been asked by the Government as part of the consultation and further reports will be made to RPWG once the document has been fully analysed, suggesting responses to those questions.

3.4 A second phase of the Local Government Resource Review was intended to focus on Community Budgets. Again no further information has been received on this and it will be reported back when further information is known.

4 CONCLUSIONS

4.1 Members are asked to note the issues raised in the report and respond as appropriate.

5. STATUTORY OFFICER COMMENTS

5.1 The Monitoring Officer's comments are: None

5.2 The Section 151 Officer's comments are: Included in the report

5.3 EIA Comments: Comments will be made specifically as part of the responses to the consultation documents

5.4 Other consultee comments, if any: None at this stage

6. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

6.1 The issues surrounding the MTFS will be project and risk managed as part of the overall budget process for 2012/13. A timetable for the process was considered at the RPWG on 14th June.

6.2 With regard to the two consultation documents recently received on Business Rates and Council Tax Benefit, these issues will both bring considerable financial risk to the authority and proposals for managing and controlling those risks will be considered in the individual responses.

7. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

7.1 This report will be followed up by other reports throughout the budget process and ultimately a balanced budget will be proposed for recommendation to Council in February 2012.

List of Appendices:

Appendix A – Local Government Resource Review: Proposals for Business Rates Retention – A Plain English Guide (July 2011)

List of Background Documents:

- Local Government Resource Review: Proposals for Business Rate Retention. Detailed Consultation Document July 2011

- Localising Support for council tax in England - Consultation July 2011

Local Government Resource Review: Proposals for Business Rates Retention

A Plain English Guide

What are we changing and why?

- At the moment, local councils receive their funding from three main sources: grants from central government; council tax; and other locally generated income (such as fees and charges for services). Britain's local government finance system is one of the most centralised in the world and our councils get more than half of their income from central government grant.

- Central government grants can be received as 'specific grants', which can come with restrictions on what they can be spent on, or through 'formula grant', which has no restrictions and can be used by the authority for any purpose. The formula grant funds a wide range of local services, including children's services, adult social services, police, fire, and highways maintenance, and is distributed to all local authorities using a complex formula.

- One of the main components of formula grant is National Non-Domestic Rates, commonly known as business rates. Business rates are collected by local authorities from businesses in their areas like shops, offices, warehouses and factories, but they are currently paid into a central pool to be redistributed as part of formula grant.

- This system means that local authorities do not have any financial incentive to promote business growth in their area, as they will not receive any of the business rates receipts from new development.

- This dependence on central government funding also means there is a greater incentive to design services in order to secure government funding, rather than to respond to local communities' needs or align spending with citizens' service preferences; councils may feel they can generate better results for their area by lobbying government for more resources or demonstrating their need, rather than driving cost efficiencies or investing in local growth.

- The Government wants to change the current system by enabling councils to keep a share of the growth in business rates in their area. This will make councils more financially independent from central government and give them a strong incentive to promote local business growth.

- We are not proposing to make any changes to the way businesses pay tax or the way the tax is set. Rate setting powers will remain under the control of central government. Nor will there be any changes to the existing reliefs available to eligible business ratepayers including small businesses, charities, rural businesses, sports clubs and the voluntary sector.

- Councils do currently have powers to increase rates by introducing a business rate supplement or a levy in a Business Improvement District. The Localism Bill is changing the law to ensure a referendum of local businesses is required to authorise any business rate supplement, as already happens with Business Improvement Districts. The Localism Bill is also amending the law to allow councils to introduce local business rates discounts, funded by the council.

Our proposals for change

- If we allowed all councils to keep all of the business rates generated in their areas, some areas would have a much larger amount than they need to deliver their services whilst some others would have much less than they need.

- So, to ensure a fair starting position for the new system, we will take an amount of business rates away from those with too large an amount in comparison to their current spending and top up those authorities with too little, again in comparison to their current spending.

- In future years the amount of business rates that central government gives or takes from each local authority will remain fixed. This means that any growth in business rates an authority achieves will be kept by them. This creates a strong incentive effect to promote growth.

- There would be no fixed limit on the amount of business rates growth an authority can benefit from under the new system. The more any authority grows its business rates base, the better off it will become.

- However, some local authorities with large amounts of business property in their area and may stand to gain disproportionate amounts. Where this happens, we are proposing to take back a share of their growth.

- We are proposing to use the proceeds of this to give financial help to those authorities who experience significant drops in business rates, for example caused by the closure or relocation of a major business. We are also proposing to protect those authorities who are less able to grow. Depending on the amounts raised, the proceeds could also be redistributed to authorities with lower growth, or fund schemes, for example, for regeneration, in areas with high growth potential.

- In the future, the Government may judge that the level of a number of councils' business rates no longer meet changing pressures on local services. In this situation, we could choose to 'reset' the fixed amounts of business rates that were either taken from councils with too high levels of business rates or given to those with too low levels. This would probably involve a new assessment of local authorities' need.

- The whole system could also work for groups of councils working together, for example those in local enterprise partnerships or districts and counties, who want to form voluntary groups, allowing them to collaborate to promote growth and share in the benefits.

What do these proposals mean in practice?

- **Members of the general public** will find their local council's budget is more strongly linked to local business growth. In general terms, the more new business premises are developed in your area, the more funding (outside of council tax, fees and charges) your local council will have to provide local services and investment, as well as having positive impacts on employment and the local economy more widely. The proposals include protections to ensure that local authorities are able to meet local service needs in their area.

- **Business rates payers** see no change in the way in which their business rates bills are calculated. The Government is not proposing to change the way that properties are valued or business rates levels are set. However, it should mean that the rates you pay have more impact on local authority budgets in your local area, and that your local authority has more incentive to work closely with the Valuation Office Agency to ensure that all businesses in your area have their properties valued correctly and are paying the right amount of tax.

- **Developers** will find local authorities have greater incentives to grant planning permissions for appropriately-sited and well-planned non-residential development and go for growth. This is especially true of new renewable energy projects that start paying business rates from year one of the system, as councils would keep all of the business rates paid by such projects Local authorities would also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure.

- **Billing authorities** (district councils, unitary authorities) still bill and collect business rates, as now. But instead of contributing all business rates into the central pool and receiving formula grant, under these proposals, some of your business rates would be retained locally. Your baseline level of funding would be set so that at the start of the system, your budget is equivalent to what it would have been under the current system. From then on your funding would grow if the business rates base in your area grows, but could fall if your business rate base declines. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

- **County councils** will receive a share of business rates revenues from the districts in your area (and a top up from other areas if relevant), rather than receiving formula grant. Your baseline level of funding would be set so that at the start of the system your budget is equivalent to what it would have been under the current system. From then on, your funding would grow if the business rates base in your area grows, but could fall if your business rates base declines. You will want to consider with your districts, and possibly neighbouring areas/your local enterprise partnership, whether you could form a pool to make decisions about the distribution of funding locally. You are likely to want to respond to the consultation, and/or feed into wider responses from representative organisations.

- **The police and fire sectors** will receive the level of funding for 2013-14 and 2014-15 that was agreed as part of the 2010 Spending Review. Your funding will therefore not be affected by fluctuations in business rates in your area. The way in which you are funded will be fully reviewed in time for changes to be made at the next Spending Review, from 2015-16. You might want to respond to this consultation.

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