

STRATEGIC OVERVIEW AND SCRUTINY PANEL

11 OCTOBER 2011

- Present :-* Councillor Dennis Willetts (Chairman)
Councillors Nigel Chapman, Theresa Higgins,
Kim Naish, Gerard Oxford, Will Quince and Colin Sykes
- Substitute Members :-* Councillor Nigel Offen for Councillor Nick Cope
Councillor Sonia Lewis for Councillor Andrew Ellis
Councillor Ray Gamble for Councillor Bill Frame
- Also in Attendance :-* Councillor Nick Barlow
Councillor Mike Hardy
Councillor Pauline Hazell
Councillor Beverley Oxford
Councillor Paul Smith
Councillor Anne Turrell

15. Minutes

The minutes of the meeting held on the 30 August 2011 was confirmed as a correct record.

Councillor Theresa Higgins (in respect of being the Chairman of the Board of the YMCA) declared a personal interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(3)

16. Local Government Resource Review: Proposals for Business Rate Retention and Localising Support for Council Tax

Presentation

Finance Managers Mr. Sean Plummer and Mr. John Fisher attended the meeting and introduced the report on Local Government Resource Review: Consultation response on the Proposals for Business Rate Retention and Localising Support for Council Tax, both of which will have significant implications for Local Government finance and therefore Colchester Borough Council's budgets.

For the Proposals for Business Rates Retention and Localising Support for Council Tax in England, Appendix A and B of the main report respectively set out the questions in the consultation, comments on the implications of each area, together with a proposed draft response.

Mr. Plummer and Mr. Fisher presented the key points and issues relevant to Colchester for both consultation papers.

Business Rate Retention

Background

The Government Spending Review set out the path for public sector funding, that for Colchester Borough Council means grant cuts of 15.2% and 9% for 2011/12 and 2012/13 respectively. The Local Government Resource Review highlighted the need to provide strong incentives for local economic growth and change in local authority behaviour.

The way National Non Domestic Rate (NNDR) bills are calculated and how they are billed and collected are not proposed to change, with NNDR bills based on Rateable Value (RV) x the national multiplier. The current income collected by Colchester, a sum of £56m, is paid over to central Government. Colchester receives a 'formula grant' from central Government, partly funded from the NNDR pool, plus the Revenue Support Grant (RSG), that in 2011/12 reduced by £1.7m, to £9.3m.

Under the new proposals, the main change relates to the link between business rates and our formula grant. The majority of business rates collected will be retained 'locally' but will be subject to a "levy" to recoup disproportionate gain and will then be used to fund support for areas suffering from any unforeseen fall in business rates. The council's initial level of funding will be set using the 2013/14 Formula Grant allocation as the baseline so that at the start of the system the budget will be equivalent to what it would have been under the current system. There is therefore no "new money" and, in theory, 'no council is worse off at the outset'.

The baseline would be subject to a set of "tariffs" and "top ups" to equalise across the Country any disproportionate effect of councils who have a large or small business rate pool compared to their level of grant funding. For Colchester, and for other authorities operating in two-tier counties, the proposals include arrangements for allocating business rate income between district and county. Two different methods are proposed which based on estimated figures will mean that almost 90% of business rates collected would be shared with Essex County Council. Colchester therefore, is likely to be a 'top up' authority as the level of retained business rate income will be lower than the baseline funding.

The proposals provide for any increase on the baseline figures to be kept, however, this will actually be influenced by three things, i) the amount of money assigned to ECC (the 87% for example), ii) the extent to which the top up is fixed or inflated, and iii) the proposals for operating a levy that reduces any 'disproportionate' growth.

Under the proposed option, authorities may establish a "pool". This means that a group of councils can for the purposes of NNDR retention agree to treat themselves as one body. For example all Essex districts and the ECC could agree to form a pool. The overall baseline position for all authorities would be the aggregate of all NNDR retained +/- tariffs and top ups. One of the perceived advantages of this is that it is a way to help all manage volatility across the County and also to have some influence on how the shared funding is used.

Over time, the proposals will impact on the how the Council is funded and the level of funding. When firm proposals are set out it will be necessary to consider how this will impact on the Council's budget and Medium Term Financial Forecast. Other proposals

were discussed such as Tax Increment Financing (TIF), Renewable Energy Projects and changes to the administration of Council Tax Benefit (CTB).

The major issues for Colchester were discussed, such as, the challenging timescale for implementation, the significant financial risks posed by the reforms, the significant additional resource demands for the design of the new schemes and the suggestion that the CTB grant could be fixed for a number of years.

Localising Support for Council Tax in England

Principally, the Council will be required to create a local scheme based on a Government framework, setting out how to meet demand within budget; involving consultation and scrutiny, including collaboration with other authorities to the extent of sharing risk.

Overall, as things stand, there is no clear guidance about how authorities will work out what people are entitled to, despite indications that it should be similar to now, in association with the new Universal Credit. This creates the prospect of different schemes from one council to another, with the potential to cause confusion and disputes, for example between neighbours, or contention and appeals to the council.

The proposed changes to Council Tax benefit (CTB) are happening in conjunction with a reduction of around £500m in total funding, equivalent to 10%. There is no indication of how this 10% reduction will be distributed between authorities and therefore it is possible that there will be different cuts to achieve the average reduction.

The timescale for implementation is considered challenging and poses significant financial risks for Essex Authorities, for example, the ability of people to pay for something they have previously not had to, the impact on Council Tax collection and the affect on the arrears recovery process.

General discussion

Councillor Paul Smith, Portfolio Holder for Resources and Heritage informed the Panel that he had attended a meeting of eastern region councils, chaired by Councillor Finch, Essex County Council Portfolio Holder for Finance and Transformation Programme, saying some of the issues that were raised and which he felt needed to be emphasized were:

- i) The financial risk, given the current economic climate, of the Government's growth forecast.
- ii) The transfer of financial risk to Local Authorities, who would prudently require larger levels of reserves to mitigate risk.
- iii) The fear of the disaster scenario, where councils will find it difficult to mitigate against large local employers going out of business or relocating to a different area, and the knock-on affect to Councils of the huge reduction in business rates collection and the sharp increase in unemployed people claiming benefit.

Councillor Sykes commented that the proposals are disappointing, shifting money around and receiving grants as something else, that the expectation was much greater than the outcome. Councillor Sykes disappointment was echoed by Councillors Chapman and Offen.

Councillor Chapman said it was a missed opportunity, with too many caveats. In response to Councillor Chapman, Mr. Plummer said in regards to 'pooling', there are many different kinds of 'pools' mentioned in the consultation papers. Pooling is a voluntary option for all Councils. It is anticipated that Council's will work 'pools' within the County boundaries. There may be an opportunity for cross-county boundary pooling, e.g. between Colchester and Ipswich, but the consultation proposals set out the opinion that this would require County Council approval.

In response to Councillor Offen, Mr. Plummer said the strengths for Colchester lay in the detail, with a key change in the grant scheme shifting from 'need' over time, to benefit Councils who see business rate growth, an opportunity to increase business rate income by incentivising growth in businesses and housing development.

Mr. Plummer confirmed to Councillor Gamble that Business Rate and Council Tax billing and collection remained a local authority function with all the costs associated with this work absorbed by the responsible Council. This would not change under the new proposals.

RESOLVED that the Panel;

- i) Thanked Mr. Plummer and Mr. Fisher for an excellent presentation and resume, and for responding to questions from the Panel.
- ii) Noted the report on the Proposals for Business Rate Retention and Localising Support for Council Tax, the consultation responses and the potential implications for the Council, considering the response to the Proposals for Business Rate Retention to be reasonably balanced and realistic.
- iii) Requested the Cabinet to note the comments from the Panel in respect of the consultation response to Localising Support for Council Tax, particularly the following;
 - a) In reference to 'Localism', question 5a should be expanded to include;
"The Council believes that localism is not appropriate as an alternative to the current Council Tax Benefit scheme and does not fit the proposed changes, creating a post code lottery in benefits".
 - b) The response to question 5b should be expanded to include;
"The Council believes it needs greater flexibility than proposed, and is particularly concerned how balancing a fixed budget will vary over time: considering the increase of the number of pensioners and vulnerable people as they get older, increasing the burden of the grant reduction on the fewer less vulnerable people".

c) The response to question 6e should be expanded to include;

“The Council is concerned that the potential reduction of benefit to low paid workers may discourage them – that people may feel they’d be better off unemployed. The Council agrees the strategy to encourage people to work, but not penalise them by paying them less Council Tax Support as a result, which is likely to mostly affect this group by the Government’s 10% grant reduction”.

d) Under the response to question 10d: Placing applicants into categories, the list of categories to be headed “In no particular order”.

17. Work Programme

Councillor Willetts, on the advice of Mr. Robert Judd, Scrutiny Officer informed the Panel that the substantive item arranged for the meeting on the 1 November 2011, the Fundamental Service Review of Sports and Leisure Services, had, due to need for further work to be undertaken, been withdrawn.

With no further work scheduled for this meeting, Councillor Willetts asked the Panel that time permitting, if there was anything they felt could be reviewed to notify this to Mr. Judd. Councillor Willetts suggested that unless Mr. Judd was notified of items for review by Monday 17 October the meeting would be cancelled.

RESOLVED that the Panel considered and noted the Work Programme, agreeing to the cancellation of the 1 November 2011 meeting if no additional business is forthcoming.