



ASSOCIATION OF NORTH EAST COUNCILS' RESPONSE TO THE LOCAL GOVERNMENT RESOURCE REVIEW CONSULTATION

EXECUTIVE SUMMARY

Councils play a crucial role in the economic, social and environmental well-being of people, businesses and communities. They have an important leadership role, an in-depth knowledge of their local areas and are responsible for a wide range of issues and services which affect people's lives.

North East councils individually and collectively have economic development at the heart of their activities and are committed to creating the conditions necessary for business to invest and grow. Given the challenges for us in re-balancing the economy in the North East, we are working with the private sector to identify opportunities and find solutions that will lead to a strong private sector and stimulate business growth. We will continue to promote the strengths of the North East and demonstrate our commitment to securing a sustainable, healthy, ambitious, prosperous future for this area of the country – which will bring benefits not just for the North East but for the whole country. This is why the Government's consultation on the Resource Review is so important for North East local government.

We recognise the need for a review of local government finance and support mechanisms which would lead to greater financial autonomy and increase local decision-making. We support the view that any new system must deliver fairness, equality and equity, enabling all councils to provide a good level of service for people, no matter who they are, or where they live. We believe it should also provide genuine incentives for all authorities to grow their economies, recognise variations between different areas, and be able to produce positive benefits that can be felt across the country.

There are some significant and far reaching implications of the Government's proposed reforms for localisation of Business Rates. We would urge the Government to ensure that sufficient time is taken to consider the potential consequences and to secure a fair deal for all authorities. There are still a range of unknowns and uncertainties and a risk that authorities in areas with strong economies will grow rapidly at the expense of those whose economies are weaker – creating a spiral of decline.

The Government has not made any detailed statements about the level of protection that would be delivered through the 'safety net' arrangements or fully exemplified its likely approach to the use of the levy to fund areas in need of support. At any time, but in particular in an environment where authorities' resources are reducing and the economy is under real pressure, the risks in respect of a proposed new system are very significant and need to be fully understood. Set alongside other proposals such as Council Tax benefit localisation, the combined effect is to increase the level of financial and service risk for local authorities and their communities.

We have set out in our document of July 2011 (copy enclosed) a range of issues which we consider need addressing to ensure that councils are able to fulfil the expectations of local people, businesses and the Government. To assist further, we have highlighted in our detailed submission to the consultation a number of actions which we believe are essential not only to achieve the Government's objectives but also help mitigate the risk of the development of a postcode lottery in the provision of vital services, such as adult and children's services.

The key points of our submission are summarised below. In this, we include some of the wider issues which we believe will have impact on the growth of the economy of the North East, and which are therefore critical to achieving our ambitions.

1. Fairness from the outset

We strongly advocate that in setting the baseline for localisation of Business Rates, the starting point should be fair from the outset. In order for this to happen it is critical that full resource equalisation to the 2010/11 baseline is restored as a minimum and for this to then be used as the baseline for future allocation from 2013/14.

2. Securing future fairness: resetting the system

We support the need for some degree of certainty for budget planning purposes and the proposal for a fixed re-set would provide this. This should be every three years. This would enable there to be an assessment of impacts, fluctuations, demographic profile and how resources are changing relative to need and service levels. It would align with Spending Review periods and would be able to be fully reactive to any significant changes.

With regard to Tax Increment Financing, we support Option 2 in the consultation paper, which would give stronger Government controls but would guarantee revenues without risk of loss to the levy and reset for 25 years. When councils embark on large scale infrastructure projects, they tend to borrow for periods of around 25 to 30 years. Option 2 is therefore the only option that would offer the security required for TIF projects to service the cost of financing the borrowing, as the growth will not be removed through the resetting system.

3. Protecting vital services

Given that all 12 councils in the North East will be 'top up' authorities – recipients of Business Rate income from elsewhere - it is important that some protection is afforded so that their funding levels do not fall further behind each year. This is particularly important for those authorities with high needs and low Business Rates. With regard to the development of any future formula, North East councils would expect to be consulted with adequate time built into the process for views to be fully considered.

The top up and tariff payments should therefore be index linked to RPI year on year. North East councils consider it is essential that, from the two options put forward in the consultation, Option 1 is adopted to up-rate the year one tariff and top up amounts by RPI.

4. Avoiding disproportionate growth

North East councils are advocating that there should be limits on disproportionate growth on total resources including Council Tax.

A levy should be set so that sufficient cover is available to reimburse authorities whose tax base diminishes through unforeseen or uncontrollable circumstances. This may be a difficult balancing act, given that the greater the size of the levy, the lower the potential incentive for growth but in the interests of fairness and protecting vulnerable communities and service users where there is high need and a low tax base, councils need to be adequately and

properly funded. If there are insufficient funds from the levy then the 'set aside' should be used to make up the difference.

Whilst growing the local economy is important to all councils, an authority's first priority is to discharge its statutory obligations with regard to service delivery. In this context, in our view, the balance needs to be in favour of protection so that authorities remain able to deliver crucial council services.

5. Using Business Rate income for the benefit of local people and businesses

Treasury insistence on 'set aside' means that the Business Rates do not belong to local communities. A system that will result in a 'set aside' equating to £1 billion in the first year alone going to the Treasury seems wholly at odds with the aims of the proposed new system. This would give the Exchequer windfall millions which, if this were the case, the cuts in local government would be 7% greater than originally estimated. All future growth in Business Rates should accrue to councils and communities.

There are some serious risks in 2013 – 14 and 2014 – 15 if Government insists on taking money from Business Rates so authorities compete between themselves for overall negative returns. The sector needs clear assurance that if the Government continues to take set aside in 2013/14 and 2014/15 then the Treasury, not local government, bears the risk that in aggregate, Business Rates might fail to achieve the forecast levels of real growth in each of these years, whilst leaving the benefit from upside fully with local government.

In any event, it is our view that any new system should support those areas with weaker economies, to help them to grow and reach their full potential. The 'set aside' offers the opportunity to support areas that are aiming to rebalance their economies, which would be better for the UK economy in the long term.

We believe therefore that a significant element of any 'set aside' monies should be used to support economic regeneration in those places with vulnerable communities and weak economies. Amongst other things, the New Homes Bonus should be funded from the 'set aside' and not by top slicing formula funding. As it stands, top slicing formula grant for this incentive penalises authorities that through geography, demography and infrastructure restrictions will have limited ability to grow their housing stock. This would also go some way to restoring a degree of equalisation.

6. Volatility and Economic Shocks

North East councils are concerned about local economic volatility, particularly as there is a greater reliance on a small number of very large businesses in many of our areas. Fluctuations in Business Rate income are unavoidable and are generally beyond the control of local authorities; in most cases they arise because of sudden changes in economic conditions or where a major industry closes. There needs to be effective mechanisms for managing economic risk and volatility, including economic shocks, providing protection for areas of poor growth, rates fluctuation and significant reductions in resources. We support the view that some of the proceeds of the levy and/or 'set aside' should be used to support inherent volatilities within the Business Rates system and to support sudden economic shocks due to the closure or relocation of major businesses.

7. Impacts for People and Public Services

The Government's consultation proposals to localise Business Rates are focused on financial issues and incentivising local authorities to promote business growth. North East councils believe that there are much wider issues to take into account around the range of services local authorities provide that fundamentally affect people's lives, including caring for and safeguarding adults and children, health and wellbeing, housing, planning and environmental services. Whilst nationally Business Rates income is expected to exceed Formula Grant during the next few years, this is not the case for councils in the North East.

In 2010/11 Northumberland County Council will receive around £34 million more in Formula Grant than is collected by the council; in Durham the forecasted shortfall is £80 million and in Hartlepool, for example, the Borough would have a shortfall of £13 million to make up the gap between the amount it raises in Business Rates and its annual expenditure.

A key concern for North East councils is the implications of a system whereby funding for essential public services is being linked to an authority's ability to generate Business Rate income. We believe that unless action is taken to ensure otherwise, this will result in a postcode lottery in areas such as adult and children's services and create inequity in communities in different parts of the country. Additional cost pressures facing the North East include higher levels of deprivation, an ageing population, child poverty and poor health compared with the England average.

We urge the Government to ensure, therefore, that any new system has a robust method for identifying need.

8. Support for local businesses

Business Rates are not a suitable measure of economic growth. Rewarding growth in Business Rates income gives disproportionate benefit to the encouragement of growth in retail space and large distribution centres, rather than encouraging growth in small businesses (whose Business Rates attract substantial levels of relief), technology businesses that do not require much physical space, and manufacturing.

In the North East there is support from business representative organisations to address potential unintended consequences of the new system. For example, the North East Chamber of Commerce has stated its support in ensuring 'that in the implementation of the Resource Review the starting point is fair and that unintended consequences, such as the promotion of retail business over manufacturing industry, the lack of recognition afforded to the contribution of rural businesses to their communities and the incentive to limit Small Business Rate Relief are mitigated'.

With regard to rural economies, we know that they already face challenges in attracting businesses, due to their geography, sparse population, infrastructure, broadband access, transport and connectivity. These will be exacerbated by a system of funding based on Business Rate localisation, without adequate mechanisms for equalisation and incentivisation based on need.

If mitigation of such issues requires a more complex system, then we should not shy away from that. Getting the system right is more important than simplicity.

9. Maximising the impact of national infrastructure

There is clearly a direct link between national decisions on infrastructure and the ability to stimulate economic growth at the local level. Amongst other things, Government decisions on investment in energy, transport and infrastructure inevitably have impact on the attractiveness of the North East of England to business and potential investors. Such decisions will also impact on business, supply chains and job opportunities in the area. We would urge the Government to consider how its decision making in respect of national infrastructure can help achieve its aim of rebalancing the economy. Anything it can do to positively stimulate the North East economy by taking early decisions which at the very minimum give a sense of assurance to people considering investing in the area would be welcome.

For example, we are looking to the Government to give serious consideration to the strong economic case we have made to be linked into a high speed network from the outset. This will be important to us, in parallel with continuing investment in conventional rail and road infrastructure, including the A1 north and south.

We also draw the Government's attention to the risks of market distortion and unfair competition arising from the potential devolution of Air Passenger Duty to Scotland. The inevitable consequences of such a move would be damage to the North East's airports from competing airports north of the Border pursuing more advantageous tax incentives. We will be commenting on the importance of regional airports and air service connections to provide access to national and international markets, as part of the DfT's future of aviation consultation.

Positive developments in these areas would go a long way to securing business confidence and a positive outlook for the future.

10. Scotland

In the context of the earlier points made about the risks of market distortion and unfair competition, we have concerns about the recently announced consultation led by the Scottish Government to look at ways for Scotland to have greater financial freedoms, above those laid out in the Scotland Bill.

The ability of the Scottish Enterprise Agency to offer public money as financial support to attract business to Scotland creates an unfair disadvantage for authorities in the North East of England, which are prevented from offering such financial support. The capacity to offer such incentives to business creates an un-level playing field which is felt particularly acutely in the North East given its proximity to the Scottish Border and with areas of high deprivation and unemployment relative to Edinburgh. The potential for Scotland to receive even greater powers as proposed by the Scottish Government is an issue for our authorities, who are working hard to re-build and re-balance their local economies.

CONCLUSION

The Association of North East Councils believes that there are significant and far reaching implications arising from the Government's proposed reforms, which in our view will require time and careful consideration to ensure that any future system is fair and can enable all areas of the country to grow.

The views expressed here, and in our detailed response to the Government's consultation, have been informed by the 12 authorities in the North East on a cross-Party basis.

ANEC would welcome the opportunity to discuss with Ministers the issues highlighted in our submission and to work with the Government to ensure a good outcome for the North East and the country as a whole.

