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PORTFOLIO: FINANCE AND SUPPORT

CABINET - 4 SEPTEMBER 2002

DRAFT LOCAL GOVERNMENT BILL

1. INTRODUCTION

1.1 In December 2001, the Government published its blue print for the future of local government in a White Paper entitled 'Strong Local Leadership - Quality Public Services'. As a result of consultations on the White Paper with local authorities and other stakeholders, a draft Bill has recently been issued for comment.

1.2 Many of the measures set out in the Bill relate to local government finance; this paper comments only on those proposals.

2. SUMMARY OF PROPOSALS

2.1 The Key financial measures set out in the draft bill include:

The abolition of credit approvals, to be replaced by a new prudential capital finance system

New duties on local authorities in relation to financial management;

Introduction of formula grant, and the merging of revenue support grant (RSG) and non-domestic rates;

Establishment of business improvement districts;

Changes to non-domestic rates, including rate relief for small businesses;

Introduction of a statutory revaluation cycle for council tax, and various changes to the operation of the council tax;

Changes to housing finance;

New powers to charge for discretionary services (and to trade);

New powers for the Secretary of State to remove controls on authorities depending upon their performance classification.

2.2 <u>Capital Finance - main proposals</u>

2.2.1 It is proposed that the controls on capital expenditure in Part IV of the Local Government and Housing Act 1989, be repealed, (together with many of the complex regulations supporting it); this will be replaced with new powers to permit local authorities to borrow to finance capital expenditure, without government approval, where they can afford it.

2.2.2 Such borrowing is intended to supplement resources and not replace current capital resources; however such borrowing will be 'unsupported', meaning that as no grant will be payable to cover interest payments (as is the case with current borrowing approvals), the whole cost of borrowing will fall on the council tax.

2.2.3 The main borrowing control will be the duty placed on local authorities not to breach their agreed prudential limits, nor any national limits set, and will apply to all credit arrangements. Although there are provisions for a reserve power to set limits on borrowing and credit, it is envisaged that these would be used only in exceptional circumstances.

2.2.4 This new approach to capital investment will also cover housing, and despite the government's new approach for the single capital pot, it is proposed that housing finance remains separate from other funding.

2.2.5 No changes are proposed to allow local authorities to borrow against the value of their asset base, nor to permit sales of future income streams in return for immediate lump-sum payments.

2.2.6 The new prudential regime will mean that the Council's capital receipts from sales of it own assets will no longer be taken into account in the allocation of capital receipts by the Government.

2.3 **Financial Administration - main proposals**

2.3.1 There are a number of measures that are designed to strengthen the financial administration within local authorities. The chief finance officer will be required to report on the adequacy of reserves and the robustness of budget estimates as part of the Council's annual budget setting process. Regulations are likely to specify that they have regard to a CIPFA code of practice in providing this advice. The Secretary of State will have the power to determine a minimum reserve level by regulation, if required.

2.3.2 Local authorities will be given a statutory duty to monitor their budget and take action in the case of overspends and shortfalls of income.

2.3.3 There will be an easing of provisions preventing local authorities from entering into agreements following a section 114 report which the chief finance officer must produce if the local authority is overspending which can not be resourced from within existing resources. Members must then meet within a specified period to take measures to deal with the overspend.

2.3.4 The chief finance officer will have the authority to allow agreements to proceed in the interim period between the report and the meeting, if in their opinion, the Council will resolve the situation that initiated report to be produced.

2.4 **Formula Grant - main proposals**

2.4.1 The proposals will mean that the current Revenue Support Grant (RSG) and National Non-Domestic Rate (NNDR) will be replaced by a single, formula grant.

2.4.2 The basis of the formula grant will be included in the annual report on Local Government Finance issued by the Government, as is the current system of Standard Spending Assessment. The new formula will be introduced in 2003/04.

2.4.3 The amount of NNDR to be distributed to authorities will still be identified at a national level, but consolidated into the formula grant payment received by the Council.

2.5 **Business Improvement Districts - main issues**

2.5.1 The bill sets out proposals for Business Improvement Districts (BIDS); this will mean that local councils and businesses will work together to put in place local projects to improve their area. The BIDS will be funded by a levy raised through an addition to the business rate, which local businesses will agree.

2.5.2 The Government will issue guidance on the voting arrangements for local businesses on whether a BID should be established, and the operational framework.

2.6 Non-Domestic Rates - main proposals

2.6.1 A small business rate relief will be introduced for small businesses with a rateable value of under £8,000.

2.6.2 Transitional relief will be a permanent and self-financing feature of the rating system. Also, the Government will have the power to change the rules to make in year increased to its contribution towards the costs of hardship rate relief given by some authorities.

2.6.3 There are a number of other technical amendments, including a requirement for business rate re-valuations to be carried out at 5 yearly intervals.

2.7 Council Tax - main proposals

2.7.1 A statutory 10 year cycle for the revaluation of domestic properties for council tax will be introduced, with the new valuations being used for the council tax from April 2007. The revaluation should not lead to a change in the overall council tax yield at a national level although there are bound to be regional variations.

2.7.2 As any revaluation is likely to affect the council tax bills for individual households, such changes will be phased in through a transitional relief scheme, in which the gainers contribute towards the costs of the losers for a period of time.

2.7.3 As well as a number of technical amendments to the tax, the Secretary of State will have the power to vary the number of council tax bands from the current eight.

2.7.4 The statutory basis of the council tax benefit subsidy limitation scheme has been repealed and replaced with reserve capping powers for the Secretary of State.

2.7.5 It is disappointing to note that the Draft Bill does not contain any proposals to allow local authorities greater discretion to set local policy on council tax discounts and exemptions, for example on reducing the discount on second or empty homes. Members will recall that the Council has responded to a previous consultation paper on this issue and were hopeful that the Bill would have included the Governments intentions on this issue.

2.7.6 Finally there are no proposals to transfer billing responsibility from district to county councils during this parliament.

2.8 **Housing Finance - main proposals**

2.8.1 Rent rebates and rebate subsidy are to be transferred from the Housing Revenue Account (HRA) to General Fund, making the HRA a landlord account in which the costs and income can be plainly seen. The impact of this on the General Fund will be significant.

2.8.2 Subject to prudential limits, the Council will be free to borrow to fund increased capital investment within the HRA so long as the debt is affordable; it is intended to introduce the necessary primary legislation by April 2004.

2.8.3 The subsidy system will be reformed and simplified; subsidy will eventually be calculated on the basis of rents that should actually be charged, reflecting the rent restructuring to be implemented over a 10 year period.

2.8.4 The current arrangements for 'set-aside' of capital receipts from housing will be replaced by a simpler housing capital receipts pooling system that will apply to all housing receipts, including those from debt-free authorities and ALMO's (arms length management organisations). The pooled receipts will be distributed wherever the need is greatest.

2.9 Powers to trade and charge- main proposals

2.9.1 It is proposed to permit local authorities to charge for discretionary services, including those provided under section 2 of the Local Government Act 2000, to promote the well-being of their area; there may be some limits set by the government (for example fees may be limited to the recovery of costs incurred). Enabling legislation may be in place this year.

2.9.2 Wider powers will be provided to permit local authorities to trade in any service in which they have a strong performance on delivery. The widest flexibility and freedom will be given to the best performers to use the powers.

2.9.3 The Government will issue statutory guidance on the use of such powers, and the necessary safeguards, in due course. Trading will not be limited to any one sector or use of existing assets.

2.10 Performance categories - main proposals

2.10.1 The Bill lists a number of existing powers that will allow the Secretary of State to remove regulatory controls, or, grant additional powers to local authorities, depending upon the category awarded by the Audit Commission following the comprehensive performance assessment.

2.10.2 These powers may be used in particular in the scope given to individual councils to trade and charge, produce strategies and the promotion of well-being within the local community.

3 CONCLUSIONS

3.1 The report summarises the main financial proposals set out in the Bill.

3.2 Attached as an appendix, is a draft response to the DTLR on the main financial proposals of the Bill, which the Director of Resources has submit on behalf of the Cabinet, to meet the deadline of 23rd August 2002.

4. RECOMMENDATION

4.1 The Cabinet note the report and endorse the representations outlined in Appendix 1 to this report.

Further information:

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Background Papers:

Draft Local Government Bill (DTLR July 2002-

APPENDIX 1

RESPONSE TO THE DTLR DRAFT LOCAL GOVERNMENT BILL ON BEHALF OF NEW FOREST DISTRICT COUNCIL

1. CAPITAL FINANCE

1.1 This Council welcomes the proposals on capital finance, particularly the greater freedom to borrow to finance capital expenditure, where this can be afforded. The development of a Prudential Code for Capital Finance by CIPFA is also supported.

1.2 However it is unlikely that this will result in a significant increase in this Council's capacity to invest on capital assets, especially if the Council loses substantial amounts of revenue grant and capital receipts to the national pool, over the same period.

1.3 This Council strongly objects to any extension to the pooling of capital receipts, including those for housing. This will provide no incentive for the effective and efficient use of assets within this Council, as we would no doubt be penalised by a redistribution of capital receipts, as well as incurring higher land values and building costs for new investment and homes. The Government is aware of the pressures within this District from homelessness.

1.4 It is unnecessary for the Secretary of State to hold powers to make new regulations and orders setting limits for all or individual authorities, given the principle of a prudential system for capital financing.

2. FINANCIAL ADMINISTRATION

2.1 With the exception of the easing of section 114, which is welcomed, it is considered that there is no need for new statutory powers to specify the level of local authorities' reserves or to monitor budgets. These issues already form part of a chief finance officer's duties, in accordance with professional guidance and practice.

3. FORMULA GRANT

3.1 We strongly oppose the suggestion of combining the RSG and NNDR grants. It is considered that this proposal does not add transparency, and believe that the separate identification of NNDR is important, particularly in the context of this Council's budget discussions with its business community.

3.2 This Council believes that the return of business rates to the control of local authorities is the most effective way of increasing local control over income and addressing the balance of funding. This proposal detracts from that objective.

3.3 We have significant concerns that there may be a detrimental effect on this Council through the resource equalisation option in the grant review, when taking into account the proposals for revaluation of domestic properties.

4. BUSINESS IMPROVEMENT DISTRICTS

4.1 We support this proposal and see this as a useful means of promoting local services through partnership working; however, we have some doubts about the extent to which local businesses will wish to support additional levies.

4.2 There also appears to be some contradiction between the amalgamation of NNDR into one grant, with the introduction of BIDS.

5. NON-DOMESTIC RATES

5.1 We welcome the proposal for rate relief for small businesses.

6. COUNCIL TAX

6.1 These proposals are welcomed. The success and stability of this tax relies on it being seen as fair and equitable, and revaluations should be kept up to date; there have been considerable changes in relative property values since 1991. However, we are concerned that this may lead to higher increases within this district and the need for transitional arrangements within this district.

6.2 We support the abolition of the council tax benefit subsidy limitation scheme and the new powers for the Secretary of State to vary the number of bands for council tax.

6.3 We also wish to make representation to amend the final bill to give this Council the discretion to remove discount for second homes and retain the proceeds for local use. This will help the Council tackle a growing homelessness problem which is exacerbated by the number of second homes in the District.

7. HOUSING FINANCE

7.1 This Council does not support the proposal to remove rent rebates from the HRA unless this is matched by grant. The Council does however support a simplification of the present subsidy arrangements.

7.2 The proposed new powers to borrow money for capital investment, although welcome, is unlikely to produce substantial additional resources for this Council, given the effects of the rent restructuring.

7.3 We are also concerned about the pooling of capital receipts and the factors taken into account in the redistribution of funds. This district continues to have an increasing problem in providing new homes to meet current and future demands, particularly with high land and associated building costs, and would wish to see this reflected in any proposals for the redistribution of capital receipts.

8. POWERS TO TRADE AND CHARGE

8.1 We welcome the ability to trade with other organisations and to charge for discretionary services. However, the proposals do not appear to present substantive progress in removing controls and promote greater freedoms and flexibility, even for higher performing councils.