



Japan Local Government Centre, London

Monthly Report for March 2011 – Local Government Resource Review

The review of local government finance agreed as a condition of the May 2010 Coalition agreement between the Conservative and Liberal Democrat parties has now been announced to Parliament by the Communities and Local Government Secretary Eric Pickles.

The review will consider the way in which local authorities are funded, with a specific view towards giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies. It will also look at ways to *“reduce the reliance of local government on central government funding, increase local accountability and ensure that the benefits of economic growth are reflected in the resources authorities have.”* It will include consideration of changes to the business rates system.

The formal terms of reference for the review, agreed in conjunction with HM Treasury, are to consider:

1. the optimum model for incentivising local authorities to promote growth by retaining business rates, whilst ensuring that all authorities have adequate resources to meet the needs of their communities and to deliver the commitments set out in the Spending Review;
2. the extent to which these proposals can set local authorities free from dependency on central funding;
3. how to fund authorities where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils which do not collect business rates, such as upper-tier authorities, recognising that some parts of the country are currently more dependent on government funding;
4. reviewing the scope for greater transparency and localisation of the equalisation process;
5. the position of councils whose business rate yield would be significantly higher than their current spending;
6. how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;

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7. how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;
8. how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;
9. examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers; and
10. the wider implications of rates retention for related policies, including the work of the Commission on the Funding of Care and Support and the Government's other incentive schemes (the New Homes Bonus and the commitment to allow communities to keep the business rates for renewable energy projects).

The review will also take account of the responses made to the questions in the 2010 White Paper *Local growth: Realising every place's potential*. The first phase of the review will conclude by July 2011, to be followed by the necessary steps to implement the agreed reforms. A second phase will commence in April 2011 and will focus on Community Budgets. This will be taken forward in parallel with the continued roll-out of these budgets.

In February, the city councils of Birmingham, Manchester and Westminster agreed to establish their own expert City Finance Commission, to propose city-specific reforms to the review. The experts are led by property developer Sir Stuart Lipton and include former Labour local government minister Nick Raynsford, the Mayor of London's policy adviser Anthony Browne, London School of Economics' Tony Travers, CIPFA chief executive Steve Freer and Centre for Cities chief executive Alexandra Jones.

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