

Annex A: Terms of reference for Phase 1 of the Local Government Resource Review

The first phase of the Review will consider the way in which local authorities are funded, with a view to giving local authorities greater financial autonomy and strengthening the incentives to support growth in the private sector and regeneration of local economies.

It will 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.

The review will include consideration of changes to the business rates system, and focus in particular on:

- 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;
- the extent to which these proposals can set local authorities free from dependency on central funding;
- considering how to fund authorities where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils who do not collect business rates, such as upper tier authorities, recognising that some parts of the country are currently more dependent on government funding;
- reviewing the scope for greater transparency and localisation of the equalisation process;
- the position of councils whose business rate yield would be significantly higher than their current spending;
- how to ensure appropriate protections are in place for business, within a framework of devolving power to the lowest level possible;

- how to deliver Tax Increment Financing proposals against a context of greater retention of business rate revenues;
- how various aspects of the business rate system, including business rate revaluation and reliefs, should be treated;
- examining the scope for further financial freedoms for local authorities, while standing up for and protecting the interests of local taxpayers; and
- 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 take account of the responses made to the questions in "Local growth: realising every place's potential". It will also conduct extensive engagement with interested parties, including businesses of all sizes, to ensure that all views and perspectives are taken into account.

Following the announcements at the Spending Review and through introduction of the Welfare Reform Bill that Government will localise Council Tax Benefit, the Review will also consider the design of the new scheme (to be launched in 2013-14) and what flexibilities local authorities should have to help keep overall council tax levels down.

The first phase of the Review will conclude by July 2011, followed by the necessary steps to implement the concluded reforms.