Local Government Resource Review Consultation

Background

1. On 19 August 2011, Communities and Local Government (CLG) released eight technical papers which give more details of the proposed localisation of business rates. There are over 200 pages in the eight papers – so this Annex is only a short summary of them.

2. The technical papers often do not give figures or estimates of the national picture. Nor do they exemplify the effects on individual local authorities. This makes it more difficult to understand the papers and to understand what is intended, what the options are and what the results might be. More details may emerge as others exemplify the likely effects, or during the detailed consultations which seem likely to take place in the summer of 2012. The eight technical papers are:

   1. Establishing the baseline
   2. Measuring business rates
   3. Non-billing authorities
   4. Business rates administration
   5. Tariff, Top Up and Levy options
   6. Volatility
   7. Revaluation and Transition
   8. Renewable Energy

   The Technical papers can be found at:

   http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/

The eight papers

3. Technical papers 1 and 2 give more details of the calculations of the Tariffs and Top Ups (in Oxfordshire we expect to pay a Tariff, which will support spending in other parts of England). Four elements are needed for these calculations:

   1. **Formula grant** – This will most likely be rolled forward from the 2012/13 formula grant figures. This could be done by identifying service blocks in the existing formula grant figures and reducing them by percentages from the Spending Review. Alternatively, the existing four block model could be resurrected and after considering what should be changed, rolled forward for a year or two. A concern for Oxfordshire is that the damping grant, on which we depend, might be excluded from the calculations.

   2. **Business rates** – Forecasts of the amounts collected at the national level are needed as a start. Accurate national figures will be difficult to produce and errors will affect local authorities. The national figures could then be divided between billing authorities

using either figures from one year (possibly provisional figures for 2012/13), or an average of figures for four years. This would give the 'proportionate share' for each billing authority (or district council in our case).

3. **Set aside** – these would be reductions to bring the estimated amount of business rates collected in future years down to the 2010 Spending Review figures. As the full 2010 Spending Review reductions will not have been implemented in 2013/14, part of the 'set aside' adjustment would be fed back to authorities in that year.

4. **Adjustments** – these will anticipate and take out the estimated total cost of the New Homes Bonus (NHB), which will increase to a peak level after six years. In the five years before that any surplus NHB would be fed back to authorities. Adjustments will also be used to take out funding for the Police authorities and single purpose fire authorities (not what we have in Oxfordshire). Adjustments will also correct for functions lost by authorities. For example, the additional costs of LACSEG might be taken out using and adjustment. Adjustments would be allocated to billing authorities using the proportionate shares.

4. Business rates are generally increased in line with increases in the RPI. Tariffs and Top Ups may also be increased in line with RPI inflation. This will produce a more even distribution of the benefits.

5. Business rates income is quite **volatile**, as noted in Technical paper 6. In response, the government favours a scheme in which authorities would be protected (**safety netted**) if a calculated threshold was exceeded. The other options are to let the Valuation Office Agency identify large changes so they could be allowed for, or to allow individual authorities to put forward requests on a case by case basis. There are various options for the calculated threshold or 'safety net' and these are set out in Technical paper 5. The safety net would be paid for by a '**levy'** and there are different options for collecting this.

6. Technical paper 5 also considers the interaction between Tariffs, Top Ups, Safety nets and Levies. Authorities such as Oxfordshire, with a medium sized tariff seem likely to do better if the Tariff is not increased in line with inflation. An interactive calculator has been published to show the effects.

7. Technical paper 5 also considers whether groups of authorities should be allowed to form '**pools'**. Pools would add together their Tariffs, Top Ups and Levies then decide how these should be allocated. Pools may help local authorities deal with volatility problems. Districts are likely to have to 'pool' within their county rather than outside it. Levy rates may be lower for pooled authorities.

8. Technical paper 3 considers the division of tariffs, top ups and funding generally between **counties and districts**. Options are to use a standard

national share or calculate shares locally, based on each districts share of the county total.

9. In **Enterprise Zones**, including Science Vale in Oxfordshire, new developments will not pay rates. However HM Treasury will provide income to match what would have been paid and this will fund the Local Enterprise Partnership. Technical paper 8 explains that rates from new **renewable energy schemes** will all be retained locally – either all by the district concerned or split between the district and the County Council.

10. Technical paper 4 gives details of the **payments** between the various authorities – counties and districts - and the government. Various calculations will be needed at the end of each year to finalise the local figures. If there is a 'significant' variation in business rate income during the year, compared to plans, then district councils may be able to reduce their planned payments to the County. This adds to the uncertainty about the funding for our budget.

11. Inflation tends to push up rents and rents are used to set business rateable values. Thus every five years, when there is a **revaluation** of business rateable values, business rate income will tend to rise. However the government steps in to prevent this happening, by reducing the business rate multiplier.

12. For individual businesses there are 'transitional arrangements' to phase in increases or decreases in their rates as a result of the revaluations. These can spread over several years. The effects at the local level are very variable. Thus when the next revaluation is introduced there will be an immediate effect on the business rates collected in most authorities and delayed effects due to the transitional arrangements. Technical paper 7 says that the Tariffs and Top Ups will be changed at revaluation. Also, authorities will be compensated for the effects of the transitional arrangements. They might not be compensated if individual businesses appeal against the results of the revaluation and this affects the amount of rates due.

13. Finally, Technical paper 1 mentions that if funding no longer matches service pressure, perhaps because of population changes, the whole new system may be '**Reset'**. This would require some assessment of local needs and resources and might be similar to the existing formula grant arrangements. The date of the reset might be set at the start of the scheme or decided later.