

Division(s):

CABINET – 18 OCTOBER 2011

LOCAL GOVERNMENT RESOURCE REVIEW

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. The Local Government Resource Review will substantially replace the current Formula grant system with a system based on localising business rates. The new system is planned to start in 2013/14.
2. An initial consultation paper on the Local Government Resource Review was released by the government on 18 July 2011. On 19 August 2011 a further 8 technical papers were issued, which gave more details of the proposals. A ninth technical paper is expected shortly. The consultation has a deadline for response of 24 October 2011.
3. A summary of consultation proposals were set out in the Service & Resource Planning report to Cabinet in September 2011. This report provides some background and sets out proposed technical responses to the consultation questions in **Annex 1**. An overarching response will be agreed and circulated separately. This report sets out Oxfordshire's response.
4. This consultation is part of the government's plans to give local authorities the ability and incentives to increase economic development in their areas and has links with the National Planning Policy Framework, which is dealt with by another report on this agenda.

The Local Government Resource Review

5. The government wishes to give local authorities an incentive to increase the business rate base in their area. The aim of the new system is to do this, whilst not disrupting the existing distribution of Formula grant funding at the point of transition. After that, authorities would benefit from increases in the amount of business rates collected. Authorities would not be allowed to increase the business rate multiplier, so could not increase the rates paid by any individual business.
6. As Oxfordshire collects a lot more business rates than it receives in Formula grant, it can expect to pay a 'Tariff'. Thus there is no gain at the point of transfer to the new system. The 'Tariffs' will fund authorities that receive more Formula grant than they collect in business rates, through a system of 'Top ups'.
7. The consultation includes many complicating factors. Tariffs and Top ups may increase in line with inflation to remove the advantages of areas that collect a lot of business rates. Deductions will be needed to constrain local

government spending within totals announced in the 2010 Spending Review (known as 'Set aside') and also to remove the predicted costs of the New Homes Bonus from these totals (known as 'Adjustments').

8. The amounts collected from business rates vary up and down over time. 'Safety netting' arrangements are proposed to protect authorities that experience large reductions. A system of 'Levies' will be needed to fund this. There will be special arrangements for Enterprise Zones (such as Science Vale), for new renewable energy schemes and for Tax Increment Financing schemes.
9. Business rates are collected by the district councils and they will need to be split between counties and districts, with allowances being made for Fire and Police Authorities.
10. Authorities will be encouraged to join 'Pools' to even out the effects of volatility and to improve the coordination of development.
11. Tariffs and top ups will need to be revised after the revaluations. Revaluations occur every five years, the next being due to be implemented in April 2015. Finally, if the system gets out of line with local needs and resources, it may be completely 'Reset', perhaps after five or ten years.
12. **Annex 1** sets out the consultation questions and gives draft responses to them. There are 96 questions in this consultation. As there are so many options and the consultation paper gives few figures, it is difficult to be certain what the response should be.
13. However, it is expected that the government will release exemplifications of the possible effects in summer 2012, which will enable a more precise response. The summer 2012 consultation will lead into the final Consultation and Settlement announcements for 2013/14 in December 2012 and early in 2013.

RECOMMENDATIONS

14. **The Cabinet is RECOMMENDED to:**
 - a) **Agree to the response to consultation about the Local Government Resource which is set out in Annex 1.**

SUE SCANE

Assistant Chief Executive & Chief Finance Officer

Background papers: Directorate Financial Monitoring Reports 31 July 2011

Contact Officers: David Illingworth, Principal Financial Manager
Tel: (01865) 323972

October 2011