

**STRATEGY AND PARTNERSHIPS SCRUTINY COMMITTEE**  
**THURSDAY 29 SEPTEMBER 2011**

**LOCAL GOVERNMENT RESOURCE REVIEW**

**Report by Assistant Chief Executive and Chief Finance Officer**

**Introduction**

1. There are currently a number of Government consultations for which the outcome could affect local authorities' levels of funding. This report summarises the proposals to localise business rates set out in the Local Government Resource Review (LGRR). Other consultations, including those for the Draft National Planning Policy Framework, Localising Support for Council Tax in England, the Commission on the Funding of Care and Support and changes relating to the funding of schools and academies may influence the mechanics of the LGRR. Until the outcome of all of these consultations is known it will not be possible to summarise the impact, but the key points and issues are set out below.

**Local Government Resource Review (LGRR)**

2. One of the main components of Formula Grant is business rates. These are currently collected by district councils and paid into a central pool which is then redistributed as part of Formula Grant.
3. Through the LGRR the Government is seeking to reform the current Formula Grant funding system for local authorities by enabling councils to keep a share of the growth in National Non-Domestic Rates (business rates) in their area above a baseline.
4. Eight technical papers setting out a number of options for each element of the proposed new system were published on 19 August 2011. The closing date for comments is 24 October 2011. The papers are as follows and can be found at:

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgrsourcereview/>

- Establishing the Baseline
  - Measuring Business Rates
  - Non-Billing Authorities
  - Business Rates Administration
  - Tariff, Top up and Levy Options
  - Volatility
  - Revaluation and Transition
  - Renewable Energy
5. These 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 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 key points and issues, as considered by Cabinet on 19 September 2011 are set out below.

#### Establishing the Baseline

6. A Funding Baseline will be established based on 2012/13 formula grant and a Business Rates Baseline will also be established based on estimates of business rates with some adjustments made. Any growth in business rates above the Business Rates Baseline will be retained within the local government sector.
7. The Business Rates Baseline will be compared to the Funding Baseline and the differences will form 'tariffs' and 'top-ups' to ensure that the new system is equitable. There will be 'tariffs' where the Business Rates Baseline exceeds the Funding Baseline (such as Oxfordshire). The income from tariffs will be fed back as 'top-ups' to areas where the Funding Baseline is lower than the Business Rates Baseline. The tariffs and top-ups may be fixed in cash terms or may be linked to RPI.
8. A levy on disproportionate benefits is also proposed. Some areas may experience significant increases in business rates and some of this additional income will be used to compensate areas which experience 'shocks to the system'. For example Oxfordshire could experience a dip in income with the proposed closure of Didcot A power station in 2015.
9. The whole system will be subject to amendment when a revaluation takes place – normally every five years. Changing needs and service pressures may mean that there will be a 'reset', which would involve re-assessing authorities' Funding Baselines.
10. Any uplift in business rates from Enterprise Zones will be disregarded for the purposes of calculating any liability for the disproportionate growth levy and in any reset.

#### Volatility

11. The new system will be more volatile. At present we know exactly how much Formula Grant we will receive when we fix our budget. Under the new system funding will be harder to predict. It is likely therefore that councils will need to increase their levels of reserves or balances to be able to manage both in-year and year on year fluctuations in business rate income.
12. The consultation proposes that different authorities might voluntarily group together to pool their business rate income, tariffs and top-ups and levies. Levies might be reduced by 'pooling' with other authorities. The Districts in a county area and the County might agree to set up a pool together for example.

13. There are a number of implications of operating the system in a two tier area (District and County councils). Districts have most planning powers and so have more control over local development than Counties. Districts are the billing and collection authority for business rates and so have more knowledge of the amounts likely to be collected and their volatility. There will also need to be a mechanism to enable funding to be shared between district and county councils. Options based on a standard national share or a locally calculated share, based on each districts share of the county total, are included in the technical papers.
14. The Localism Bill provides a power to reduce business rate bills, funded by the local authority. District councils will have the power to reduce business rates to encourage development. A 1p reduction in business rates across all districts would reduce the amount collected in Oxfordshire by around £6m. Depending on assumptions about the share of losses across councils, this could impact on services such as Older People or the provision of Libraries.

#### **Draft National Planning Policy Framework**

15. The draft National Planning Policy Framework emphasises that significant weight should be placed on the need to support economic growth through the planning system. Each local planning authority (district councils) will be required to produce a Local Plan for its area setting out strategic priorities.
16. In two tier areas, county and district authorities should cooperate with each other on relevant issues such as the provision of infrastructure for transport, minerals and waste. Local planning authorities will be required to demonstrate that cooperation through for example a joint committee or memorandum of understanding.

#### **Localising Support for Council Tax in England**

17. This consultation sets out proposals to localise council tax benefit. Currently district councils pay council tax benefit and the details of the scheme are set by central government. The proposals are for district councils to set up their own schemes and save 10% of expenditure (£480m). Grant funding from central government will continue to pay the costs, but this will reduce to find the savings. The government expects authorities to protect the position of pensioners and vulnerable people which leaves savings being focused onto people of working age.
18. The consultation also states that billing authorities should be able to share any financial pressure as a result of unexpectedly high increases in demand for support with the County.

#### **School Funding Reform: Proposals for a Fairer System**

19. This second consultation on School Funding reform follows a consultation on the high level principles of school funding reform which closed in May 2011.

20. The consultation sets out proposals to reform the system so that it is simpler and more transparent. This includes proposals to introduce a new national formula so that money is allocated more consistently across the country, and whether the reforms should be implemented from 2013/14 or in the next spending period. A shadow 2012/13 settlement showing the potential impact of the reforms is expected to be published in spring 2012.
21. The consultation looks to address the inequity of similar schools in different areas receiving very different levels of funding, which we hope will address the very low level of funding per pupil in Oxfordshire. The recognition of the need to retain some local flexibility to address local pressures and specific needs is also important.
22. There are a number of areas which could potentially cause concern for Oxfordshire including, among many others: the methodology for calculation of an Area Cost Adjustment; how DfE will make their judgement on the right balance between funding for the basic entitlement and funding to support pupils from deprived backgrounds; the costing of the high needs block of funding generally and suggested threshold of £10,000 cost for high needs pupils; and retention of the Minimum Funding Guarantee (MFG) as the means of transitional protection for schools.

**Local Authority Central Spend Equivalent Grant (LACSEG)**

23. The Department for Education (DfE) pays an additional grant, (Local Authorities Central Services Equivalent Grant (LACSEG)) to Academies because there are some central services which maintained schools receive from local authorities which Academies may either provide themselves or buy back from the local authority. Many of these services are within the Schools Budget and are funded from the Dedicated Schools Grant. Some however are funded through Formula Grant which is general funding for the local authority. The local government finance settlement for 2011/12 and 2012/13 transfers funding out of Formula Grant to reflect that local authorities would no longer be required to provide these services for Academies. The overall transfer nationally is £148m in 2011/12 and £265m in 2012/13. For Oxfordshire the reduction in Formula Grant is £1.470m in 2011/12 and £2.528m in 2012/13.
24. The original calculations were based on DfE estimates of 200 schools converting to become Academies each year. These estimates have proven to be far too low and as such the DfE are now consulting on increasing the transfer from local authorities to help meet their additional costs of providing LACSEG to a greater number of Academies.
25. The current transfer is calculated on a pro-rata basis and as such, does not follow the pattern of Academies opening. The consultation is also asking for opinions on how this transfer should be made.
26. The consultation asks whether authorities think the transfer from Formula Grant should be at the same level as the cost to DfE (approx £360-365m in 2011/12 and £580-£680m in 2012/13) or some other level. For Oxfordshire

this could equate to a further £2.155m reduction in Formula Grant in 2011/12 and £3.959m in 2012/13.

27. It also asks whether it is more important to have stability of funding (through a pro-rata calculation as above) or to have a transfer based on the pattern of Academies opening. This would require in-year flexibility with the transfer amounts changing throughout the year. The impact for Oxfordshire of transferring funding from Formula Grant based on the methodology in the consultation and actual number of Academies converting in 2011/12 is estimated to be in the region of £1.0m compared to the £1.470m deducted originally and the estimate of £3.625m based on this consultation.
28. Irrespective of the amount the DfE gives to Academies as additional grant for LACSEG, the transfer out of Formula Grant does not reflect the savings to local authorities for ceasing to provide some services to these pupils. Savings to local authorities are likely to be in the region of £15-20per pupil rather than the £220per pupil given to Academies for LACSEG.

#### **Commission on the Funding of Care and Support**

29. On 4 July 2011, the Commission, chaired by Andrew Dilnot, published its proposals for the funding of adult social care. The proposals would involve a very radical change in the funding of adult social care. The key recommendations are as follows:
  - Individuals' lifetime contributions towards their social care costs – which are currently potentially unlimited – should be capped. After the cap is reached, individuals would be eligible for full state support. This cap should be between £25,000 and £50,000. The Commission considered that £35,000 is the most appropriate and fair figure;
  - The means-tested threshold, above which people are liable for their full care costs, should be increased from £23,250 to £100,000;
  - National eligibility criteria and portable assessments should be introduced to ensure greater consistency; and
  - All those who enter adulthood with a care and support need should be eligible for free state support immediately rather than being subjected to a means test.
30. The Commission estimate that the cost of its proposals - based on a cap of £35,000 - would cost about £1.7 billion nationally.
31. It is understood that the Department of Health is planning to carry out widespread consultation in Autumn 2011, with a White Paper on Adult Social Care to be published in Spring 2012.
32. If the proposals go ahead they would have a major impact on the funding of the County Council. Additional resources would need to be made available to meet the additional public costs that would arise.

## **RECOMMENDATION**

33. **The Committee is RECOMMENDED to note the issues set out in the report ahead of further information being received.**

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