ANNEX 4

Local Government Resource Review

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During the summer, the government consulted on a new local government finance system which will replace the existing Formula Grant system. The government considers that local government needs closer connections to local business ratepayers and an incentive to encourage business development. Thus the new system will 'relocalise' business rates from April 2013.

On 19 December, the government responded to consultation, announced some decisions about the new system and introduced a Bill to implement changes to Parliament. The new system is described in the following paragraphs. However, many details remain to be decided. There are still no figures to illustrate the likely results, even approximate national totals.

A local percentage share of business rates

Not all of the business rates collected will be retained by local authorities. Business rates are calculated by multiplying the rateable value of any property by a multiplier. The provisional multiplier for 2012/13 is 45.8p. The multipliers are reviewed each year by the government and they generally increase in line with the Retail Prices Index (RPI). Thus at the national level, the amount of business rates collected tends to increase in line with the RPI.

However, as part of the government's deficit reduction strategy, the 2010 Spending Review set out reductions in Formula grant funding over the four years ending in 2014/15. Thus the growth in business rates collected will exceed the Spending Review limits for Formula grant so not all business rates collected will be retained by local authorities in the new scheme.

The government has now announced that a percentage share of the business rates will be retained by them in future. The amounts retained by the government will be used to fund other specific grants. The government will announce the percentage of business rates that will be localised, together with the mix of functions and services that will be funded through business rates in Spring 2012.[1]

This 'percentage share' approach is a new proposal. In the summer consultation, the government was proposing to deduct cash amounts of business rates. This was known as 'set aside'. The new percentage share approach means that the government will share the risk that business rates may grow below forecast levels. But the government will also share the benefits of above forecast growth.

[1] See paragraph 2.10 of the Response to Consultation

Tariffs and Top ups

The government recognises that the distribution of business rates collected is very different from the distribution of Formula grant. Thus to ensure that there is a stable starting point, with no council being worse off, a system of Tariffs and Top ups will be introduced. Where an authority collects more business rates than its baseline (or Formula grant) funding, it will pay a Tariff. Where an authority collects less business rates than its baseline funding, it will get a Top up. At the national level, the contributions from Tariffs will pay for the Top ups.

To calculate the Tariffs and Top ups, a business rate figure is needed. This will be based on an average of the amounts collected over a number of years. These figures will be reduced by a percentage to reduce funding to the 2010 Spending Review limits.

Although the Four block model which is used to calculate Formula grant is to be abandoned, it will still play a role in setting the Tariffs and Top ups for the new system. Formula grant will be rolled forward for two years (to 2014/15) to give a Baseline funding level for each authority. Factors that are likely to be built into these rolled forward figures are:

- The 2010 Spending Review totals, less savings from the pay freeze (announced in the Autumn Statement)
- Population data from the 2011 Census if it is available
- Updated data sets (for example, road lengths)
- Limited technical adjustments to rural services costs and Concessionary fares
- Resource equalisation. This is the balance between funding for the minimum level of need that is the same in all areas and needs above that level. At the moment, needs above the minimum level are better funded, to our cost.
- Council tax freeze grant for 2011/12 but not 2012/13
- Any amendments to correct funding for Academies
- Damping arrangements, to limit changes in grant

There will be no changes to the tailored grant distributions which are included in Formula grant.

Oxfordshire as a whole will almost certainly pay a Tariff as we collect much more business rates than we get back in Formula grant. However business rate income in Oxfordshire will be divided between the districts and the county. According to the recent announcement, the county will receive a 20% share of the business rates and the districts 80%. This will mean that the county will receive a Top up. The districts will have Tariffs.

As Tariffs and Top ups will increase in line with RPI inflation, this means that a substantial part of the County Council's funding will increase in line with inflation and will not be subject to fluctuations in the amount of business rate collected. This is intended to:

- Protect the provision of adult and childrens social care and transport
- Focus the incentive to increase business rates on district councils who are considered to hold most of the levers to promote growth and
- Reflect the existing 80:20 split of New Homes Bonus

The Incentive

As mentioned earlier, Business rates tend to increase in line with RPI inflation. Other increases are due to growth in the local taxbase, or due to more efficient collection of business rates. Authorities will keep the ‘other’ or locally generated growth in business rates from their area. This will give them an incentive to support business development and to collect business rates more efficiently.

The County will only take a 20% share of any locally generated growth in the local business rate taxbase, so it will have a limited incentive to support development.

Levy and Safety net

There will be a ‘levy’ to remove some of the benefits of locally generated growth in the business rates collected. The levy will limit increases in spending power. As an example, where the business rates collected are twice as much as the spending power figure half of the increase would be removed by the levy.

Authorities that collect a lot of business rates compared to their spending power figures will be more likely to have to pay a proportionate levy of this kind. Conversely, areas that receive little business rate income – Top up authorities – such as most county councils - are not likely to have to pay a levy. The 80:20 split may mean that the levy becomes a serious issue for district councils.

Funding from the levy will pay for a safety net. The primary aim of the safety net will be to ensure that no authority sees their income fall more than a set percentage below their baseline funding (which will be uprated in line with RPI).

Pooling, Revaluation, Rate relief, Tax Increment Financing, Police, Fire and Resets

Authorities will be allowed – subject to government approval - to pool business rates, tariffs, top ups, levies and safety net payments with other authorities. Districts who wish to will be allowed to pool with other authorities outside the county boundaries, for example if this links up with LEP boundaries. The government will invite applications to pool next year.

Revaluations of the rateable value taxbase, which take place every five years, will have varying effects on the rate income of different local authorities. To remove this effect, the government will review Tariffs and Top ups after each revaluation. However the effects of appeals after the revaluations will have to be absorbed by the local authorities affected.

Allowances will be made for the effect of rate reliefs on the amount of business rate collected locally.

The locally generated business rates could fund new development schemes. Some schemes are known as 'Tax increment financing' – where for example building a road or infrastructure stimulates new business development and the new development pays business rates that funds the infrastructure costs. The government will allow a limited number of Tax Increment Financing schemes to be exempt from the levy and reset procedures for 25 years. This will provide a more certain business rate income stream and make it easier to find the funding for these projects from commercial sources.

Police funding will be separate from this scheme.

Funding for the Fire and Rescue service will treat Single purpose fire authorities and county councils with fire responsibility in the same way. A percentage of business rates will be allocated to fund Fire and Rescue services. Tariffs and Top ups will then be used to bring funding in line with an appropriate baseline linked to Formula grant.

The whole system of Tariffs and Top ups will be reset at some stage. A reset might be needed to respond to large changes in local needs or tax resources. The government's suggests that no reset will be needed for ten years.

Future developments

The following developments are expected:

- Spring 2012 – The percentage of business rates localised will be announced and the mix of functions and services to be funded through business rates
- Spring 2012 – Options for the new system will be considered by Settlement Working Group
- Summer 2012 – Local Government Finance Bill receives Royal Assent
- Summer 2012 – Detailed consultation, with figures, about the new system
- April 2013 – New system starts
- 2015 – Next revaluation introduced
- 2023 – Possible reset of the whole system

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