Agenda Item No. 10

WEST OXFORDSHIRE DISTRICT COUNCIL

FINANCE AND MANAGEMENT OVERVIEW & SCRUTINY COMMITTEE

WEDNESDAY 3RD OCTOBER 2012

LOCALISATION OF BUSINESS RATES

REPORT OF FRANK WILSON ,STRATEGIC DIRECTOR

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(The decisions on this matter will be resolutions)

1. PURPOSE

To provide the Scrutiny Committee with an update on the legislative proposals on the Localisation of Business Rates and how it might impact upon the Council and its finances.

2. RECOMMENDATIONS

That the report be noted

3. BACKGROUND

3.1. In March 2011 The Secretary of State for Local Government outlined a desire to move local government funding from a highly centralised method of grant allocations to a more incentive driven approach which provided links between decision making and innovation. The terms of reference for the review are attached at Appendix A.

3.2. The review has been concluded by the government and whilst we await final detailed regulations a series of technical consultation papers have set out the detailed mechanisms on how the scheme is intended to work. Attached at Appendix B is the 'Plain English' guide to the proposed system.

3.3. The essence of the key changes are set out in the following paragraphs:-

Current Scheme

Assessment of Need (from Formula Driven Approach)
Less
Taxable Capacity (not actual Council Tax)
=
Formula Grant*

*Notionally this is made of National Business Rates redistributed to Councils topped up by Revenue Support Grant

If more Business Rates is collected Central Government keeps the growth – if less is collected Central Government funds the loss.

Proposed Scheme

Starting Point - 2012/13 Formula Grant (adjusted)
Less
Assumed Share of Funding Received from Business Rates
=
Residual Revenue Support Grant

If more Business Rates is collected then all bodies who receive a share of business rates get an increased share – if less then all bodies who receive a share fund the loss.

3.4. So the revised scheme shifts the risks and rewards from being entirely a central government position to a shared risk/reward approach. This is as intended in the scheme terms of reference. Of course key to the success of the scheme is how much of an incentive is created for the Council to generate additional business rates growth compared to the risks if business rates collection falls. To assess this we must identify the relative shares of the business rates scheme:-

Total Business Rates	100%
Central Allocation	50%
Local Allocation	50% - of which
	80% to District (i.e. 40% of total)
	20% to County/Fire (i.e. 10% of total)

In theory this therefore provides a strong incentive for District Councils to promote economic growth with 40% of any growth above the target going to the District Council (with a consequential downside risk).

3.5. However government was concerned that Councils in business rates 'rich' areas should not overly benefit from a high business rates base compared to Councils who have a relatively low business rates base. The government have therefore proposed that a 1% real growth in an authority's business rates income should not generate more than a 1% increase in its funding so that an authority does not see disproportionate benefit. Therefore any increase above this proportionate amount is 'levied' and will be used to fund safety nets in the scheme should a Council suffer a 'catastrophic' reduction in its business rates base which might otherwise risk key service delivery.

3.6. The detailed mechanism to calculate this levy is currently part of the consultation process and the Council has made representation that the levy (as proposed) takes away too much incentive from the scheme for District Councils and therefore has diverged too far from the terms of reference.

3.7. Latest modelling suggests that the actual impact on this Council of an extra £100,000 of 'real' growth in business rates will only generate an additional £6,000 of funding for the

Council – this appears to have overly diluted the incentive effect, and , in the view of officers, is based upon incorrect interpretations by officials at the Department of Communities and Local Government.

3.8. In conclusion therefore the Government's proposals go some way to meeting the terms of reference of the review but the key driver of incentivising authorities to grow their business base remains a minimal aspect of the system at present unless the government is minded to reduce the levy impact.

4. POOLING WITH OTHER COUNCILS

4.1. One of the options open to Council to try to offset the levy impact on Districts is to pool with Councils who are not in a levy position (typically Counties). In theory this approach could lead to a lower levy rate across the pool. Whilst this has the obvious advantage of potentially enabling more growth to be retained locally (in a pool) the downside to this approach is that any safety net is likely to have to be funded from the pool rather than nationally.

4.2. Officers have been working with colleagues across Oxfordshire to try to establish whether the potential benefits to pooling in Oxfordshire outweigh any potential risks and the additional bureaucratic burden that will come with such an approach.

4.3. At this stage the results of financial modelling are inconclusive and government require any Councils that intend to go into a pool to make a decision by 19th October 2012. This decision will not prevent Councils from changing their minds when the detail of the government financial settlement is issued in December 2012 however any withdrawal at that late stage would trigger a collapse of the pool for the following year and thereby impact on other Councils in addition to this. It is important therefore that, as far as possible, an initial decision on pooling is sustainable when made in October.

4.4. There are other aspects of the pooling arrangements that will also need resolution to ensure that any distribution from the pool to constituent authorities is fair and equitable in the view of all constituent authorities in the pool.

4.5. The principle of how a pooling arrangement could benefit the Council is shown in the two tables below:-

Authority	Levy Rate	Extra Rates (£)	Extra Rates To gov (50%) (£)	Extra Rates To OCC (10%)	WODC Initial share (40%)	Extra Rates gov (levy) (£)	WODC Share of extra business rates (£)	OCC Share Of extra Business Rates(£)	Gov share of Extra Business Rates (£)
West Oxon	85%	100,000	50,000	10,000	40,000	34,000	**6,000**	**10,000**	**84,000**
							£16,000		
Authority	**Levy Rate**	**Extra Rates (£)**	**Extra Rates To gov (50%) (£)**	**Extra Rates to pool (50%) share**		**Extra Rates gov (levy) (£)**	**Pool share Of extra business Rates (£)**		**Gov Share of Extra Business Rates (£)**
Pool	40%	100,000	50,000	50,000		20,000	**£30,000**		70,000

Net Gain to the county as result of pooling £30,000 - £16,000=£14,000

4.6. The Government published a timetable in their Pooling prospectus outlining the key dates to ensure pools are able to come into effect in April 2013. This is shown in the table below:

27 July 2012	Invitation for local authorities to submit expressions of interest
August 2012	Development of detailed pooling proposals
10 September 2012	Submission to DCLG of firm list of pool members, pool's consideration of impact on other parties, pool's view of emerging governance arrangements and proposed process for final sign-off by each pool member prior to 19 October submission
September 2012	DCLG consults interested parties from those affected by the pooling proposals (responses by 28 September 2012)
24 September 2012	Deadline for responses to the Business Rates Retention Technical Consultation.
19 October 2012	Submission of final pooling proposal including governance arrangements signed off by the Chief Executives and Section 151 officers of each authority in the pool
November 2012 *(date subject to timing of draft Local Government Finance Settlement)*	Designation of pooling proposals, ahead of publication of draft Local Government Finance Report
December 2012 / January 2013	Local authorities to notify DCLG of their intention not to proceed. This must be before statutory consultation on the draft Local Government Finance Report closes.

4.7. It is intended to take a report to Cabinet on 17th October setting out the strength of the case for pooling within Oxfordshire although Oxford City have already determined that they will not take part in a pool for 2013/14.

5. FINANCIAL IMPLICATIONS

5.1. It is not possible, at this stage, to be precise about whether the Council will be a beneficiary of the new scheme. Historically the Council has seen its rates base increase beyond inflation by in excess of 1% per year over the last ten years. If this trend were to continue then the Council would probably see increases in its revenue stream of around £18,000 per year.

5.2. What is not clear is how this increase will be offset by reductions in other more general government grant as the government continues to grapple with the deficit by reducing total funding to local government.

5.3. The current medium term financial strategy builds in a further 21% cut in government support over the next 4 years which amounts to in excess of a £1m cut in funding and therefore the benefit to be received from the local business mechanism is minimal when compared to this significant grant cuts.

5.4. The position in respect of pooling of business rates remains uncertain at this stage and further work is being conducted to ascertain whether there are benefits to an Oxfordshire pool which can then bring additional resources back to the Council.

6. REASONS

To be recognised as a leading Council that provides efficient, value for money services.

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Background Papers
Technical Consultation Papers – DCLG website