WEST OXFORDSHIRE DISTRICT COUNCIL

FINANCE AND MANAGEMENT OVERVIEW AND SCRUTINY COMMITTEE WEDNESDAY, 20 JULY 2016

100% BUSINESS RATES RETENTION – CONSULTATION PAPER

REPORT OF FRANK WILSON, HEAD OF PAID SERVICE

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(The report is for information)

1. PURPOSE

To advise Members of publication of the consultation paper on potential changes to the Business Rates Retention Scheme and how it may impact upon the Council.

2. RECOMMENDATION

That the report be noted.

3. BACKGROUND

3.1. In April 2013 the government revised the local government finance system significantly by introducing the Business Rates Retention Scheme (BRRS) which, for the first time, gave local authorities significant incentives to promote local growth. Prior to its implementation this Committee received a report in October 2012 which attempted to set out the principle changes from the old Formula Grant system to the new BRSS system. This report is attached at Appendix A for member's reference.

3.2. In essence the new system allowed all participants in the Business Rates system to share any growth in the system for a period of years until the system reached a 'reset'. The participants in the system, with proportionate shares, are:-

- Central Government - 50%
- District Councils - 40%
- County Councils - 10%

3.3. As I am sure members would anticipate the system is, unfortunately, not as straight forward as set out above as account needs to be taken of the 'Needs' of a Council and this is set against the resources generated by the business rates share. The resultant system therefore is both complex and confusing including adjustment for items such as 'tariffs'; 'top-ups' and 'levies'. Paragraph 3.5 below explains the definition of these adjustments and para. 3.6 how they are applied in the calculation of what the Council actually receives in Business Rates.

3.4. To complicate matters further the Council set up a business rates pool with the County Council and Cherwell District Council to try to minimise 'levies'. Some of the key terminology and worked examples are shown below so that we can consider the true effectiveness of the current system.

Terminology

3.5. It is not possible to discuss this system without understanding some technical terminology so I have tried to summarise the key terms below:-

- Tariff = an annual payment to government to reconcile income in an area to spending need
- Top Up = an annual payment from government to reconcile income in an area to spending need
- Levy = payment back to government to avoid any one authority benefitting too much from growth (the Westminster issue)
- S.31 Grant = Grant received to compensate the Council for Government policy to provide small business rate relief.
- Baseline = The Governments forecast of how much the Council should receive from a needs perspective from Business Rates Top up and Levy calculations are based from this starting point.

Worked Example

3.6. Set out below is a worked example broadly based on WODC figures:-

a)	Business Rates Income	£33.25m
b)	District Share (a)x 0.4	£13.3m
c)	Add s 31 grant	£0.75m
d)	Less tariff	£10.3m
e)	Equals Net income	£3.75m

So in this case the district keeps around 11% of local business rates raised not 40%.

Unfortunately, there are still more adjustments to make as set out below:-

e)	Net Income	£3.75m
f)	Baseline	£1.95m
g)	Growth above Baseline	£1.8 m
h)	Levy (g x 0.5)	£0.9m
i)	Final Net income (e)-(h)	£2.85m

So actually district keeps only around 8.5% of local business rates raised.

3.7. From this calculation it can clearly be seen that level of business rates kept locally is far from the 50% (or 40% in WODC case) set out by government. The key element that is achieved is that a percentage of growth above the baseline is retained – effectively this means that half of the West Oxfordshire 40% growth above its baseline is retained locally with half being levied back to central government – thus 20% of growth achieved in West Oxfordshire stays in West Oxfordshire. Without complicating matters too much further this level can be increased through the adoption of a pool which has happened in Oxfordshire.

3.8. As has been set out in the latest Medium Term Financial Strategy the system will undergo a reset in 2020. At this stage all the growth above the baseline that has been achieved will be lost and the Councils funding will adjust to the new baseline.

3.9. The calculation of the new baseline has not yet been established but it is anticipated that it will follow the normal approach of determining core grant requirements and be established by reference to the 'needs' of the Council in spending terms drawing on data from multiple sources such as the Census and actual data on specific demand for certain local government services.

4. WHAT ARE THE PROPOSED CHANGES IN THE CONSULTATION PAPER

4.1. Attached at Appendix B is the newly issued government consultation paper on how the government might introduce a system of 100% local business rates retention.

4.2. It is clear from the document that the new system will build upon the principles of the current BRRS and therefore will include an element of redistribution of resources from areas of high resource/low needs to low resource/high need areas. This is an important principle upon which the local government finance system has been designed over the years and therefore the title of "Self-sufficient local government" makes reference to the whole funding pot to local government generally rather than individual authorities.

4.3. Indeed the government has already announced a 'Fair Funding Review' as part of the 16/17 settlement as set out in 2.15 of the consultation paper.

4.4. One of the key announcements already determined is that the levy system which restricts any growth locally to 50% of what would have been due will be abolished. This brings about certain other implications and negates the need for 'pools' on purely levy reduction grounds.

4.5. The key issues that the consultation paper considers are:-

- Page 9 para.2.7 Devolving local growth (the 100% principle)
- Page 10 para. 2.15 Assessment of the Needs Base (Fairer Funding Review)
- Page 15 para. 3Devolution of more funding responsibilities (Business Rates currently funds Central Government funding responsibilities as it retains 50% of the funds – to keep the scheme fiscally neutral to local government then further funding responsibilities will need to be passed to local government)
- Page 23 para.4 Risk v Reward - how often should a reset happen; sharing risks around revaluations and appeals; insulating against 'shocks'
- Page 33 para. 5 Local Flexibilities – ability to reduce rates locally; ability for Combined Authority Mayors to raise Infrastructure Levy

4.6. The paper also makes it clear that, apart from local flexibilities at the margin, the Business Rates System itself is not part of the review and government will continue to make changes to taxation as it sees fit. Indeed the extension of the Small Business Rate Relief scheme in the 2016 budget will have a significant impact on the 'tax take' from business rates and the outcome of this will need to be taken account of in devolution of responsibilities workstream.

4.7. The consultation paper asks a series of questions which are a mix of policy and technical questions which at this stage officers have not had chance to consider in detail. Officers will prepare a draft response prior to the consultation end date which falls prior to the next meeting of this Committee and will therefore prepare a report directly for Cabinet.

4.8. Attached at Appendix C is a preliminary paper from the LGA on the subject.

5. FINANCIAL IMPLICATIONS

5.1. At this stage it is not possible to set out the financial implications of the proposed changes to the business rates retention system.

5.2. The medium term financial strategy has already set out the anticipated financial impact of a system reset under the current arrangements and officers believe that risk is similar in the new system.

5.3. Given that the Council has experienced significant growth since the system was established in 2013 a reset will, all other things being equal, lead to a reduction in income for the Council as its resource level will be seen to exceed its needs level leading to a greater tariff.

5.4. By moving to a greater share of income being retained locally the risk, depending upon how any tier split with the County Council is determined, will increase but so will the reward potential.

5.5. The biggest area of outstanding concern with the current system is the level of outstanding rating appeals and whilst provision has been made for these in the accounts the impact of these is to deflate near term revenues. Under the new scheme, unless specific provision is made for these in the system, the risks locally will be increased as presently the risk is shared with central government with their 50% share in the system.

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Date: 4h July 2016