POLICY & FINANCIAL AFFAIRS COMMITTEE

3 JULY 2012

REPORT OF HEAD OF CENTRAL SERVICES

LOCALISATION OF BUSINESS RATES – BUSINESS RATES RETENTION SCHEME

1 PURPOSE OF REPORT

1.1 To update Members on the issues arising from the Government's Business Rates Retention Scheme.

2.0 RECOMMENDATIONS

2.1 ***Members note the issues arising from the Government's Business Rates Retention Scheme, and***

2.2 ***Members support an expression of interest from the Leicestershire Treasurer's Association (LTA) on behalf of all Districts, Fire, City & County, regarding the pooling of Business Rates by 27 July 2012;***

3. KEY ISSUES

Background

3.1 The document "Local Government Resource Review: Proposals for Business Rates Retention" was released in July 2011 and requested responses to the consultation by 24 October 2011. In addition to the consultation document were a further eight technical papers. Melton Borough Council responded to this consultation document as reported to a meeting of this committee on 28 September 2011.

3.2 Following this consultation the Government have now issued a number of documents outlining their Business Rates Retention Scheme which will be introduced from April 2013, subject to the passage of the Local Government Finance Bill which is currently before Parliament. Further consultation on the technical details will take place in late summer 2012.

The Proposed Scheme

3.3 At the start of the scheme there will be a stable starting point for all Councils so that no Council will be worse off if it has lower business rates income. This baseline funding level will be calculated on the basis of the 2012-13 formula grant process.

3.4 Melton Borough Council for 2012-13 expects to collect £12.9m in business rates, this would currently be sent to Government and £3.3m returned in the form of Formula Grant. This £3.3m would at April 2012 be our baseline funding level. DCLG is conducting a limited review of the settlement formula which sets our funding levels, with the following elements subject to review; concessionary fares, population & taxbase data, needs baseline, service provision in rural areas and a number of smaller items. The main area of change for Melton would be on service provision in rural areas. This follows lobbying by SPARSE, supported by such relevant Councils, including Melton. This would be expected to mean substantial gains for Melton's baseline funding but the as yet unknown effect of damping may negate these gains.

3.5 If Council's have a larger business rates base than the baseline funding level then some of this will be taken away as a tariff, and where Councils have a smaller business rates base then they will be paid a top-up. The level of tariff or top-up will remain fixed every year but will increase in line with RPI.

3.6 Where Councils business rates grow following the adoption of the new scheme a percentage share of the growth will be taken back in the form of a levy, the levy will be set so that the percentage increase in their business rates growth cannot result in more than the same percentage increase in their spending power. For Melton this means that a 1% increase in business rate growth or £129k will result in a 1% increase in spending power or £33k, the difference will be a levy back to DCLG. Money collected through this levy will be used to give help, a safety net, to authorities who see their income drop by a set percentage below their baseline funding level, if for example a major business closes. This percentage is yet to be confirmed but is expected to be between 7.5% and 10%. This would mean that Melton would have to have a reduction in its share of business rate income, and therefore funding, of £248k (7.5%) or £330k (10%) before any financial support would be considered.

3.7 It is expected that the tariffs and top-ups would need to be reset, as spending needs become out of balance with the funding Council's receive. This is expected to occur around every 10 years and not before 2020.

3.8 As a district council within a two tier area Melton would retain 80% of any business rate growth on the local share in the area with Leicestershire County Council (LCC) retaining 20%, this is due to the district authority, as planning authority having the strongest levers over growth.

3.9 A significant late change to the proposals is the move to localise only 50% of the business rates collected. As a result the Government will continue to provide Revenue Support Grant to make up the difference between the local share of business rates and the spending control totals for local government for 2013-14 and 2014-15. The amount of revenue support grant will be set in the Local Government Finance Report for 2013-14 and 2014-15, and determined through spending reviews in future. The following grants will also be taken into account when setting the revenue support grant; new homes bonus, 2011-12 council tax freeze grant, council tax support grant and homelessness prevention grant. This will enable the Government to deliver cuts in spending more easily than with their previous intention to allocate 100% of business rates through the proposal.

3.10 The scheme provides no power for the local setting of business rates as central control will be retained.

Pooling

3.11 Council's are able to group together voluntarily to pool their business rates and collaborate on promoting growth in their area. The LTA are submitting an expression of interest on behalf of all Districts, Fire, Leicester City & LCC and will continue looking into this possibility with more information and agreement being sought on the issues associated. The expression of interest must be submitted by Friday 27 July. As this date is before the publication of the draft local government finance report in which authorities and pools will be notified of the basis on which tariffs and top-ups will be calculated, authorities will be able to request to withdraw from their interest in a pool before it comes into effect if the report shows they will no longer receive the same opportunities as they had thought.

3.12 It is for the members of a pool to decide how the pool will be governed and operate, including in the event of a pool dissolving. A lead authority will be nominated and all payments due to or from the pool will be channelled through the lead authority, they will also be responsible for supplying information on behalf of the pool in connection with the operation of the business rates retention scheme. Each member of the pool would however, be jointly and severally liable for any payments required to DCLG.

3.13 Once designated as such, a pool will be treated as a single body for the purpose of calculating its tariff or top-up, this would be the sum of all the tariffs and top-ups of the individual authorities within the pool. This would help local authorities better weather volatility in business rates income, it could also place authorities in a more beneficial collective position than if they had not pooled as it could see an authority's tariff or levy rate reduced as a result of joining the pool.

3.14 It would be for pools themselves to decide how to distribute aggregate revenues within the pool, allowing members of the pool to decide how best to support shared economic priorities or manage volatility. Pools could decide to adopt a "no worse off" approach where members would be treated no worse than if they hadn't pooled, or perhaps a weighted contribution approach depending on the benefit received.

3.15 If a pool is dissolved members of the pool would return to their individual tariff, top up and levy amounts and this would take effect from the following financial year once the scheme is in operation.

3.16 To ensure pools are able to come into effect in time for the rates retention scheme in April 2013 the timetable is as follows:

- 17 May — Invitation for local authorities to bring forward pooling proposals (as per Appendix C)
- 27 July — Deadline for local authorities to submit expressions of interest to pooling proposals
- September — Consultation on pooling proposals
- November — Designation of pooling proposals, ahead of publication of draft Local Government Finance Report
- April 2013 — Start of rates retention scheme

3.17 With LCC being a top-up authority, there could be benefits to pooling within Leicestershire as this would reduce the overall levy paid over centrally, however, the risks and the detail of how such a proposal would operate would need to be carefully examined.

Melton Borough Council Position

3.18 Melton Borough Council collects NNDR from 1,478 businesses in the borough (as at 31 May 2012), some of these have exemptions and charity status so the net collectable business rates is £12,866,346. Of these collectable business rates;

Number of Companies	% of Total MBC NNDR Liability	Average Rateable Value	Total NNDR Liability	Average NNDR Liability	% of Total Companies	Approx Average Sqm
10	27%	£751k	£3.447m	£345k	0.07%	20,800
50	49%	£221k	£6.259m	£125k	3.40%	12,655
100	62%	£121k	£7.955m	£80k	6.80%	7,741
200	74%	£53k	£9.497m	£47k	13.50%	457

The table clearly shows that the top 10 companies in the Borough contribute 27% of the Council's collectable business rates while the top 200 contribute 74%. Clearly changes in one or two large businesses in the top 50 will have an impact on the base, but some town centre businesses with a small measurable unit but high rateable value will distort the figures and demonstrates the difficulties of forecasting changes to the growth.

3.19 In practice it is incredibly difficult to forecast changes to the rateable value baseline for the Borough. Whilst new developments can be predicted to some degree, the resultant rateable value cannot be predicted with any certainty at this stage. Along with unknown changes in the existing business stock (increased and decreased floorspace) the forecasting of economic growth in the Borough is difficult without specialist knowledge. However, the Regional Economic Assessment seeks a 1.5% increase in floorspace each year for the next 5 years , if we apply this as a broad rule of thumb for Melton to mean rateable value we would see collectable business rates increase by between 0.6% and 0.75% per year (dependant on the multiplier in use).

3.20 Appendix A shows the total rateable values at December, from 2002 to 2011, of businesses in the Borough as well as the gross business rates collectable. The percentage change year on year fluctuates significantly which makes forecasting from historical data unreliable. The RPI adjustments show that the NNDR collected does not increase in line with RPI, this is mainly due to the 5 yearly resetting. The multipliers are reset every 5 years, the business rates retention scheme makes allowance for these resets without resetting the whole system to ensure that Council's are not left worse off due to resetting.

3.21 No information is available regarding the amount of appeals which are either currently outstanding or can generally be expected in a year. This is a major concern to Councils as under the new scheme they will be vulnerable to any appeals upheld and the resultant effect on their business rates values and collectable NNDR.

3.22 Based on National data regarding the growth in NNDR projections it shows that a loss for Melton in the region of £100k per annum could be expected. In addition the Leicestershire Local Economic Partnership are planning to produce some authority specific forecasting data at the end of June 2012.

3.23 On the basis of the evidence available there is no indication that the business rate yield in the Borough is likely to increase significantly above RPI, which along with the limit the scheme imposes on the value of growth retained locally, indicates that the monetary value on any gain to Melton of the scheme would be limited.

4.0 POLICY AND CORPORATE IMPLICATIONS

4.1 The proposals and resulting scheme will have significant corporate implications for the Council as it concerns the Council's main funding stream.

4.2 The Council has the opportunity to choose to work in partnership with other districts and/or the County Council. This would allow it to share the benefits of growth and smooth the impact of volatility over a wider economic area. This would be a corporate and voluntary decision for the Council.

5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

5.1 Financial implications have been partially addressed in the main in section 3 above.

5.2 DCLG have provided a calculator to assist Councils, although they make it clear that it does not enable a local authority to predict the outcome of the rates retention scheme on their finances, but just to allow us to look at some of the possible option combinations. The calculator requires authorities to make a number of assumptions on the baseline, the funding levels and future growth rates. The calculator is therefore of limited value.

5.3 Furthermore, there are a number of key issues that the calculator does not take into account, each of which could be potentially significant. They are:

- The relative importance of inflation versus tax base growth
- An indication of business rates volatility
- The authority's potential reliance on the safety net
- The potential split between district and county rates retention
- The potential advantages and disadvantages of pooling
- The impact of linked initiatives

5.4 Public Sector Consultants, who have been providing information on the proposal, have completed their own model, for which they have had to use their own numerous assumptions. The conclusion we have read from this is that even if we take into account all the Council's New Homes Bonus for revenue expenditure in real terms we will only just break even against existing funding levels.

6.0 LEGAL IMPLICATIONS/POWERS

6.1 There are no other legal implications directly arising from this report.

7.0 COMMUNITY SAFETY

7.1 There are no direct links to community safety arising from this report.

8.0 EQUALITIES

8.1 There are no direct equalities issues arising from this report.

9.0 RISKS

9.1 The risks are considered in the table below:

Probability ↓

Probability	IV Neg-ligible	III Marg-inal	II Critical	I Catast-rophic
Very High A				
High B			1,2,3	
Significant C		5,7	4,6	9
Low D		8		
Very Low E				
Almost Impossible F				

Impact →

Risk No.	Description
1	Overall Funding – a significant drop in overall funding could result in cuts to services
2	Stakeholder Expectations – Expectations on the Council to utilise a variety of new funding streams which will not be realised
3	Volatility – if the Council chooses not to pool the full risks associated with volatility will be held entirely with the Council
4	Loss of businesses due to economic climate
5	Business Rate growth does not increase in line with RPI
6	Lack of understanding of business changes leading to poorer estimates
7	Build-up of reserves to cope as mitigation reducing spending power
8	Pooling detrimental to MBC residents
9	Large amount of appeals in progress which are upheld

10.0 CLIMATE CHANGE

10.1 There are no climate change issues directly arising from this report.

11.0 CONSULTATIONS

11.1 The DCLG Business Rates Retention Scheme was produced following consultation, with further consultation to follow.

11.2 A representative from LCC will be making a presentation on pooling to the District Chief Executives on 5 July 2012.

12.0 WARDS AFFECTED

12.1 All wards are affected.

Contact Officer: Carol King

Date:	15 June 2012
Appendices:	Appendix A – Historic Data of Rateable Values & gross collectable Appendix B – Business Rate Retention Scheme – The Economic Benefits of local business rate retention Appendix C – Business Rate Retention Scheme – Pooling Prospectus Appendix D – Business Rate Retention Scheme – The Central & Local Shares of business rates – A Statement of Intent Appendix E – Business Rate Retention Scheme – The Safety net & Levy – A Statement of Intent Appendix F – Business Rate Retention Scheme – Renewable Energy Projects – A Statement of Intent
Background Papers:	DCLG – Business Rates Retention Scheme
Reference:	X: C’tees, Council & Sub-C’tees/PFA/030712/DG – Business Rates Retention Scheme