AGENDA ITEM 13

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

25th SEPTEMBER 2012

REPORT OF HEAD OF CENTRAL SERVICES

POOLING OF BUSINESS RATES

1.0 PURPOSE OF REPORT

1.1 To update Members on the issues arising from the Government's Business Rates Retention Scheme in regard to the proposed pooling scheme and the proposed Leicestershire pool.

1.2 To enable a pooling proposal to be agreed that would ensure that resources are retained in the sub region for economic development.

2.0 RECOMMENDATIONS

2.1 ***That the proposal to pool business rates with Leicester City Council, all Leicestershire District Councils and Leicester, Leicestershire and Rutland Fire Authority as set out in this report is approved;***

2.2 ***That delegated authority is given to the Chief Executive and Head of Central Services in consultation with the Leader and Solicitor to the Council to agree the pooling governance arrangements, including the legal agreement, and to withdraw from the pool if information in the Local Government Finance settlement in December indicates that continued pooling would not be in the best interest of the Council.***

3.0 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 A further consultation document was issued on 17 July 2012 with responses required by 24 September 2012. The Council responded as required under the delegated authority of the Head of Central Services following discussions with the Leader of the Council.

3.3 In addition to the consultation document a Pooling Prospectus was issued which outlined the Government's expectation and timetable. This required expressions of interest to be submitted by 27th July 2012 and as approved by this committee in July this Council supported an expression of interest from the Leicestershire Treasurer's Association (LTA) on behalf of all Districts, Fire, City & County.

Pooling arrangements

3.4 The Department for Communities and Local Governments (DCLG) timetable for pooling is set out below:

- 19th October – Submit final pooling proposals including governance arrangements
- December – Local Authorities can notify DCLG of their intention not to proceed

(once they have seen the Local Government Finance Settlement which will include the business rates baseline)

3.5 Modelling has been undertaken by the partnership and the model shows that if business rates across all districts were to increase by 1% in real terms a pool would generate an additional £740,000 retained within the county and city area due to no levy being payable. (A real terms 2% increase would generate £1.5m etc). This would increase in each year that real terms growth continued i.e. if there was real terms growth of 1% per annum up to the 2020 reset pooling could generate c£5m in the last year. This is shown in Appendix A. However, there is a downside risk as the safety net will operate at the pool level.

3.6 The safety net will operate in the -7.5% to -10% range and is based on the spending baseline. As a result of the highly geared nature of districts i.e. they have a high rates baseline and low spending baseline a small real terms drop in rates would trigger the safety net at an authority level. However, this would not be the case if business rates were pooled.

3.7 As the safety net operates at a pool level there would have to be a very large fall in business rates before as a pool the national safety net kicks in. Modelling shows that if the safety net was -10% of spending baseline (£16.6m) (worse case) business rates would need to fall by £16m before the national safety net kicked in. In this worse case position the pool collectively would be £8m worse off than if authorities operated individual safety nets. This level of decline is obviously extremely unlikely. Even large business closures are generally signalled well in advance. If there was a -2% real terms reduction in business rates the pool would be c£400k worse off than if authorities had not pooled (based on a -10% safety net).

3.8 The Pool includes risk sharing between the participating authorities. The detail is still subject to agreement amongst partners however the proposals under discussion are set out in Appendix A. These proposals set out that in the first instance surpluses generated in the pool would be used to fund a pool safety net. However, there is a possibility that a loss could be made in the first year or the reserve will not be sufficient in later years. In this circumstance the pool deficit could be shared in proportion to the rates baseline. Appendix A shows the County, City, Districts and Fire Authority share at various reductions in the rate baseline. Melton's share at a 2% real terms decline in the rates baseline and -10% safety net would be circa £13,000 in addition to the £130,000 we would bear individually.

3.9 The modelling to a large extent need to be caveated as both the rates and spending baselines have not been publicised (and will not be publicised until December with the finance settlement). The figures in this paper are based on broad assumptions. However, the broad principle of the benefits (and risks) of pooling are generally accepted across local government. Following the publication of the draft finance settlement authorities will have until the end of the consultation period in which to withdraw, however if any partner wished to withdraw the pool in its entirety would cease to exist. This period will allow further modelling to be undertaken on the published figures.

4.0 POLICY & 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 This proposal offers the Council the opportunity to work in partnership with other authorities in Leicestershire. This would allow it to share the benefits of growth and smooth the impact of volatility over a wider economic area.

5.0 **FINANCIAL & OTHER RESOURCE IMPLICATIONS**

5.1 The potential financial implications are set out in appendix A and in the key issues above.

6.0 **LEGAL IMPLICATIONS/POWERS**

6.1 A legal agreement would need to be drawn up and agreed between the partners.

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 links to equalities as a result of this report.

9.0 **RISKS**

9.1 The risks are considered in the table below:

Probability ↓

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

Impact →

Risk No.	Description
1	Business Rate growth does not increase above RPI due to economic climate, appeals etc. leading to reduced funding
2	The financial position of the pool puts Melton in a worse position than if it had acted individually
3	Failure to agree governance arrangements and terms of the pool within the partnership
4	Figures released by the government following the finance review undermine the viability of the pool

9.2 Following the release of the business rates baseline for individual authorities following the finance review there will be an opportunity to review membership of the pool and withdraw if this is seen to be of little financial benefit based on the information available at that time. This will help to review the risk profile of the pooling at that time.

10.0 **CLIMATE CHANGE**

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

11.0 **CONSULTATION**

11.1 Consultation has been undertaken with all partners and senior officers and Leaders throughout Leicestershire. The DCLG will undertake consultation with neighbouring authorities on receipt of pooling submissions if they feel there is likely to be an impact on authorities outside of the pool.

12.0 **WARDS AFFECTED**

12.1 All wards are affected.

Contact Officer:	Dawn Garton
Date:	13th September 2012
Appendices:	Appendix A Potential Governance arrangements and financial implications
Background Papers:	Government Consultation documents Reports to District Chief Executives
Reference:	X:/Cttee, Council & Sub Cttees/PFA/2012-13/250912/Pooling of Business Rates

APPENDIX A

BUSINESS RATES POOLING
POTENTIAL GOVERNANCE ARRANGEMENTS AND FINANCIAL IMPLICATIONS

Local government funding

1. At present, local councils receive funding from three main sources: grants from central government, council tax, and other locally generated income (such as fees and charges for services). Central government grants can be received as ‘specific grants’, which can come with restrictions on what they can be spent on, or through ‘formula grant’, which has no restrictions and can be used for any purpose. Formula grant is currently distributed to local authorities using a complex formula known as the Four Block Model.

2. One of the main components of formula grant is National Non-Domestic Rates (NNDR), commonly known as business rates. Business rates are collected by local authorities from businesses, but they are currently paid into a central pool to be redistributed as part of the formula grant. This current system means that local authorities do not have any financial incentive to promote business growth in their area, as they will not receive any of the business rates receipts from new development.

3. The Government plans to change the current system by enabling councils to retain a share of the growth in business rates in their area. The Statement of Intent on central and local shares includes the Government’s decision to set the shares on a 50%:50% basis. The Government will provide Revenue Support Grant to make up the difference between the local share of business rates at the outset of the scheme and the spending control totals for local government in 2013/14, 2014/15 and subsequent years. Spending control totals are expected to fall, leading to reduced amounts of Revenue Support grant

4. The proposed new system will, to a degree, allow councils to keep growth in business rates in their local area. If councils kept all of their business rates some would have a much larger amount than they need to deliver services and others would have too little. Those with more business rates income than their funding allocation will pay a “tariff” and those with too little income will receive a “top-up”. Tariffs and top-ups will be inflated each year according to the retail prices index factor applied to business rate bills.

5. Councils will potentially be able to retain 50% of the real terms growth in business rates. Conversely, Councils face the risk of having to absorb 50% of potential real terms decreases. The proposed system includes a levy on disproportionate increases and a safety net to provide support to limit the impact of significant decreases.

6. The Government proposes to set the proportional levy at a 1:1 level, i.e. for every 1% increase in an individual authority’s business rates baseline the authority would see no more than a corresponding 1% increase against its baseline funding level. As such, only tariff authorities are potentially affected by the levy.

7. The Local Government Finance Bill allows local authorities to form pools for the purposes of business rate retention. The modelling undertaken indicates that in periods of real terms rising business rates it is beneficial for the sub region to pool business rates as this means that the levy paid by the District Councils will be reduced and these resources can be retained in the sub region. The table below shows that if there was a real term 1% increase in business rates if there was pooling £740,000 would be retained in the region.

Pooling - Illustration

1% real terms increases	Rates Baseline £000	Spending Baseline £000	Tariff/ top-up £000	Inc in Rates 1% £000	Spending increase limited to 1 to 1 £000	**Levy** £000
County	20,000	59,000	39,000	200	590	0
Leicester	49,000	85,000	36,000	490	850	0
CFA	3,000	8,000	5,000	30	80	0
Blaby	16,000	2,000	-14,000	160	20	140
Charnwood	18,000	4,000	-14,000	180	40	140
Harborough	14,000	2,000	-12,000	140	20	120
Hinckley & Bosworth	11,000	2,000	-9,000	110	20	90
Melton	5,000	1,000	-4,000	50	10	40
NW Leics.	19,000	2,000	-17,000	190	20	170
Oadby & Wigston	5,000	1,000	-4,000	50	10	40
Total	160,000	166,000	6,000	1,600	1,660	0
						740 Retained levy

Proposed Scheme

Principles;

8. The proposed scheme would be based on the following principles;

- Risks remain (as far as possible) with the individual authorities.
- Additional resources would be used to fund the pool safety net in the first instance and thereafter to fund economic development. This could be used by the Leicester, Leicestershire and Rutland Economic Partnership (LLEP) with the City Council acting as the accountable body.

9. The scheme would operate along the following lines:

- Where the pool has generated additional resources, all authorities would receive the resources they would if there was no pooling.
- A calculation would be undertaken to identify the individual authority safety net threshold and any losses up to this level would be the responsibility of each authority (as it would be without pooling).
- Early year surpluses would be kept as a reserve to fund a safety net for years in which the pool did not generate additional resources (so that the pooled scheme would operate as if the national scheme was in place).
- In the event that a loss was made in the first year or the reserve was not sufficient in later years to fund the operation of the pooled safety net the deficit would be funded by each authority in proportion to their rates baseline (see Appendix A).
- County Council to act as accountable body (receive funding and make payments).

- Notice to leave the pool would need to be made in line with national guidelines. Members cannot leave mid-year and notice must be given by December in the preceding year.

10. There could be real advantage in establishing a scheme in the first year as the rates baseline may have some 'head room' as it is based on a five year average. This would help meet concerns about risk. If the baseline is higher than expected and / or future growth forecasts are lower this could mean it will not be financially beneficial to pool. The report involves delegation to the Chief Executive and Director of Corporate Resources in consultation with the Leader and Resources Lead Member to exit the pool if this in the case. The delegation is needed as this may need to take place at relatively short notice. Under DCLG guidelines it will be possible to exit the pool in December. If one Authority exits, the pool will cease for all authorities.

<u>Illustration of sharing a potential deficit in proportion to the rates baseline</u>

Sharing potential deficit pro rata to rates baseline – based on a 10% safety net.

	Share of Deficit		
	2% decrease in rates	3% decrease in rates	4% decrease in rates
	£000	£000	£000
County	-50	-155	-265
Leicester	-123	-380	-649
CFA	-8	-23	-40
Blaby	-40	-124	-212
Charnwood	-45	-140	-239
Harborough	-35	-109	-186
Hinckley & Bosworth	-28	-85	-146
Melton	-13	-39	-66
NW Leics.	-48	-147	-252
Oadby & Wigston	-13	-39	-66
	-400	-1240	-2120