East Northamptonshire Council

Policy and Resources Committee – 27 September 2012

Business Rates Retention and Pooling

Purpose of report: To provide an update the Business Rate Retention scheme and seek approval for the Council to enter into a pooling arrangement with other Northamptonshire councils.

1. Background

1.1. Under existing arrangements, non-domestic rates (or business rates) revenue collected by local authorities is pooled by central Government for redistribution to local authorities in England via a Formula Grant. So while local authorities have a role to play in supporting the local economy, there is limited direct fiscal incentive to do so.

1.2 Currently, approximately £19 billion in Business Rates income is collected nationally and redistributed to individual authorities through the Formula Grant system. East Northamptonshire Council currently collects approximately £20 million of this and receives approximately £5 million in Formula Grant.

1.3 In July 2011, the Local Government Resource Review published for consultation its proposals to allow councils to retain a proportion of their locally-raised business rates instead of a guaranteed Formula Grant. A Business Rates Retention Scheme will be introduced to replace the current Formula Grant arrangements from April 2013.

2. Business Rates Retention

2.1. Under new proposals, councils would retain some of their locally-raised Business Rates if there is growth, although they would lose funding if there is not. The scheme is designed give local authorities an incentive to promote growth over the longer term and reduce dependency on central government funding. There will be no change to the way businesses pay rates, central Government will retain the rate-setting powers (i.e. continue to set the business rate multiplier nationally), and there will be no change to the current system of business rate reliefs.

2.2 The Government intends to establish a **baseline position in 2013/14** for each local authority in terms of the amount of money they receive from central government and the level of business rates that is collected. This is to equalise the difference between what would be collected in business rates and what would be received in Formula Grant so that they equal each other at the outset of the new scheme.

2.3 Using this baseline position the Government will develop a process of **tariffs and top-ups** so that those areas that generate business rates revenue in excess of their baseline will be required to pay a tariff, while those with a business rates yield below their baseline will receive a top-up. Typically, in two tier areas, a district council will be in a tariff position and a county council will be in a top up position. Based on current modelling this is the position reflected for councils in Northamptonshire.

2.4 The proposals also include the provision to introduce a **levy,** whereby a proportion of the business rate growth over and above the inflation-adjusted baseline would have to be returned to Central Government. The levy will be charged for tariff authorities only and typically ranges from 70-90% for district councils in Northamptonshire. In short this means the government keeps a significant proportion of any growth in business rates. Top up authorities, such as the county council, will not be subject to a levy.

2.5 The funding raised from the levies will be used to fund a **safety net** for authorities who see business rates reductions of a set percentage (likely to be between 7.5% and 10%) below the baseline figure.

3. Business Rates Pooling

3.1. Under the proposed scheme, authorities can choose to form pools and be treated as a single authority for funding purposes only. Pooling arrangements will be voluntary and it would be for the pool members to decide how the pool would operate.

3.2 Financial modelling undertaken by councils across Northamptonshire has consistently shown a financial benefit of pooling under the business rates retention scheme. This **benefit could be between £3-8m** across Northamptonshire depending upon different growth scenarios.

3.3 The reason pooling is beneficial is that the levy rate for the pool is calculated as an average of all authorities in the pool including the county council. Because the county council is not subject to a levy, the levy rate reduces to around 20-30% and the pool keeps a larger proportion of any business rate growth.

3.4 The Government requested expressions of interest by 27th July 2012from authorities wishing to pool under the business rates retention scheme from April 2013. All councils in Northamptonshire, with the exception of Kettering Borough Council, signed up to an expression of interest. This was based on a number of key principles, namely:

- councils would enter into a pool if it was financially beneficial.
- there would be no loss of sovereignty or decision making powers for each council as a result of joining the pool.
- no council would be financially worse off than if they had not pooled.
- formal governance arrangements for the pool would be developed.

3.5 The expression of interest was submitted while the financial benefits were explored further, and was not a formal commitment to pool as authorities would have a number of opportunities to withdraw from a pool before it came into operation.

3.6 The next stages of the pooling process are:

19th October 2012	Final confirmation to DCLG of intention to pool for 2013/14 and provision of draft formal governance arrangements.
Early/mid December 2012	Provisional local government finance settlement is announced. Councils have opportunity to compare financial impact of being in a pool or not using
Before mid January 2013	Final opportunity to withdraw from pool. If one council withdraws then whole pool collapses for 2013/14. A resubmission is required the following year.
1st April 2013	Pool becomes operational

3.7 The next key date is 19th October 2012, when the potential pool members need to confirm their intention to pool for 2013/14. As part of the submission the chief executive and chief finance officer of each council are required to sign off the proposal. Whilst not a requirement of the submission it is also the intention to obtain sign off from the leaders of each council. After this date there is still the opportunity to withdraw from the pool if the financial benefits do not materialise when the provisional local government finance settlement is announced in December 2012.

3.8 However, if any council withdraws from the pool after this date and before mid January 2013 when the consultation period of the finance settlement ends the pool ceases to exist and would the ability to pool in 2013/14 would not happen. An application to pool could be made again for 2014/15.

3.9 Given the potential for significant financial benefits as a result of pooling, it is advised that, as long as these continue to exist and the governance arrangements for the pool do not compromise the Council, the option of pooling should be pursued.

3.10 If the pool was successful in 2013/14 the pool would continue in future financial years until the pool was dissolved. The pool would need to be dissolved if a council decided to leave the pool or if another council wanted to join the pool. The decision to continue or dissolve the pool would be undertaken on a regular basis and would be incorporated into the governance arrangements.

4. Equality and Diversity Implications

4.1. There are no direct equality and diversity implications arising from this report.

5. Legal Implications

5.1. There are no direct legal implications arising from this report. However, should the pooling of business rates be adopted then the Council's legal advisers will need to inform the development of any governance and review the final draft to ensure the Council is protected.

6. Risk Management

6.1. The primary reason to explore the potential of pooling business rates is to mitigate the risk of reducing government funding on the Council's services by seeking to receive a greater share of the national business rate funding pot.

6.2 A further risk to consider is the impact of the scenario identified in paragraph 3.8, namely if another council decided to withdraw from the pool after 19th October 2012. If the council that withdrew from the pool and caused it to collapse was East Northamptonshire there would be a reputational risk to manage with other councils in the proposed pool.

7. Financial Implications

7.1. The financial implications are set out in sections 2 and 3.

7.2 The pooling proposal provides the Council with an opportunity to maximise our share of the national business rates pot during these austere times. By maximising income it will assist in managing the Council's financial position and will help in mitigating the need to reduce levels of service provision to live within the resources available.

8. Corporate Outcomes

8.1. This report promotes the following corporate outcomes:

- Good Value for Money
- Effective Partnership Working

9. Recommendations

9.1. The Committee is recommended to:-

(1) Note progress on the pooling arrangements to date.

(2) Approve the submission of a formal pooling request to DCLG on 19th October 2012, subject to the financial benefits continuing to be demonstrated and acceptable governance arrangements being put in place.

(3) Delegate responsibility to the Leader in consultation with the Chief Executive and Chief Finance Officer to decide whether or not to continue with the pooling arrangement after the draft Local Government Finance Settlement is published.

(4) Note that progress on the government's proposals for the localisation of business rates will be reported to future meetings of this Committee.

(Reason: to maximise our share of the national business rates pot)

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<tr><td rowspan="2">Legal</td><td colspan="5">Power:</td></tr>
<tr><td colspan="5">Other considerations:</td></tr>
<tr><td colspan="6">Background Papers: None</td></tr>
<tr><td colspan="6">Person Originating Report: Glenn Hammons, Chief Finance Officer
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<tr><td colspan="6">Date: 13 September 2012</td></tr>
<tr><td>CFO</td><td></td><td>MO</td><td></td><td>CX</td><td></td></tr>
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