Taunton Deane Borough Council

Executive – 10 October 2012

Retained Business Rates – Formation of a Somerset Rate Pool

Report of the Corporate and Client Lead
(This matter is the responsibility of Executive Councillor Stock-Williams)

1. Executive Summary

This report provides background to the Government's proposals in the Local Government Finance Bill which will allow authorities to retain a proportion of the business rates revenue generated in a local area with effect from 1st April 2013.

In particular the report concentrates on the provision within the Bill that enables local authorities to form a pooling arrangement and thus maximise the retention of business rates generated locally.

Creating a business rates pool will ensure the maximum possible amount of business rates collected in Somerset remain in the county, and it provides opportunities for the six councils to work together to deliver enhanced economic prosperity for the county as a whole.

2. Background

2.1 **The subject matter of this report has previously been before Corporate Scrutiny, on 20 September 2012. During the meeting a slight revision was made to what are now the second and fourth recommendations within this report. This change was to include Group Leaders within the recommendations. The Committee unanimously supported the proposed approach to rate pooling.**

2.2 One of the features of the Local Government Finance Bill, currently going through Parliament, is instead of all business rates going straight into the Treasury, a proportion of the business rates revenue generated in a local area will be retained by the relevant local authorities.

2.3 Business rates retention is intended to provide incentives for local authorities to drive economic growth, as the authorities will be able to retain a share of the growth that is generated in business rates revenue in their areas, as opposed to the current system where all business rates revenues are held centrally. The government has announced that the share to be paid to central government from business rates collected will be 50%. Therefore 50% of business rates will be retained locally (40% District, 9% County Council and 1% Fire authority - the Police are excluded from rate funding).

2.4 The proposals do not include any changes to the system of business rates, such that businesses will not see any change to the way that the rates are set, how they pay, how much they pay or to the authority from whom they receive their bill or make payment to . Rate-setting powers will remain under Central Government control and the revaluation process will also remain unchanged.

2.5 For each authority, a funding baseline position is set, based on their 2012 funding settlement and their average business rates collected over the last 5 years. The overall level of funding to each authority from Central Government for 2013/14 will reflect the amount which would have been receivable from Formula Grant (i.e. grant and share of redistributed business rates) had there been no change to the system.

2.6 The business rates baseline is achieved by first splitting the average business rates yield in each ‘collection authority’ (in Somerset the District Councils, such as TDBC are the 'collection authorities') in the following proportions:

- 50% - to Central Government
- 9% - to the County Council
- 1% - to the Fire Authority
- 40% - retained by the District (the District’s Business Rates Baseline’)

2.7 In Taunton Deane's case, the amount represented by the 40% rates to be retained is then compared against the authority’s ‘Funding Baseline’ (i.e. the level of support that the Government has determined that authority should receive at the transition point). If the Business Rates Baseline is greater than the Spending Baseline then the difference will have to be paid to the Central Government as a ‘Tariff’. Conversely, if the Funding Baseline is higher then the Government will pay the authority the difference through a ‘Top Up’ payment. The Top Ups and Tariffs will automatically increase each year, for inflation. This effectively gives Top Up authorities a guaranteed increase on part of their resources, but means that a Tariff authority would effectively face a fall in resources if the business rate base falls or remains static.

2.8 In two-tier areas 80% of the local share of business rates (40% of total rates) will be retained by district councils. One of the consequences of this is that county councils will be “top up” councils as their business rates income will fall a long way short of their funding needs. Districts in two tier areas will usually be subject to paying a tariff as their business rates income greatly exceeds their funding requirement. This is the case for all Somerset District Councils.

2.9 At the end of a financial year, DCLG will calculate whether a levy payment was due from an authority. It will do this by comparing an authority’s pre-levy income under the business rates retention scheme with its baseline funding level. This ensures that an authority who increases its business rates by 1% only receives a 1% increase in its overall spending power. Levies are applied to tariff authorities only.

2.10 This means that TDBC, even if it grows its business rate base will only benefit from a relatively small proportion of that growth and the remainder will be returned to the government as a levy.

3. Pooling

3.1 The Local Government Finance Bill also allows local authorities to form pools for the purposes of business rates retention. It is expected that pooling could offer local authorities an opportunity to retain more of the rates generated in their local areas and could allow them to use that additional revenue more effectively to drive future economic growth, which in turn should increase future business rates yield.

3.2 Modelling done so far on what details of the scheme are known suggests that pooling by all Districts and the County Council will be beneficial and provide additional funding for Somerset Councils to spend. The financial advantage is achieved due to there being a lower collective levy rate applied to growth as a pool than would be the case if the Somerset Councils acted alone – so the region would pay a reduced levy payment to central government should growth occur.

3.3 The table in **Appendix A** illustrates the possible benefits of pooling in Somerset, at different assumed business rate growth levels.

3.4 When authorities decide to enter into a pooling arrangement, a single funding baseline and single business rates baseline will be calculated for the whole pool. This has the effect of offsetting the District tariffs with the County's top-up, meaning that a combined tariff and levy is applied to the pool's business rates revenue as opposed to this being applied to each individual authority. This can deliver significant collective benefits for those involved in the pool.

3.5 If a pool is dissolved then all member authorities would revert to their individual baselines, tariffs and levies.

3.6 Over the last few years, local authorities have increasingly been working together in different ways: delivering services; sharing back office functions to deliver efficiency savings; and collaborating on issues that affect their wider area as part of Local Enterprise Partnerships. Government supports such joint-working between local authorities and wants to encourage it.

3.7 As such, the rates retention scheme provides local authorities with the opportunity to come together where they wish to do so to pool business rates and build growth across a wider area.

3.8 Pooling business rates should:

a) provide a new tool to deliver what is needed to promote growth and jobs, allowing investment decisions to support economic priorities

b) encourage collaborative working across local authorities, rather than constraining activity within administrative boundaries

c) allow the benefit from investment in economic growth to be shared across the wider area – potentially providing a growth dividend to pool partners

d) help local authorities manage volatility in income by sharing fluctuations across the pool

4. Options considered

4.1 Individual authorities have the option to join a pool with any other authority or remain separate. The S151 Officers within the six local authorities in Somerset have considered the advantages and disadvantages of both and believe the case for a countywide pooled approach should be considered.

5. Consultations

5.1 Ongoing discussions have taken place between S151 Officers and internally at officer and member level within individual local authorities. Each authority will be using this standard report to brief members and secure any necessary approvals. The S151 Officers do not believe there are any wider impacts either on local businesses or partners requiring consultation.

6. Pooling Proposals

6.1 The DCLG required authorities considering the formation of a pool to lodge a **non-binding expression of interest** by 27 July 2012. Following discussions between the S151 Officers of the County and five Somerset District Councils the intention to form a Somerset Pool was communicated to DCLG by the deadline given.

6.2 The DCLG subsequently set an interim deadline (10 September 2012) for the delivery of further information to confirm that the pooling proposals were continuing to be developed. A meeting of the Somerset Finance Officers (S151 Officers) and additional senior officers on 4 September 2012 further considered the implications of a Somerset Pool together with scrutinising financial modelling of different growth scenarios. The overwhelming consensus was that the formation of a Somerset Pool could provide significant local benefit and reduced financial risk. However, it may increase financial risks in extreme cases where rate income within the pool falls dramatically and the impact and share of this risk will need to be agreed. Accordingly, it was agreed that further development work be undertaken and that DCLG should be informed of the continued intention to form a local pool. Again this being non-binding.

6.3 Ultimately final approval of pool membership, together with details of governance arrangements require sign-off by each authority's Chief Executive and S151 Officer and must be delivered to the DCLG by 9th November 2012 (this deadline was 19th October but has been extended subsequent to the report before Corporate scrutiny in September).

6.4 The development of a Somerset Pool would be based on the following assumptions:-

- The significant additional funding retained in Somerset comes from the countywide Somerset Pool having a significantly lower levy rate than individual Districts. This means that less of the growth in business rates is paid over to central government and remains in Somerset.

- The intention is that no authority would be worse off inside the pool, than if they had elected not to pool.
- The distribution methodology of any 'bonus' arising (after meeting any financial implications of the above bullet) should consider the creation of a Somerset Safety Net to manage financial risk and hardship, recognise economic growth rates of individual authorities and support additional economic development projects.
- That the risk of pool losses and their likelihood as well as methodology for dealing with any such losses is clear within the governance arrangement.

6.5 It should be noted that any authority can only be a member of one pool.

6.6 DCLG will announce the draft Local Government Finance Settlement in late November / early December, which will set the starting point for the new business rates and this will confirm the tariffs, top up and levy rates for each council, together with their spending baselines and should confirm the benefits arising through this pooling arrangement.

6.7 Councils have the opportunity, during the financial settlement consultation period, to decide to withdraw from a pooling arrangement if they decide that it does not offer the benefits they had thought. If this happens, then the DCLG legislation requires the pool to be immediately dissolved for 2013/14 and the affected councils would have to restart the process of applying to create a new pool in the following year.

7. Conclusions

7.1 The retention of business rates significantly changes the landscape of local government finance.

7.2 Pooling offers the potential to deliver more benefits to Somerset, smooth rate volatility and promotes closer working relationship between county and district authorities.

8. Finance Comments

8.1 At present the financial implications cannot be quantified with accuracy, however modelling suggests that the potential financial benefits of forming a pool significantly outweigh the relatively remote possibility of financial detriment.

8.2 There is however a risk with pooling due to the pool having a higher safety net threshold than each individual authority, so although we would benefit from growth we could lose from a reduction in businesses rate income in Somerset to a greater level than we might acting alone.

8.3 The principle put forward to the pooling discussions is that TDBC should be in no worse a situation if it were in a pool than if it were to remain outside the pool.

8.4 The indications are that this would remain true in all but exceptional circumstances (e.g. the <u>total</u> loss of rate income from several major ratepayers across the County during the same financial year) and that overall being in the pool is more likely to lead to greater growth or better protection than remaining outside.

8.5 The authority can decide not to be part of the pool, and withdraw our expression of interest, once the provisional settlement figures are announced in November / December. The continuation of the pool from 1st April 2013 has to be agreed by the pool members annually.

9. Legal Comments

9.1 An overarching Somerset pool members agreement will be required that will set out the terms, operating policies and redistribution methodology of the business rates to each member council. The government will issue details of the new Business Rates regime and at this stage those councils who have expressed an interest to participate in the pooling arrangement can progress discussions, and propose detailed arrangements on a non-binding basis.

10. Links to Corporate Aims

10.1 Business rates pooling would support the growth strategies of this Council.

11. Environmental Implications

11.1 Environmental implications are linked to the general impact of a drive toward increased growth of commercial properties, which the Government is hoping this change to Local Government funding will encourage. There are implications relating to increased pressures on green space, carbon emissions, water and air quality and water stress linked to increased development which would require careful management.

12. Community Safety Implications

12.1 There are no specific community safety implications arising from these proposals as they stand.

13. Equalities Impact

13.1 There are no adverse differential impacts on any particular section of the community arising from the proposal to form a Somerset Pool.

14. Risk Management

14.1 The introduction of business rate retention brings about a transfer of risk from the Government to local authorities. Presently TDBC carries no financial risk should business rate income fall from one year to another. This risk is currently entirely carried by central government.

14.2 From 2013/14 rate retention introduces new risk to TDBC, **whether we are inside or outside of a pool** as a decline in rate income would lead to a reduction in Council funding.

14.3 The Government propose to put in place a mechanism to support authorities if a significant reduction in business rates revenue arises. A Safety Net payment is made to support Councils who lose a significant amount of Business Rates. The Safety Net would be triggered by rate decline which is likely to be equal to a 10% of our funding baseline. The Safety Net would make up the difference to that set percentage. For TDBC this would mean we would carry the risk of having to fund the first £250k of any rate shortfall based on our likely funding baseline.

14.4 A downside of pooling is that (while it is part of a pool) an authority automatically foregoes the Government safety net arrangements that would have applied to that individual authority. Instead it is dependant on the success and distribution arrangements of the pool, as pooling effectively treats all councils within the pool as one authority for business rates purposes.

14.5 Under a pooling arrangement, a Safety Net payment would be triggered according to the baselines of the pool rather than the individual authorities. This would mean that the safety net would not be triggered until the rates across the pool fell by approx £7.5m across the pool area. A key part of the governance arrangements which would need to be agreed for a pool would be to agree how any rate losses (and surplus) would be funded by the pool.

14.6 For rates income to fall by this amount over the pool it would require significant rate reductions in each district or a dramatic fall in one or two districts involving the total loss of rate income of several of the highest ratepayers. For 2013/14, having reviewed the major ratepayers within the County, this scenario is felt by the S151 officers to be unlikely. However, for subsequent years, if the pool were to continue, it is vital for each district to review the likelihood of such an event occurring and make its decision on whether to continue to be part of the pool in light of that projection.

14.7 In a scenario where one district were to see its rate income fall and the others grew, pooling could significantly reduce Authorities exposure to Business Rates income volatility and financial risks through loss of direct income if businesses go into decline, as these risks are spread across a much larger pool, hence smoothing out any such volatility.

14.8 The pooling of Business Rates can vary from all Business Rates being pooled and then re-distributed or to only the Levy payment saving being pooled. The Somerset pool proposes that only the levy payments would be pooled. Each authority would receive the allocation of growth they would have received if they were not in the pool. Any surplus levy effectively underwrites any safety net payment and provides a pool for distribution of monies that otherwise would have been paid back to the Government.

14.9 It is felt most likely that rate growth across the pool area would increase slightly above RPI during 2013/14, mirroring the trend over the past 5 years. In such a case the risk of loss of rate income in 2013/14 is felt to be low.

15. Partnership Implications

15.1 This would be one of the most important agreements between Somerset authorities as it would cover the Council’s core funding.

Business rates within Taunton Deane will continue to be billed and collected by Southwest One revenues and benefits team.

16. Recommendations

16.1 The Executive agrees that:-

- Taunton Deane should continue to progress forming a rating pool, comprising the five Somerset District Councils, together with the County Council for the financial year 2013/14 (with effect from 1 April 2013);

- the detailed governance and operating arrangements of the pool should be delegated to the S151 officer and Chief Executive, in consultation with the political Group Leaders.

- the County Council continues to act as the lead authority and coordinator for the pool;

- the Chief Executive and S151 officer be empowered to sign on behalf of the Council to request DCLG to designate the Somerset Pool, in line with DCLG timescales, together with approval of the detailed governance arrangements.

- If, on receipt of the provisional settlement figures, or if we cannot agree satisfactory arrangements for governance and surplus /loss sharing, that the decision to leave the pool will be made by the S151officer and Chief Executive in consultation with the political Group Leaders.

Contact: Paul Harding, Corporate and Client Lead
01823 356309
p.harding@tauntondeane.gov.uk

Background Papers

The Government have produced three papers relating to rate retention and pooling which members may find helpful to supplement the information provided within this report.

Proposals for Business Rates Retention - A Plain English Guide (3 pages)

http://www.communities.gov.uk/documents/localgovernment/pdf/2182624.pdf

Business Rate Retention - A Step by Step Guide (6 pages)

http://www.local.communities.gov.uk/finance/brr/sumcon/stepbystep.pdf

Business Rate retention Scheme: Pooling prospectus (21 pages)

http://www.communities.gov.uk/documents/localgovernment/pdf/2182704.pdf

Illustration of Possible Benefits of Pooling In Somerset

Allocations

Appendix A

	Real Terms Decline (RPI = 3%)				Real Terms Growth (RPI = 3%)				
					Default				
	-4%	-2%	0%	2%	4%	6%	8%	10%	12%
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Somerset County Council	59.327	59.619	59.912	60.205	60.531	60.790	61.052	61.375	61.670
Mendip	2.525	2.525	2.700	2.777	2.842	2.886	2.941	2.995	3.050
Sedgemoor	2.993	3.226	3.300	3.366	3.436	3.498	3.564	3.630	3.696
South Somerset	3.189	3.367	3.501	3.571	3.643	3.711	3.782	3.852	3.922
Taunton Deane	2.353	2.518	2.570	2.621	2.683	2.724	2.775	2.826	2.878
West Somerset	1.224	1.249	1.275	1.300	1.328	1.351	1.376	1.402	1.427
Total	**71.610**	**72.504**	**73.256**	**73.840**	**74.462**	**74.960**	**75.490**	**76.080**	**76.642**
Pool	**71.363**	**72.931**	**74.419**	**75.907**	**77.566**	**78.884**	**80.373**	**81.861**	**83.349**
Gain/Loss	**- 0.247**	**0.427**	**1.163**	**2.067**	**3.104**	**3.924**	**4.883**	**5.781**	**6.707**

Pooling Within Somerset

	Growth Rate	Funding Baseline	Business Rates Baseline	Tariff or Top-Up		Levy Rate	2013/14 Allocation
	%	£	£	£			£
Somerset County Council		59,548,795	14,269,344	45,279,451	Top-up		60,530,585
Mendip	4.38	2,729,446	12,495,946	- 9,766,500	Tariff	78.2%	2,842,046
Sedgemoor	4.14	3,235,839	13,659,843	- 10,424,004	Tariff	76.3%	3,436,320
South Somerset	4.03	3,447,636	17,131,894	- 13,684,258	Tariff	79.9%	3,642,510
Taunton Deane	4.41	2,488,148	15,754,404	- 13,266,256	Tariff	84.2%	2,682,846
West Somerset	4.19	1,122,644	4,377,219	- 3,254,575	Tariff	74.4%	1,327,962
	RRI = 3%						
Total							74,462,269
Pool		**72,572,508**	**77,688,650**	**- 5,116,142**	**Tariff**	6.6%	**77,565,795**
Gain/(Loss)							**3,103,526**