

PLYMOUTH CITY COUNCIL

Subject: Pooling of Business Rates in Devon for 2013/14
Committee: Cabinet
Date: 13 November 2012
Cabinet Member: Councillor Lowry
CMT Member: Adam Broome (Director for Corporate Services)
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Ref:

Key Decision: No

Part: I

Purpose of the report:

This report provides background information on the new business rates retention scheme and the business rates pooling proposal for the Devon region. It recommends Plymouth City Council becoming a member of a Devon wide pool for 2013/14 and that it acts as Lead authority for the Pool.

Corporate Plan 2012 – 2015:

This initiative links to our growth agenda

Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land

The basis of distribution of Central Government funding to local authorities is changing radically from April 2013, pooling of business rates has the potential to increase central government funding to each local authority within Devon. As lead authority, Plymouth City Council will need to resource the additional work, however funding for this has been agreed as the first call on the funds generated from the pool.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:

Not applicable

Recommendations & Reasons for recommended action:

It is recommended that

1. The Council enter the Devon business rate pooling scheme for 2013/14, subject to the Director for Corporate Services and Chief Executive being satisfied that it is in the Council's financial interests to do so.
2. Subject to recommendation 1, the Council agree to offer to be the lead authority for the scheme.

Alternative options considered and reasons for recommended action:

The option of not forming a Devon wide pool has been considered, however based on current information it appears to be in the Council's interest to become a member of a Devon wide Pool.

Background papers:

None

Sign off:

Fin	DJN 121 3.01 2	Leg	TH0 058	HR	N/A	Corp Prop	N/A	IT	N/A	Strat Proc	N/A
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Originating SMT Member - Malcolm Coe

Have you consulted the Cabinet Member(s) named on the report? Yes / ~~No~~

1.0 Introduction

- 1.1 This report provides information on the new Business Rates Retention scheme and the Business Rates Pooling proposal for the Devon region.
- 1.2 At this stage the Council is committing to becoming a member of the Devon wide pool for 1 year only.

2.0 Localisation of Business Rates

2.1 Background

- 2.1.1 Business Rates retention has been confirmed as one of the features of the Local Government Finance Bill, to be implemented in April 2013. There are many aspects of the scheme, but fundamentally, it is the retention of a proportion of the business rates revenue generated in a local area by the relevant local authority. It is intended to provide incentives for local authorities to drive economic growth, as authorities will be able to retain a share of any growth that is generated in Business Rates revenue in their areas, as opposed to the current system where all Business Rates go to central Government for distribution.
 - 2.1.2 The proposals do not include any changes to the current system of business rates i.e. liability, billing and collection, so businesses will not see any change to the way that the business rates are set or how they pay.
 - 2.1.3 Although full working details of the scheme are not yet known, it is expected that Government funding for 2013/14 under the new scheme will be broadly in line with what the Council would have received under the previous formula grant regime i.e. revenue support grant plus a share of redistributed business rates. This is however within the constraints of the Government's spending control totals for Local Government. The Government has also stated that for 2013/14 a number of specific grants will be rolled into the baseline funding level. The funding outcome for each Local Authority will be set out in the draft Local Government Finance Report (settlement) which is expected in late December.
- ### **2.2 How the business rates retention system will work**
- 2.2.1 Essentially, local authorities will retain 50% of the business rates generated in their area and receive Revenue Support Grant to fund their remaining spending needs.
 - 2.2.2 The reality is that some authorities earn more in business rates than they currently receive from the formula grant, so their business rates baseline will be greater than they need, while there are other authorities who earn much less, the Government intends to deal with this through a mixture of "top-ups" and "tariffs."
 - 2.2.3 In the main, district councils will be "tariff" authorities, as their business rates baseline is as a general rule, greater than their spending needs. Whereas local authorities with County and Unitary functions will generally be "Top-Up" Authorities, as their business rates baselines will not generally be enough to fund these additional functions. This is reflected in the mix within Devon, where Devon County Council, Plymouth and Torbay will be 'Top Up' Authorities but all of the districts e.g. Exeter, Torridge, East Devon etc. will be "tariff" authorities.

3.0 Pooling Arrangements for Business Rates

3.1 Pooling Background

- 3.1.2 The Local Government Finance Bill allows local authorities to form pools for the purposes of business rates retention. It is expected that pooling will offer many local authorities an opportunity to retain more of the business rates generated in their areas by paying a reduced levy and to use that revenue more effectively to drive economic growth. A pool will run for one year at a time.
- 3.1.3 When authorities decide to enter into a pooling arrangement, Central government views the pool as a single authority and hence a single funding baseline and single business rates baseline will be calculated for the whole pool. This results in a combined top up or tariff and levy being applied to the pool's business rates revenue as opposed to this being applied to each individual authority.
- 3.1.4 Under the proposed system, tariff local authorities with increasing business rates revenues from NDR tax base growth will be required to pay a levy. As Plymouth is a top up authority, under the current proposals it will not pay a levy on business rates growth. However it could gain financially from pooling within Devon.
- 3.1.5 Under pooling the entitlement to safety net payments is withdrawn.

3.2 The impact of Pooling in Devon

- 3.2.1 All authorities in Devon jointly engaged the consultancy firm; LG Futures to examine the implications of pooling for the Devon Region, with the initial results indicating that it could be financially beneficial to form a pool. Following this report, Plymouth along with all other local authorities in Devon submitted an expression of interest in forming a Devon wide pool to DCLG. This was submitted on the understanding that any or all of the authorities involved may decide not to finally commit to the arrangement should further information arise that shows it would not be in their best interests.
- 3.2.2 The members of the Devon pool consist of the following authorities:
- East Devon
 - Exeter
 - Mid Devon
 - North Devon
 - South Hams
 - Teignbridge
 - Torridge
 - West Devon
 - Plymouth
 - Torbay
- 3.2.3 At this stage, their membership is also subject to the outcome of the settlement.
- 3.2.4 A Devon wide pooling working group was set up and further analysis was undertaken to determine what the implications of pooling would be for the Devon region. The key conclusions from the modelling are explained below.

- 3.2.5 If all Devon authorities acted as one single pool, it would be a top up authority overall by £18.6m. This means under the business rates retention scheme the amount of NDR retained in the Devon region is less than the level of need (Baseline Funding). This results in a **0% levy rate** for the region as a whole if pooled. This is shown in Table I.
- 3.2.6 However, if Devon authorities acted alone, then the levy rates on business rates growth shown in the table will need to be paid to Central Government. As an example, based on current information for every £100 growth in the NDR baseline in Exeter, a levy would be paid to Central Government of £85, hence only £15 would be retained.

Table I
Forecast top up/tariff status of the pooling authorities, and the resulting levy rate, using a 1:1 proportional levy

Local Authority	Top up/Tariff	Baseline Funding £m	NDR Baseline £m	Top up/Tariff £m	Levy %
Devon	Top up	89.728	21.175	68.553	0%
East Devon	Tariff	2.741	12.531	(9.790)	78%
Exeter	Tariff	4.326	29.640	(25.314)	85%
Mid Devon	Tariff	2.184	5.938	(3.754)	63%
North Devon	Tariff	2.994	12.821	(9.827)	77%
South Hams	Tariff	1.912	11.920	(10.009)	84%
Teignbridge	Tariff	3.411	12.504	(9.093)	73%
Torridge	Tariff	2.437	4.277	(1.841)	43%
West Devon	Tariff	1.558	4.482	(2.923)	65%
Plymouth	Top up	55.106	44.131	10.975	0%
Torbay	Tariff	30.342	18.710	11.632	0%
TOTAL	Top Up	196.739	178.129	18.609	0%

3.3 Results of the Analysis

- 3.3.1 The analysis work modelled three scenarios in relation to business rates growth forecasts, these were the “most likely”, “lower” and “higher” estimates of business rates growth. All of these scenarios indicated that the Devon authorities would benefit financially by acting as a pool. The forecast business rates growth under the “most likely estimate” has been estimated by each authority and ranges from between 0% and 5% pa over the 5 year period.
- 3.3.2 Under each of these three pooling scenarios, the analysis found that a higher level of resources would be received by the pool, than if the authorities had acted individually.
- 3.3.3 Based on the different levels of growth modelled, the analysis found that pooling could potentially increase the level of NDR income retained in Devon by between £5.8m and £23.1m in the 5 year period from 2013/14 to 2017/18. Clearly, the greater the degree of growth there is in the district areas the greater the gain from pooling.
- 3.3.4 A further benefit of pooling would be that it significantly reduces each Authority’s exposure to Business Rates income volatility 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.

3.4 The Impact of negative growth on the Pool

- 3.4.1 Further modelling was undertaken to understand the tipping point i.e. the impact of negative growth on the pool and at what point would the pool run into a negative funding situation. This would happen if there was negative growth in an area over and above a certain level. As a pool there would be no entitlement to safety net funding.
- 3.4.2 The negative growth that would be required to reach the tipping point has been assessed and is not considered to be a significant risk to pooling in year 1.

3.5 Distribution across the pool of additional resources

- 3.5.1 The Government has stated that “it is for pools themselves to decide how to distribute aggregate revenues within the pool”.
- 3.5.2 The Devon pool’s proposal is to apply a “**no worse off approach**” whereby in the first instance each local authority would receive the same amount that it would have if it had acted individually, with the additional funds generated through pooling being distributed across the pool based on, for example baseline funding levels or business rates baseline or a combination of both
- 3.5.3 It has been well documented that the timetable for setting up a Pool is very tight, so it is proposed that in Year 1 the distribution method is kept as simple as possible. A simple and fair basis can be set by taking an average of the baseline funding level and the business rates baseline for each authority.
- 3.5.4 Based on the higher estimate of growth, Plymouth could therefore see a gain of between £5.7m and £6.5m over the 5 year period and under the lower estimate between £1.4m and £4.6m. For 2013/14, Plymouth’s share is estimated to be in the region of £0.7m.
- 3.5.5 These projected figures are based on current guidelines but it should be noted that the operation of the scheme has not yet been fully set out by Central Government.

3.6 Lead Authority

- 3.6.1 One authority will need to act as the Lead Authority to cover governance, administration and payment arrangements. Details are awaited but it would appear that the Government would pay the pooled business rates funding (combined top ups and tariffs) to the lead authority. The lead authority would then be required to distribute business rates top ups and tariffs amongst the pool members on the agreed distribution method. There is also the possibility that the Government’s central share of Business Rates will need to flow through the Lead Authority, which in practice would mean total cash payments to the pool could be excessive for the district authorities in Devon to deal with in terms of treasury management and cash flow processes.
- 3.6.2 It would therefore follow that the lead authority would need to be one of the larger authorities in Devon i.e. Devon County, Torbay or Plymouth City Council and it would also follow, that it would be beneficial for the lead authority to be a billing authority. With this in mind it has been proposed that Plymouth be the lead authority for the Devon Pool, subject to being able to recover the costs of administration as a first call on the pool resources.
- 3.6.3 At the Devon Local Government Steering Group on 19th October, all Devon authorities agreed that they were willing to sign up as a designated member of the Devon Pool for the financial year 2013/14, subject to the settlement announcement in December and it was agreed that Plymouth City Council would act as Lead Authority.

3.7 Key Dates

- 3.7.1 The next formal step in this process is the submission of a pooling proposal, signed by each Chief Executive and s151 officer, to be submitted to CLG by the 9th November (recently extended from 19th October). This must include the names of the lead authority and each individual member and detailed governance arrangements. Dependent on the national funding implications of pooling, CLG will then decide whether to agree to designate the Pool. It is expected that Pools will be notified of this decision in November, ahead of the publication of the settlement.
- 3.7.2 Once the draft settlement is published in December then there is a 28 day “cooling off period” which allows local authorities to opt out of the pool following sight of its settlement figures. However if a local authority opts out at this stage it would result in the whole pool being dissolved as there is no mechanism within the Local Government Finance Bill to change designations after the publication of the draft settlement.

4 Conclusions

- 4.1 The changes to local government funding from April 2013 will be radical and the full impact cannot yet be quantified, it is however expected that the funding PCC will receive in the first year of the operation of the scheme will be broadly in line with its current resources.
- 4.2 For the first time, funding in future years will be dependent to a certain extent on the level of business rates growth that each local authority gains.
- 4.3 Due to the mix of District, County and Unitary authorities in Devon, there is the potential for substantial additional funding to be retained in Devon by forming a pool. This has been estimated over a 5 year period of between £5.8m and £23.1m for the county
- 4.4 If Plymouth were to join a Devon wide pool for business rates retention, its share of the gain would be in the region of between £1.4m and £6.5m over a 5 year period. In 2013/14 this is estimated to be in the region of £0.7m
- 4.5 If the Council was to enter a pool then there would be no entitlement to safety net funding should a high degree of negative growth be experienced. Current modelling anticipates that business rates growth in Devon will not reach the levels required to put the Pool into a negative funding situation.
- 4.6 There is a cooling off period to allow authorities to withdraw from pooling, within 28 days following the draft Local Government Finance settlement.