FOR PUBLICATION

AGENDA ITEM

BUSINESS RATES POOLING

MEETING:	COUNCIL
DATE:	15TH OCTOBER 2014
REPORT BY:	CHIEF FINANCE OFFICER
WARD:	ALL
COMMUNITY FORUM:	ALL
KEY DECISION REF:	465

FOR PUBLICATION

BACKGROUND PAPERS FOR PUBLIC REPORTS:
TITLE: Working Papers LOCATION: Accountancy

1.0 PURPOSE OF REPORT

1.1 This report seeks approval in principle to the Council joining a Derbyshire based Business Rates Pool in 2015/16.

2.0 RECOMMENDATIONS

2.1 That the Council approves in principle the authority joining a Business Rates Pool for Derbyshire in 2015/16.

3.0 BACKGROUND

3.1 The Government has recently issued the Business Rates Pooling Prospectus 2015/16. The web-link to this paper is:

https://www.gov.uk/government/publications/business-rates-retention-scheme-pooling.

This report considers the implications of that paper and advises on a way forward.

3.2 The report was considered at the meeting of Cabinet on 7 October 2014 and it was resolved that the recommendation be supported. [Cabinet Minute No. 96]

3.3 The report also recommended to Cabinet that authority be delegated to the Chief Finance Officer, in consultation with the Leader, Deputy Leader and Chief Executive, to approve the final details of the scheme. This recommendation was approved. [Cabinet Minute No. 96]

4.0 BUSINESS RATES POOLING PROSPECTUS 2015/16

4.1 Under the rates retention scheme, which came into effect on 1 April 2013, local authorities are able to keep a proportion of the business rates that they collect. As a result, authorities now have a direct financial interest in the rates system and an incentive to work with their business community to grow local economies.

4.2 As part of the rates retention scheme, authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. This not only allows them to pool their resources under the scheme (which they could do anyway), but ensures that they are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

4.3 The Prospectus suggests that there are a wide range of benefits of pooling:

- In many cases, authorities that pool can be better off collectively. This is because the levy rate for a pool as a whole can be lower than that for individual pool members if they remain outside the pool. This is the case in each of the 18 pools in effect for 2014-15, benefitting 111 authorities that chose to pool.
- Pooling the rates income from growth across a wider and economically coherent area ensures that all authorities can benefit from economic growth across the wider area. This can mean that the strategic decisions that are needed about infrastructure investment are easier to make.
- By pooling their rates retention resources, pool authorities can help manage the inherent risk caused by natural volatility in rates income. Variations in annual rates income are normal, reflecting the nature of the rating system and, particularly, the risk of rating appeals. By pooling their rates retention resources, authorities can collectively manage these variations by balancing gains and losses across the pooled area.

- The act of setting up pools can help further the process of joint working and could result in wider benefits that go well beyond pooling e.g. collaboration over service delivery resulting in improved value for money.

4.4 Each authority must decide whether pooling is appropriate for them. The consequences of forming a pool will be different in each case, depending on the membership of the pool, their individual circumstances (i.e. the balance of top-ups and tariffs) and the rate of growth in business rates income over the life of the pool. Local authorities will therefore need to undertake their own due diligence, modelling the individual position alongside the pool position. Pooling could show a potential benefit – because the pool levy rate may be lower than the levy rates that would have been paid by members individually, thereby increasing the amount of rates income kept locally. Local authorities will also want to consider the impact of fluctuations in business rates income. There is a risk that some local authorities may find that a reduction in their local business rates income, which would otherwise have qualified for a safety net payment, will no longer do so because overall the pool is above its safety net threshold. In these circumstances local authorities in the pool will need to decide whether and how they support members seeing significant reductions in their business rates income.

4.5 For 2015/16 any proposals for new pools must be made to DCLG by 31st October 2014. DCLG will work with interested local authorities to support the development of the pool. Final proposals will need to be signed off by the s.151 officers of each authority in the pool.

4.6 DCLG will consider all applications for designation received by 31 October 2014. For a pool to come into effect, from the start of the next financial year, the Secretary of State is expected to notify authorities before the publication of the draft Local Government Finance Report for that year. This is expected to be published as usual in the autumn.

4.7 While local authorities in a pool will be treated as a single body, for the purposes of calculating tariffs, top-ups or levy and safety net payments, authorities in a pool will be notified of their position in the draft Local Government Finance Report. This will enable local authorities to confirm if pooling is still of benefit to them. Local authorities can withdraw from a designated pool before the pool comes into effect, if after seeing the draft Local Government Finance Report, they no longer believe that pooling provides the opportunities they had previously thought. To exercise this option a local authority must write to the Department within 28 days of the publication of the draft Report and before the final Report is laid before the House of Commons. The Secretary of State will then revoke the designation. Once a designation has been made it cannot be amended so if a local authority chooses to exercise this option it will mean that the pool cannot continue. In those circumstances the local authorities who had been designated as members of that pool would revert to individual positions. Pools will continue from year to year until a designation is revoked.

5.0 THE PROPOSED POOL FOR DERBYSHIRE

5.1 The Derbyshire authorities councils (districts, county, fire and city) have jointly engaged a consultant to give advice on pooling. The Derbyshire Finance Officers met with the consultant on 30th September, when a number of scenarios were considered. A summary of the finance model proposed is included in **Appendix A**.

5.2 The main questions considered at the Finance Officers' meeting and the conclusions reached included:

5.2.1 **Which authorities will form the pool?**

For the pool to be financially viable it needs:

(i) at least one 'top-up' authority (i.e. an upper tier authority); and

(ii) billing authorities in a 'tariff' position, with income above their baseline targets and, therefore, currently subject to a 'levy' on their gain.

The County Council and all of the districts currently meet these criteria and, therefore, bring some benefit to the pool. The City Council and the Fire Authority, however, do not add any financial value to the pool but the Finance Officers Group felt that they should be allowed to join in the spirit of joint working in the county. Also, given its size and experience of the Business Rates system, it was felt that Derby City was the best option for administering the pool, with the County Council as a second option. The current proposal (**Appendix A**) shows £91k of the net gain going to the Fire Authority and £150k to the City Council (which includes a £50k administration fee).

5.2.2 **What are the potential benefits and risk for authorities joining the pool?**

The benefits are as described in para 4.3 above. The potential financial gains are shown in **Appendix A**, with Chesterfield Borough Council receiving **£262k** more than it would do if it stood alone. Final details about how much of this saving should be set-aside into a reserve for Economic Regeneration projects or as a contingency for future losses has yet to be determined. In terms of risks, the consultant's view is that the proposal is the strongest he has come across to date. For the full amount of the £2.9m saving to be removed it would require a number of significant rating assessment reductions to occur, and the risk of this happening is extremely low. The modelling undertaken shows that only in these extreme circumstances will any authority be worse off than it would be as a standalone authority outside of the pool. Similarly, an authority with strong business rates growth will not lose more of this gain than it would under the Levy arrangement if it stood alone. The advantage of pooling comes from reducing the Levy paid to the Government rather than re-distributing authorities' shares. All of the district councils in Derbyshire have a Levy rate of 50%, for the proposed Derbyshire Pool the rate will reduce to **zero**. If pooling is successful the Council will keep a larger share of any further growth and would also benefit from growth elsewhere in the county. The Pool is for 2015/16 only and there will be an opportunity to change the arrangements for the following financial year if necessary.

5.2.3 **Who will be the lead authority and administer the pool?**
Derby City has been identified as the best option given its experience of the Business Rates system and of managing large cash flows. If the City Council decides not to join the Pool the County Council has agreed that it will take on this role.

5.2.4 **What are the governance arrangements?**
A draft submission document, which is based on those of existing approved pools, is included at **Appendix B**.

5.2.5 **How will the pool income be distributed and balances managed?**
The draft submission document (**Appendix B**) describes how gains and losses could be shared. As mentioned above, this could change once decisions are made on whether to set some of the gain aside into an Economic Regeneration Reserve or a Contingency Reserve. If the Pool does not retain a Contingency Reserve it will be for each authority to determine if to create its own.

5.2.6 **What are the arrangements for meeting any liabilities?**

Section 11 of the draft agreement (**Appendix B**). Business Rate income losses would have to be (a) substantial and (b) heavily concentrated in one or two districts for losses to become an issue.

5.3 At the time of writing this report a number of the other potential members of the Pool have yet to secure formal approval from their Councils. Also, further work may need to be undertaken to verify the figures in the model. The answers to some of the questions considered above are, therefore, still subject to possible changes. The DCLG, however, requires proposals for new pools to be submitted by 31st October and is unlikely to allow any extensions to this date. Therefore, the Council can only make a decision "in principle" to join the Pool at this stage with approval of the final details of the scheme being delegated to the Chief Finance Officer, in consultation with the Leader, Deputy Leader and Chief Executive, to approve the final details of the scheme.

6.0 RISK MANAGEMENT

6.1 **Legal -** The requirement to achieve a balanced budget will impact on methods and levels of service provision of both discretionary and statutory services. The Council will need to make a series of important decisions that balance the principles of delivering effective services whilst significantly reducing its costs. In doing so it must satisfy itself that it has done all it can to achieve a balanced budget that is sufficient to enable the Council to comply with its statutory and common law duties. The recommended approach is considered to be within the legal parameters and the legal risk is assessed as low.

6.2 **Financial -** The Council has a statutory duty to set a balanced budget any gain from pooling will help to achieve this. The pooling arrangement proposed in this report is considered to be low risk. If following the announcement of the Provisional Local Government Finance Settlement in December the financial case changes there will be an opportunity to withdraw from the Pool; this, however, should be seen as an option of last resort because it would risk collapsing the Pool completely. Once the Pool is formally established the commitment is for one year only, after which time it can be reconfigured with some authorities withdrawing if necessary.

7.0 RECOMMENDATIONS

7.1 That the Council approves in principle the authority joining a Business Rates Pool for Derbyshire in 2015/16.

8.0 REASON FOR RECOMMENDATIONS

8.1 To take advantage of a low risk opportunity to increase the Council's share of Business Rate income in 2015/16.

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