

# Forest Heath District Council

(This report is a key decision. This report has been subject to appropriate notice of publication under the Council's Access to Information Rules)

## Report of the Cabinet Member for Resources, Governance and Performance

**CABINET**

**2 OCTOBER 2012**

**CAB12/034**

### **LOCAL GOVERNMENT RESOURCE REVIEW - BUSINESS RATES RETENTION: POOLING** (Key Decision Reference: OCT12/10)

#### **Summary and reasons for recommendation(s)**

One of the features of the Local Government Finance Bill, currently going through Parliament, is the retention of a proportion of the business rates revenue generated in a local area by the relevant local authorities.

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 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. It would share the benefits of economic growth, and also the risk of any decline in business rates.

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

Forest Heath District Council submitted an initial expression of interest prior to 27 July 2012 as required by DCLG. The formal sign off of the intention to pool needs to be completed by 19 October 2012.

#### **Recommendation(s)**

**It is recommended that:**

- 1. Cabinet is asked to endorse that the District Council should continue to form a pool with the County and Borough/District Councils for the collection of business rates with effect from 1 April 2013.**
- 2. That the detailed governance and operating arrangements are established and**

approved by Suffolk Public Sector leaders at their meeting on 14 September 2012.

3. That the County Council becomes the lead authority and acts as Banker for the pool.
4. That the Chief Executive and S151 Officer are empowered to sign on behalf of the Council to request DCLG to designate the Suffolk pool, in line with DCLG timescales.

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#### **How will the recommendations help us meet our strategic priorities?**

1. The recommendation will support all the priorities within the Strategic Plan but particularly Economic Development: A stronger economy which is capable of growing. Further information is contained within the key issues section.

#### **Wards affected**

2. All wards.

#### **Key issues**

3. The additional money retained in Suffolk as a result of pooling business rates come from the Suffolk pool having a significantly lower levy rate than individual Boroughs and Districts. This means that less of the growth in business rates is paid over to central government, and remains in Suffolk.
4. The intention is that no authority would be worse off inside the pool, than if they had elected not to pool.
5. The decision about where this additional money should be spent should rest with Suffolk Public Sector leaders to determine.
6. The benefits from pooling in Suffolk are only available if the County Council agrees to be in the pool.
7. 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.

8. 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.
9. Pooling business rates:
  - a) provides a new tool to deliver what's needed to promote growth and jobs, allowing investment decisions to support economic priorities
  - b) encourages collaborative working across local authorities, rather than constraining activity within administrative boundaries
  - c) allows the benefit from investment in economic growth to be shared across the wider area – potentially providing a growth dividend to pool partners
  - d) helps local authorities manage volatility in income by sharing fluctuations across the pool.

### **What do we want to do?**

10. Use additional resources made available through growth in the business rates yield to benefit the wider communities within Suffolk led by the Suffolk Leaders' collective vision for a "Better Suffolk", be it countywide or in more specific locations to:
  - a) support infrastructure development;
  - b) encourage further business development;
  - c) facilitate additional housing; and / or
  - d) supplement resources from the LEP for previously identified projects and aspirations to bring them to fruition more quickly.
11. The development of this proposal is based on the premise that:
  - a) each of the Boroughs and Districts would get more benefit of growth associated with its area ;
  - b) provide resources for any drop in business rate income beyond the safety net level would be met (to some degree) through the pool;
  - c) a pool of money would be retained, derived from a reduction in the monies to be paid to Government for growth, for Suffolk Leaders to determine how that might be best spent across Suffolk; and
  - d) the County Council would act as lead authority (and banker) for the pool.
12. All Councils in Suffolk are taking similar reports to their cabinet/committees during September. DCLG require all Chief Executives and Chief Finance Officers to sign up to the request to designate a pool by 19 October. DCLG will then consider applications and approve or reject pooling proposals.

### **Conclusion**

13. The retention of business rates significantly changes the landscape of local government finance.
14. Pooling offers the potential to deliver more benefits to Suffolk and promotes closer working with other boroughs, districts and counties.

### **Other options considered**

15. The Council could choose not to be part of a Suffolk Pool.

## **Community impact**

### Crime and Disorder Impact (including Section 17 of the Crime and Disorder Act 1998)

16. None envisaged.

### Diversity and Equality Impact (including the findings of the Equality Impact Assessment)

17. None envisaged.

### Sustainability Impact (including completing a Sustainability Impact Assessment)

18. None envisaged.

## **What consultation has been undertaken and what were the outcomes?**

19. DCLG will work with authorities to support the development of proposals for pooling business rates over the coming weeks. Any interested parties in the issues covered are able to respond directly to Government

## **Financial and resource implications**

20. The government has stated its intention that no Council will be worse off at the start of the new arrangements for 2013/14. It is clear that the spending totals from the last Comprehensive Spending Review will be adhered to, but there will almost definitely be even further funding cuts on top of those already announced.

21. The new system will preserve the existing Spending Review 2010 settlements for individual authorities in 2013/14 through a system of tariffs and top ups. For each council, a baseline position is set, based on their 2012 funding settlement and their average business rates yield over the last 5 years.

22. 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.

23. In two-tier areas 80% of the local share of business rates will be retained by district or borough 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. Future growth in business rates income will be subject to levies, which are applied to tariff authorities only. This ensures that an authority which increases its business rates by 1% only receives a 1% increase in its spending power.

24. Table 1 illustrates the latest modelling of tariffs, top ups and levy rates for individual councils in Suffolk. These will change and we will only have certainty once DCLG has announced the Local Government Finance Settlement in November / December this year.

Table 1: Modelling of Tariffs, Top Ups and Levy Rates

Authority	Rates Baseline £m	Spending Baseline £m	Tariff (-) /Top-up £m	Individual Levy Rate
Suffolk CC	24.945	89.912	64.967	0%
Babergh	8.954	2.004	- 6.951	78%
Forest Heath	8.695	1.827	- 6.868	79%
Ipswich	21.432	3.837	- 17.595	82%
Mid Suffolk	8.407	2.167	- 6.240	74%
St Edmundsbury	17.447	2.309	- 15.138	87%
Suffolk Coastal	24.018	2.741	- 21.277	89%
Waveney	10.828	3.693	- 7.136	66%
<b>TOTAL</b>	<b>124.727</b>	<b>108.489</b>	<b>- 16.238</b>	<b>13.02%</b>

25. 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. Modelling done so far on what details of the scheme we do know suggests that pooling by all Boroughs and Districts and the County Council will be beneficial and provide additional funding for Suffolk Councils to spend. Table 2 below illustrates the benefits of pooling should councils in Suffolk achieve a 1% Business Rate growth. This illustrates a reduction in the levy paid by £0.650 million, which would be available to spend in Suffolk.

Table 2: Potential Benefits of Pooling

Authority	Rates Baseline £m	Individual Levy Rate	1% Growth £m	Levy Payment £m
Suffolk CC	24.945	0%	0.249	-
Babergh	8.954	78%	0.090	0.070
Forest Heath	8.695	79%	0.087	0.069
Ipswich	21.432	82%	0.214	0.176
Mid Suffolk	8.407	74%	0.084	0.062
St Edmundsbury	17.447	87%	0.174	0.151
Suffolk Coastal	24.018	89%	0.240	0.213
Waveney	10.828	66%	0.108	0.071
<b>TOTAL</b>	<b>124.727</b>		<b>1.247</b>	<b>0.812</b>
<b>TOTAL Pooled</b>	<b>124.727</b>	<b>13.02%</b>	<b>1.247</b>	<b>0.162</b>

26. The benefit to the Suffolk authorities from being in the pool, based on the illustration above is £650k (0.812m – 0.162m).
27. 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, 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 collective benefits for those involved in the pool.
28. 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 reapply to create a pool a year later.
29. If a pool is dissolved then the member authorities would revert to their individual baselines, tariffs and levies.

### **Risk management implications**

30. The key risks, primarily financial at this stage, are considered in the resource implications and pooling sections of the report.

### **Legal/Policy implications**

31. These are considered within the resources implications section of the report.

### **Documents attached**

None.

### **Background papers**

Local Government Resource Review and Business Rates Retention on Communities and Local Government website:

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/>