



*St Edmundsbury*  
BOROUGH COUNCIL

# D72

## Cabinet 25 July 2012

### Business Rate Retention/Reform (Aug12/20)

#### 1. Summary and Reasons for Recommendations

- 1.1 To update Members on the Government's proposals for reforming the distribution of funding to Councils through Business Rates and to seek approval for the Council to express an interest to pool its business rates with other Suffolk authorities for 2013/2014.

#### 2. Recommendations

- 2.1 It is **RECOMMENDED** that:-
- (1) an expression of interest to pool business rates across Suffolk for 2013/2014, be submitted to the Department for Communities and Local Government (DCLG), with other Suffolk authorities; and
  - (2) the key elements of the Government's statement of intent and the impact on St Edmundsbury Borough Council, be noted.

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### **3. Corporate Objectives**

3.1 The recommendations meet the following, as contained within the Corporate Plan:-

- (a) *'Working together for strong, healthy and diverse communities';*
- (b) *'Working together for prosperous and environmentally-responsible communities';*  
and
- (c) *'Working together for an efficient Council'.*

### **4. Key Issues**

4.1 The Government announced early in its term of office that it wished to reduce or remove the formula grant system and put in its place a system to allow local authorities to retain a proportion of the growth of business rates, thus encouraging these authorities to promote economic development in their areas.

4.2 It is proposed that just under half of the Council's funding from Government will continue to come via Revenue Support Grant (and this will be reduced in line with overall Government spending reductions to Local Government) and the other half of the Council's funding will be via a localised business rate scheme.

4.3 Following consultation, the Government has now published a 'Statement of Intent' on how it wishes the localised business rate scheme to work.

4.4 At a high level the key elements are:-

- (a) The central share (previously known as the 'set aside') has been set at 50% (previously considered by the Council to be 40%). The central share is the portion of business rates that the Government will keep centrally.
- (b) The Levy Rate has been set to ensure that a 1% increase in rates can only benefit the Council up to a maximum of 1% increase in its spending baseline.
- (c) The Safety Net is likely to be set between 7.5% and 10% of the spending baseline. This means that a council could lose 10% of its spending baseline before Government steps in with financial support. For St Edmundsbury this equates to a potential loss of £260,000 in a single year, which is a 1.45% drop in business rates collection.
- (d) There will be more specific grants rolling into Formula Grant (these primarily affect the County Council).
- (e) Expressions of interest to pool for 2013/2014 needs to be submitted to the DCLG by 27 July 2012.
- (f) Transfers between Government, and between councils, cash flow, base line etc, are all still work in progress.

4.5 The Council will keep the benefits of business rates growth, subject to a levy of around 85% on this growth.

#### **4.6 Pooling**

4.6.1 As part of the rates retention scheme, local authorities are encouraged to come together to pool their business rates, giving them the scope to smooth the impact of volatility in rates income across a wider economic area. The Government is particularly encouraging pooling in two tier areas such as Suffolk.

4.6.2 Other key benefits of pooling are that it:-

- (i) provides a new tool to deliver what is needed to promote growth and jobs, allowing investment decisions to support economic priorities;
- (ii) encourages collaborative working;
- (iii) allows the benefit from investment in economic growth to be shared across the wider area; and
- (iv) if pooled with a county council, significantly retains more income growth within the pooling councils.

4.6.3 However, there are downsides to pooling – it will affect the level at which the Safety Net kicks in - and ultimately it will be for individual councils to assess the downsides against the benefits and make their own decision.

4.6.4 At the Suffolk Public Sector Leaders meeting held on 18 May 2012, it was agreed that the Suffolk authorities were minded to pool, subject to the detail. A meeting of Finance Portfolio Holders and other key Cabinet Members across Suffolk, held on 15 June 2012, confirmed the will to make an expression of interest to the DCLG by the required date of 27 July 2012.

4.6.5 The Government has recently released a revised version of the interactive calculator which will enable the Council to explore the principal features of the scheme which will enable it to compare the outcomes with and without pooling.

4.6.6 Clearly, there are a significant number of issues to work through over the summer period to enable consultation to be undertaken in the early autumn and have a scheme in place by November 2012, if indeed pooling arrangements are entered into.

#### 4.7 **Next Steps**

4.7.1 Continue to monitor, assess and respond to Government announcements as they emerge over the summer period.

4.7.2 The Council will undertake more detailed modelling and financial analysis to show the financial implications of the scheme both for St Edmundsbury and across Suffolk. Further information will be presented to Cabinet in due course.

4.7.3 Member briefings have been arranged for 18 July 2012 at West Suffolk House, Bury St Edmunds and 1 August 2012 at District Offices, Mildenhall, for Members of both St Edmundsbury Borough and Forest Heath District Councils.

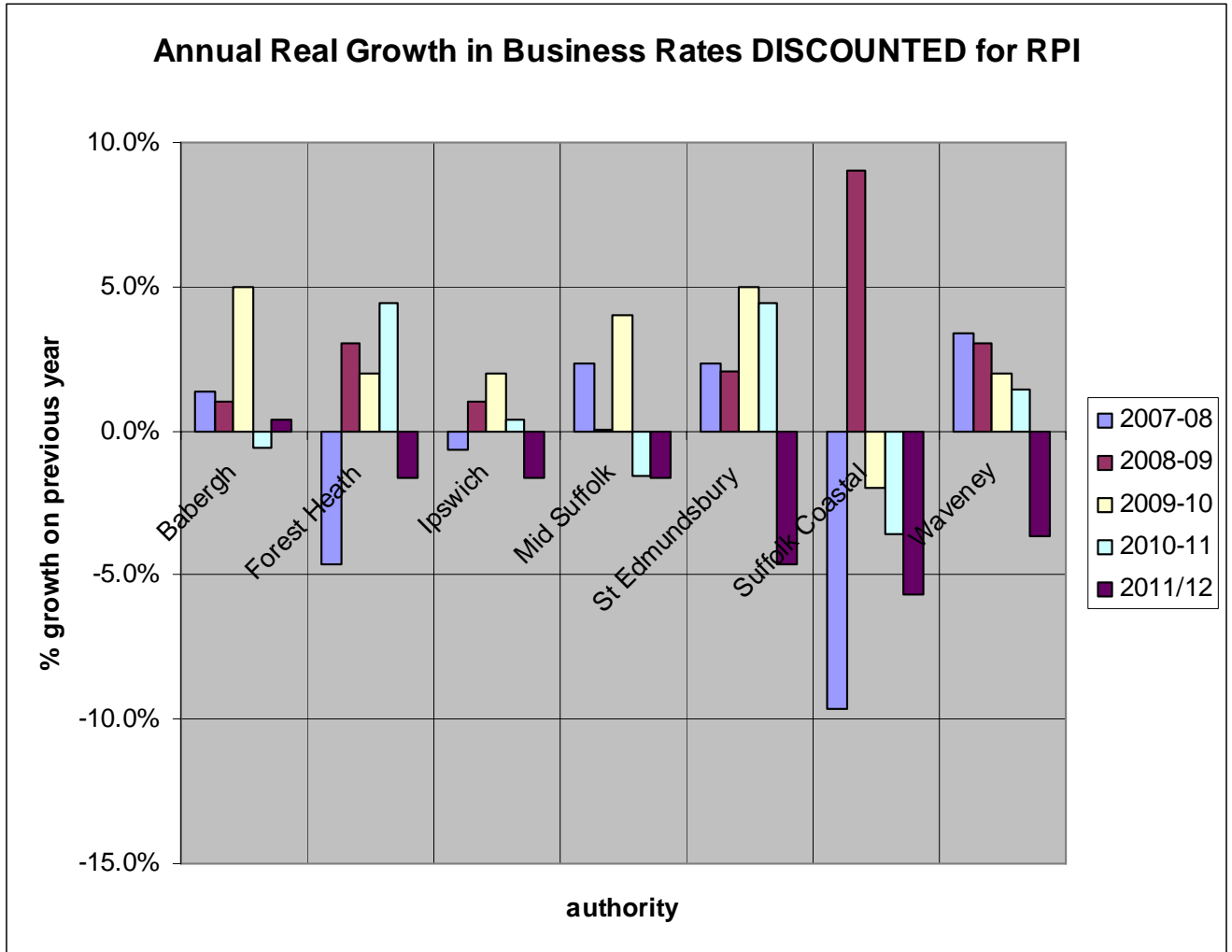
#### 5. **Other Options considered**

5.1 Not to express an interest in pooling business rates with other Suffolk Authorities. This would have the effect of potentially excluding St Edmundsbury Borough Council from such arrangements without fully exploring the potential benefits.

6.	<b>Community Impact</b>
6.1	<b>Crime and Disorder Impact</b> <i>(including Section 17 of the Crime and Disorder Act 1998)</i>
6.1.1	There is no decision to be made; only a proposal to express an interest at this stage and therefore no Crime and Disorder Impact Assessment has been undertaken.
6.2	<b>Diversity and Equality Impact</b> <i>(including the findings of the Equality Impact Assessment)</i>
6.2.1	There is no decision to be made; only a proposal to express an interest at this stage and therefore no Equality Impact Assessment has been undertaken.
6.3	<b>Sustainability Impact</b> <i>(including completing a Sustainability Impact Assessment)</i>
6.3.1	There is no decision to be made; only a proposal to express an interest at this stage and therefore no Sustainability Impact Assessment has been undertaken.
7.	<b>Consultation</b> <i>(refer to the Consultation and Community Engagement Strategy)</i>
7.1	DCLG will work with authorities who have made an expression of interest to pool business rates for 2013/2014 to support the development of proposals for consultation in September 2012 . Any interested parties in the issues covered are able to respond directly to the Government.
8.	<b>Resource implications</b> <i>(including asset management implications)</i>
8.1	It is presently not known how much the drop in Revenue Support Grant will be, or what 'income' the Government is including in the business rate scheme. The Government has stated its intention that no Council will be worse off at the start of the new arrangements for 2013/2014. 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.
8.2	Localised business rates will impact the Council in a variety of areas such as economic development, planning and growth policy, and it will be imperative that the Council develops and uses policy levers to increase the business rate base locally if it is to stand still financially.
8.3	It is also worth considering the risks of the business rate scheme. Over the period 2007/2008 to 2011/2012, business rate receipts in St Edmundsbury increased in 4 out of the 5 financial years, as shown in Appendix 1 attached to the Report, for Suffolk data on business rates. However, the current financial climate is clearly very bleak and the potential financial impact caused by this new level of risk will need to be factored into the budgeting process.
8.4	<b>Volatility</b>
8.4.1	One of the main features of the new scheme is the transfer of risk linked to volatility. The previous system of Government grant inherently carried some volatility, as seen in the last Comprehensive Spending Review. However, the recent two or three year funding settlements have given greater funding certainty and have helped Council's longer term financial planning (whether the formula was equitable is another debate).
8.4.2	The new scheme contains much more volatility.
8.4.3	Firstly, the Government has kept control of enough local authority funding through the Revenue Support grant element to be able to continue or even increase the downward pressure on spending. The complex system of redistributing monies will remain.

8.4.4	Secondly, the tariff scheme creates a level of in-year volatility that the Council has not experienced before. The Council will be forecasting expected business rate income in what is a quite volatile area.
8.4.5	Thirdly, the business rates collection rate (ie., how much is collected by the Council from local businesses) will now directly affect how much is available to spend. Although a Safety Net is in place, £260,000 could be lost in-year before the Safety Net works. This will inevitably mean that the Council's financial strategy will require holding greater reserves than is necessarily needed, in order to plan for the worst.
8.4.6	Fourthly, the local authority will have to pick up the impact of a reduction in business rates due to successful appeals. This point is elaborated below.
8.5	<b>Appeals</b>
8.5.1	Government will provide all financial support for transitional relief and for the five yearly revaluations that take place, so that these have no impact on Councils. The next revaluation will be effective from 2015. Councils will not gain or lose through the impacts of transition.
8.5.2	Government will not provide any support for appeals to the Business Rates (BR) payable by local businesses. This is a significant issue as businesses are valued by the Valuation Office (VO) and the Borough Council has no influence over these valuations. If a business has been overvalued then the income risk falls partly on the Council to fund this. Nationally, over 1.5% of the BR bill is successfully appealed.
8.6	<b>Business Rate Profile</b>
8.6.1	The Borough Council, like many other Councils, has some significant BR contributors. Our top five payers are: British Sugar, Sainsbury, Tesco, Asda and Exel Plc.
8.7	<b>New and lost business</b>
8.7.1	The Council will also need to forecast how much new or lost business there will be in the area and the occupancy and rateable value of significant dwellings. This will call for much more use of local business intelligence than at present, and will certainly expand the role the Council has in economic development both within St Edmundsbury, and if chosen to pool, across Suffolk.
8.7.2	There will be a direct financial impact for the Council of large businesses opening, and this may play into decisions around planning and economic development. Previously these links have been indirect.
9.	<b>Risk/Opportunity Assessment</b> <i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>
9.1	The key risks, primarily financial at this stage, are considered in the resource implications and pooling sections of the report.
10.	<b>Legal or policy implications</b>
10.1	There are no legal or policy implications arising from this report.

<b>Wards affected</b>	All
<b>Background Papers</b>	Business Rates Retention – Statements of Intent issued May 2012



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