

 <b>Executive 10 October 2012</b>		<b>Agenda Item No.</b>  <b>6</b>
<b>Title</b>	Business Rates Retention - Pooling	
<b>For further information about this report please contact</b>	Mike Snow, David Leech	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	July 2012 Executive	
<b>Background Papers</b>		

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	No
<b>Included within the Forward Plan? (If yes include reference number)</b>	No
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>	Yes/No (If No state why below)

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	24/9/12	Andy Jones
Head of Service		Mike Snow
CMT	24/9/12	Chris Elliott, Andy Jones, Bill Hunt
Section 151 Officer	24/9/12	Mike Snow
Monitoring Officer	24/9/12	Andy Jones
Finance		
Portfolio Holder(s)	24/9/12	Andrew Mobbs
<b>Consultation &amp; Community Engagement</b>		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
<b>Final Decision?</b>		Yes/No
<b>Suggested next steps (if not final decision please set out below)</b>		

## 1. **SUMMARY**

- 1.1 This report proposes that the Council confirms that it will participate within a Business Rate Retention Pool along with all other Warwickshire District Councils, Warwickshire County Council and Coventry City Council from 1 April 2013.

## 2. **RECOMMENDATION**

- 2.1 That the Executive confirms that the Council will participate within the Warwickshire and Coventry Pool for 2013/14 and subsequent years, subject to an annual review to ensure that membership of the Pool remains in the best interests of the Authority.
- 2.2 That the Executive agree the governance principles for the pool as set out in Appendix 2 and the draft Memorandum of Understanding (Appendix 3), with any further amendments agreed by the Chief Executive and Head of Finance in consultation with the Leader, Deputy Leader and Finance Portfolio Holder.

## 3. **REASONS FOR THE RECOMMENDATION**

- 3.1 The July Executive considered a report on Business Rates Pooling and agreed:-
- 2.1 That the Executive note the Government's intention in respect of business rates retention and the operational and financial issues likely to be involved.*
- 2.2 That the Executive supports the case for registering our non-binding interest in pooling business rates with one or more neighbouring authorities.*
- 2.3 That the Executive agree to delegate responsibility to the Head of Finance, in conjunction with the Finance Portfolio Holder, for agreeing the final details which should form part of any expressions of interest.*
- 2.4 That the Executive agree that any final binding pooling arrangements will be subject to a further report in due course.*

Since then, in discussion with the Leader, Deputy Leader, and Finance Portfolio Holder, the Head of Finance has confirmed the Council's intention to form a Business Rates Pool with the Warwickshire authorities and Coventry City Council. This was confirmed to DCLG on 10<sup>th</sup> September, with Appendix 1 being a copy of the submission.

Whilst it is possible for a pool member to withdraw from the pool, this would lead to a total collapse of the pool. It is therefore imperative that a firm decision is made by each authority within the proposed pool as to whether they are fully committed to participating in 2013/14. No further review of the decision to be in the pool could take place for a further 12 months and reviews would be annual thereafter.

- 3.2 The Governance arrangements for the pool will be included within the Memorandum of Understanding which is currently being drafted. The principles that form the basis for this are set out in Appendix 2, with the draft MoU as Appendix 3. The MoU will be subject to an annual review.

#### **4. POLICY FRAMEWORK**

- 4.1 The proposals for the Council to see funding grow as business rates base grows leads to a strong incentive for the Council to grant planning permissions for appropriately sited and well planned business development particularly in the area of renewable energy.

#### **5. BUDGETARY FRAMEWORK**

- 5.1 This report identifies the additional benefits that would be expected to be available to all participants within a Coventry and Warwickshire Business Rate Pool. It is expected that the Provisional Local Government Finance Settlement will be released in early December 2012. This would confirm many of the figures that will determine how business rates retention will operate and the position in relation to the "tariff" and "top up" authorities.

- 5.2 Appendix 4 sets out the calculated additional retained Business Rates under a pool that would be retained in the pool area. This is based on the figures within the latest consultation document. These figures are based on three scenarios:-

- 0% Annual Growth (above assumed 2.5% inflation increase)
- 1% Annual Growth (above assumed 2.5% inflation increase)
- 1% Annual Decline (below assumed 2.5% inflation increase)

The figures modeled also assume any additional income retained (Net Retained Levy) is allocated on the following basis:-

- 25% will be allocated to the Local Volatility Fund (to provide protection for Pool members from falls in business rates income i.e. a safety net)
- 25% will be allocated to Pool Members in proportion to their share of the gross levy
- 50% will be allocated to Pool Members in proportion to their spending baseline

- 5.3 Within the draft Memorandum of Understanding it states that subject to budgetary constraints, Pool Members intend to allocate a significant proportion of the Net Retained Levy allocated to them for projects that support local economic development.

- 5.3 Under all of the growth scenarios, by pooling the Council should be £150k to £300k per annum better off in the pooling arrangement. It should be noted that these figures are based on many assumptions, and will be subject to the final Grant Settlement details and the actual growth of all the authorities in the year. While the position will be monitored throughout the year, the precise figures will not be known until after the end of each financial year.

#### **6. ALTERNATIVE OPTION(S) CONSIDERED**

- 6.1 To agree to participate within the proposed Coventry and Warwickshire Business Rate Pool to commence from 1 April 2013 and to amend the wording within Appendix 2 and the Memorandum of Understanding (Appendix 3).
- 6.2 To agree to not participate within the proposed Coventry and Warwickshire Business Rate Pool to commence from 1 April 2013.

## **7. BACKGROUND**

7.1 The government is currently legislating for changes to the arrangements for the allocation of Business rates income. These changes are due to come into effect from 1 April 2013. This report identifies the rationale for proposing that under these new arrangements the 5 district councils in Warwickshire, along with the County Council and Coventry City Council establish a Business Rate Pool. This would include the following authorities:-

- Coventry City Council
- North Warwickshire Borough Council
- Nuneaton and Bedworth Borough Council
- Rugby Borough Council
- Stratford-on-Avon District Council
- Warwick District Council
- Warwickshire County Council

7.2 Currently billing authorities (district councils in two tier areas) collect the business rates and then pay all of these receipts across to central government. Central government then apportion the funding back as part of the local government financial settlement.

7.3 Under the current arrangements if the business rate income collected by the billing authorities is higher or lower than anticipated, it is central government that either benefits from the additional receipts or has to fund any shortfall.

7.4 Under the new proposals within the Local Government Finance Bill to be implemented from 1 April 2013 a proportion (50%) of Business Rates collected by the billing authority will be retained locally, the other 50% will continue to be paid to Government.

7.5 The locally retained business rate will then be split - 80% will be provided to the district councils and 20% to the County. In Coventry all of the local share will be retained by the City Council.

7.6 However, this level of business rate income will then be compared to the level of support required by each council within the local government finance settlement. This comparison will lead to a determination of which type of council each authority is, either a "tariff" or a "top-up":-

- Tariff – every District Council in Warwickshire (probably the whole of the UK) will be determined as a tariff authority. This means that the amount of business rate income provided through the above, would be higher than the level that government suggests is required within the local government financial settlement. The surplus is then paid to central government as a "tariff" payment;
- Top-up – both the County Council and Coventry City Council are expected to be large "top up" authorities. In this scenario the value of business rate income will be insufficient and a "top up" payment will be made from central government to fund the deficit.

7.7 The categorisation of authorities is important when considering whether to create a local pool for business rates. If a pool is created within the Warwickshire and Coventry area this will enable a greater proportion of growth

generated locally to be retained locally. The reason for this relates to the arrangements surrounding "levy" payments.

- 7.8 "Levy" payments would be made to central government by tariff authorities when growth has been generated in the Business Rate. Although "tariff" authorities get to keep a proportion of this growth it is very small, the majority being top sliced by way of a "levy" payment. The table identified below identifies an estimate of how much of this growth would be paid to central government by way of such "levy" payments if there was no pool in place.

- 7.9 Estimated Levy Rate by District – no pool

Authority	Est Levy Rate
North Warwickshire	88.81%
Nuneaton and Bedworth	74.85%
Rugby	85.86%
Stratford-on-Avon	88.47%
Warwick	87.47%

#### **7.10 Local Position**

- 7.11 The table demonstrates that in the absence of a pool the "tariff" authorities are required to pay central government between 74.85% to 88.81% of their locally-generated business rate growth in the form of a "levy".
- 7.12 The level of this "levy" gave rise to the proposal to consider a Business Rate pool with the view of ensuring that growth generated locally is retained locally. For there to be any benefit for the district councils to pool, the pool would need to include at least one "top-up" authority. The inclusion of both Coventry City Council and Warwickshire Council means that although in total the pool will be a net "tariff", the overall levy rate for the pool is reduced to around 18%. If only the County Council was included the levy rate increases back up to around 39%.
- 7.13 In addition to the benefits of reducing the "levy" payments there is a further advantage of being within a pool when faced with the position where the income from business rates actually declines. Under the new proposals if business rate income declined in any area the individual council would have to suffer the first 7.5% or 10% reduction in income before any safety net payments are made from central government, with the precise level of the safety net to be clarified as part of the Grant Settlement in December. It is proposed within the Coventry and Warwickshire Business Rate Pool that a local safety net is created which would provide support at an earlier level of decline, say 5% or 7.5%.
- 7.14 As explained above, under a pool arrangement the vast majority of this growth would be retained locally, with only a small proportion of the growth being paid as a levy. It will be for pools themselves to decide how to distribute aggregate revenues within the pool. Initial discussions have been based around a 'no worse off' approach, whereby members of the pool would be no worse off inside a pool than had they been treated as individual authorities. Beyond this starting

point future discussions would focus on how any retained income would be allocated.

- 7.15 Earlier this year an expression of interest was submitted to the Department of Communities and Local Government (CLG) to establish a Coventry and Warwickshire Business Rate Pool. Whilst this expression of interest did not commit any authority to participate, it was an indication to Government that it was being considered. Under the Government's timetable a request for additional information was made to CLG on 10 September 2012 on some more of the benefits and outline potential governance arrangements covering the proposed pool. A copy of this submission is attached at Appendix 1.

#### **7.16 Timetable**

- 7.17 Previously it was understood that whilst an authority may have submitted an expression of interest in joining the pool, it could withdraw when the local government finance settlement was made with no implications for the partners of the pool. On the 23 August 2012, CLG clarified the rules in relation to the options available to councils. Whilst CLG would still allow an authority to withdraw from a pool after 9 November 2012 until the date of the final local government finance settlement, if they did so this would trigger the collapse of the entire pool.
- 7.18 It is therefore imperative that a firm decision is made by each authority within the proposed pool as to whether they are fully committed to participating in 2013/14. No further review of the decision to be in the pool could take place for a further 12 months and reviews would be annual thereafter.
- 7.19 A number of governance issues still need to be finalised between the participating authorities. Authorities within the proposed pool are asked to sign up to the draft principles identified in Appendix 2, and the Memorandum of Understanding (Appendix 3) which determines the actual administrative and governance arrangements.

#### **7.20 Economic Development**

- 7.21 The aim of the Pool is to maximise the retention of locally generated business rates to further support cross-boundary economic regeneration activity across the Coventry and Warwickshire LEP region and to protect against significant volatility in the level of resource of individual pool members.
- 7.22 Within the draft Memorandum of Understanding it states:-

Subject to budgetary constraints, Pool Members intend to allocate a significant proportion of the Net Retained Levy allocated to them for projects that support:-

- the creation of an environment where it is easy for businesses to start, locate and thrive,
- acceleration of the growth of our economy through targeted support in our key strategic sectors, and
- tackling the skills problems by aligning supply and demand.

In making these allocations Pool Members are emphasising their commitment to at least maintaining their underlying business rate base in real terms.

In addition, when the Local Volatility Fund has sufficient resource to meet any reasonable downwards volatility in local business rate income it is the intention of Pool Members that the 25% of the Net Retained Levy allocated to the Local Volatility Fund is redirected to economic development across the Pool area.