BRECKLAND DISTRICT COUNCIL

Report of Ellen Jolly, Executive Member for Finance and Democratic Services

To: Cabinet, 29 October 2013

(Author: Mark Finch, Assistant Director Finance)

Subject: Business Rates Pooling

Purpose: To review the potential for establishing a business rates pooling arrangement for Breckland Council jointly with Norfolk County Council and other Norfolk district councils

Recommendation(s):
1. To support that in principle Breckland Council agrees to join a business rates pool with Norfolk County Council and other Norfolk district councils, subject to further negotiation of the detailed financial and governance arrangements

1. BACKGROUND

The new business rates retention scheme took effect from 1 April 2013. Under this new scheme a proportion of business rates income is retained by the district and county councils through a system of tariffs and top ups. The remaining business rates income is centralised by Government and distributed back to local authorities through the formula grant process, thus allowing the government to retain a proportion of business rates centrally to meet public expenditure targets. Whilst the headline figures of this scheme quote a 40% share of business rates income retained by district councils, in reality this is not the case. The tariff system reduces the business rates income retained by Breckland to a “baseline funding” figure calculated by government which is actually around 12.5% of the overall business rates income collected by the Council. Any growth over and above the business rates income that government has assumed is shared between central and local government, with our local share equating to 20% of the total growth.

The intention of this scheme is to provide incentive for local authorities to increase economic growth, through retention of a share of revenue generated from locally collected business rates. In order to provide opportunities for the same incentives across all areas, the government has included an arrangement for councils to be allowed to pool business rates resources where it makes economic sense to do so. Providing the county council is part of a pooling arrangement, the creation of a pool within a two tier area can reduce of remove the levy on business rates growth paid to the government by billing authorities. This enables more business rates growth to be retained locally and used as agreed by the authorities within the pool.

Last year, following various discussions, most councils decided not to pursue pooling in the initial year, due to the un-certainty in the first year. However Broadland and Norfolk County Council formed a pool, with governance arrangements which included provision for dissolving and reforming a new pool, should other councils wish to join the pool in future years.

Proposed Pooling Arrangements for 2014-15

The government has recently issued a prospectus for business rates pools for 2014-15, with a requirement for notification of new pools by 31st October 2013. As with last year, although pools are designated in the autumn, final decisions can be made after the local government finance settlement is received.

In two tier areas such as Norfolk the upper tier authority (Norfolk County Council) will normally receive a top up from government and the districts will normally pay a tariff (levy) to government. On top of this, the Norfolk district councils also pay a levy rate of

50% to government for any increase in business rates growth over and above the baseline funding level. The effect of pooling is that the levy rate paid to government will be reduced or eliminated completely, thus keeping the income within the Norfolk pool. However there are also financial risks associated with pooling, some authorities may find that a reduction in local business rates income would have qualified them for a safety net payment (where business rates income falls below the baseline by 7.5% or more), however if they are part of a pool they will no longer qualify if the overall pool is above the safety net threshold, and therefore the pool suffers this loss.

The regulations have safeguards in that a group of authorities can apply to government to form a pool but still have the option to withdraw after the local government finance settlement is announced. However if one authority wants to withdraw, then the whole pool fails and there is not an opportunity for the remaining councils to form an alternative pool until next year. For this reason it is best that councils who are likely to receive a safety net payment from government (assuming that they have not had massive business rate growth in the last year) remain out of the pool.

This report is recommending that Breckland join the Norfolk pool in principle, with a final decision being made after the local government finance settlement is announced when there will be a little more certainty over the financial implications. This final decision would be included within the budget setting report in the new year.

Governance
Clearly if a pool is to be established it will be important to be clear about the governance arrangements for the pool. The following principles have been endorsed by the Norfolk Leaders:

- The purpose of the Norfolk business rates pool is to make strategic investments designed to “support Norfolk’s economic growth strategy”
- Decision making in relation to pooled funds to be determined by the Leaders of each authority participating in the business rates pool
- Investment proposals to give priority for schemes which will:
    - Level funding from LEP growth & European funds
    - Support infrastructure projects which will lead to; job creation, further business rates growth, housing growth, improved skills and qualifications, new business creation/expansion
- Ready to start on site and have all the relevant permissions, licences and land ownership arrangements in place

2. OPTIONS

To support that in principle Breckland Council agrees to join a business rates pool with Norfolk County Council and other Norfolk district councils, subject to further negotiation of the detailed financial and governance arrangements.

Not to support that in principle Breckland Council agrees to join a business rates pool with Norfolk County Council and other Norfolk district councils

3. REASONS FOR RECOMMENDATION

To meet the DCLG deadline of 31 October to apply for a business rates pool; and
To maximise the amount of additional business rates income generated in Norfolk and re-invested in the Norfolk economy.

4. EXPECTED BENEFITS

To maximise the amount of additional business rates income generated in Norfolk and re-invested in the Norfolk economy

5. IMPLICATIONS

5.1 Legal

5.2 **Risks**
There remains a risk that appeals and collection rates impact on the amounts of business rates collected. The proposed pooling agreement covers this, so small reductions should be managed within the pool. With the economy picking up generally the overall pool can help mitigate the risk of an occasional large reduction at individual councils through the "Local Volatility Fund" arrangement within the pooling agreement.

5.3 **Financial**
Joining a Norfolk business rates pool will create a new fund for investment to support a county wide economic growth strategy. Indicative figures provided by Norfolk County Council (based on district council's latest estimates) is that a saving in the levy pay-out to government of £840k would have resulted if a pool had been in place this year (excluding those councils in a safety net position).

5.4 **Timescales** – This decision will apply from the 2014-15 financial year onwards

5.5 **Equality and Diversity**

5.6 **Stakeholders / Consultation**

5.7 **Contracts**

5.8 **Section 17, Crime & Disorder Act 1998**

6. WARDS/COMMUNITIES AFFECTED – All Breckland wards

Background papers:- None

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Appendices attached to this report: None