

# Resources Overview and Scrutiny Panel

Agenda Item:

**A.5**

Meeting Date: 10th October 2013  
 Portfolio: Finance, Governance and Resources  
 Key Decision: Yes: Considered under general exception  
 Within Policy and Budget Framework NO  
 Public / Private Public

Title: LOCALISATION OF BUSINESS RATES (BUSINESS RATES POOLING)  
 Report of: DIRECTOR OF RESOURCES  
 Report Number: RD38/13

**Purpose / Summary:**

Members of the Panel, at their meeting of 29<sup>th</sup> August 2013, requested a report on the Localisation of Business Rates. The attached report covers the issues. However as the subject is very technical a presentation of the new localised business rate scheme, including the advantages of pooling, will be given at the meeting.

**Recommendations:**

Members are asked to note the workings of the revised localisation of business rates scheme.

**Tracking**

Executive:	<b>2<sup>nd</sup> September 2013</b>
Overview and Scrutiny:	<b>10<sup>th</sup> October 2013</b>
Council:	<b>Not applicable</b>

<b>Report to Executive</b>	Agenda Item:
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Meeting Date: 2 September 2013  
 Portfolio: Finance, Governance and Resources  
 Key Decision: Yes: Considered under general exception  
 Within Policy and Budget Framework NO  
 Public / Private Public

Title: BUSINESS RATES POOLING  
 Report of: DIRECTOR OF RESOURCES  
 Report Number: RD38/13

**Purpose / Summary:**

This report advises on the advantages for the Council pooling Business Rates with other Cumbrian authorities in taking advantage of the provisions of the Business Rates Retention Scheme 2013.

**Recommendations:**

It is recommended that the Executive:

- (i) Agree in principle to enter into pooling arrangements with other Cumbrian Authorities (as appropriate) under the Business Rates Retention Scheme for 2014/15 financial year.
- (ii) Note the arrangements being progressed to support the in principle decision as set out in paragraph 3.1.
- (iii) Note that a final recommendation on whether or not to progress business rate pooling arrangements will be submitted to the Executive as part of the 2014/15 budget deliberations.

**Tracking**

Executive:	<b>2 September 2013</b>
Overview and Scrutiny:	<b>Not applicable</b>
Council:	<b>Not applicable</b>

## **1. BACKGROUND**

- 1.1 The introduction of the Business Rates Retention Scheme on 1 April 2013, has given Councils much greater control over the impact that Business Rates and Business Rates collection has on an area.
- 1.2 Previously, the Council collected all the Business Rates in its area and paid these over to the Government in their entirety. The Government then allocated the nationally collected Business Rates to each Council as part of the annual Formula Grant funding settlement.
- 1.3 From 1 April, Councils have been allocated a baseline level of funding as part of the formula grant that they can keep from the income they collect from Business Rates. Of the total income collected, 50% is returned to Central Government, 10% is allocated to the County Council and 40% to the District Council. The Government has then determined whether top-ups or tariffs will apply. For Carlisle, the 40% share relates to £15.856million in 2013/14, but a tariff is payable to Government of £12.942million, meaning that the baseline is set at £2.914million.
- 1.4 As a tariff authority, any growth that can be achieved in Business Rates income is shared on the same percentages as above, with a 50% levy payable to Central Government and 10% growth passed to the County Council. Safety Nets are also in place to ensure that no authority suffers significant financial losses should income drop.

## **2. POOLING OPTIONS WITHIN THE BUSINESS RATES RETENTION SCHEME**

- 2.1 Pooling combines the top-ups and tariffs of the individual authorities in the pool as though the pool was a single authority. The County Council is a top-up authority and the Cumbrian Districts are tariff authorities. A single levy rate and safety net threshold is calculated for the pool overall. As a Cumbria pool would overall be a top-up authority it means the pool pays nothing in levy payments on rateable value growth compared to the total levy payments for individual member authorities. But it also increases the threshold for safety net payments.

### **2.2 Why form a pool?**

Pooling can offer the following advantages:

- It gives all members of the pool a stronger incentive to collaborate to maximise the income of the pool they are in.
- Including Tariff and Top-up authorities in the same pool reduces or cancels out the levy rate. This protects business rate growth that would otherwise be subject

to levy payments and means the pool retains more in business rates than the aggregate of the individual authorities in it.

- It could smooth the impact of business rates volatility when losses are not sufficient to trigger the safety net.

### 2.3 **Governance**

Pooling is voluntary, but authorities wishing to form a pool have to apply to the Secretary of State for approval. There are no formal restrictions on membership but government expects pools to follow the natural economic geography and may refuse an application for pooling if there is no logical connection between its members. Many of the pools formed for 2013/14 comprise of a county and the districts within the county boundary. However, some pools include just some, or even just one, of the districts in the county area. There are also examples of districts pooling with neighbouring unitary authorities.

It is up to members of the pool to set up governance arrangements and agree how locally retained business rates would be distributed between members. These would need to include:

- agreement on the distribution of additional income from pooled arrangements;
- agreement on the distribution of the loss of safety net payment in the event that pooling caused a safety net payment to be foregone;
- whether to have any arrangement to smooth losses that would not be large enough to trigger a safety net payment;
- arrangements for continuation or dissolution of the pool. A pool can be dissolved with effect from the end of each year but cannot be dissolved with effect during the year.

### 2.4 **Why may it be advantageous to form a pool for Cumbria?**

Pooling is likely to be beneficial to Cumbria as locally retained share of business rates is predicted to be higher than the Business Rates Baseline<sup>1</sup>. It might also apply if growth assumptions are low but at the start of the scheme the Retained Share of Business Rates is much higher than the Business Rates Baseline.

However, pooling increases the safety net threshold. This means the pool would have to manage much larger losses before it would be eligible for safety net payments. An authority that expects to be below the safety net threshold will be better off if it remains outside the pool. Due to the particular circumstances in Copeland, i.e. most of their rate income comes from one business, (Sellafield), and,

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<sup>1</sup> The Business Rates Baseline is government's estimate of how much each authority would raise from its retained share of business rates in 2013/14. It is indexed by RPI in each subsequent year i.e. at the same rate as the business rates multiplier.

due to the impact of outstanding rating appeals the Council has, it is unlikely to benefit from pooling in the immediate future.

If retained shares of Business Rates are expected to be less than the Business Rates Baseline for all authorities, but are not expected to fall sufficiently to trigger payment from the Safety Net there is neither a gain nor a loss as a result of pooling.

## 2.5 **Financial Analysis supporting Pooling in Cumbria (excluding Copeland)**

Appendix 1 presents scenarios to illustrate potential implications of pooling for Cumbrian authorities i.e. current baseline, 2% growth (Carlisle only), 2% growth across Cumbria (except Copeland) and 2% negative growth. This is based on models developed by the Society of County Treasurers but using the adjusted NNDR 1 figures for Cumbrian authorities, for 2013/14. In all these scenarios Carlisle receives more NNDR income than not being in a pool. The model assumes that the amount gained by not paying the levy is shared 50% to the County Council and 50% to the Districts, which is then shared based on the local share of rates collected. These percentages would have to be agreed as part of the Governance arrangements when forming a pool.

The inclusion of Copeland in the pool results in an overall loss of £0.470m compared to not pooling. (Carlisle's share of the loss being approximately £30,000) This is £1.975m less than a pool with the other five districts because of safety net payments foregone. However, Copeland currently has a very high backdated allowance for losses on appeal so the result will be different in future years if future appeals are less. The gain from including any other combination of districts in the pool is the sum of the levy payments of the participating districts.

## 3. **WAY FORWARD**

- 3.1 Carlisle has to make an initial decision to join a "pool" with the County and other Cumbrian districts by 24 October 2013, with a final decision made in January 2014.
- 3.2 Whilst the analysis set out in Appendix 1 suggests Carlisle would benefit from pooling arrangements, several decisions have to be made Cumbria wide to progress the initiative. Cumbrian Chief Finance Officers will produce proposals for discussion by Cumbrian Chief Executives on issues such as:
  - Pool Membership: Discussions are planned with DCLG to ascertain whether any special arrangements can be agreed to enable Copeland to join the pool;
  - How to distribute the shares of additional NNDR income retained in the pool (or sharing out any losses);

- Governance arrangements for operating the pool including identifying a lead authority;
- Other issues including obtaining expert advice on any proposed pooling arrangements considered.

3.2 A final recommendation on joining a pool will be made by the Executive as part of the 2014/15 budget deliberations.

#### **4. CONSULTATION**

4.1 Consultation between Cumbrian authorities and the DCLG will take place as set out in paragraph 3.1 of the report.

#### **5. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

5.1 It is recommended that the Executive:

- (i) Agree in principle to enter into pooling arrangements with other Cumbrian Authorities (as appropriate) under the Business Rates Retention Scheme for 2014/15 financial year.
- (ii) Note the arrangements being progressed to support the in principle decision as set out in paragraph 3.1.
- (iv) Note that a final recommendation on whether or not to progress business rate pooling arrangements will be submitted to the Executive as part of the 2014/15 budget deliberations.

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**Appendices Appendix 1 – Pooling Scenarios  
attached to report:**

**Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:**

- None

**CORPORATE IMPLICATIONS/RISKS:**

**Chief Executive's** – not applicable

**Community Engagement** – not applicable

**Economic Development** – not applicable

**Governance** – The ability to pool arrangements with the other Cumbrian authorities is available by virtue of paragraph 34 of Schedule 7B to the Local Government Finance Act 1988 (inserted by Schedule 1 to the Local Government Finance Act 2012).

For a pool to come into effect, from the start of the next financial year, the Secretary of State for Communities and Local Government must make a pooling designation. This designation has to be before the publication of the draft Local Government Finance Report for that year in which local authorities are notified of the basis on which the Department intends to calculate tariffs and top-ups. This is expected to be published as usual in the Autumn.

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, individual authorities in a pool will be notified of their individual position in the draft Local Government Finance Reports. 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.

Local authorities should be aware that once a designation has been made it cannot be amended so if a local authority chooses to exercise the option to withdraw from the pooling arrangement 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.

It is a requirement that any pooling arrangement has a properly document Governance Agreement in place between the parties. Pools will continue from year to year until a designation is revoked.

In designating a pool for 2014-15, the Department will attach conditions to the designation in accordance with paragraph 35(1) of Schedule 7B to the Local Government Finance Act 1988, appointing a lead authority and requiring the authority to take the steps set out in its application in the event that the pool is dissolved. It also reserves the right to attach such other conditions as it sees fit, in accordance with paragraph 35(2) of Schedule 7B. If the Department attaches conditions these are likely to be around the publication of information by the lead authority in the interests of transparency. The Department also reserves the right to modify or remove conditions at any point in the future, as becomes necessary.

The Government is clear that pooling should be voluntary, and this means that members of a pool should be able to leave a pool should they decide is no longer in their interests. Where an authority that is a member of the pool requests that it is dissolved, the Secretary of State must revoke but will first inform the members of the pool and other persons affected. A request to dissolve a pool can be made anytime during the year, however the effect will be felt in the following financial year. This is because it is too disruptive to dissolve part way through the year, so once a pool has been designated and the Local Government Finance Report laid, it is therefore indissoluble for the entire period of the financial year.

If a pool is dissolved, members of a pool will return to their individual tariff, top-up and levy amounts. Pools will need to ensure that they have arrangements in place in the event of dissolution, so that there is an agreed way of apportioning levy payments and safety net payments (which will not be known until the end of the financial year).

**Local Environment** – not applicable

**Resources** – contained within the main body of the report



Growth	Baseline (2013/14)	Business Rates	Spending	Tariff/Top-up	Individual	Local Share of 2013/14 Collected Rates - Shared between tiers per NNDR1								Retained Income without Pooling	50% of levy	50% allocated on	Allocated Growth - Pooling	Retained Income by Pooling
		Baseline per 13/14 headline amounts	Baseline per 13/14 headline amounts			Levy Rates	Rates Allocation +/- Top-up/Tariff	Safety Net Threshold	Safety Net Payment?	Anticipated growth over Baseline	Retained Growth No Pool	Allocated Growth - No Pooling	Levy? (Payable to Central Govt)		retained by districts	Baseline Headline Amounts		
		£m	£m	£m	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
0%	Cumbria	18.392	77.617	59.225	0.0%	18.609	77.835	71.796	0.000			0.150	0.000	0.150	0.649	0.150	0.269	0.446
0%	Allerdale	9.829	3.193	(6.636)	50.0%	10.428	3.792	2.954	0.000	0.599	0.299	0.269	0.299	0.150	0.027	0.269	0.446	
0%	Barrow-in-Furness	8.779	2.734	(6.045)	50.0%	9.453	3.408	2.529	0.000	0.674	0.337	0.304	0.337	0.169	0.023	0.304	0.495	
0%	Carlisle	15.856	2.914	(12.942)	50.0%	15.993	3.051	2.695	0.000	0.137	0.069	0.062	0.069	0.034	0.024	0.062	0.120	
0%	Copeland																	
0%	Eden	7.673	1.499	(6.174)	50.0%	8.352	2.178	1.386	0.000	0.679	0.340	0.306	0.340	0.170	0.013	0.306	0.488	
0%	South Lakeland	15.540	1.965	(13.575)	50.0%	16.460	2.885	1.817	0.000	0.920	0.460	0.414	0.460	0.230	0.016	0.414	0.660	
		76.069	89.922	13.853	0.0%	79.295	93.149	83.178	0.000	3.009	1.505	1.505	1.505	0.752	0.752	1.505	3.009	

Growth	Carlisle Only	Business Rates	Spending	Tariff/Top-up	Individual	Local Share of 2013/14 Collected Rates - Shared between tiers per NNDR1								Retained Income without Pooling	50% of levy	50% allocated on	Allocated Growth - Pooling	Retained Income by Pooling
		Baseline per 13/14 headline amounts	Baseline per 13/14 headline amounts			Levy Rates	Rates Allocation +/- Top-up/Tariff	Safety Net Threshold	Safety Net Payment?	Anticipated growth over Baseline	Retained Growth No Pool	Allocated Growth - No Pooling	Levy? (Payable to Central Govt)		retained by districts	Baseline Headline Amounts		
		£m	£m	£m	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
0%	Cumbria	18.392	77.617	59.225	0.0%	18.609	77.835	71.796	0.000			0.166	0.000	0.166	0.718	0.166	0.885	
0%	Allerdale	9.829	3.193	(6.636)	50.0%	10.428	3.792	2.954	0.000	0.599	0.299	0.269	0.299	0.150	0.030	0.269	0.449	
0%	Barrow-in-Furness	8.779	2.734	(6.045)	50.0%	9.453	3.408	2.529	0.000	0.674	0.337	0.304	0.337	0.169	0.025	0.304	0.497	
2%	Carlisle	15.856	2.914	(12.942)	50.0%	16.313	3.371	2.695	0.000	0.457	0.229	0.206	0.229	0.114	0.027	0.206	0.347	
0%	Copeland																	
0%	Eden	7.673	1.499	(6.174)	50.0%	8.352	2.178	1.386	0.000	0.679	0.340	0.306	0.340	0.170	0.014	0.306	0.489	
0%	South Lakeland	15.540	1.965	(13.575)	50.0%	16.460	2.885	1.817	0.000	0.920	0.460	0.414	0.460	0.230	0.018	0.414	0.662	
		76.069	89.922	13.853	0.0%	79.615	93.468	83.178	0.000	3.329	1.665	1.665	1.665	0.832	0.832	1.665	3.329	

Growth	All	Business Rates	Spending	Tariff/Top-up	Individual	Local Share of 2013/14 Collected Rates - Shared between tiers per NNDR1								Retained Income without Pooling	50% of levy	50% allocated on	Allocated Growth - Pooling	Retained Income by Pooling
		Baseline per 13/14 headline amounts	Baseline per 13/14 headline amounts			Levy Rates	Rates Allocation +/- Top-up/Tariff	Safety Net Threshold	Safety Net Payment?	Anticipated growth over Baseline	Retained Growth No Pool	Allocated Growth - No Pooling	Levy? (Payable to Central Govt)		retained by districts	Baseline Headline Amounts		
		£m	£m	£m	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2%	Cumbria	18.392	77.617	59.225	0.0%	18.981	78.207	71.796	0.000			0.211	0.000	0.211	0.911	0.211	1.122	
2%	Allerdale	9.829	3.193	(6.636)	50.0%	10.637	4.001	2.954	0.000	0.807	0.404	0.363	0.404	0.202	0.037	0.363	0.602	
2%	Barrow-in-Furness	8.779	2.734	(6.045)	50.0%	9.642	3.597	2.529	0.000	0.864	0.432	0.389	0.432	0.216	0.032	0.389	0.637	
2%	Carlisle	15.856	2.914	(12.942)	50.0%	16.313	3.371	2.695	0.000	0.457	0.229	0.206	0.229	0.114	0.034	0.206	0.354	
2%	Copeland																	
2%	Eden	7.673	1.499	(6.174)	50.0%	8.519	2.345	1.386	0.000	0.846	0.423	0.381	0.423	0.212	0.018	0.381	0.610	
2%	South Lakeland	15.540	1.965	(13.575)	50.0%	16.789	3.214	1.817	0.000	1.249	0.624	0.562	0.624	0.312	0.023	0.562	0.897	
		76.069	89.922	13.853	0.0%	80.881	94.734	83.178	0.000	4.223	2.112	2.112	2.112	1.056	1.056	2.112	4.223	

Growth	Negative Growth (All)	Business Rates	Spending	Tariff/Top-up	Individual	Local Share of 2013/14 Collected Rates - Shared between tiers per NNDR1								Retained Income without Pooling	50% of levy	50% allocated on	Allocated Growth - Pooling	Retained Income by Pooling
		Baseline per 13/14 headline amounts	Baseline per 13/14 headline amounts			Levy Rates	Rates Allocation +/- Top-up/Tariff	Safety Net Threshold	Safety Net Payment?	Anticipated growth over Baseline	Retained Growth No Pool	Allocated Growth - No Pooling	Levy? (Payable to Central Govt)		retained by districts	Baseline Headline Amounts		
		£m	£m	£m	%	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
-2%	Cumbria	18.392	77.617	59.225	0.0%	18.237	77.462	71.796	0.000			0.081	0.000	0.081	0.427	0.081	0.508	
-2%	Allerdale	9.829	3.193	(6.636)	50.0%	10.219	3.583	2.954	0.000	0.390	0.195	0.175	0.195	0.097	0.018	0.175	0.291	
-2%	Barrow-in-Furness	8.779	2.734	(6.045)	50.0%	9.264	3.219	2.529	0.000	0.485	0.243	0.218	0.243	0.121	0.015	0.218	0.355	
-2%	Carlisle	15.856	2.914	(12.942)	50.0%	15.673	2.791	2.695	0.000	(0.183)	(0.183)	(0.164)	0.000	0.000	0.016	(0.164)	(0.148)	
-2%	Copeland																	
-2%	Eden	7.673	1.499	(6.174)	50.0%	8.185	2.011	1.386	0.000	0.512	0.256	0.231	0.256	0.128	0.008	0.231	0.367	
-2%	South Lakeland	15.540	1.965	(13.575)	50.0%	16.131	2.555	1.817	0.000	0.591	0.295	0.266	0.295	0.148	0.011	0.266	0.424	
		76.069	89.922	13.853	0.0%	77.709	91.563	83.178	0.000	1.796	0.807	0.807	0.989	0.495	0.495	0.807	1.796	