

## BABERGH AND MID SUFFOLK DISTRICT COUNCILS

<b>From: Head of Corporate Resources</b>	<b>Report Number: M73</b>
<b>To: Strategy Committee</b>	<b>Date of meeting: 13 September 2012</b>

### LOCAL GOVERNMENT RESOURCE REVIEW - BUSINESS RATES RETENTION - POOLING

#### **1. Purpose of Report**

- 1.1 To consider the approach to business rates retention and pooling these on a countywide basis.
- 1.2 Creating a business rates pool will ensure the maximum amount of business rates collected in Suffolk remain in Suffolk, and provide opportunities for the eight councils to work together to deliver enhanced economic prosperity for the county as a whole.

#### **2. Recommendations**

- 2.1 That the formation of a Countywide pool with the County Council and other Borough and District Councils for the collection of business rates with effect from 1 April 2013 be continued.
- 2.2 That the County Council becomes the lead authority and acts as Banker for the pool.
- 2.3 That the Chief Executive in consultation with the S151 Officer be authorised to agree the detailed governance and operating arrangements following the Suffolk Public Sector leaders at their meeting on 14 September 2012.
- 2.4 That the Chief Executive and S151 Officer are authorised to sign on behalf of the Council to request DCLG to designate the Suffolk pool, in line with DCLG timescales.

The Committee is able to resolve these matters.

#### **3. Financial Implications**

- 3.1 See details in the report.

#### **4. Risk Management**

- 4.1 The risks and benefits of pooling are detailed in the report.

#### **5. Consultations**

- 5.1 Extensive discussions between all the Suffolk Councils at officer and Member level.

## **6. Equality and Diversity Impact**

- 6.1 None for this report as it is to do with a new approach to sharing income and funding under the Government's Local Government Resource Review.

## **7. Shared Service / Partnership Implications**

- 7.1 The benefits from pooling in Suffolk are only available if the County Council agrees to be in the pool. The intention is that no authority would be worse off inside the pool, than if they had elected not to pool.
- 7.2 The additional money retained in Suffolk comes 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. The decision about where this additional money should be spent should rest with Suffolk Public Sector leaders to determine.

## **8. Key Information**

- 8.1 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.
- 8.2 Suffolk Councils 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.
- 8.3 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 government has announced that the central share to be paid to central government from business rates will be 50%. Therefore 50% of business rates will be retained locally.
- 8.4 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.
- 8.5 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 who increases its business rates by 1% only receives a 1% increase in its spending power.
- 8.6 Table 1 below illustrates from the latest modelling the tariffs, top ups and levy rates for individual councils in Suffolk. These will change and we will only have certainty once DCLG have announced the Local Government Finance Settlement in November / December this year.

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

<b>Authority</b>	<b>Rates Baseline</b>	<b>Spending Baseline</b>	<b>Tariff (-) /Top-up</b>	<b>Individual Levy Rate</b>
	£m	£m	£m	
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>

- 8.7 The Local Government Finance Bill 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.
- 8.8 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

<b>Authority</b>	<b>Rates Baseline</b>	<b>Individual Levy Rate</b>	<b>1% Growth</b>	<b>Levy Payment</b>
	£m		£m	£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>

- 8.9 It should be noted that there is only a benefit to pooling if we are in an overall growth situation in Suffolk and the trend in Suffolk even during a recession has seen overall growth.
- 8.10 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.
- 8.11 If a pool is dissolved then the member authorities would revert to their individual baselines, tariffs and levies.
- 8.12 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.
- 8.13 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. 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.
- 8.14 Additional resources made available through growth in the business rates yield should be used 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.
- 8.15 The proposal to pool is based on the premise that:
- a) each of the Boroughs and Districts would get more benefit of growth associated with its area from pooling;

- b) it provides resources for any drop in business rate income beyond the safety net;
  - c) a pool of money, 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.
- 8.16 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.
- 8.17 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.
- 8.18 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.
- 8.19 In summary, it has been concluded that:
- (a) The Retention of business rates significantly changes the landscape of local government finance.
  - (b) Pooling offers the potential to deliver more benefits to Suffolk and promotes closer working with boroughs and districts.

## 9. Appendices

Title	Location
None	N/A

## 10. Background Papers

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

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

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