AGENDA ITEM 10		AGENDA ITEM 10

WEST DEVON BOROUGH COUNCIL

NAME OF COMMITTEE	**Full Council**
DATE	**11 December 2012**
REPORT TITLE	**Business Rate Pooling in Devon**
Report of	**Head of Finance & Audit**
WARDS AFFECTED	**All**

Summary of report:
This report provides information on the new business rates retention scheme which will be introduced from April 2013, the impact on the local authority and the business rates pooling proposal for the Devon region.

Financial implications:
The potential gain to the Devon region from pooling ranges between £2.5 million (over a 5 year period to 2017/2018) to £9.8 million as shown in Section 2.5. If West Devon decided to act alone, then it would be exposed to losses in business rates income of up to 7.5% (the safety net level) of the original baseline funding level of £1.5 million – so exposure to losses would be in the region of £112,500.

RECOMMENDATIONS:
It is recommended that:

i) West Devon Borough Council agree to be part of a Devonwide pooling arrangement for Business Rates, subject to an outcome to the Finance Settlement (which is due to be announced by the Government in late December) supporting this view.

ii) Delegated authority is given to the S151 Officer (The Head of Finance and Audit), in consultation with the Senior Management Team, to approve the content of the NNDR1 return (estimate of business rates income) for the Council for 2013-2014, as set out in Section 3.4.

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1. BACKGROUND OF THE BUSINESS RATE RETENTION SCHEME

1.1 The way that Councils receive income from Business Rates is changing from 1 April 2013. Business Rates retention is being introduced and authorities will be able to retain a share of any growth that is generated in Business Rates revenue in their areas, as opposed to the current system where all Business Rates revenues go to central Government for distribution. The system will pass back to Government 50% of the Business Rates. Of the 50% that is retained locally, 40% will go to the Billing Authority (West Devon Borough Council), 9% to Devon County Council and 1% to the Fire Authority.

1.2 The proposals do not include any changes to the system of business rates, so businesses will not see any change to the way that the business rates are set or how they pay. The business rate-setting powers will remain under Central Government control and the revaluation process will remain unchanged.

1.3 The reality is that some authorities earn more in business rates than they used to receive from the current formula grant. While there are other authorities who earn much less. So the Government is levelling the playing field through a mixture of "top-ups" and "tariffs". At the beginning of the scheme, the government will carry out calculations to ensure that councils with more business rates income than their current baseline funding level will make a tariff payment to government. Similarly, where council's have greater needs than their business rates income, they will receive a top-up payment from the government. West Devon Borough Council and other Devon Districts will be a Tariff Authorities. Devon County Council, Plymouth and Torbay will be 'Top Up' Authorities.

1.4 The government will make available safety net payments if a Council's business rates income falls by a certain amount. This will provide support if, for example a major local employer closes. The safety net will be set at 7.5% and the maximum levy is now 50%. The levy is the amount the Government takes from any business rates growth over the business rate baseline, for each Authority.

2. BUSINESS RATES POOLING

2.1 The business rate retention scheme allows authorities to voluntarily form a business rates retention pool. Local authorities within a pool would be treated as a single authority, with all tariffs and all top ups being combined and a single levy rate being applied.

2.2 Pooling would significantly reduce each Authorities exposure to Business Rates income volatility and financial risks through loss of direct income if businesses go into decline, as these risks are spread across a much larger pool, hence smoothing out any such volatility. At an early stage the Government encouraged Councils to 'pool'.

2.3 All Devon authorities jointly engaged the consultancy firm Local Government Futures (LGF) to examine the implications of pooling for the Devon Region.

The latest modelling from LGF, following confirmation from the Government of some of the details of the new scheme, shows the following conclusions:-
(Note - this updated modelling has only just been received and any updates to the position will be verbally updated to the Council meeting on 11 December) :-

2.4 ***Under each of the three pooling scenarios modelled below, a higher level of resources would be received by the pool, than if the authorities had acted individually.*** The additional resources would allow all of the authorities to receive the amount that they would have received if they had acted individually and also receive an additional amount, due to the benefits of pooling. The gain is due to the average levy rate applied to growth being zero, when the authorities act as a pool.

2.5 The potential gain to the Devon region from pooling ranges between £2.5 million (over a 5 year period to 2017/2018) to £9.8 million. Gains in the first year could range between £386,000 and £794,000 as summarised in the table below:-

Scenario	NDR income source	NDR growth	Potential gain from Pooling for the whole Devon region in the 5 years to 2017/18	Potential gain from pooling for the whole Devon region for the first year 2013/14
1	NNDR1 2012/13	0.0% p.a.	£2.503m	£473,000
2	NDR Baseline	Most likely estimates from Districts	£7.708m	£386,000
3	NNDR1 2012/13	Most likely estimates from Districts	£9.806m	£794,000

3. THE DEVON BUSINESS RATES POOLING ARRANGEMENT

3.1 The ‘Devon Pool’ proposes to distribute pooled funds using a “no worse off” basis. Funds will be distributed to each member authority to a position no worse than it would have been had the pool not existed. Clearly this will only be possible if the pooling arrangements result in an aggregate financial position that is no worse than would have been the case had the pool not existed. The membership of the Devon pool consists of the eight District Councils in Devon and Devon County Council, Torbay Unitary and Plymouth Unitary, with Plymouth acting as the Lead Authority for the pool.

3.2 Where pooling generates a net gain, the additional resources (above and beyond the ‘no worse off’ basis) will be distributed in the following proportions:-

50% of the gain will be distributed using each authority's baseline funding level and 50% of the gain will be distributed using NDR baseline. The same proportion would be used if pooling generated a net loss.

3.3 If the Council was to enter a pool then there would be no entitlement to safety net funding should a high degree of negative growth be experienced. Current modelling anticipates that business rates growth in Devon will not reach the levels required to put the Pool into a negative funding situation.

3.4 The statutory Government Return, the NNDR1, is completed by the Council each year and gives a prediction of the Business Rates income that will be generated. This form is now required to be approved by the Council each year. As this is an arithmetical calculation based on factual figures, it is recommended that Council delegate approval of the figures within this return to the S151 Officer, in consultation with the Senior Management Team (SMT).

4. LEGAL IMPLICATIONS

4.1 As per Article 4 of the Council's Constitution, Council is responsible for approving the policy framework and the budget. As funding from Business Rates is a significant part of the funding for the Council's overall revenue budget, any decision on Pooling must be taken by Full Council. Councils will have 28 days from the provisional local government finance settlement (anticipated late December) to withdraw from prospective pools. Any withdrawal at that stage would mean that the whole pool could not proceed for another financial year.

5. FINANCIAL IMPLICATIONS

5.1 The potential gain to the Devon region from pooling ranges between £2.5 million (over a 5 year period to 2017/2018) to £9.8 million as shown in Section 2.5. If West Devon decided to act alone, then it would be exposed to losses in business rates income of up to 7.5% (the safety net level) of the original baseline funding level of £1.5 million – so exposure to losses would be in the region of £112,500.

6 OTHER CONSIDERATIONS

Corporate priorities engaged:	All
Statutory powers:	Business Rates Retention Scheme
Considerations of equality and human rights:	None directly related to this report.
Biodiversity considerations:	None directly related to this report.
Sustainability considerations:	None directly related to this report.
Crime and disorder implications:	None directly related to this report.
Background papers:	Resources Committee - 24th July 2012
Appendices attached:	None

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	**Chance of negative outcome**	**Risk score and direction of travel**			
1	Risk of a Member Authority Leaving the Devon Pool	Volatility – if the Council or one of the other Member Authorities chooses not to pool once the Finance Settlement is announced, the full risks associated with business rates income volatility will be held entirely with the Council.	4	4	**16**	⇔	Careful analysis of the financial impact of being in the pool and of being independent.	H of F&A Other Local Authorities
2	Future funding levels (if the Council is exposed to business rates income volatility)	A significant drop in overall funding could result in cuts to services. This could be due to loss of businesses due to the economic climate.	4	2	8	⇔	Close monitoring of the changes in business rates throughout the year. Maintaining a healthy level of reserves to mitigate any potential drop in funding.	H of F & A, H of CS & IT
3	Assumptions used for modelling the effects of business rates pooling	Risk of assumptions used for modelling scenarios for pooling turning out to be significantly different to what happens in reality.	5	2	10	⇔	Close monitoring of the assumptions used. These have been based on historical patterns of business rates income and predicted growth from informed knowledge.	H of F&A Other Local Authorities

Direction of travel symbols ⇩ ⇧ ⇔