

NAME OF COMMITTEE	Council
DATE	7 October 2014
REPORT TITLE	Business Rates Pooling in Devon
Report of	Head of Finance & Audit
WARDS AFFECTED	All

Summary of report:

This report recommends that West Devon Borough Council remains in the membership of the Devon Business Rates Pool for the financial year 2015/16.

Financial implications:

The first year (2013/14) has been very successful and the pooling gain achieved has equated to £1.502 million which has been shared between all of the Devon Authorities in accordance with the Governance agreement. West Devon Borough Council's share of the pooling gain was £24,447. This has enabled £1.502 million to be retained within the local Devon economy rather than this money going back to Central Government, generating additional income for all the Devon Councils within the Pool.

RECOMMENDATION:

It is recommended that West Devon Borough Council remains in the Devon Business Rates Pool for the financial year 2015/16.

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1. BACKGROUND OF THE BUSINESS RATE RETENTION SCHEME

- 1.1 The way that Councils receive income from Business Rates changed from 1 April 2013. Business Rates retention was introduced to enable authorities to be able to retain a share of any growth that is generated in Business Rates revenue in their areas.
- 1.2 The reality is that some authorities earn more in business rates than they used to receive from the previous formula grant, while there are other authorities who earn much less. So the Government has levelled the playing field through a mixture of "top-ups" and "tariffs". At the beginning of each year, 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 are Tariff Authorities. Devon County Council, Plymouth and Torbay are 'Top Up' Authorities.

2. BUSINESS RATES POOLING IN DEVON

- 2.1 The business rate retention scheme allows authorities to voluntarily form a business rates retention pool. Local authorities within a pool are treated as a single authority, with all tariffs and all top ups being combined and a single levy rate being applied. At an early stage the Government encouraged Councils to 'pool'.
- 2.2 In 2013/2014, all eight Devon District Councils and Devon County Council, Plymouth Unitary and Torbay Unitary agreed to be part of a Devonwide pooling arrangement. The first year (2013/14) has been very successful and the pooling gain achieved has equated to £1.502 million which has been shared between all of the Devon Authorities in accordance with the Governance agreement. West Devon Borough Council's share of the pooling gain was £24,447.
- 2.3 This has enable £1.502 million to be retained within the local Devon economy rather than this money going back to Central Government, generating additional income for all the Devon Councils within the Pool.
- 2.4 The 'Devon Pool' distributes pooled funds using a "no worse off" basis. Funds are distributed to each member authority to a position no worse than it would have been had the pool not existed. Clearly this is only 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.
- 2.5 Where pooling generates a net gain, the additional resources (above and beyond the 'no worse off' basis) are distributed in the following proportions:-
50% of the gain is distributed using each authority's baseline funding level and 50% of the gain is distributed using Non Domestic Rate (NDR)baseline.
- 2.6 The same proportion is used if pooling generates a net loss.

3 CONSIDERATION OF THE POOLING POSITION FOR 2015-16

- 3.1 All Devon Authorities have committed to the Pool for 2014-15 and arrangements are now being put in place to consider the pooling position for 2015-16. The Governance agreement sets out that annually the pool members will consider the continuation or discontinuation of the Pool.
- 3.2 As part of the annual review, the pooling partners monitor high risk developments in terms of business closures and business rate appeals.
- 3.3 South Hams District Council has some significant business rates appeals outstanding and the Council has had to include a reasonable provision within its 2013/14 Accounts for these.

- 3.4 Members of South Hams District Council will consider at their meeting on 2nd October a report from the Head of Finance and Audit which recommends that South Hams District Council withdraws from the Pool for 2015/2016. The Devon Business Rates Pool could be re-constituted for 2015/2016 in its own right, without South Hams District Council.
- 3.5 The risks of staying in the Pool for 2015/16 for South Hams are deemed to be too high in relation to the possible pooling gains achievable in 2015/16. An assessment would need to be made on an annual basis about whether South Hams could rejoin the pool in later financial years based on local factors.
- 3.6 There are two critical timescales with any pooling decision:-
- i) End of October 2014 An Authority can withdraw from the pool for 2015-16 without collapsing the pool. The remaining pool members can re-apply to become a new pool for 2015-16 in their own right by 31st October 2014.
 - ii) January 2015 following the Finance Settlement – If a Council leaves a pool at this stage, it collapses the pool for 2015-16 and the pool cannot reform until 2016-17.
- 3.7 The recommendation from the Head of Finance and Audit is that West Devon Borough Council remains in the Pool's membership for 2015/2016.

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.

5. FINANCIAL IMPLICATIONS

- 5.1 The first year (2013/14) has been very successful and the pooling gain achieved has equated to £1.502 million which has been shared between all of the Devon Authorities in accordance with the Governance agreement. West Devon Borough Council's share of the pooling gain was £24,447. It is recommended that West Devon remains in the Pool's membership for 2015/16. There is no known reason why West Devon should not remain in the Pool.

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:	Council – 11 December 2012 Council – 17 December 2013

	DCLG Business Rates Retention – Pooling Prospectus 2015-16
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 significant business rates appeals impacting detrimentally on the Pool	The full risks associated with business rates appeals will be annually assessed by all Pooling partners.	5	3	15	↔	Careful analysis annually to be carried out 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 have a detrimental impact on reserve levels.	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,
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 ↓ ↑ ↔