

## SOUTH HAMS DISTRICT COUNCIL

<b>NAME OF COMMITTEE</b>	<b>Council</b>
<b>DATE</b>	<b>19 December 2013</b>
<b>REPORT TITLE</b>	<b>Business Rates Pooling in Devon</b>
<b>Report of</b>	<b>Head of Finance &amp; Audit</b>
<b>WARDS AFFECTED</b>	<b>All</b>

**Summary of report:**

This report requests delegated authority for the S151 Officer (Head of Finance and Audit), in consultation with the Leader, Executive Portfolio Holder for Finance and Senior Management Team, to make a decision for the District Council on remaining in the Devonwide Business Rates Pool for the financial year 2014/15, in the light of the announcements due at the end of December 2013 regarding the finance settlement.

**Financial implications:**

The potential gain to the Devon region from pooling in 2013/14 is currently estimated to be around £0.5 million. South Hams District Council's share of the pooling gain is currently estimated to be just under £20,000 in 2013/14. If South Hams decided to withdraw from the pool in 2014/15, the Devonwide Business Rates pool would collapse and would not be able to be re-constituted until the financial year 2015/16.

**RECOMMENDATIONS:****It is recommended that:**

- i) **Delegated authority is given to the S151 Officer (The Head of Finance and Audit), in consultation with the Leader, Executive Portfolio Holder for Finance and Senior Management Team, to make a decision for the District Council on remaining in the Devonwide Business Rates Pool for the financial year 2014/15, in the light of the announcements due at the end of December 2013 regarding the finance settlement.**
- 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 2014-2015, as set out in Section 3.4**

**Officer contact:**

Lisa Buckle, Head of Finance,  
01803 861413 [lisa.buckle@swdevon.gov.uk](mailto:lisa.buckle@swdevon.gov.uk)

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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. South Hams District Council and other Devon Districts are Tariff Authorities. Devon County Council, Plymouth and Torbay are ‘Top Up’ Authorities.
- 1.3 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 is set at 7.5% and the maximum levy is now 50%. This means that South Ham’s exposure to losses is around £126,000 (being 7.5% of the baseline funding level of £1.685 million). 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 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’.

**3. THE DEVON BUSINESS RATES POOLING ARRANGEMENT**

- 3.1 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. 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) are distributed in the following proportions:-  
50% of the gain are distributed using each authority's baseline funding level and 50% of the gain are distributed using NDR baseline. The same proportion is used if pooling generates a net loss.
- 3.3 There is no entitlement to safety net funding should a high degree of negative growth be experienced by the pool. Current modelling anticipates that the potential gain to the Devon region from pooling in 2013/14 is estimated to be around £0.5 million. South Hams District Council's share of the pooling gain is currently estimated to be just under £20,000 in 2013/14.
- 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 by any of the Councils currently within the Devon pool would mean that the whole Devon pool could not proceed for another financial year.
- 4.2 The Council would be in a position to be able to make a decision on remaining in the Devonwide pool for 2014/15, once the finance settlement has been announced in late December and the figures have been analysed. Further monthly monitoring is also currently taking place on each Council's business rates income position. There is no Council meeting scheduled for early January 2014 and therefore delegated authority is requested for this decision.

#### **5. FINANCIAL IMPLICATIONS**

- 5.1 The potential gain to the Devon region from pooling in 2013/14 is currently estimated to be around £0.5 million. South Hams District Council's share of the pooling gain is currently estimated to be just under £20,000 in 2013/14. If South Hams District Council decided to withdraw from the pool in 2014/15, the

Devonwide Business Rates pool would collapse and would not be able to be re-constituted until the financial year 2015/16.

**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 – 13 December 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 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, 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 ↓ ↑ ↔