

TITLE OF REPORT: POOLING OF BUSINESS RATES FOR 2015-16 ONWARDS

REPORT OF THE STRATEGIC DIRECTOR FINANCE, POLICY AND GOVERNANCE
PORTFOLIO HOLDER: COUNCILLOR T.W. HONE

1. SUMMARY

- 1.1 Under the business rates retention scheme local authorities are able to come together on a voluntary basis to pool their business rate income. A pooling arrangement allows the Council to reduce the amount of levy payable to Government on any business rate growth achieved above the baseline need.
- 1.2 Hertfordshire authorities have carried out an exercise to determine the optimum pool for Hertfordshire. Following that review, the Chief Finance Officers of North Hertfordshire, Broxbourne, Three Rivers, Welwyn Hatfield, Stevenage and Hertfordshire County Council have applied to the DCLG for permission to form a Business Rates pool for 2015/16. An application had to be made by 31st October 2014 and the Secretary of State will decide on whether to allow a pool or not based on the overall affordability of the business rates retention scheme and whether the authorities have provided a strong, clear rationale for the proposed pool.
- 1.3 Where the Secretary of State agrees to the formation of a pool, Authorities can withdraw from the pool within 28 days of the publication of the Local Government Finance Settlement if they feel it would no longer be of benefit to them. If one authority withdraws, the pool falls away.

2. RECOMMENDATIONS

- 2.1 To endorse the 'in principle' decision to enter into a business rates pool with Hertfordshire County Council (HCC) and four other districts within the County.
- 2.2 That, following a review of the position to confirm the financial benefit to the Council of remaining in the pool once the outcome of the Local Government Finance settlement is known, the Strategic Director of Finance Policy and Governance in consultation with the portfolio holder for Finance and IT be delegated authority to confirm entry or withdrawal from the business rates pool.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure the Authority is able to access the potential financial benefits of pooling.
- 3.2 To enable the Authority to determine whether pooling of business rates remains financially beneficial once the Settlement figures are announced and to take appropriate action.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Not being part of the business rates pool.

5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 5.1 Informal consultation was carried out with the Leader and relevant portfolio-holders prior to the “in principle” decision

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 1st November 2014.

7. BACKGROUND

- 7.1 Provisions exist for Local Authorities to pool their business rate income and thereby reduce the amount of the levy payable to Government on any business rate growth achieved above the baseline need.
- 7.2 The current levy payment is 50% of any growth. The levy is paid to Government and the proceeds from the levy are then used by Government to fund the safety net payments to any authorities whose business rate income falls by an amount greater than 7.5% of their baseline need.
- 7.3 Where authorities enter into a pooled arrangement, they benefit from being treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments. All Hertfordshire Districts are tariff authorities and subject to a 50% levy on any growth whereas the County Council is a top-up authority and has no levy payment. By forming a pool comprising Districts and the County Council, it is possible to achieve a substantial reduction in the levy payment and that benefit is tempered by the loss of the protection of the safety net. The pool gain provides the safety net for any pool losses, with the basic underlying principle that no authority should be any worse off by pooling than not.
- 7.4 A Business rates pool is formed for a 12 month period with the ability for authorities to withdraw from the pool after 12 months, agree to continue or form a new pool with different members. The number of authorities and the exact make up of the pool can vary from year to year subject to the approval of DCLG.

8. ISSUES

- 8.1 The Government called for Chief Finance Officers from authorities wishing to form a Business Rates pool for the 2015/16 financial year to make applications by 31st October 2014. Authorities applying and where the Pool application is successful then need to confirm their intention to proceed within 28 days of the provisional Local Government Finance Settlement. If one of the authorities in the proposed pool decides not to proceed, the whole pool falls away for that year. Authorities need to have the opportunity to ensure that there are no changes to regulations or funding arrangements as part of the settlement before making the final commitment to pool.

- 8.2 LG Futures have undertaken financial modelling to determine the optimum combination of Hertfordshire councils to form a pool. This exercise was completed in October 2014 and initially resulted in an optimum pool for 2015/16 of Herts County Council plus four district authorities (Broxbourne, Hertsmeare, Three Rivers and Welwyn Hatfield).
- 8.3 All Authorities were asked to review their estimates and willingness to form a pool and this exercise resulted in a revised optimum pool of HCC, Broxbourne, North Hertfordshire, Stevenage, Three Rivers and Welwyn Hatfield. This results in a levy rate for the pool of 0.06%, a levy payment of £473k, a levy saving of £3.123m and the potential for the pool members to share the net pool gain of £2.65m. The North Herts share of this pool gain would be approximately £239k. These figures are based on the latest forecasts for business rate collection in 2015/16. The actual net gain to North Herts could be more or less than £239k as it will be dependent on the actual performance of business rate collection of each Authority in the pool.
- 8.4 The submission of the application to DCLG required a memorandum of understanding to be drafted outlining the workings of the pool, the allocation of any running costs associated with operating the pool and the methodology for apportioning any gains achieved by the pool. The MoU is attached at Appendix 2. HCC has been nominated as the lead authority for the pool.
- 8.5 It is the Government intention that pools should promote further economic growth within the pool area. The proposed memorandum of understanding notes that subject to budgetary constraints, Authorities should seek to use any gain from pooling to contribute towards expenditure that might generate growth. In the case of North-Herts, this could, for instance, include expenditure on production of aspects of the Local Plan.

9. LEGAL IMPLICATIONS

- 9.1 Pools are established under paragraph 34 of Schedule 75 of the Local Government Finance Act 1988 (as inserted by schedule 1 to the Local Government Finance Act 2012).
- 9.2 Under the Council's constitution, the administration of the National Non-Domestic Rates scheme is delegated to the Strategic Director Finance, Policy and Governance.

10. FINANCIAL IMPLICATIONS

- 10.1 Outside a pool, North Herts was forecast to pay £352k in levy payment to the government and would have had to bear the first £188k of any reduction in business rate income below the baseline need of £2.5m before the safety net would apply.
- 10.2 Within the proposed pool, North Herts is forecast to pay a levy on the pool of £43k and make a £281k gain from the retained pool levy, giving a net benefit of £239k.

11. RISK IMPLICATIONS

- 11.1 Membership of a pool means the authority loses the protection of the safety net provision whereby if business rates income falls below 7.5% of the baseline need, the Government will provide support. Instead, the support is provided by other members of the business rates pool.

- 11.2 The risk is mitigated by the modelling which resulted in the optimum pool of 5 Districts plus the County Council. The pool Members would need to see a reduction in their combined business rate income of around 7% (or £9.9million) before they would be any worse off through pooling.

12. EQUALITIES IMPLICATIONS

- 12.1 The Equality Act 2010 came into force on the 1st October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5th April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.

- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

- 12.3 There are not considered to be any direct equality issues arising from this report.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at Paragraph 12.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no new human resource implications arising from the contents of this report.

15. APPENDICES

Appendix 1 - Letter of application

Appendix 2 - Memorandum of Understanding

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

DCLG Policy Paper - Business rates retention scheme: pooling prospectus
<https://www.gov.uk/government/publications/business-rates-retention-scheme-pooling>