

**LOCAL RETENTION OF BUSINESS RATES GROWTH**

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|----------------------------|---|
| Relevant Portfolio Holder  | Cllr Phil Mould                               |
| Portfolio Holder Consulted |   |
| Relevant Head of Service   | Teresa Kristunas, Head of Finance & Resources |
| Wards Affected             | All   |

**1. SUMMARY OF PROPOSALS**

- 1.1 The report advises members of the proposals for the local retention of Business Rates growth from April 2013 and the options for pooling or remaining independent.

**2. RECOMMENDATIONS**

**Council is asked to RESOLVE to participate in either,**

- 1) the Greater Birmingham & Solihull LEP pool, or**
- 2) the Worcestershire Business Rates Pool from the 1<sup>st</sup> April 2013.**

**Or alternatively, remain independent of either pool for the purpose of the local retention of Business Rates from 1<sup>st</sup> April 2013.**

**3. KEY ISSUES**

- 3.1. From April 2013 the Government is proposing that local authorities will be able to retain a far larger proportion of the revenue raised locally and be able to retain a share of growth in business rates. Local authorities are being offered the opportunity to group together voluntarily to “pool” their business rates, giving them the scope to smooth the impact of volatility in rating income and generate growth through collaboration. It is also felt that groupings based around Local Enterprise Partnerships (LEPs) could reinforce the LEP-wide economic strategy.
- 3.2. Under the proposals for the local retention of growth in business rates, the Government has assessed that some local authorities need more resources than their locally raised business rates whilst others need less. Local authorities that are assessed to need less will be charged a tariff to reduce their overall income. The sum of these tariffs will be distributed to those individual authorities assessed as needing additional funding in the form of a ‘top up’.
- 3.3. The Government intends to place a levy on authorities to ensure that a 1% growth in business rates does not result in more than a 1% increase in spending power. For Redditch, this might result in 85% of any

business rates growth being lost from the local area through the levy mechanism. By pooling with other councils the amount of levy paid could be reduced or eliminated meaning more of our growth is retained locally.

- 3.4 As an example of the impact of the levy saving, recent estimates indicate that £100,000 business rates growth in each of the 6 districts in Worcestershire (£600,000 in total) would result in only £112,000 of this being retained within Worcestershire. The central Government share under this scenario would be £300,000 or 50% and a further £188,000 would be lost under current levy proposals. For Redditch, only 6% or £6,000 of each £100,000 growth in business rates would come to the Borough Council. Therefore a mechanism whereby the levy payment can be avoided would be beneficial.
- 3.5. The starting position for each District Council will be different. This will be dependent on the current income from Business rates compared to the five year average and therefore the above example remains indicative due to the methodology that will be used to assess each organisational Business Rate Baseline.
- 3.6 The Government propose to put in place a mechanism to support authorities when a significant reduction in business rates revenue arises. A safety net payment is made to support Councils who have lost a significant amount of Business Rates. However, as pooling effectively treats all councils within the pool as one authority for business rates purposes, then the ability of any one council to qualify for safety net payments is reduced if that council is a member of a pool. An assessment has been made on the impact of this and your officers opinion that these risks are more than offset by the benefits of being in a pool.
- 3.7 Any group of local authorities can enter into a pooling arrangement as long as they meet the criteria laid down by the Government. The criteria are as follows:
- any entry into a pool must be voluntary;
  - assurance around governance and workability must be provided and these must have been signed off by all relevant Chief Executives and Section 151 Officer;
  - if the pool dissolves then each local authority reverts to their individual tariff and top up positions; and
  - lower tier authorities do not have to join in the same pool as their associated upper tier authority.
- 3.8 No additional incentives will be provided to pools of authorities (other than those self-generated by the pool) so that those who choose not to pool are not disadvantaged.

- 3.9 The methodology by which funding is distributed across a pool will be agreed via the governance arrangements. There are a range of potential methods by which resources could be distributed across a pool. These could range from “full pooling” with a local resource distribution system that helps to drive economic growth and appropriately funds local services to a smaller scale approach that pools less resources.
- 3.10 The approach adopted to distribute resources could be reviewed by agreement periodically to ensure it fits within the pool priorities.
- 3.11 All authorities were required to express an interest in participating in a Business Rates Pool by the 27<sup>th</sup> July 2012. In the absence of a financial appraisal to reflect the comparison between the Birmingham Greater Birmingham & Solihull LEP (GBSLEP) pool and the Worcestershire pool Redditch Borough Council has expressed an interest in both. However, the Council have now been advised that a final decision needs to be made by the 10<sup>th</sup> September 2012. The initial date for decisions was the 19<sup>th</sup> October. The revised timetable has significantly reduced the time available for technical analysis and the preparation of advice and guidance for members.
- 3.12 Officers are in the process of preparing options appraisals for members based on the proposals for the GBSLEP pool and the Worcestershire Business Rates pool. The option appraisal for each LEP will be presented to Members at this meeting.

**Financial Implications**

- 3.14 The advantage of pooling is to share risk of business rates volatility with other councils in the pool, provide economic advantages of working together and to reduce the levy payable on business rates growth.

**Legal Implications**

- 3.15 The reforms regarding Business Rate retention are set out in the Local Government Finance Bill. In a pooling situation the Government requires authorities to nominate one member to act as lead authority which would be the channel for payments from, or to, the pool under the rates retention scheme. The lead authority would be responsible for supplying any information on behalf of the pool in connection with the operation of the business rates retention scheme. Each member of the pool would be jointly and severally liable for any payments required to the DCLG.

**Service / Operational Implications**

- 3.16 No significant changes identified. Most of the administrative burden will fall on the accountable authority for the chosen pool.

**Customer / Equalities and Diversity Implications**

- 3.17 No direct implications.

**4. RISK MANAGEMENT**

In deciding whether or not to join a “pool” the Council will have to balance the smoothing of any volatility that a pool could offer against the potential rewards or otherwise that could be experienced from remaining independent. There is a greater risk to the authority of remaining outside a pooling arrangement due the levy.

**5. APPENDICES**

None.

**6. BACKGROUND PAPERS**

Various consultation documents issued by the DCLG available from the DCLG website.

**AUTHORS OF REPORT**

Name: Teresa Kristunas, Head of Finance & Resources  
E Mail: [t.kristunas@bromsgroveandredditch.gov.uk](mailto:t.kristunas@bromsgroveandredditch.gov.uk)  
Tel: (01527) 64252 ext 3295