



CABINET

16 October 2013

Subject Heading:	Business Rates Retention Pooling Option
Cabinet Member:	Cllr Roger Ramsey
CMT Lead:	Andrew Blake-Herbert Group Director Resources
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Policy context:	The Council is required to approve an annual budget and to establish a financial strategy and this report forms part of that process
Financial summary:	The report is seeking approval to start formal discussions with regards to assess the benefits of entering a business rate pool
Is this a Key Decision?	No
Is this a Strategic Decision?	Yes
When should this matter be reviewed?	January 2014
Reviewing OSC:	Value

The subject matter of this report deals with the following Council Objectives

Ensuring a clean, safe and green borough	[X]
Championing education and learning for all	[X]
Providing economic, social and cultural activity in thriving towns and villages	[X]
Valuing and enhancing the lives of our residents	[X]
Delivering high customer satisfaction and a stable council tax	[X]

SUMMARY

The 2013/14 Local Government Finance Settlement saw the launch of the Business Rates Retention Scheme as the main form of Local Government funding. Under the Retention Scheme, Councils are to be funded through a mixture of the Revenue Support Grant and Business Rates that make up a Settlement Funding Allocation. Under this scheme, local authorities will be able to retain 30% of their business rate yield (in London, the figure is 50% elsewhere) and would directly benefit from growth in their business rate base.

The Department of Communities and Local Government (DCLG) have encouraged local authorities to pool and have recently released a document called “pooling prospectus” which outlines the benefits and procedures of creating a pool. In May this year, Thurrock Council commissioned LG Futures to review the potential benefit of pooling. From this exercise, a pool consisting of Thurrock unitary, Basildon district, the London Borough of Barking and Dagenham and the London Borough of Havering has been identified as a viable option. In order to join a pool, local authorities have to submit an expression of interest by the 31st of October with any permanent arrangements being formally submitted by January 2014.

Authority is therefore sought from Cabinet for officers to enter into discussions with other authorities over a potential pool for financial year 2014/15.

RECOMMENDATIONS

Cabinet is asked to:

- Note the potential benefits of entering a pooling arrangement and to grant formal authority for officers to enter into discussions in forming a pool and prepare draft documentation for governance of the pooling arrangement.
- Delegate to the Group Director Resources, in consultation with the Leader, Cabinet Member for Value, and Chief Executive, authority to finalise details of any formal submission to DCLG
- Note that a further report will be brought before Cabinet, should approval be given to the creation of a pool.

REPORT DETAIL

1. Local Authority Funding

Cabinet, 16 October 2013

- 1.1 Previous reports to Cabinet during the last budget cycle explained in some depth the changes to the system for funding local authorities. In outline, the two main changes that have been implemented from April 2013 were:
 - Localisation of Council Tax benefit payments, now known as support payments; these are now funded directly by local authorities
 - Localisation of business rates; local authorities now retain 50% of their business rates, though this is only 30% in London, with the balance of 20% going to the GLA. The remaining 50% is still returned to the Government and thus works its way back as Revenue Support Grant, which itself is part of the overall Settlement announcement.
- 1.2 In very broad terms, Havering retains around £21m in business rates, and receives a top-up payment of £9m. The new funding system contains a safety net to safeguard authorities against reductions in their business rates base, but this is set at 7.5%, so marginal reductions would have to be borne by the local authority.
- 1.3 Business rates themselves are derived from rental values, this generates a rateable value (RV), to which a nationally set multiplier is then applied. There is therefore effectively little control that can be exercised locally over the generation of business rates. RVs are also affected by local and regional developments, as set out below.
- 1.4 Although the level of retention is not as high as had been hoped, there is nevertheless a benefit to any authority able to achieve an increase in its business rates yield. There is also a risk that this will reduce, and whilst there is a safety net in place, the yield would need to reduce significantly before that applies. Therefore, entering into a pool potentially mitigates against such reductions, and also potentially allows authorities to benefit from growth in neighbouring authorities.

2. Business Rates Retention Scheme / Pooling

- 2.1 From the creation of the business rate retention scheme, the amount of funding each local authority receives to the amount of business rates collected differs considerably from authority to authority. Due to these large differences in the amount of business rates collected by each authority and the amount of Settlement funding, authorities are either a “Top-Up” (receiving a grant to top them up to their business rate baseline) or a “Tariff” authority (who will pay a tariff as their business rate baseline). Although this creates an equal playing field from year 1, there is also a risk that authorities with high business rates compared to their formula grant requirement could still benefit disproportionately from any growth. To compensate for these authorities who are a “tariff authority” pays a levy to government on any growth proportionate to the amount of formula grant.
- 2.2 In the creation of this revised funding model, The Department of Communities and Local Government also added the option for Local Authorities to pool their business rates with neighbouring boroughs in order to bring stability and

increased financial benefit to those pooled authorities. In order for the pool to be financial beneficial, the pool needs to be made up of a mix of Tariff and Top-up authorities. The financial benefit comes as the levy that Tariff authorities are required to be paid over to Government can be retained in the pool and shared between all members.

- 2.3 Unlike Council Tax, Business Rates are extremely volatile. Any significant development by neighbouring authorities has a direct impact on the attractiveness of Havering's businesses and thus has a detrimental effect of the rateable value of the properties. The recent development in Newham reduced the business rates of businesses in the Liberty by 15% and more recently further appeals in respect of the Westfields development are expected in 2013/14 of potentially an additional 15%. Further developments are likely in the coming years especially in Essex. To help mitigate the risk, joining with these areas would help mitigate the risk as Havering will be able to retain a share of this growth.
- 2.4 DCLG have been encouraging local authorities to pool and, as indicated in the summary to this report have recently released a document called "pooling prospectus". Officers have explored a range of options, looking at alternative combinations of authority, and have come to the conclusion that a pool consisting of Thurrock unitary, Basildon district, the London Borough of Barking and Dagenham and the London Borough of Havering is a viable option. It is also most likely the optimum option, compared to other combinations of authority. Local authorities have to submit an expression of interest by the 31st of October with any permanent arrangements being formally submitted by January 2014.
- 2.5 It is therefore proposed to initiate more formal discussions with the other three boroughs, to determine whether there is an appetite to make a formal application to create a business rates pool. This will include discussions on the basis on which any pool would operate. The basic principle of any pool is that no member authority would be worse off, but a range of information needs to be explored in detail to determine how the mechanics of the pool would operate. This will included whether there should be an overall safety net across the pool, and the basis on which the pool would be distributed between the pool members.
- 2.6 It is proposed to continue to use the services of a specialist consultant in modelling different options. It will still be necessary for each authority to undertake its own due diligence, but having a consistent basis on which to do so will be extremely helpful. This work is now underway.
- 2.7 A key aspect of any pool is not only any financial benefit. DCLF are looking for "joined-up" applications, which set out not only any such benefits, but how the pool would operate to contribute towards the regeneration agenda. This means that geographically linked authorities as part of a pool, and/or those with related aspirations and plans, are more likely to be accepted by DCLG as the basis on which a pool would be formed. Whilst this does not necessarily rule out more distant London Boroughs, there is a logic to three of the boroughs in the

proposed pool, given their shared river frontage and potential opportunities arising from the Thames Gateway.

- 2.8 Cabinet is asked to authorise officers to undertake such discussions. Given the deadline for submission, it is proposed that authority to undertake and conclude formal discussions, and to approved any submission to the DCLG, should be delegated to the Group Director Resources, in consultation with the Leader, Cabinet Member for Value, and the Chief Executive. Cabinet is also asked to give their approval to this approach.
- 2.9 It is intended that a further report would be brought back to Cabinet at the appropriate juncture in the budget cycle, should discussions prove fruitful, and should there be a clear benefit to Havering from pooling.

REASONS AND OPTIONS

Reasons for the decision:

In order to maximise the funding available for the council, it is necessary to explore option especially if there are is financial impact to the local communities. The option being sought could potentially bring additional benefits and give financial stability as the risk of any major developments from within the pool can be shared thus minimising the impact to the local rates collected.

Other options considered:

None. Other options have been explored however the proposed pool give the most financial viable as well as being within a geographical area. The pool is a voluntary membership which can be reviewed at any time.

IMPLICATIONS AND RISKS

Financial implications and risks:

At this stage we are looking into the prospect of forming a pool, any financial benefits have not be calculated in detail as the details surrounding governance, administration, method of apportioning benefits have yet to be agreed between all four boroughs. The risk associated with the business rate retention is potentially doing nothing could dramatically affect Havering's business rate yield. Havering would be at risk if it approach the "do nothing" approach as Havering would be at risk of any rating appeals brought about by any developments from the 3 other authorities.

The only other option available is a London wide pool however at this stage there is no agreement or appetite from the 33 boroughs at this stage.

Legal implications and risks:

Under a business rate pooling arrangement the constituent Councils are treated for the purposes of business rates as a single entity and all calculations on business rates and payments to and from the DCLG will be made to the pool entity and not the individual councils That will require one of the councils to become the Lead Authority for the pool and be the point of contact for the DCLG.

There will need to be a formal agreement between the pool authorities governing the pooling arrangements. There is a standard format for the agreement which will have to be signed by the Chief Executive and the s.151 Officer for each Council. While there is a standard format, there will need to be some negotiation on the details which will need to be included, in particular the justification and purpose of the pool. This will need to be completed before the January submission.

As a primary purpose of the pool is ameliorate swings in business rates for individual authorities as well as allow retention of extra growth of the rate, there would appear to be very limited legal risks. The most obvious one would be if the DCLG imposed unacceptable conditions on the pool, but that would defeat the purpose of it and it would not occur leaving the Councils in no worse a position than at present.

Human Resources implications and risks:

There are no HR implications or risks arising from this proposal. However, should the Council not be able to mitigate potentially adverse impacts from the business rates system, any reduction in funding may necessitate further savings, and these could impact on the level of staff resources within the Council.

Equalities implications and risks:

There are no specific equalities implications or risks arising from this proposal.

Other Risks:

At this stage there are no other risks apart from the relatively short time scale.

BACKGROUND PAPERS

There are none.