CABINET **19 JULY 2012**

LOCALISATION OF BUSINESS RATES
(Report by the Head of Financial Services)

1. PURPOSE

1.1 A commitment to review local government finance was part of the Coalition Agreement when the Government came to office. Reform of the system of business rates, with some element of the rates being retained by local authorities rather than all rates being retained centrally and redistributed as a part of Formula Grant is the first part of that reform.

1.2 Following consultation, the Government published its plans for the rates retention scheme in December 2011 with the scheme coming into effect in April 2013.

1.3 The scheme includes an option for local authorities to come together to form local pools for business rates income. If they wish to do this the authorities must express an interest by 27 July though final confirmation is not required until later in the year.

1.4 This report explains how the both the retention system and pooling will work, based on information received to date, and seeks Cabinet approval to the Council “expressing an interest” in pooling with the County Council and other Cambridgeshire districts.

2. THE BASIS OF THE NEW SYSTEM

2.1 The proposals focus on the distribution of business rate income, rather than changes to the system of business rate taxation. Businesses will see no difference in the way they pay tax or the way the tax is set. Rate setting powers will remain under the control of central government and the revaluation process will be unchanged.

2.2 The overall position will be that each authority will receive in 2013/14 the level of funding from Business Rates and Grant that the Government would have provided if there had been no change to the system. These sums are not yet known and the Government will have to take account of a range of economic pressures in arriving at these figures. There is certainly concern that these could be lower than previously forecast.

2.3 Of the Business Rates collected by each "collection authority" (i.e. District Councils in Cambridgeshire) the first 50% will be passed to the Government, 10% will go to the County, 1.25% to the Fire Authority and the remaining 38.75% goes initially to the District Council as its "**Business Rates baseline**". Thus, if it were not for the levy, see 2.6 below, the District Council would gain 38.75% of any increase in Business rates and lose 38.75% of any reduction in Business Rates.

Total Business Rates Collected by District	**100.00%**
Proportion to Government	50.00%
Proportion to County and Fire	11.25%
Proportion to "collection authority" **= Business Rates Baseline**	38.75%

2.4 However, the Government will then decide how much funding an authority should receive and how much of this should be funded from grant and how much from retained Business Rates (the "**Spending Baseline**"). If the **Spending Baseline** is higher than the **Business Rates Baseline** then the authority will receive a **Top Up** from the Government from the Business Rates pool (most if not all County Councils will be **Top Up** authorities). Conversely if the **Spending Baseline** is lower than the **Business Rates Baseline** then the authority will pay a **Tariff** to the Business Rates pool (most Districts will be **Tariff** authorities).

	FUNDING			**Business Rates Base Line**	**Top Up** from Gov't	**Tariff** To Gov't
authority	From Grant and Business Rates	From Grant	From Business Rates **Spending Base Line**			
A	£9M	£4M	£5M	£23M		£18M
B	£30M	£8M	£22M	£20M	£2M	

2.5 The **Top Ups** and **Tariffs** will automatically increase for inflation. This gives **Top Up** authorities a guaranteed increase in part of their resources and means that a **Tariff** authority will lose resources if there is any reduction in the **volume** of Business Rates (the Business rate poundage itself rises by the rate of inflation).

2.6 In addition there will be a **Levy** on what the Government refers to as "disproportionate growth" which will be used to provide a safety net for those authorities experiencing reductions. The levy rate is based on the relationship between the **Business Rates Base Line** and the **Spending Base Line**. The result is that for each 1% extra in

Business Rates a **Tariff** Authority will only receive 1% of their **Spending Baseline**.

Levy = 1 - (Spending Base Line/Business Rates Base Line)

authority	**Spending Base Line**	**Business Rates Base Line**	**Levy**
A	£5M	£23M	78%

2.7 Thus if a District Council's Business Rates were to increase it would not keep 38.75% because it would have to pay 78% of this to the Government as a **Levy** leaving it with just 8.3%. However if its Business Rates were to fall it would lose 38.75% unless protected by the Safety Net (see below).

IMPACT ON DISTRICT COUNCIL A		
Real terms change in Business Rates Collected	**+£3M**	**-£3M**
Business Rates Base Line	£23M	£23M
Spending Base Line	£5M	£5M
Levy rate	78%	78%
Impact on District Council	**+£250k**	**-£1,163K**

2.8 If an authority's income drops below the safety net threshold, the authority will receive safety net payments to take income back up to that threshold level. The Government proposes to set the safety net threshold between 7.5% and 10% below the authority's **Spending Baseline**. For example, a 10% safety net threshold would mean that no authority would see more than a 10% drop in their retained income from business rates. However, even a 7.5% loss could have severe implications for any authority.

SAFETY NETS	
Spending Base Line	£5M
Maximum loss if Safety net:	
7.5%	£375k
10%	£500k

2.9 Local authorities may combine to form Business Rate pools. Where local authorities enter into pooling arrangement individual **Top Ups** and **Tariffs** will be combined as will **Levy** arrangements. Authorities in pooling arrangements will need to agree how they will share risks and potential rewards between the individual.

2.10 The Government share of Business rates, referred to above, will be fixed at 50% until any reset of the system. It is intended that this share will remain unaltered for seven years to 2020 in order to provide authorities with the certainty that they need to plan and budget. Longer term, the Government remains committed to its aspiration for 10 year reset periods though it would still retain flexibility for more frequent resets in exceptional circumstances.

2.11 Business Rate growth in Enterprise Zones is dealt with separately and allocated via the LEP. Large pre-agreed Tax Increment Financing Schemes (TIFS) are excluded from the reset mechanism and the levy. These will be where an authority intends to invest significant sums to support economic dvelopment and obtains DCLG consent to keeping the extra Busioness Rates to fund the borrowing costs of the investment.

2.12 Business rates income from new renewable energy projects will be retained in full by the Council that approves the planning application which will normally be the District Council.

3. POOLING

3.1 The Government considers that pooling offers opportunities for encouraging joint working, sharing the benefits from economic growth investment across a wider area, managing volatility in Business Rate income levels and potentially supporting the delivery of further economic growth.

3.3 Pooling combines the Tariffs/Top Ups of individual authorities within the pooling area and treats the area as a single authority (although individual authorities would still be notified of their Tariffs/Top Ups). A single levy rate applies to the sum of the pool's income and growth levels. Similarly, safety net eligibility is also calculated at aggregate pool level.

3.4 Pool members will determine their own governance arrangements including how to distribute resources amongst pool members; for example, authorities could decide that each member will receive at least the same amount as they would have if a pool had not been in place, and additional resources could be distributed in whatever way they wished.

3.5 Authorities need to inform the Government if they are interested in Pooling by 27 July. The government intends to allow authorities the chance to withdraw from pooling arrangements once the draft Local

Government Finance Report is published (if the request is made within 28 days of the draft report being published).

3.6 Apart from the perceived benefits of pooling referred to in 3.1 above there can be financial benefits. If one, or more, Tariff authorities combine with a Top Up authority the net result is that a lower Levy rate results and so a greater share of any growth in Business Rates will be retained locally. At a recent meeting of the Cambridgeshire Public Services Board there was support from all authorities for the principle of pooling on a countywide basis.

3.7 The County Council have modelled a range of scenarios using the Society of County Treasurer's model and consider that there is a net benefit as long as there is not an overall reduction in the pooled Business Rates of more than 0.25%.

3.8 The table below provides the assumptions on Spending Baselines that the County Council have derived from their model. It shows that the levy rate changes from a range of 0% to 89% without pooling to 36% with pooling. Because the levy rate is applied to the Business Rates Baseline where only 20% is allocated to the County Council the reductions to 36% for the Districts exceeds the impact of the County rising to 36%.

Authority	Business Rates Baseline (£m)	Spending Baseline (£m)	Tariff (-) Top-up (+) (£m)	Levy Rate No Pool	Levy Rate With Pool
Cambridgeshire	25.950	61.740	+35.791	0%	**36%**
Cambridge City	34.958	4.689	-30.269	87%	**36%**
East Cambridgeshire	6.957	2.747	-4.210	61%	**36%**
Fenland	8.812	3.897	-4.915	56%	**36%**
Huntingdonshire	23.202	5.166	-18.036	78%	**36%**
South Cambridgeshire	26.626	2.951	-23.675	89%	**36%**
Total	**126.505**	**81.191**	**-45.314**		**36%**

3.9 Using these figures the following tables illustrate the impact of 2% real terms growth **for one year** with or without pooling. They show that the total growth in rates retained within a Pool would be £1.7M as opposed to £1M without pooling.

2% GROWTH NO POOLING	Gross Business Rates Increase £m	Less Gov't Share £m	County/Fire Transfer £m	Business Rates Baseline £m	Less Levy £m	Growth retained £m	Levy Rate £m
Fire			0.065	0.065	0.000	**0.065**	0%
Cambridgeshire			0.519	0.519	0.000	**0.519**	0%
Cambridge City	1.804	-0.902	-0.203	0.699	-0.608	**0.091**	87%
East Cambridgeshire	0.359	-0.180	-0.040	0.139	-0.085	**0.054**	61%
Fenland	0.455	-0.227	-0.051	0.176	-0.099	**0.078**	56%
Huntingdonshire	1.198	-0.599	-0.135	0.464	-0.362	**0.102**	78%
South Cambridgeshire	1.374	-0.687	-0.155	0.533	-0.474	**0.059**	89%
Total	**5.190**	**-2.595**	**0.000**	**2.595**	**-1.628**	**0.967**	

2% GROWTH WITH POOLING	Gross Business Rates Increase £m	Less Gov't Share £m	County/Fire Transfer £m	Business Rates Baseline £m	Less Levy £m	Growth retained £m	Levy Rate £m
Fire			0.065	0.065	-0.023	**0.042**	36%
Cambridgeshire			0.519	0.519	-0.187	**0.332**	36%
Cambridge City	1.804	-0.902	-0.203	0.699	-0.252	**0.447**	36%
East Cambridgeshire	0.359	-0.180	-0.040	0.139	-0.050	**0.089**	36%
Fenland	0.455	-0.227	-0.051	0.176	-0.063	**0.113**	36%
Huntingdonshire	1.198	-0.599	-0.135	0.464	-0.167	**0.297**	36%
South Cambridgeshire	1.374	-0.687	-0.155	0.533	-0.192	**0.341**	36%
Total	**5.190**	**-2.595**	**0.000**	**2.595**	**-0.934**	**1.661**	

3.10 The County modelling includes a significant number of further assumptions and suggests higher benefits but the benefit illustrated above would still be a significant and welcome benefit.

3.11 Before the deadline for withdrawal (potentially November) the following points would need to be determined:

- The basis for allocating any gain (or loss) from pooling
- The likelihood of Business Rates growth in 2013/14.
- The financial benefit incorporating the final details of the scheme modelled for a range of potential growth and reduction scenarios.

This would allow each authority to make their final decision as to whether to withdraw from the Pooling at that stage.

4. CONCLUSION

4.1 Businesses should see no changes from the proposed changes unless it is via a greater local authority interest in business growth.

4.2 The localisation of business is not intended to change the resources available to authorities in 2013/14 but it will, over time, result in a higher proportion of resources going to growth areas.

4.3 It is extremely difficult to forecast what the Council's level of Business Rate growth will be especially as the Enterprise Zone is excluded.

4.4 A Levy system results in District Councils only getting a small share of any growth in Business Rates.

4.5 Safety nets exist but are not expected to apply until an authority has lost 7.5% or more of its Spending Baseline.

4.6 Based on current knowledge, Pooling will provide a benefit where one, or more, Tariff authorities pool with a Top Up authority in a growth situation.

4.7 Any pooling arrangement should be based on ensuring that no authority loses as a result of pooling.

4.8 Interest in pooling must be notified by 27 July but withdrawal will then be allowed up until a date to be specified.

5. RECOMMENDATION

5.1 Cabinet is recommended to:

- Note the planned basis for the localisation of Business Rates

- Express to the DCLG the Council's interest in pooling with the County Council and other Cambridgeshire Districts on the understanding that the governance arrangements will be based on no authority losing from pooling and noting that there will be the opportunity to review that decision later in the year.

ACCESS TO INFORMATION ACT 1985
Government proposals and PSB report held by Head of Financial Services.

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