Cheltenham Borough Council

Cabinet – 25 September 2012

Business Rates Retention Scheme - Pooling

Accountable member	**Councillor John Rawson, Cabinet Member Finance**
Accountable officer	**Mark Sheldon, Director of Resources**
Ward(s) affected	**All**
Key Decision	**Yes**
Executive summary	To explain the Government's proposals for Business Rates Pooling from April 2013 and seek approval in principle to enter into a Pooling Agreement with all Gloucestershire district councils and the County Council subject to agreement on satisfactory governance arrangements and a full assessment of the risks and rewards.
Recommendations	**Cabinet recommend that Council** **a) Agree in principle to be part of a Gloucestershire Business Rates Pool, subject to a thorough assessment of risks/rewards and agreement on satisfactory governance arrangements** **b) Subject to a) above, to approve the submission of a proposal to the Government for a Gloucestershire Pool by the 19th October deadline** **c) Delegate authority to the Section 151 Officer and Chief Executive to assess the risks/rewards and agree the business case for joining a Gloucestershire Business Rates Pool** **d) Delegate authority to the Section 151 Officer and Chief Executive, in consultation with the Borough Solicitor, Leader of the Council and the Cabinet Member for Finance, to agree the governance arrangements for the operation of a Gloucestershire Business Rates Pool.**

Financial implications	The Business Rates Retention Scheme forms part of the Government's agenda of localising funding for local government. Pooling of business rates with the other local authorities in Gloucestershire may help retain more funding in Gloucestershire as a whole. It may also help mitigate some of the risks associated with the localisation of business rates. Quantifying these risks and rewards at this early stage is very difficult. There is no obligation for the Council to pool business rates with the other Gloucestershire councils. There is a theoretical benefit of being part of a pool due to the potential for reducing the risk of fluctuations in funding. However, this very much depends on the actual levels of business rates collected across the pool and the governance arrangements agreed by pool members. The exact impact of business rate pooling may not be fully known until the Draft Local Government Finance Settlement is announced in late November/early December 2012. However, a cooling-off period has been built into the Government's timetable to allow councils to finalise their decision in the light of the settlement announcement. **Contact officer: Mark Sheldon, mark.sheldon @cheltenham.gov.uk, 01242 264123**
Legal implications	The Local Government Finance Bill has reached the Report Stage in the House of Lords (due 10 October 2012) and subject to the House of Commons agreeing any amendments Royal Assent should follow within a few weeks afterwards. As presently drafted the Bill will insert a new Schedule 7A into the Local Government Finance Act 1988. Schedule 7A will enable the Secretary of State to make regulations designating groups of two or more local authorities for the purposes of retaining business rates locally. The effect of designation will be that the group will collectively be a Relevant Authority and exercise the functions conferred by Schedule 7A. In the absence of the detail of any regulations it is the principle of pooling that is the issue for members. An agreement will need to be put in place between all the authorities in the pool to deal with how the pool will work; decisions are taken and depending on the regulations, include provision for changing membership/lead authority **Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01242 272012**
HR implications (including learning and organisational development)	None **Contact officer: Julie McCarthy, julie.mcCarthy @cheltenham.gov.uk, 01242**
Key risks	**See appendix 1**

Corporate and community plan Implications	None
Environmental and climate change implications	None

1. Background

1.1 The Local Government Finance Bill was introduced in December 2011 and set out the Government's intention to introduce a Business Rate Retention (BRR) scheme from 01 April 2013.

1..2 BRR forms part of a wider policy of decentralisation, aimed at giving councils increased financial autonomy and a greater stake in the economic future of their local area.

1.3 Details of the BRR scheme have been provided in a series of consultation documents and other government papers over the last 12 months. The most recent of these is the Technical Consultation published in July 2012 which builds on the proposals in the Government response to consultation published in December 2011, and on the statements of intent published in May 2012. The Government have also published a Pooling Prospectus which outlines the benefits of pooling.

1.4 Whilst the Government has provided some clarity on how the BRR scheme will work, there remains a great deal of uncertainty around the actual level of funding councils can expect to receive in 2013/14. This uncertainty may not be resolved until the Local Government Finance Settlement is announced in late November or early December 2012.

Business Rates Retention Scheme

Rationale behind changes to the current funding of local government

1.5 The local government finance system is one of the most centralised in the world with councils getting more than half of their income from a central government grant. Under the current funding arrangements, Cheltenham collects business rates from all businesses in the borough and then pays it over to the Government into a central pool. This is then redistributed back to local authorities via a complex funding formula.

1.6 This means that councils are not rewarded and have no direct financial incentive to promote and /or facilitate business growth in their area, as any new business rates are paid over to the central pool.

1.7 The Government's proposals on BRR enable councils to keep a share of the business rate growth in their area promoting financial autonomy and giving councils a greater stake in the economic future of their local area.

1.8 The Government is not proposing to make any changes to the way in which business rates are calculated or paid which will continue to be set nationally. There will also be no change to the existing mandatory and discretionary reliefs available to eligible ratepayers.

Spending Control Totals, Central & Local Shares

1.9 The Government has made clear from the outset that the BRR scheme must not put at risk the deficit reduction programme and should operate within existing spending control totals and be fiscally sustainable in future years. To ensure this, some business rates income would need to be retained by central government. It is proposed that councils can keep 50% of business rates collected (the **local share**), with the remaining 50% (the **central share**) retained by the Government and paid into a central pool and redirected to local government through other grants.

1.10 However, the local government spending control totals for 2013/14 and 2014/15 which will be used to establish the BRR scheme start up funding allocation have been reduced based on assumptions around public sector pay and other funding commitments.

1.11 The Government is also holding back money to fund the safety net needed to assist authorities whose business rates income falls below a certain level and also to fund the New Homes Bonus scheme. The Government have stated that any money that is not needed will be retuned to local government through the Revenue Support Grant (RSG) and other grants.

1.12 According to the LGA, the effect of all these changes is that the decrease in the control total for all local government (including police and fire) is 12.2 per cent in 2013/14 and then 8.7 per cent in 2014/15. This is a significantly worse position than the original Spending Review figures which were 0.8 per cent decrease for 2013/14 and 5.8 per cent decrease for 2014/15.

1.13 As a result, of the estimated £23 billion of business rates for 2013/14 £10.6 billion will be the local share and £13.5 billion will be the central share.

Operation of the BRR scheme

1.14 The Government will calculate each billing authority's **proportionate share** of the estimated £23 billion aggregate business rates. This will establish a billing authority's **business rates baseline** at the outset of the scheme so that no council is worse off. The **proportionate share** of business rates will be based on the average rates income over 5 years from 2007/08 to 2011/12.

1.15 Billing authority **business rates baseline** will be split between the billing authority and major precepting authorities. The district share has been set at 80%, with the county share being 18% and the fire and rescue authority share being 2%.

1.16 The **baseline funding level** for each authority is then defined as being the authority's **proportionate share** of the **local share** of the estimated aggregate business rates.

1.17 Some local authorities collect more business rates than they currently receive in formula grant (which is based on relative need and resources), while the business rates collected by other authorities are lower than their current funding level. It is proposed to rebalance resources at the outset of the scheme through a system of **tariffs and top ups**.

1.18 An authority which collected more business rates than its **baseline funding level** would pay the difference to central government as a **tariff**. An authority which collected less business rates than its baseline funding level would receive the difference from central government as a **top-up**. These will remain fixed in future years to ensure that changes in budgets reflect business rates growth.

Levy & Safety Net, System reset

1.19 The BRR scheme will protect local authorities from significant reductions in their income through a **safety net** payment. This will be funded by a **levy** on disproportionate growth that some authorities will achieve due to being able to grow business rate income easily in relation to others.

1.20 The Government proposes a proportional **levy** ratio at a 1:1 level. This means that for every 1% increase in the individual authority's **business rates baseline** the authority would see no more than a corresponding 1% increase against its baseline funding level. In practice, this means that all **tariff** authorities (e.g. district councils) would pay a **levy**, since by their nature, **top-u**p authorities (e.g. county councils) would not be able to achieve more than 1% increase in their baseline funding level for every 1% increase in their individual authority **business rates baseline**.

1.21 The Government would pay a **safety net** to authorities who see their income from business rates drop by a set percentage below their **baseline funding level**. It is proposed that this percentage is set in the range 7.5% to 10%. In practice, this means that every local authority would be guaranteed to receive at least 90% to 92.5% of its **baseline funding level**.

1.22 The Government has indicated that once the **baseline funding levels** have been set, they will only be amended when the spending needs of councils become out of balance with the resources they receive. At this point, the scheme would be **reset**, which would necessitate a review of **baseline funding levels** for each authority taking into account any changes to relative funding needs and resources.

1.23 It is the Government's aim that it does not intend to **reset** the BRR scheme until 2020 at the earliest (except in exceptional circumstances).

Pooling

1.24 Under the BRR proposals, local authorities will be able to come together voluntarily to pool their business rates. There are a number of potential benefits to be gained through the pooling of business rates. Pooling business rates:

- provides local authorities with a mechanism to promote jobs and growth, allowing investment decisions to support economic priorities across a wider area
- encourages collaborative working across local authorities, rather than being constrained by administrative boundaries
- allows the benefit from investment in economic growth to be shared across the wider area and helps local authorities to manage volatility in income by sharing fluctuations across budgets.

1.25 Pooling could, depending on local arrangements and circumstance, place member authorities in a beneficial collective financial position. Pooling could allow the members of the pool to benefit from the business rates income through off-setting tariffs against top-ups and reduction in levy rates.

1.26 Where local authorities come together to form a pool there will be a single tariff or top-up figure, which will be the sum of all the tariffs and top-ups of the individual authorities within the pool. There will also be a single levy rate for the pool, calculated on the aggregate income and growth across the pool. Pooling also means that eligibility for safety-net payments will be calculated at the pool-wide level

1.27 The Government has indicated that if local authorities want to pool, they will need to consider the best economic geography (e.g. County-wide, Local Enterprise Partnership-wide)

1.28 The Government highlights the link between local authorities and Local Enterprise Partnerships (LEPs). The Growing Places Fund has been allocated to LEPs to generate economic activity, prioritise infrastructure needed to deliver economic strategies, and to leverage in private investment.

1.29 An Expression of Interest was submitted to the Government on behalf of all the Gloucestershire councils in July 2012. The proposed Gloucestershire pool is closely aligned to the Gloucestershire LEP and would enable Gloucestershire's local authorities and LEP to work collaboratively using pooling to help deliver their growth objectives.

Governance Issues

1.30 When submitting the final proposal to pool business in October 2012, members of the pool will have to consider and agree the governance issues, such as:

- governance structure for the management of the pool including the decision making process
- how the pool will share the benefits of growth and the impacts of volatility between member authorities
- how investment decisions will be made
- how the pool will ensure transparency of decision making and investment decisions
- how the pool will handle dissolution etc

1.31 Members of the pool will be responsible for any decisions on how to distribute the total business rates within the pool. In doing this, local authorities will need to consider how to distribute any growth in business rate income across the members of the pool.

1.32 Pools may look at a number of different distribution options:

- Simple distribution – members of the pool distribute the aggregate revenue on the same basis as they would have been treated outside the pool (i.e. no individual authority is worse off in the pool)
- Weighted distribution based on relative growth of each member

- Growth in the pool up to a certain value or percentage is shared, but growth gained by each individual pool member over and above that level is retained by them

- Distribution prioritised to delivering growth in future years (i.e. growth distributed for investment in new developments).

1.33 In designating a pool, one member is to act as lead authority. It is the Government's intention that payments from/to the pool under BRR will be channelled through the lead authority. The lead authority is responsible for supplying any information on behalf of the pool in connection with BRR.

1.34 The Government may also attach conditions such as a requirement to publish an annual financial statement showing how the income has been distributed, or what income has been retained within the pool for future investment.

What pooling means for Cheltenham/Gloucestershire

1.35 In principle, pooling would help to maximise the resources that can be retained for Gloucestershire. If all the councils in Gloucestershire pooled their business rates, there is a theoretical benefit of a reduced **levy** rate on any disproportionate growth. This is because the **tariffs** paid by the district councils are offset by the **top-up** received by the county council.

1.36 In the case of Cheltenham, the **levy** rate is estimated to be around 88%. That means for every £100 of growth in business rates over and above the **business rates baseline**, Cheltenham would retain £12 but would pay a **levy** over to the Government of £88.

1.37 The actual benefit will depend on the actual amount of business rates collected by each authority and how this compares to each authority's **business rates baseline**. It is too early to say with any degree of certainty the exact financial benefit that would be gained. However, the table below illustrates the theoretical benefit If the **levy** rate for the pool drops to around 20%.

Authority	Business Rates Baseline (£m)	Spending Baseline (£m)	Tariff / Top-up (£m)	Individual Levy Rates
Cheltenham	22.000	2.500	(19.500)	88.64%
Cotswold	12.000	1.900	(10.100)	84.17%
Forest of Dean	5.000	2.400	(2.600)	52.00%
Gloucester	19.000	3.300	(15.700)	82.63%
Stroud	10.000	2.400	(7.600)	76.00%
Tewkesbury	14.000	1.700	(12.300)	87.86%
Gloucestershire	20.000	67.100	47.100	0.00%
The Pool	**102.000**	**81.300**	**(20.700)**	**20.29%**

Note: The figures above are illustrative only, based on indicative figures from modelling undertaken, which may be subject to change.

1.38 This means that for every £100 of growth in business rates over and above the pool's business rates baseline, the pool would retain £80 but would pay a levy to the government of £20.

1.39 Pooling business rates does bring with it some risks. The safety net payment is calculated at the pool-wide level. This means that individual authorities who suffer a large reduction in their business rates (and would meet the safety net criteria individually outside of the pool), may not receive any financial support through the pool. This would be because the overall reduction in the pool is not large enough to trigger the pool-wide safety net payment.

1.40 For example, with a safety net set at 7.5%, Cheltenham as an individual authority outside the pool would trigger the safety net with a the business rates it collects falls to 92.5% of the Spending Baseline (i.e. If spending baseline is £2.57m, safety net is triggered when local share of business rates fall to £2.38m). However, for the pool-wide safety net to trigger the pool would need to see the total business rates collected fall below £75.2m – the spending baseline being £81.3m). Therefore, if Cheltenham's business rates are falling but other authority's are increasing, the pool-wide safety net would not trigger.

1.41 All of the Gloucestershire councils are working collaboratively to assess the advantages and disadvantages, risks and rewards of pooling business rates. A smaller sub-group of officers from the Gloucestershire councils is currently working through different growth scenarios and modelling the outcomes. Once this work has been completed, we will provide further detailed information to members including an analysis of the benefits, risks & rewards of pooling.

1.42 The governance issues are also being explored by officers from the Gloucestershire councils. A draft of the governance arrangements for the Gloucestershire pool will also be provided to members at a later date.

Pooling Timetable

1.43 The Government published a timetable in their pooling prospectus outlining the key dates to ensure pools are able to come into effect in April 2013. This is shown in the table below:

27 July 2012	Invitation for local authorities to submit expressions of interest
August 2012	Development of detailed pooling proposals
10 September 2012	Submission to DCLG of firm list of pool members, pool's consideration of impact on other parties, pool's view of emerging governance arrangements and proposed process for final sign-off by each pool member prior to 19 October submission
September 2012	DCLG consults interested parties from those affected by the pooling proposals (responses by 28 September 2012)
24 September 2012	Deadline for responses to the Business Rates Retention Technical Consultation.
19 October 2012	Submission of final pooling proposal including governance arrangements signed off by the Chief Executives and Section 151 officers of each authority in the pool
November 2012 (date subject to timing of draft Local Government Finance Settlement)	Designation of pooling proposals, ahead of publication of draft Local Government Finance Report
December 2012 /	Local authorities to notify DCLG of their intention not to proceed.

January 2013	This must be before statutory consultation on the draft Local Government Finance Report closes.

1.44 This means that for the Gloucestershire pool to be in place by April 2013, the formal pooling proposal will need to be signed off by the Chief Executive and Director of Resources before 19 October 2012. This is before we will know the amount of funding Cheltenham can expect to receive for 2013/14. As such, a cooling-off period has been built into the timetable which allows for local authorities to reassess the relative benefits or risks of being part of the pool.

2. Reasons for recommendations

2.1 The impact of business rate pooling may not be fully known until late November/early December 2012. However for a pool to be considered a proposal must be submitted to DCLG by 19 October 2012. A cooling-off period has been built into the government's timetable to allow councils to finalise their decision on pooling in the light of the settlement announcement.

3. Alternative options considered

3.1 Councils are not required to join a Business Rates Pool, they do so voluntarily. A thorough assessment of the risks and rewards is essential to inform the decision whether to pool or not. The Council may miss an opportunity to increase its funding from business rates or reduce the risk of losses in funding should it not consider the pooling option.

4. Consultation and feedback

4.1 Officers have been working with all Gloucestershire councils on pooling of business rates, including the County Council. Consultation has taken place with the Chief Executives and Leaders of Gloucestershire councils, with an expression of interest submitted on behalf of all Gloucestershire councils to the DCLG in July 2012. Further consultative work is scheduled to take place with interested parties over the coming weeks as the government provide further information.

5. Performance management – monitoring and review

5.1 Should the Council decide to pool, it will be informed in late November if it has been successful. It must notify the Government in December/January if it decides not to proceed.

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Appendices	1. Glossary of Key Terms 2. Risk Assessment
Background information	DCLG Business Rates Retention Scheme Pooling Prospectus, July 2012 http://www.communities.gov.uk/documents/localgovernment/pdf/2182704.pdf DCLG Business Rates Retention Technical Consultation, July 2012 http://www.communities.gov.uk/documents/localgovernment/pdf/21825021.pdf

Appendix A – Glossary of key terms

Listed below are the definitions provided in the Government's Technical Consultation document on the Business Rates Retention scheme published in July 2012.

Baseline funding level
The amount of a local authority's *start up funding allocation* which is provided through the *local share* of the estimated business rates aggregate (England) at the outset of the scheme. It will form the baseline against which *tariffs* and *top-ups* will be calculated.

Billing authority
A local authority which bills and collects business rates, for example a district council or unitary council.

Billing authority business rates baseline
Determined by dividing the *local share* of the estimated business rates aggregate (England) between billing authorities on the basis of their *proportionate shares*, before the payment of any *major precepting authority share*.

Central share
The percentage share of locally collected business rates that will be paid to central government by billing authorities. This will be set at 50%. The *central share* will be re-distributed to local government through grants including the *Revenue Support Grant*. This replaces the previous 'set-aside' policy.

Individual authority business rates baseline
Derived by apportioning the *billing authority business rates baseline* between billing and major precepting authorities on the basis of *major precepting authority shares*.

Levy
Mechanism to limit disproportionate benefit. This will be set on a proportionate basis so that an authority never sees more than a 1% increase in its *baseline funding level* for each 1% increase in its *individual authority business rates baseline*.

Local government spending control total
The total amount of expenditure allocated to the local government sector by HM Treasury for each year of a Spending Review.

Local share
The percentage share of locally collected business rates that will be retained by local government. This will be set at 50%. At the outset, the *local share* of the estimated business rates aggregate will be divided between billing authorities on the basis of their *proportionate shares*.

Lower tier share
The percentage of the *local share* that is retained by a billing authority in two tier areas. This will be set at 80%.

Major precepting authority
A local authority that does not collect business rates but is part of the business rates retention scheme. They are county councils in a two tier areas, single purpose fire and rescue authorities and the Greater London
Authority.

Major precepting authority shares
Used to establish the proportion of the *local share* that is paid by a billing authority to its major precepting authorities. Also applied to *billing authority business rates baselines* to establish *individual authority business rates baselines* for both billing and major precepting authorities.

Pre-levy income
An individual authority's business rates income minus/plus the *tariff* or *top-up*.

Pre-safety net income
An individual authority's business rates income minus/plus the *tariff* or *top-up*, minus any *levy*.

Proportionate Share
This is the percentage of the actual national business rates which it has collected - on the basis of the average rates collected by authorities over the five years to 2011-12. This percentage will be applied to the *local share* of the estimated business rates aggregate to determine the *billing authority business rates baseline*.

Rate reliefs
The rating system currently provides mandatory relief to charities and other categories of ratepayer (e.g. certain rural ratepayers) and permits authorities to grant discretionary relief to other rate payers. There will be no changes to mandatory and discretionary reliefs as a result of the introduction of the business rates retention scheme.

Relevant shares
The percentage of the total business rates income of a billing authority that is paid to central government in respect of the *central share* and to major precepting authority in respect of *major precepting authority shares*.

Reset
New *baseline funding levels*, new *individual authority business rates baselines* (and therefore new *tariffs* or *top-ups*) are set for each authority to take account of changes in relative need and resource.

Reset period
The years between *resets* in which local authorities are able to retain (after taking into account the *levy* and payments owing to *relevant shares*) the growth in business rates income. It is the Government's ambition that the initial *reset period* will last between 2013 and 2020.

Revenue Support Grant
All authorities will receive *Revenue Support Grant* from central government in addition to its *baseline funding level*. An authority's *Revenue Support Grant* amount plus its *baseline funding level* will together comprise its *start up funding allocation*.

Safety net
Mechanism to protect any authority which sees its *retained rates income* drop, in any year, by more than a set percentage (final percentage will be set between 7.5% and 10%) below their *baseline funding level* (with baseline funding levels being uprated by RPI for the purposes of assessing eligibility for support).

Start-up funding allocation
A local authority's share of the *local government spending control total* which will comprise its *Revenue Support Grant* for the year in question and its *baseline funding level*.

Tariffs and top-ups
Calculated by comparing an *individual authority business rates baseline* against its *baseline funding level*. *Tariffs* and *top-ups* will be self-funding, fixed at the start of the scheme and index linked to RPI in future years.

Tariff authority
An authority with a higher *individual authority business rates baseline* than its *baseline funding level*, and which therefore pays a *tariff*.

Top-up authority
An authority with a lower *individual authority business rates baseline* than its *baseline funding level*, and which therefore receives a *top-up*.

Risk Assessment
Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likeli-hood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
	Uncertainty and impact on income streams as a result of the introduction of the business rates retention scheme in April 2013 resulting from the loss of major business and the constrained ability to grow the business rates in the town.	Mark Sheldon	14/09/2012	4	4	16	Accept & Monitor	Join Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the council. Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.	On-going On-going	Jayne Gilpin Mike Redman	

Explanatory notes

Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

Likelihood – how likely is it that the risk will occur on a scale of 1-6

(1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

Control - Either: Reduce / Accept / Transfer to 3rd party / Close

Guidance
Types of risks could include the following:

- Potential reputation risks from the decision in terms of bad publicity, impact on the community or on partners;
- Financial risks associated with the decision;
- Political risks that the decision might not have cross-party support;
- Environmental risks associated with the decision;
- Potential adverse equality impacts from the decision;
- Capacity risks in terms of the ability of the organisation to ensure the effective delivery of the decision
- Legal risks arising from the decision

Remember to highlight risks which may impact on the strategy and actions which are being followed to deliver the objectives, so that members can identify the need to review objectives, options and decisions on a timely basis should these risks arise.

Risk ref
If the risk is already recorded, note either the corporate risk register or TEN reference

Risk Description
Please use "If xx happens then xx will be the consequence" (cause and effect). For example "If the council's business continuity planning does not deliver effective responses to the predicted flu pandemic then council services will be significantly impacted."

Risk owner
Please identify the lead officer who has identified the risk and will be responsible for it.

Risk score
Impact on a scale from 1 to 5 multiplied by likelihood on a scale from 1 to 6. Please see risk scorecard for more information on how to score a risk

Control
Either: Reduce / Accept / Transfer to 3rd party / Close

Action
There are usually things the council can do to reduce either the likelihood or impact of the risk. Controls may already be in place, such as budget monitoring or new controls or actions may also be needed.

Responsible officer
Please identify the lead officer who will be responsible for the action to control the risk.
For further guidance, please refer to the risk management policy

Transferred to risk register
Please ensure that the risk is transferred to a live risk register. This could be a team, divisional or corporate risk register depending on the nature of the risk and what level of objective it is impacting on