

**BUSINESS RATES POOLING**

*To:* **Cabinet**

*Date:* **15 January 2013**

*From:* **Alex Plant, Executive Director: Economy, Transport and Environment Services**

*Electoral division(s):* **All**

*Forward Plan ref:* **N/a** *Key decision:* **No**

*Purpose:* **This report updates members on the position of the proposed 'Growing Cambridgeshire' business rates pool and seeks a decision on whether or not to proceed with pooling for the purposes of business rates retention.**

*Recommendation:* **Cabinet is recommended to:**

- a) Approve the County Council's withdrawal from the proposed 'Growing Cambridgeshire' pool.**
- b) Delegate responsibility to officers to notify the Department for Communities and Local Government of the County Council's desire to withdraw from this pool.**
- c) Seek to send a joint letter from the leaders of the Cambridgeshire local authorities to Government explaining the reasons for withdrawal and setting out how we could seek to progress pooling in the future.**

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## **1. BACKGROUND**

- 1.1 The Local Government Finance Act 2012 introduced a system of business rates retention, which will come into force from April 2013. In place of formula grant, local authorities will retain a share of the business rates generated in their area, as well as a share of any growth that is experienced in business rates. This is intended to incentivise local authorities to drive economic growth, as their financial positions will be affected by the performance of their businesses.
- 1.2 In a two-tier area where the upper tier authority is not a fire authority, such as Cambridgeshire, the business rates retention scheme will see the following division of rates revenue:
  - Central government: 50%
  - Lower tier authority: 40%
  - Upper tier authority: 9%
  - Fire authority: 1%
- 1.3 In order to minimise the possibility of disproportionate benefit being experienced by some authorities, each authority will pay a levy to government on any growth in business rates revenue, so that for every 1% growth in business rates an authority will see no more than a 1% increase in retained business rates revenue.
- 1.4 The scheme also includes the possibility of a group of authorities coming together to form a business rates pool. Where these include 'top-up authorities' (which generally applies to upper tier authorities), the levy rate that is payable to Government is reduced, meaning that under the right circumstances a pool of authorities will be able to retain more money locally than they would otherwise be able to do. A proposal has previously been submitted for a business rates pool including all six local authorities in Cambridgeshire, following approval from the relevant member processes of all partner authorities.
- 1.5 Government is currently undertaking a consultation on the draft Local Government Finance Report, during which period the proposed business rates pools have a final opportunity to withdraw before the pool comes into force. This consultation was launched on 20 December 2012 and the deadline for withdrawing from the pool is 15 January 2013. If one member of a pool opts to withdraw, the entire pool will not come into force in this case.

## **2. MAIN ISSUES**

- 2.1 In Summer 2012 Government carried out a technical consultation for the business rates retention scheme. As a result of this, several significant changes were made to the scheme that impact upon each authority's forecast position, as well as that of the proposed pool:
  - The safety net threshold has been set at 7.5% below an authority's baseline funding level.
  - A maximum levy rate of 50% on growth in business rates has been set.
  - Proportionate shares are calculated on a 2-year basis rather than the previously-expected 5-year basis.
  - Likely to be a lower-than-expected Estimated Business Rates Aggregate, which will impact on baseline levels.
  - Floor-damping is to be applied on a local authority basis.

- Reduction in the previously anticipated sum to be taken out of the system for the GLA transport grant.
- 2.2 These changes (in particular the reduction of the levy rate which reduces the benefits of pooling), combined with revised forecasts of business rates yield for each local authority in Cambridgeshire, significantly reduce the benefits of pooling for Cambridgeshire authorities. Revised estimates indicate that the effect of entering into a countywide pool would be to deliver a small net benefit of around £14,000.
- 2.3 The administration cost of the pool – which would be borne by the County Council as lead authority in this case – would be likely to outweigh the marginal pooling benefit forecast. There is also a significant risk of actual business rates yield falling short of the forecasts, in which case the pool would be likely to create a reduction in the amount of revenue retained locally. This would expose the County Council to a risk that could be avoided if the pool were not entered into.
- 2.4 If at least one of the partner authorities decides it does not want to enter the proposed pool, and notifies the Department for Communities and Local Government accordingly by 15 January 2013, then the pool will be dissolved. If no notice is given by a prospective partner authority of a desire to withdraw, then the pool will come into being by default. Discussion at the Cambridgeshire Public Services Board indicates a collective intention to withdraw – reluctantly - from pooling for 2013/14, whilst retaining in- principle support for pooling.
- 2.5 Withdrawing from the proposed pooling arrangement for 2013/14 would not preclude the formation of a pool in future financial years where this is deemed to be desirable, and it is proposed that the position be reviewed in time for considering a 2014/15 pool.
- 2.6 In summary, while pooling for 2013/14 is likely to prove detrimental in Cambridgeshire:
  - The partner authorities are committed to the principle of business rates pooling.
  - The changes that have been made to the business rates retention scheme following the technical consultation are disappointing insofar as they in effect disincentivise pooling in Cambridgeshire.
  - The partner authorities wish to work with Government to look at how pooling can be incentivised in the future, given the wider benefits that pooling can be expected to deliver.
  - It is proposed to send a joint letter from the Leaders of all Cambridgeshire local authorities explaining the reasons for withdrawal and setting out how we could seek to progress pooling in the future and requesting a discussion with Government on this.

### **3. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING**

#### **3.1 Developing the local economy for the benefit of all**

There are no significant implications for this priority.

#### **3.2 Helping people live healthy and independent lives**

There are no significant implications for this priority.

### **3.3 Supporting and protecting vulnerable people**

There are no significant implications for this priority.

### **3.4 Ways of Working**

There are no significant implications identified by officers for leadership.

There are no significant implications identified by officers for working locally.

There are no significant implications identified by officers for investing in growth.

## **4. SIGNIFICANT IMPLICATIONS**

### **4.1 Resource and Performance Implications**

There are no significant implications for any of the prompt questions within this category.

### **4.2 Statutory, Risk and Legal Implications**

The following bullet points set out details of significant implications identified by officers:

- The proposals originate from the Local Government Finance Act 2012 and the subsequent guidance and consultation responses.
- There is a risk is that, if business rates yields turn out to be more positive than forecast, there would be an opportunity cost arising as the partner authorities and Cambridgeshire in general retain less business rates revenue than could be the case if the pooling arrangement was entered into under those circumstances.
- There is a risk that, if business rates yields turn out to be more negative than forecast and the pool comes into being, a negative financial impact could be experienced compared to the anticipated situation without pooling.

### **4.3 Equality and Diversity Implications**

There are no significant implications for any of the prompt questions within this category.

### **4.4 Engagement and Consultation Implications**

The following bullet points set out details of significant implications identified by officers:

- Discussions on the proposals have taken place between the Finance and Economy, Transport and Environment Services Directorates within the County Council.
- Discussions on the pooling proposal have previously taken place between all local authorities in Cambridgeshire, including approval from the relevant member processes of each partner authority.

### **4.5 Public Health Implications**

There are no significant implications for any of the prompt questions within this category

Source Documents	Location
'Growing Cambridgeshire': A Pooling Proposal for Cambridgeshire	Room B301, Castle Court, Shire Hall, Cambridge, CB3 0AP
Draft Local Government Finance Report	Room B301, Castle Court, Shire Hall, Cambridge, CB3 0AP