

Non-Domestic (Business) Rate Pooling

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Purpose of Report

To seek endorsement of the urgent decision made to enter into a business rates pooling arrangement with other Somerset authorities under the Business Rates Retention scheme.

Forward Plan

This report appeared on the District Executive Forward Plan with an anticipated Committee date of December 2014.

Public Interest

This report asks SSDC members to consider whether to join with other Somerset authorities to keep some of the money raised from business rates locally by creating a pool. Creating a pool would mean that less money will be returned to central Government if the estimated gains are correct. The pool also has additional risks if the authorities in the pool do not perform as well as expected.

Recommendations

That District Executive recommend to Full Council to;

- a) endorse the urgent decision to pool that the Council participate in the pooling arrangement with other Somerset authorities (Bath and North East Somerset, North Somerset, Somerset County Council, Taunton Deane District Council, Mendip District Council, and Sedgemoor District Council, under the Business Rate Retention Scheme, for 2015/16; and,
- b) approve delegated authority is given to the Assistant Director – Finance and Corporate Services in consultation with the Finance and Spatial Planning Portfolio Holder, to decide whether to remain in the pool once the government's settlement figures are announced in December 2014.

Background

The 2013/14 local government finance settlement saw the launch of the business rates retention scheme as a central part of local government funding.

Under the business rates retention element of local government funding, the level of business rates collected by authorities in 2013/14 will determine the actual funding received. Under the previous Formula Grant system, funding was provided via a fixed grant.

Under the proposed system, a Start-up Funding Assessment is determined for each local authority. This is determined in the same way as Formula Grant was determined previously i.e. using the four block model to determine a level of need and then taking into account changes in responsibility (e.g. with specific grants moving in and out of general grant).

The Start-up Funding Assessment is then split between Revenue Support Grant (RSG) and Business Rates Retention (expressed as Baseline Need). The level of RSG is guaranteed throughout the year, whilst the Baseline Need element is not.

To fund the Baseline Need element, local authorities each has an expected level of business rates that is to be collected (NDR Baseline). For authorities with a Baseline Need that is higher than their NDR Baseline, a Top Up grant is required (this is also guaranteed). Whereas, for authorities with a baseline need that is lower than their NDR Baseline, a fixed Tariff is paid to central government.

Those authorities that collect a higher level of NDR income, compared to their NDR Baseline, will be rewarded through the scheme, as they will be able to retain an element of the associated increased NDR revenues. However, some of that gain has to be paid to the government in the form of a Levy.

Authorities that collect a lower level of NDR income will see a decline in their business rates revenue and a relative reduction in their overall resources.

The new scheme has a damping mechanism in place to limit individual gains/losses. The system uses a Safety Net (to limit losses) which will be funded through the Levy (on disproportionate gains). The Safety Net and Levy are explained below.

The Levy/Safety Net

The government has chosen to apply a proportional levy within the system. Under the proportional levy, each local authority is assigned an individual levy rate.

There are three key variables in determining the amount to be paid through the levy by an individual local authority. These are: the ratio of the proportional levy, the ratio of NDR Baseline to Baseline Funding Level and the level of NDR income.

The ratio of the proportional levy has been set at 1:1, meaning that a 1% increase in NDR income above the NDR baseline will translate into up to a 1% increase in Baseline Need. The actual rate of the levy for individual authorities will therefore be set at a level that limits the growth in cash resources to a set percentage of their respective Baseline Need. There is an upper limit on the Levy of 50 pence in the pound. Top-Up authorities (where the NDR Baseline is lower than the Baseline Funding Level), do not have to pay a levy.

Only local authorities that have growth in their NDR income are required to pay the levy. It is important to note that growth in NDR income is based on DCLG's determination of authorities' NDR baselines i.e. a levy will only be due if NDR income is higher than the amount that CLG has determined it should be.

It is also important to note that no levy is due on income increases due to annual changes to the multiplier or as a result of revaluation (scheduled for 2017).

The Safety Net within the business rates retention system will ensure no authority's income will fall by more than a set percentage of their original baseline funding level (and this level will be increased by RPI every year). The Safety Net percentage has been set at -7.5%.

How Business Rates Income is Split

The business rates income collected by billing authorities is split between central government (central share), the billing authority and its major preceptors. The government has set the central share at 50%.

Each billing authority's business rates will be further split between the billing authority and any relevant major precepting authorities (excluding Police Authorities) in its area, in order to produce, for every authority, an individual authority NDR Baseline. The split will be undertaken on the basis of the proposed major precepting authority shares, in two-tier areas (shire counties with fire) the split of 80% district and 20% county is applied, in the West of England unitary area the split of 98% district and 2% Fire Authority is applied.

All the Somerset District Councils are 'tariff' authorities, but the County Council is a 'top-up' authority. This means that the Somerset Districts will need to pay a tariff to the Government which will be used to subsidise the 'top up' authorities such as the County Council. B&NES is a Tariff authority, whereas North Somerset is a Top-up authority.

Business Rates Pooling

Under the business rates retention scheme, local authorities are able to voluntarily form a business rates retention pool. Within a pool all Tariffs and all Top-Ups are combined, and a single levy rate is applied. Similarly, safety net eligibility is also calculated at aggregate pool level.

Tariff authorities are not required to pay a levy to the government if they are in a pool and combined tariffs are less than the aggregate top ups.

There is the potential for pooled authorities to receive a lower aggregate amount (than if they had acted individually), if authorities that would previously have been eligible for the Safety Net (if treated as individual authorities) were no longer eligible, due to being part of a pool.

Local autonomy to distribute resources amongst pool members applies; 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 through local discretion or weighted (potentially according to the level of benefit received).

The main points therefore in relation to pooling are that:

- Pooling is entirely voluntary.
- A pool can be comprised of two or more authorities.
- Local authorities cannot be members of more than one pool.
- Local authorities will themselves determine a pool's geographic coverage, including wider than within a county-region, although government has the ability to refuse pooling proposals where they perceive that there is no clear rationale for the proposed pool.

Government also has the right to consider whether the operation of pools could impact upon the level of funding available nationally for the safety net and (in exceptional circumstances) consider such affordability, when making decisions on pools.

- One pool member will need to act as the lead authority, in terms of payment/administrative arrangements.

- Pools can be any size, although authorities can only be a member of one pool.
- Pools will need to determine their own governance arrangements and must publish their pooling arrangements and financial information on how the pool will operate.

For 2015/16, pooling groups needed to notify DCLG by 31st October 2014 of their intention to pool, including the composition of the pool and its governance arrangements. As the timescales were so tight an urgent decision had to be made as to whether to pool or not.

Benefits of Pooling

The potential benefit from pooling has been estimated for a Somerset Pool containing Bath and North East Somerset, North Somerset Council, Somerset County Council, South Somerset District Council, Taunton Deane Borough Council, Mendip District Council, and Sedgemoor District Council. It should be noted that these estimates are based on the 2014/15 NNDR1 returns for each council. They therefore do not include any forecast of further business growth in this period. As no pool member is currently anticipating any significant reductions in their Rating Lists it may therefore somewhat underestimate the financial benefits of pooling.

The £2.063m additional resources that would be received, due to pooling, are shown in the table below. This sum represents the amount of Levy that is avoided being paid over to Central Government because the single pool becomes a Top-up pool. It is important to note that:

- The amount shown in the table below is *in addition* to the amount that each authority would have received outside of a pooling arrangement.
- If the County Council is not part of the pool, little gain from pooling would be possible (as the County is a significant “top up” authority).
- How the additional amount is split between the members of the respective pool is determined by the pool, through its governance arrangements.

Table 1; Forecast Change in Resources, Due to Pooling

Pooling using NNDR1: 2014/15								
£m								
Pool Membership	Basic System Numbers			NNDR1 2014/15			Allocation Methodology	
	Rates Target	Funding Target	Levy Rate	Retention (1)	Gain over Target	Levy	Pool Dividend	%
B&NES	30.750	21.097	31.4%	32.166	1.416	0.445	0.351	17.0%
North Somerset	27.993	28.306	0.0%	28.724	0.731	0.000	0.190	9.2%
Somerset County	14.123	60.830	0.0%	15.359	1.235	0.000	0.377	18.3%
Mendip	12.361	2.588	50.0%	14.000	1.639	0.820	0.408	19.8%
Sedgemoor	13.521	3.164	50.0%	14.897	1.376	0.688	0.349	16.9%
South Somerset	16.954	3.266	50.0%	18.139	1.185	0.593	0.304	14.7%
Taunton Deane	15.883	2.412	50.0%	16.166	0.283	0.141	0.083	4.0%
West Somerset								
Total Stand-alone	131.586	121.664		139.452	7.866	2.686	2.063	100.0%
Pool	131.586	121.664	7.5%	139.452	7.866	0.593		
Management Charge						-0.030		
Pooling gain						2.063		

(1) Includes SBRR compensation and other S31 grants

The Safety Net

In order to assess the potential impact of income volatility, the following analysis examines the loss in business rates required for an individual authority to reach the safety net level. It would be beyond this point that the gains of pooling would begin to be offset by a “cost”.

The table below shows the required percentage drop in NDR income in 2014/15 for each authority to reach the -7.5% Safety Net level. This assessment is shown against each authority's NDR Baseline and the Forecast NDR income.

Decline in Business Rates for Individual Authorities to reach for Safety Net

Pool Membership	NNDR1 14/15 £m	Loss %	Loss £m	(Tariff)/ Top-up £m	New position £m	Safety Net if stand alone £m	Diff. to be made up £m	= Equivalent fall in RV £m
B&NES	32.166	-9.3%	-2.998	-9.653	19.515	19.515	0.000	-12.694
North Somerset	28.724	-9.9%	-2.854	0.313	26.183	26.183	0.000	-12.086
Somerset County	15.359	-37.7%	-5.798	46.707	56.268	56.268	0.000	-133.648
Mendip	14.000	-13.1%	-1.833	-9.773	2.394	2.394	0.000	-9.509
Sedgemoor	14.897	-10.8%	-1.613	-10.357	2.927	2.927	0.000	-8.367
South Somerset	18.139	-7.9%	-1.430	-13.688	3.021	3.021	0.000	-7.419
Taunton Deane	16.166	-2.9%	-0.463	-13.472	2.231	2.231	0.000	-2.404
West Somerset								
Total Stand-alone	139.452	-12.2%	-16.991	-9.922	112.539	112.539	0.000	
Pool	139.452	-12.2%	-16.991	-9.922	112.539	112.539	0.000	-71.940

The table shows that as all of the authorities are forecasting higher NDR income than their respective NDR Baselines, the required reduction in NDR income to reach the safety net is higher than if the NDR Baseline was the assumed NDR income amount. Somerset County would require the largest fall in forecast NDR income to reach the safety net (at 37.7%), whilst South Somerset would require a 7.9% drop in forecast income to reach the safety net. The equivalent fall in each authority's Rating List's Rateable Value that such a percentage reduction represents is also shown.

As can be seen, very significant appeals or deletions would have to be experienced for any individual authority to get to this position, i.e. £7.4m for South Somerset. The biggest appeals risk to South Somerset is RNAS Yeovilton with an outstanding appeal on the 2005 list. However, SSDC has made an allowance of £2.4 million within its NDR for outstanding appeals.

It should be remembered that reaching the safety net level does not trigger an additional payment to an authority. It would only be reductions beyond the safety net level that are protected, i.e. at the -7.5% level; an authority would be guaranteed an income level equivalent to -7.5% of its Baseline Need.

The cost of supporting each authority, if it were to have a fall in income equivalent to, say, 8.5% of baseline need, i.e. 1% below the safety net level, has been calculated. This would be a cost met by the pool, which would reduce any pooling gains made or potentially cause the pool to make a loss.

Decline in Business Rates for Individual Authorities to reach 1% below Safety Net

Pool Membership	NNDR1 14/15 £m	Loss %	Loss £m	(Tariff)/ Top-up £m	New position £m	Safety Net if stand alone £m	Diff. to be made up £m	= Equivalent fall in RV £m
B&NES	32.166	-9.9%	-3.194	-9.653	19.320	19.515	-0.195	-13.522
North Somerset	28.724	-10.8%	-3.116	0.313	25.921	26.183	-0.262	-13.194
Somerset County	15.359	-41.4%	-6.360	46.707	55.705	56.268	-0.563	-146.617
Mendip	14.000	-13.3%	-1.857	-9.773	2.370	2.394	-0.024	-9.633
Sedgemoor	14.897	-11.0%	-1.642	-10.357	2.898	2.927	-0.029	-8.519
South Somerset	18.139	-8.1%	-1.461	-13.688	2.991	3.021	-0.030	-7.575
Taunton Deane	16.166	-3.0%	-0.486	-13.472	2.209	2.231	-0.022	-2.519
West Somerset								
Total Stand-alone	139.452	-13.0%	-18.116	-9.922	111.414	112.539	-1.125	
Pool	139.452	-13.0%	-18.116	-9.922	111.414	112.539	-1.125	-76.704

The cost of supporting an authority that falls 1% below the safety net ranges from £0.030m for South Somerset to £0.563m (Somerset CC) per annum. The potential risks associated with an individual authority requiring support from the pool if their business rates falls below the safety net is relatively small and could be funded by the additional resources continuing to be generated by the other members. The potential risk of the pool having fewer resources than if the individual authorities had not pooled is even less likely. This would require either 1) one authority falling significantly below its individual safety net or 2) simultaneous reductions in income across several authorities, with at least one dropping below its individual safety net level.

Governance Arrangements

The governance arrangements have been agreed and are attached at Appendix 2.

The overall principles for the allocation of resources are as follows:

- The running costs of the pool will be paid to the lead authority at a fixed management charge of £30k per annum.
- Each individual authority, where resources allow, will receive the same level of funding they would have received without the Pool (excluding running costs).

The remaining balance of the Pool consists of the levy payments that would have been paid to Government.

Any pool dividend will be distributed on the following basis:

- 18.3% to Somerset County Council
- 9.2% to North Somerset Council
- 62.1% to the remaining Councils in proportion to the levy saved
- 10.4% to the remaining Councils in proportion to their funding targets

The pool will not retain a reserve. Instead participants will maintain their own provision against future pool shortfalls.

Pool Shortfall

If a Member's business rate income drops by more than the Government determined safety net trigger, then, under the "No Worse Off" principle, that member will be entitled to receive the equivalent of a Safety Net Payment from the Pool. Safety Net Payments will be made as a first call on the Pool, before the Pool Dividend is calculated and allocated.

If there is a shortfall on the pool – i.e. there is insufficient funding to allow each authority to receive what it would have received outside the pool - it shall be met as follows:

Stage 1:

- 18.3% from Somerset County Council
- 9.2% from North Somerset Council
- 62.1% from any of the remaining Councils that failed to achieve its rates collection target. This shall be in proportion to the cash amounts that it is or they are below the target [needs to be clear whether this is total rates or only that council's 40% or 49%]
- 10.4% from the remaining Councils in proportion to their funding targets

No Council shall receive less than its safety net level outside the pool from this step

Stage 2:

- If any councils do fall below their Safety Net level outside the Pool at stage 1 then a further deduction will be made, to fund the amount(s) that those councils have fallen below, from all councils with income in excess of their Safety Net amount outside of the Pool, pro rata to the amounts that they are above the Safety Net.

Stage 3:

- If any councils do fall below their Safety Net level outside the Pool at stage 2 then a further deduction shall be made, to fund the amount(s) that those councils have fallen below, from all Pool Members, pro rata to each authority's funding target. This is the only step at which an authority may receive less than its Safety Net level outside the Pool.

If a shortfall seems likely to continue, consideration will be given to the future of the pool, including dissolution.

Financial Implications

The estimates for 2014/15 indicate that if the pool had existed the authorities in the pool would share £2.063 million of which SSDC would retain an additional £304,000.

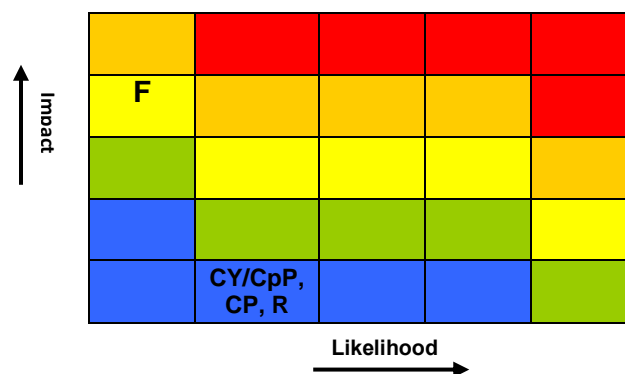
We cannot currently estimate the pool gain or loss for 2015/16 as the Government settlement figures have not been announced nor has each authority completed their NDR1.

SSDC can decide to withdraw from the pool once the settlement figures have been announced. As there will not be sufficient time to return to District Executive or full Council it is recommended that the final decision is delegated to the Assistant Director – Finance and Corporate Services in consultation with the Portfolio Holder for Finance and Spatial Planning once the Government figures are announced. If a decision is made by any of the pool members not to continue at this point then the pool will collapse.

The financial risk to SSDC is if because of appeals/non-collection/demolition that the pool falls below the individual authority's safety net. South Somerset's safety net is around £250k below its baseline figure however the pool's safety net is around £9 million below its baseline figure. This means that losses up to this level would have to be borne by the pool. However the risk of this happening is extremely small as the 2014/15 figures show that the pool would have to lose £17 million of the expected income to reach this point. The pool has been set up to protect its members from individual losses beyond their own safety net as far as it possibly can.

Risk Matrix

This matrix only identifies the risk associated with taking the decision as set out in the report as the recommendation(s). Should there be any proposal to amend the recommendation(s) by either members or officers at the meeting then the impact on the matrix and the risks it identifies must be considered prior to the vote on the recommendation(s) taking place.



Key

Categories	Colours <i>(for further detail please refer to Risk management strategy)</i>
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Next Steps

The Governance of the pool cannot now be changed by any of the partners because they have now been submitted to DCLG.

Authorities retain then ability to withdraw from a designated pool before the pool comes into effect if after seeing the draft Local Government Finance Report they no longer believe that pooling provides the opportunities they had previously thought. If any authority decides to withdraw it will result in the pool collapsing for all the other authorities and they would revert to their individual positions.

Council Plan Implications

Council Plan 2012 – 2015: Focus One - Jobs “We want a strong economy which has low unemployment and thriving businesses”

Carbon Emissions and Climate Change Implications

None

Equality and Diversity Implications

None

Privacy Impact Assessment

None

Background Papers

None