

# Cabinet Report



Listening Learning Leading

Report of Head of Finance

Authors: William Jacobs and Ben Watson

Telephone: 01491 823326

Textphone: 18001 01491 823326

E-mail: [william.jacobs@southandvale.gov.uk](mailto:william.jacobs@southandvale.gov.uk)

[ben.watson@southandvale.gov.uk](mailto:ben.watson@southandvale.gov.uk)

Cabinet member responsible: Will Hall

Tel: 07793 031780

E-mail: [wahhall@gmail.com](mailto:wahhall@gmail.com)

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## Business Rate Pooling and Business Rate distribution

### Recommendations

(a) that the Head of Finance, in consultation with the Cabinet Member for Finance, be given delegated authority to make annual decisions whether or not to enter into a "business rate pool" with other local authorities if it appears to be financially advantageous to do so

(b) that the Head of Finance, in consultation with the Cabinet Member for Finance, be given delegated authority to make annual decisions whether or not to enter into a "business rate distribution group" with other local authorities if it appears to be financially advantageous to do so

### Purpose of Report

1. To provide delegated authority to the head of finance, in consultation with the Cabinet Member for Finance in respect of annual decisions about collaborating with other nearby local authorities on business rates arrangements.

### Corporate Objectives

2. Deciding whether or not to enter into a business rate pool or business rate distribution group would help maximise the council's income and therefore contribute to the objective of excellent delivery of key services.

## Background

3. In April 2013 the Government changed the way business rates income is distributed. A complex web of business rate baselines, funding baselines, top-ups, tariffs and levies was introduced aimed to incentivise councils to actively work to increase the business rates due in their area.
4. At the time the system changed the council ran a number of training sessions to help members' and officers' understanding of the new arrangements and a report was taken to Council in December 2012 explaining that business rates would be forming a much more important element of the council's overall Government funding. The report also touched on business rate pooling within Oxfordshire. In light of this, this report will not attempt to explain the complexities of the new system. Instead it will talk in terms of actions and outcomes.
5. Fifty percent of all business rates collected are paid over to the Government. Ten percent goes to Oxfordshire County Council and forty percent is retained by this council. From our forty percent we pay a tariff (approximately 87 per cent) to the Government. Tariffs are applied where the business rate share is more than an authority's "business rates baseline" (typically this applies to district councils). Where an authority's business rate share is less than its business rates baseline it is considered to be a "top-up" authority and receives an additional payment from Government to fill the gap (typically this applies to county councils).
6. Once the tariff has been applied we keep the remaining sum with the exception of the amount collected that is above our business rates "baseline funding level" – the amount set by the Government at the introduction of the scheme that reflected historical levels of funding We keep only 50 percent of the amount above the business rate baseline, the remaining 50 per cent being paid over to the Government as a "levy". The tables below attempt to show this in numbers.

Table 1

Business Rates due	Government Share (50%)	Oxfordshire County Council Share (10%)	SODC share (40%)
£44,000,000	£22,000,000	£4,400,000	£17,600,000

Table 2

SODC share	Less Tariff	Amount retained
£17,600,000	£14,600,000	£3,000,000

Table 3

Amount retained	Baseline Funding	Growth	Levy	Growth retained
£3,000,000	£2,300,000	£700,000	£350,000	£350,000

7. As part of the new business rates retention system councils can decide to group together and “pool” their business rates receipts (subject to approval from the Secretary of State). The advantage of pooling comes where tariff authorities pool with a top-up authority. Provided the sum of the authorities’ tariffs doesn’t exceed the amount of top-up the pool does not have to pay a levy on its share of income in excess of the baseline. This means the pool retains more of the growth than would have been the case if the pool wasn’t in place.

## **Oxfordshire pooling arrangements**

8. For 2014/15 an Oxfordshire pool consisting of Oxfordshire County Council (OCC), Cherwell District Council (CDC) and West Oxfordshire District Council (WODC) was formed. OCC has to be in any “Oxfordshire” pool as it is the only top-up authority in Oxfordshire. CDC and WODC were the only two councils in Oxfordshire predicting strong growth in 2014/15. South Oxfordshire District Council was projecting its retained income would be around the same level as its business rate baseline and as such it couldn’t be guaranteed that its membership of a pool would increase the pool’s retained business rates.
9. Also, unusually amongst pools, an Oxfordshire pool would have become a tariff pool should more than two district councils have joined. This would have the effect of drastically reducing the income retained by the pool. For Oxfordshire in 2014/15 it has been estimated that income would have dropped by at least £600,000 if a third district council had joined the pool.
10. Once a pool has been established it can only be dissolved by its members requesting such from the Secretary of State for Communities and Local Government. The pool members will not be asking for the pool to be dissolved for 2015/16.

## **Business rate distribution group**

11. The chief financial officers of the Oxfordshire councils have agreed that it would be sensible for the pool’s membership to be set to maximise its income. They have also agreed that councils who would benefit from being in a pool should not be excluded from sharing in the additional income generated by the pool just because in any year their membership of the pool would not generate the optimum retained income.
12. To this end the Oxfordshire councils are looking to devise a distribution formula that rewards or penalises councils based on their actual collection against their business rates baselines. Every year each council can decide if it wants to be in the distribution group of councils that will either receive or make a payment based on its performance. The decision to be part of the distribution group or not can only be made after the Government has announced its settlement (annual local authority funding) as it also issues each council’s baseline funding level at the same time. A quick decision is then needed to enable the calculation and agreement of the estimated distribution for each council to be fed into the council’s budget setting calculations.
13. For this reason this report recommends the Head of Finance be given delegated authority, in consultation with the Cabinet Member for Finance, to agree if this council should join the distribution group each year. In addition, this report recommends the Head of Finance be given delegated authority, in consultation with the Cabinet Member for Finance, to agree if this council should join the pool should the combination of members, including this council, prove to optimise the retained income.

## Options

14. This report will not commit the council to either pooling with other councils, or joining a distribution group. However, the recommendations will give the council the flexibility of deciding quickly on an annual basis whether to join a pool or distribution group should it appear to be financially advantageous.
15. An alternative option would be not to provide delegated authority to the Head of Finance but this could mean that the council misses out on maximising its business rate income. For this reason no alternative option is recommended.

## Financial Implications

16. The decision to pool or not, or to be a member of the distribution group or not, will be based on the probability of such a decision resulting in increased income to the council. If the risks are deemed too great, as assessed by the Head of Finance in consultation with the Cabinet Member for Finance, we will choose not to pool and/or not to be a member of the distribution group. This will have no impact on the budget.

## Legal Implications

17. Business rate pools are established under the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 2012). Whilst there are no specific statutory powers for councils to enter a business rates distribution group, section 1 of the Localism Act 2011 gives councils a general power of competence and section 111 of the Local Government Act 1972 enables councils to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions. There would be an agreement between the councils involved in order to protect the councils' interests.

## Risks

18. Although the decision to delegate authority to the Head of Finance, in consultation with the Cabinet Member for Finance, does not carry any risk, there will be a financial risk if a decision to pool or be part of a distribution group is taken and the council performs below its baseline. However, this will be mitigated through thorough evaluation of financial forecasts and the distribution methodology before the decisions to join or not is made.

## Other implications

19. There are no other implications.

## Conclusion

20. In the future the council may have the opportunity to form a 'business rates pool' with other Oxfordshire local authorities and/or to be a member of a group of authorities that shares the surpluses or losses made by the pool. Both decisions need to be made annually and at short notice as they will be in part dependent on Government information released as part of its settlement announcement in December each year. This reports requests that the Head of Finance be given delegated authority, in consultation with the Cabinet Member for Finance, to make the annual decisions

whether to enter into a “business rate pool” and/or whether to join the ‘business rate distribution group’.

## **Background Papers**

- Report to Council on 13 December 2012 ‘Budget and council setting 2013/14’.

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