

**Policy Committee –
10th September 2013**

**Proposal For North Yorkshire Business
Rates Pool**



Report of the Corporate Head of Financial Management

Ward(s) affected: All

1. Purpose of Report

- 1.1 To seek approval for the Council to join a North Yorkshire Business Rates Pool from April 2014 under the Governments Business Rates Retention Scheme.

2. Recommendations

- 2.1 That Policy Committee recommend to Council that:
- 2.2 That In order to meet the Government deadline of 31 October 2013 the negotiations for the terms and conditions of the Council's membership of the pool are delegated to the Corporate Head of Finance in consultation with the Chief Executive and Leader of the Council.
- 2.3 That delegated authority be given to the Corporate Head of Finance in consultation with the Chief Executive, Leader of the Council and Lead Member for Finance, to join a business rate pool for 2014/15 should they be satisfied that such an arrangement is likely to be in the financial interests of the Council.
- 2.4 That a further report to update members is brought back to next meeting of Policy Committee on 19th November 2013.

3. Background Information

- 3.1 Under the rates retention scheme, which came into effect on 1 April 2013, local authorities are able to keep a proportion of the business rates that they collect. As a result, authorities now have a direct financial interest in the rates retention system and an incentive to work with their business community to grow local economies.
- 3.2 The rates retention scheme recognises that, at the outset of the scheme, the size of authorities' business rates bases was varied and that authorities had,

and continue to have, very different resource needs, depending on their functions and demography. The scheme therefore provides that, each year, some business rates income is transferred between local authorities by means of top ups or tariffs.

- 3.3 The scheme also provides a safety net for authorities who, in any year, see significant falls in their income from the rates retention scheme. Over time the safety net will be paid from a levy on the growth in the business rates income of tariff authorities.
- 3.4 As part of the rates retention scheme, authorities can formally seek designation as a pool. This not only allows them to pool their resources under the scheme (which they could do anyway), but ensures that they are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.
- 3.5 Local Government North Yorkshire and York, looked at this issue earlier in the year and requested the North Yorkshire Finance Officers (NYFO) to examine the potential benefits for a pool including the districts and North Yorkshire CC. NYFO then considered the issue) at their meeting on 14 June 2013 agreed to assess the option of a North Yorkshire Pool for the districts and county excluding Harrogate & York because they are part of the LCR Pool. Pixel Consulting who had undertaken work for the North Yorkshire (NY) authorities in last financial year were engaged to provide the support and advice for this option appraisal.
- 3.6 To be successful the NY Pool requires the membership of the County as a 'top up' authority plus at least one other district as tariff authority – Craven, Hambleton, Richmondshire, Ryedale, Scarborough and Selby. In addition the Fire Authority is also eligible to be part of the Pool.
- 3.7 In 2012 the council considered the option of joining the Leeds City Region (LCR) Pool and decided that it was not appropriate at that time. The LCR Pool is now operational and includes Harrogate & York Council's. At that time the option of a North Yorkshire Pool was considered but not pursued.
- 3.8 The Council could if it wished approach the LCR Pool to apply for membership of that pool this would need agreement from the existing members and Government. The benefits to the Council of membership are similar to the proposals detailed in section 4 for the NY Pool. The Council would retain its rates growth under the current arrangement, with the additional levy after deduction of expenses for the lead authority being paid into an investment fund for the LCR for distribution. The allocation of the additional levy through the NY Pool will be part of the setting up terms of agreement.

4. North Yorkshire Business Rates Pool Proposal

Procedures for Creation of a Business Rates Pool

- 4.1 The Government have produced a prospectus which contains information

about pooling for the year commencing 1 April 2014. The deadline for submission of a request to form a pool is 31 October 2013.

- 4.2 An application must include an explanation of the potential benefits for members from pooling their business rates. This might include the rationale for the pool's geography and a description of its role in promoting growth, promoting strategic and service integration and managing cash flows.
- 4.3 The pool is treated as a single body for the purposes of the rates retention scheme the Department calculates only one number for the sum that is owed by the pool as a tariff payment, or owed to the pool as a top up payment. Similarly, there is a single number calculated as the sum owed to, or by the pool in respect of safety net or levy payments.
- 4.4 Pools need to identify a Lead Authority through whom payments due to and from the Department can be channelled. The proposal for North Yorkshire is that this is a billing authority i.e. one of the districts The Department will agree a schedule of payments with the Lead Authority setting out the in-year payments to be paid by the pool or due to the pool.
- 4.5 Before designating a new pool, Government will need to be assured that governance arrangements are in place and that these cover, at the least:
 - the rights and obligations of pool members; including
 - how money is to be disbursed to/between pool members and how payments to central government are to be funded by the lead authority;
 - the treatment of pool balances and liabilities following the pool's dissolution.
- 4.6 The Department will work with interested local authorities to support the development of the pool. Final proposals will need to be signed off by the s.151 officers of each authority in the pool. A draft Time table is attached at Appendix A.
- 4.7 The Government reserves the right to refuse pooling proposals if there is for example an impact on the levy income needed to fund the safety net which affects the overall affordability of the rates retention scheme if proposals do not provide a strong, clear rationale for the proposed pool.
- 4.8 It will be for local authorities to determine the geographic coverage of the pool as they will want to pool on a basis that best supports economic geography and the onus will be on the prospective pool authorities to produce a strong rationale to support their proposal.
- 4.9 Generally, the expectation is for pools to have continuous boundaries, but the NY Pool if Selby join won't have this. The Government has a desire to encourage pooling where there is a local appetite and, therefore establishing pools which do not have continuous boundaries in these circumstances should be acceptable especially as all interested members are part of the North Yorkshire County.
- 4.10 Local authorities can 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. To exercise this option a local authority must write to the Department within 28 days of the publication of the draft Report and before the final Report is laid before the House of Commons. The Secretary of State will then revoke the designation.

- 4.9 Local authorities should be aware that once a designation has been made it cannot be amended so if a local authority chooses to exercise this option it will mean that the pool cannot continue. In those circumstances the local authorities who had been designated as members of that pool would revert to individual positions. Pools will continue from year to year until a designation is revoked.
- 4.10 The Government is clear that pooling should be voluntary, and this means that members of a pool should be able to leave a pool should they decide it is no longer in their interests. The remaining members are then required to form a new pool should they wish to continue.

The Current Position

- 4.11 As a tariff authority not in a pool we are entitled to keep up to a maximum of 50% of our rates growth above target. The 2013/14 target for Craven DC was set at £6,907k. We are currently estimating to collect £7,489k. This means that the estimate is there will be £582k to which the levy calculation for Craven would apply. Table 1 shows how this allocation would be split.

Table1: Current Allocation of business rates above target – No Pool

	£'000	%	CDC / NYCC/ NYFRA Share £'000	Gov. Share £'000
Target Rates Collectable	6,907			
Estimated Rates Collectable per NDR1	7,489			
Additional Rates above target (a)	582			
Gov. Levy Top Slice (b)		50%		291.00
NYCC Share (c)		9%	52.38	
NYFRA Share (d)		1%	5.82	
Craven DC = 50% of Balance a-b-c-d	232.80			
Craven DC % of Balance (e)		50%	116.40	
Gov. Levy % of Balance (f)		50%		116.40
Totals			174.60	407.40

- 4.12 The table shows that of the £582k additional rates generated £175k or 30%

is retained within North Yorkshire with £116k coming to Craven and £407k or 70% going to DCLG.

The Proposal

- 4.13 The proposal is to form a North Yorkshire Pool including the County Council and the Fire Authority as top up authorities plus all of or some of the following districts as tariff authorities Craven, Hambleton, Richmondshire, Ryedale, Scarborough and Selby. Harrogate would be excluded because they are already a member of the Leeds City Region Pool and you cannot belong to more than one pool.
- 4.14 Creating and joining a pool would reduce the DCLG share. External advisors have done some initial calculations based on current estimates and projections. If the eligible districts formed a pool with North Yorkshire County Council then the levy rate drops from 50% to 6%. I.e. the amount contributed to the government reduces by £99.29k. The impact of this is shown in Table 2.
- 4.15 However if the North Yorkshire Fire Authority is included in the pool then the levy rate drops to 2.7%. The impact of this as shown in Table 3 is a further £9.25k to be kept in the North Yorkshire region.

Table 2: Business Rates Pool with North Yorkshire County Council

	£'000	%	CDC / NYCC/ NYFRA Share £'000	Gov. Share £'000
Target Collectable	6,907			
Estimated Collectable per NDR1	7,489			
Additional Rates above target (a)	582			
Gov. Levy Share (b)		50%		291.00
NYFRA Share (c)		1%	5.82	
Levy to Gov. = 6% of Balance a-b-c	285.18			
Gov. % of Balance (d)		6%		17.11
Balance to split CDC & NYCC			268.07	
Totals			273.89	308.11

- 4.16 The data used to inform the initial calculations is based on the Authorities start of year Non Domestic Rate submissions and is shown in Appendix B. It should be noted that as with the distribution of the Council Tax surplus the actual figures cannot be confirmed until the end of the financial year.

Table 3: Business Rates Pool with North Yorkshire Fire Authority

			CDC / NYCC/ NYFRA Share	Gov. Share
	£'000	%	£'000	£'000
Target Collectable	6,907			
Estimated Collectable per NDR1	7,489			
Additional Rates above target (a)	582			
Gov. Levy Share (b)		50%		291.00
Levy to Gov. = 2.7% of Balance a-b	291.00			
Gov. % of Balance (c)		2.7%		7.86
Balance to split CDC & NYCC & NYFRA a-b-c			283.14	
Totals			283.14	298.86

- 4.17 Whilst there are potentially significant benefits to the Council for joining the pool there are also risks attached because all the members of the pool are treated as one. Therefore any reductions in rateable values of member authorities will be shared by all members of the pool and potentially any significant reductions could have a detrimental effect.

Main Risk Areas for Creating a business rates pool

- 4.18 In considering the proposal to create a business rates pool for North Yorkshire there are a number of risks which need addressing and these include:
- a) The current review of pooling and the financial benefits to the Council is based on the existing system of Local Government Finance. The prospects of revision by the Government to the system could impact on the financial case for joining a pool. This is mitigated by the delegated authority to respond and not miss beneficial opportunities, and the prospectus for pooling allows authorities to make the final decision on pooling following the Local Government Finance settlement.
 - b) Significant rateable value reductions of an Authority within the pool could affect the finances of all members. This is mitigated by having provision for dissolution of the pool on an annual basis, such that any problem would then only be a one year difficulty. This shortfall would affect the Council's collection fund, but the Council would have the opportunity plan how to manage this shortfall. In evaluating pool members officers will seek to minimise this risk if possible.
 - c) Non pooled Councils currently have a safety net below which the

government has confirmed the level of business rates retained will not fall. For Craven DC this is £1.201m (Estimated collectable to be retained by CDC £1.298m). The creation of a pool removes the safety net. Again this is mitigated by having provision for dissolution of the pool on an annual basis.

- d) It is essential that all members are in agreement for the operation of the pool. It is proposed that the heads of terms for creation of the pool is agreed at the Chief Finance Officer level and that should there be any issues of conflict that these are referred to the Chief Executives group for resolution.
- e) One partner requesting dissolution would require the pool to be dissolved, risking disruption and reduced revenue retention for the remaining partners if not mitigated. However, any dissolution could not take place mid-year and governance arrangements will specify protocols for giving notice.

4.19 However, subject to satisfactory governance arrangements, current financial modelling indicates that the potential rewards exceed the relatively low risks of pooling within North Yorkshire.

Main Benefits for Creating a business rates pool

4.20 The benefits to the Council of joining a business rates pool include:

- a) Retains additional money in Craven District and North Yorkshire that would otherwise have been given back to central government in the form of a levy;
- b) Provides local authorities with a mechanism to deliver and promote jobs & growth and to allow for investment decisions to support economic priorities;
- c) Encourages collaborative working across local authorities, rather than being constrained by administrative boundaries;
- d) 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.

Protocols for Operation of the North Yorkshire Pool

- 4.21 The officers of the interested authorities are proposing the terms of reference for the operation of the NY Pool includes the following:
- a. That a lead authority is democratically appointed.
 - b. Initially each district area, NYCC and NYFRA receives its rates growth allocation based on the current system i.e. no pool so for Craven that would be 50% or £116.4k based on the estimated figures in Table 1.
 - c. That a contribution is made to the lead authority for the work it will undertake coordinating payments to the Government. – This can be

- funded from the additional levy retained.
- d. The amount of levy to be retained within the pool to mitigate against any reductions in business rates collection amongst partners.
- e. That the additional levy as exemplified in Table 3 is then allocated as on an appropriate basis possibly based on growth.
- f. Governance arrangements.

5. Summary

- 5.1 Based on the estimates available the indications are that the creation of a NY business rates would be beneficial for the eligible authorities within the North Yorkshire area.
- 5.2 Any agreement between the interested parties must address the areas of risk identified.

6. Implications

6.1 Financial and Value for Money Implications

The financial implications within the report are given as an estimate only. The actual implications are not possible to determine at this stage, however at the appropriate time any pooling decision will be based on an assessment of the beneficial impact on Craven DC's finances.

6.2 Legal implications

The pool would require formal legal agreement.

6.3 Contribution to Council Priorities

This issue impacts on the overall financial position of the Authority as part of both the financial strategy and the budget setting process.

6.4 Risk Management

The risks of pooling have been identified within the report, and will be further assessed as part of the decision to join a NY Pool. It is important that the Council plays a key role in the negotiations on pooling and governance arrangements and the delegated decision to the Corporate Head of Finance and the Chief Executive and relevant members allows this to take place within the timescales. From a financial perspective, the key risk arising from the Localisation of Business Rates is not how to share out any growth, but how to manage any potential losses. The risk mitigation is delivered through a pooling arrangement to work together on economic development and on sharing the financial risks through the retained levy process

6.5 Equality Impact Assessment

The Council's Equality Impact Assessment Procedure **has been** followed.

An Equality Impact Assessment **has not** been completed on the proposals as completion of **Stage 1- Initial Screening** of the Procedure identified that the proposed policy, strategy, procedure or function **does not have** the potential to cause negative impact or discriminate against different groups in the community based on •age • disability •gender • race/ethnicity • religion or religious belief (faith) •sexual orientation, or • rural isolation.

7. Consultations with Others

North Yorkshire Authorities eligible interested in creating a North Yorkshire Business Rates Pool.

8. Access to Information : Background Documents

None

9. Author of the Report

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10. Appendices

Appendix A – Timetable for creation of North Yorkshire Business Rates Pool
Appendix B – North Yorkshire Authorities start of year rates data.

Timetable – Key Dates & Issues for Creation of North Yorkshire Business Rates Pool

16 July 2013	Initial presentation by external advisors Pixel of information to relevant Finance Officers
17 July – 14 August 2013	Provision of additional NNDR1 data to Pixel re small businesses. Pixel asked to undertake further analysis. Identification of volunteers to be lead authority.
21 August 2013	Follow up meeting of North Yorkshire Authorities
21 August -31 October 2013	Terms of Agreement for creation of North Yorkshire Pool to include: Selection of Lead Authority. Discussion & agreement on business case for application to create a North Yorkshire Pool. Agreement of membership of the North Yorkshire Pool. Agreement of distribution of the additional levy retained as a consequence of the creation of the Pool. Agreement on items of risk.
10 September 2013	Presentation of proposals to Policy Committee including appropriate delegation to s151 Officer Chief Exec, Leader & Lead Member for Finance for recommendation to Council on 8 October to proceed with Craven joining the Pool.
w/c 23 September	Follow up meeting of North Yorkshire Authorities to prepare submission document to Government
8 October 2013	Approval by Council of Policy Report Recommendation
31 October 2013	Submission of application for North Yorkshire Pool
1 November 2013 – 31 March 2013	At some point between these dates the Government will confirm agreement to the NY Pool.
December 2013	Settlement data available to enable opt out from NY Pool arrangement if desired
1 April 2014	NY Pool commences operation

Business Rates Element Used in the Calculation for Retention

	Local Share Rates Target £'m	Retained Funding £'m	Local Share Estimated Collection £'m	Gain £'m	Levy £'m
NYCC	18.2	59.2	18.8	0.6	0
Craven	6.9	1.3	7.5	0.6	0.3
Hambleton	10.4	1.8	10.7	0.3	0.15
Richmondshire	4.9	1.3	5.1	0.2	0.1
Ryedale	6.4	1.4	6.5	0.1	0.05
Scarborough	12.5	3.7	12.5	0	0
Selby	16.3	2.1	17.6	1.3	0.65
Sub Total (Exc NYFRA)	75.6	70.8	78.7		1.25
NYFRA	2.9	5.4	3.0	0.1	0
Total (Inc NYFRA)	78.5	76.2	81.7		1.25

Note: 50% of the business rates collected nationally is passed to Central Government to fund RSG. Craven DC has estimated that it will collect £18.674m in rates and therefore £9.631 goes to Central Government towards RSG.

All calculations are then based on the retained element i.e. the other 50%. Of this 18% is paid to NYCC and 2% to NYFRA. The balance is then compared to the local share target and the difference is the balance if positive is the basis for the retention gain calculation. The retained element is also utilised to pay the Council's allocation of £1.3m