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**REPORT TO:** COUNCIL

**DATE:** 5 SEPTEMBER 2013

**REPORT OF THE:** CORPORATE DIRECTOR (s151)  
PAUL CRESSWELL

**TITLE OF REPORT:** POOLING PROPOSAL FOR BUSINESS RATES AND NEW  
HOMES BONUS CONSULTATION

**WARDS AFFECTED:** ALL

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 This report considers the proposals for the Council to join a Business Rates Pooling arrangement with other Authorities. Such an arrangement would relate to the 'retained' element of the business rates which is now part of the Local Government Finance System.
- 1.2 It also seeks officer delegation to respond to consultation on changes to New Homes Bonus from 2015/16.

### **2.0 RECOMMENDATIONS**

- 2.1 It is recommended that:
- (i) delegated authority be given to the Corporate Director (s151) in consultation with the Chairman of the Policy and Resources Committee to join a business rate pool for 2014/15 should he be satisfied that such an arrangement is likely to be in the financial interests of the Council; and
  - (ii) delegated authority be given to the Corporate Director (s151) in consultation with the Resources Working Party to respond to the consultation document 'New Homes Bonus and the Local Growth Fund'.

### **3.0 REASON FOR RECOMMENDATION**

- 3.1 The pooling of business rate receipts with other Authorities may enable the Council to reduce any levies payable on business rates achieved above its target level and therefore allow the Council to retain a greater share of business rates collected in the District.
- 3.2 The consultation on New Homes Bonus has significant potential financial impact on the Council from 2015/16 onwards.

## **4.0 SIGNIFICANT RISKS**

- 4.1 There are two significant risks to consider around business rates pooling. There are no significant risks around responding to the New Homes Bonus Consultation
- 4.2 Firstly, the current review of pooling and the financial benefits is based on the existing system for Local Government Finance. The prospects of revision by the Government to the system, even in minor part, could impact on the financial case for joining a pool. The delegated authority in this report allows the Authority's Chief Finance Officer to respond and not miss any beneficial opportunity which may be available. The prospectus for pooling allows authorities to take a final decision on pooling following the Local Government Finance Settlement.
- 4.3 Depending on the other Authorities within the pool, there is the risk that a significant reduction in rates received within a pool Authority could affect the finances of all pool members. This is mitigated by having provision for the dissolution of the pool on an annual basis, such that any problem could then only be a one year difficulty. This difficulty would affect the Council's collection fund and therefore the Council would therefore have opportunity to plan and manage any shortfall, through other savings or one off use of reserves. In evaluating the pool members officers will seek to minimise this risk if possible.

## **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 This issue impacts on the overall financial position of the Authority as part of its budget setting process and consequently the Financial Strategy. This is a key strategy document that affects all service delivery. It links to the Corporate Plan and all other strategic plans as well as providing the means for attaining the Council's objectives and priorities.

## **REPORT**

### **6.0 REPORT DETAILS**

#### **Business Rate Pooling**

- 6.1 In 2013/2014 a new way of allocating finance to Local Authorities through a fundamental change to the Local Government Finance System was introduced.
- 6.2 The Business Rates proposals involve RDC retaining 40% of business rates collected in the District but having to pay over a fixed tariff to the Government. The tariff is index linked and the scheme is planned to operate up to 2020. The Council is therefore at risk for underachieving its business rates target, but can benefit to a limited extent if it overachieves its target.
- 6.3 Crucially for the pooling consideration a 50% levy payment to Government of any overachievement of the target applies.
- 6.4 The following table sets out the target and estimated actual position for Business Rates Retention Scheme for 2013/2014 for RDC, and an estimate for 2014/15:

	<b>Target £m</b>	<b>Est. £m</b>	<b>14/15 Est</b>
Business Rates Income Ryedale	15.925	16.278	*17.903
RDC Share (40%)	6.370	6.511	7.161
Tariff payable to Government	4.938	4.938	5.090
Sub total	1,432	1.573	2.071
Funding Target	1.431	1.431	1.478
Levy payment (50%)		0.071	0.296
Business Rate Income retained by RDC	1.432	1.502	1.775

Assumes non extension of Small Business Rate Relief

- 6.5 As can be seen from the above should actual collection be as predicted a levy of £71k will be payable to the government in 2013/14 from the collection fund.
- 6.6 Projecting ahead to 2014/15 with indexation and the removal of the Small Business Rate Relief (exact details still awaited from Government), it is possible that the levy for RDC will be around £296k (as above), all other things remaining equal.
- 6.7 Of the total Business rate receipts, whilst the Government receives 50% and RDC retains 40%, North Yorkshire County Council (NYCC) receives 9% and the remaining 1% goes to the North Yorkshire Fire and Rescue Service. This small amount of funding, together with their Revenue Support Grant does not meet the start up funding assessment set by the Government and as a result they receive a 'top-up' payment rather than paying a tariff. Therefore they do not pay any levy.
- 6.8 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.
- 6.9 By forming a pool involving a mix of tariff and top up Authorities, it is possible to reduce the levy rate payable by the District Councils. Consultancy support has proven that a pool involving 6 of the District Councils (Harrogate BC are already part of the Leeds Pool) with the County Council and Fire Service could reduce the levy rate to 2.7% (rather than the 50% now) for the districts based on their 2013/14 original business rate estimates for each district.
- 6.10 The benefits of pooling in cash terms needs a mechanism for sharing amongst the pool members. A payment (probably percentage) would need to go to the County Council and Fire Service, as the benefits of avoiding levy payments do not accrue to them. The remaining additional funds generated from pooling would be shared amongst the Districts on an appropriate and agreed basis, possibly linked to growth in NNDR receipts so as not to penalise those where the greatest business growth has taken place.
- 6.11 In looking at a pool a lead Authority would be required, who would administer the pool, with the costs of administration being shared by all pool members.
- 6.12 Clearly there are negotiations to be undertaken to establish a pool and the Treasurers across the various Authorities are engaged in meetings on this issue at the moment.
- 6.13 The government has announced the pooling timetable for this year, summarised as:

- Proposals for new pools must be made by 31 October (5pm)
  - A proposal for a new pool for 2014/15 must clearly set out the following
    - The identity of each authority
    - An explanation of potential benefits to pool members
    - Who the lead authority is
    - Governance arrangements
  - Final proposals to be signed by S151 officer of each authority
  - The Department for Communities and Local Government (DCLG) will work with interested councils to support the development of the pool
  - Selection criteria for new pools
    - Likely benefits for members and the Governments wider objectives for growth
    - The proposed governance arrangements
    - Extent to which the proposals are affordable in terms of the rates retention scheme as a whole
  - Based on the above the Government can refuse pool proposals
  - Councils can withdraw from a pool before the pool comes into effect if the draft finance settlement (possibly December 2013) indicates that there will no longer be any benefit to them (they must do so within 28 days of draft settlement announcement).
  - If an individual Council withdraws as above the pool cannot continue and the remaining authorities would revert to individual positions.
  - Pools will continue from year to year until a designation is revoked
  - Once a pool is up and running, if any member wants to leave, the full pool is dissolved but only from the start of the following year, when all the members will revert to individual positions.
  - Pools will need arrangements in place in the event of dissolution.
- 6.14 A total of 13 pools were established for the 2013/2014 year. A significant number of Authorities are known to be considering pools for 2014/15.
- 6.15 Clearly there is significant work and negotiation to take place ahead of the pool deadline. During this period Council does not meet again. The decision will revolve around consideration of the finances of the respective Authorities and projections for 2014/15 and beyond.
- Significant Issue – Business Rate Appeals**
- 6.16 Any business can appeal against its rateable value to the Valuation Office Agency. Nationally some 230,000 appeals are made. The vast majority are dealt with by the local office, in Ryedale's case Leeds, with a small number of complex claims dealt with by a specialist London based team.
- 6.17 Rateable Values are revalued every five years, the last two being 2005 and 2010. The Government has delayed the next revaluation to 2017 instead of the expected 2015 revaluation. Any successful appeals against valuation can result in refunds, which are then backdated to the most recent revaluation prior to the appeal date.
- 6.18 Prior to 1 April 2013 any revaluation was managed through the national business rates pool, and there was no impact on the Council from revaluations. The Business Rate Retention Scheme transferred part of the risk to Local Authorities. In addition the Government in introducing the new system made no provision for outstanding appeals at the time the system was introduced, or the financial impact of backdating appeals. This means appeals backdated to the 2010 or 2005 list could be significant with a big impact on the Council's finances. If an appeal been resolved prior to the new system, the national pool would have taken the financial cost.
- 6.19 Representations to Government were made by a number of Authorities on this issue,

with many metropolitan areas having a large value of appeals outstanding, prior to the new system implementation.

- 6.20 The only Ryedale case managed by the specialist unit is RAF Fylingdales. An appeal was lodged on the 9 September 2008 by RAF Fylingdales. This appeal was successful in July 2013, with the appeal backdated to 2005. This has resulted in a refund of over £1m, and an ongoing annual reduction in rateable income of £131,800. Had this been resolved 4 months earlier, this would not be an issue for members' consideration.
- 6.21 This issue does not pose a financial risk in the current year as the business rate retention scheme is managed through the collection fund, however this could create a deficit which may impact on future years. This issue is uncertain as the Government indicated that appeals could be accounted for over 5 years, however this has not yet been formally confirmed. The removal of Small Business Rate Relief for 2014/15 may help alleviate this issue by keeping RDC ahead of its business rates target.
- 6.22 At this time the position is unclear, but it may affect the desirability of RDC as a pool member to other authorities. Further work is ongoing on the accounting and other implications of the successful appeal.

#### **New Homes Bonus and the Local Growth Fund**

- 6.23 In July the DCLG launched a technical consultation titled 'New Homes Bonus and the Local Growth Fund'. The response date is the 19 September 2013. Given the short time remaining it is proposed that delegated authority to respond is given to the Corporate Director (s151) in consultation with the Resources Working Party which meets on the 10 September 2013.

## **7.0 IMPLICATIONS**

- 7.1 The following implications have been identified:
- a) Financial  
The financial implications are not possible to determine at this stage, however any pooling decision will be based on a beneficial assessment on the impact on RDC finances at the appropriate time.
  - b) Legal  
The Pool would require formal legal agreement
  - c) Other  
There are no other significant implications arising from this recommendation.

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#### **Background Papers:**

Business Rates Retention – Pooling Prospectus  
DCLG Consultation 'New Homes Bonus and the Local Growth Fund'

**Background Papers available for inspection at:**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6085/Pooling Prospectus.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6085/Pooling_Prospectus.pdf)

<https://www.gov.uk/government/consultations/new-homes-bonus-and-the-local-growth-fund-technical-consultation>