

CABINET MEMBER DECISION



Decision:

That, subject to the agreement of a 60:40 (District: County) distribution formula, the South Kesteven District Council agrees to enter a Lincolnshire “pool” for 2014/15 with an allocations/distribution methodology as laid out in section 4 of report LDS109 and that North Kesteven be accepted as the designated “pool Lead Authority” for 2014/15.

(1) Details of Decision

To seek approval as to whether or not to join the Lincolnshire Pool for Business Rates for the financial year 2014/15

(2) Considerations/Evidence

- 1.1 The 2013/14 local government finance settlement saw the launch of the business rates retention scheme as a central part of local government funding.
- 1.2 Under the proposed system, a start-up funding assessment (SUFA) 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 taking into account changes in responsibility (e.g. with specific grants moving in and out of general grant).
- 1.3 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.
- 1.4 To fund the Baseline Need element, local authorities each has an expected level of business rates that is to be collected (NDR Baseline). Due to differences between Baseline Need and the level of business rates collected by individual authorities, there is a further adjustment required. As follows:-
 - 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 NKDR Baseline, a fixed Tariff is paid to central government.

- Those authorities that collect a higher level of NDR income compared to their NDR Baseline should be rewarded through the scheme, as they will be able to retain an element of the associated increased NDR revenues. However, authorities that collect a lower level of NDR income will see decline in their business rates revenue and a relative reduction in their overall resources.
- 1.5 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 a levy (on disproportionate gains). The Safety Net and Levy are explained below.
- 1.6 If authorities were to collect business rates at their NDR Baseline amount, the level of resources that they would receive (through NDR income and RSG) will be at their start-up funding assessment (i.e. they have neither lost nor gained from the business rates retention scheme).

The Levy

- 1.7 The government has chosen to apply a proportional levy within the system. Under the proportional levy, each local authority will be assigned an individual levy rate.
- 1.8 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 the NDR Baseline to Baseline Funding Level
 - The level of NDR Income
- 1.10 The final element of the levy calculation is determined by the level of NDR income for an authority. Only local authorities that have growth in their NDR income are required to pay the levy (i.e. NDR income is higher than NDR Baseline). It is important to note that growth in NDR income is based on CLG'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. This gives rise to a number of different scenarios where actual growth may/may not result in levy payments i.e.
- NDR baseline (set by CLG) is higher than actual NDR income, no levy is due
 - NDR baseline (set by CLG) is lower than actual NDR income –

a levy will be due on NDR income above the baseline

- NDR baseline (set by CLG) matches the actual level of NDR income – a levy will be due only if the authority achieves actual growth in NDR income

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).

Safety Net

1.11 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% for 2013/14. The safety net is theoretically funded by the Levy.

How Business Rates Income is split

1.12 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%.

1.13 Each billing authority's business rates will be further split between the billing authority and any relevant major precepting 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:

- Two-tier areas – shire counties with fire – The split of 80% district and 20% county is applied.

Pooling

1.14 Under the business rates retention scheme, local authorities are able to voluntarily form a business rates retention pool. Local authorities within a pool are treated as a single authority, with all Tariffs i.e. where the NDR Baseline is higher than the Baseline Need, and all Top-Ups i.e. where the NDR Baseline is lower than the Baseline Need, being combined, and a single levy rate being applied. Similarly, safety net eligibility is also calculated at aggregate pool level.

1.15 There is, therefore, 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.

1.16 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 (“no worse off”), and additional resources could be distributed through local discretion or weighted (potentially according to the level of benefit received).

1.17 The main points therefore in relation to pooling are that:

- Pooling is entirely voluntary.
- 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 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 transparently publish their pooling arrangements and financial information on how the pool will operate.

1.18 In 2013/14, pooling groups were required to notify CLG of their intention to pool in July 2012, with the final composition of the pool confirmed by 5 December 2012. In 2013/14 a pool was created in Lincolnshire by Lincolnshire County Council, North Kesteven DC and South Holland DC. North Kesteven acts as the lead authority.

1.19 For 2014/15, pooling groups will need to notify DCLG by **31 October 2013** of their intention to pool, including the composition of the pool and its governance arrangements.

(3) **Reasons for Decision:**

- The Council has done the requisite due diligence in determining the viability of the Lincolnshire Pool.
- The Council believes that the Lincolnshire pool creates the opportunity for a larger proportion of locally derived Business Rates to stay within the County and the district which will be to the benefit of local residents.
- This course of action is in line with the Councils Medium Term Financial Strategy.

The reason that the decision is urgent is that it needs to be made before 31st October 2013 to allow the proposal to pool to be put to the DCLG before the deadline of 31st October 2013.

Conflicts of Interest

(Any conflict of interest declared by any other Cabinet Member consulted in relation to the decision to be recorded).

NONE

Dispensations

(Any dispensation granted by the Monitoring Officer in respect of any declared conflict of interest to be noted).

NONE

Decision taken by:

Name: Councillor Mike Taylor
Portfolio: Strategic Resources - Well Run Council

Date of Decision: 17 October 2013

Date of Publication of Record of Decision: 17 October 2013

Date decision effective: 17 October 2013

As this decision is an urgent Key Decision the call-in procedure does not apply.