

# North Tyneside Council Report to Elected Mayor Date: 29 November 2018

<b>Urgent Decision Report Business Rate Pooling</b>
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<b>Portfolio(s):</b>	<b>Elected Mayor</b>
	<b>Finance and Resources</b>

<b>Cabinet Member(s):</b>	<b>Norma Redfearn</b>
	<b>Councillor Ray Glendon</b>

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**Report from Service  
Area:**

**Finance**

**Responsible Officer:** **Janice Gillespie, Head of Resources** **Tel: (0191) 643 5701**

**Wards affected:** **All Wards**

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## **PART 1**

### **1.1 Executive Summary:**

On 24 July 2018, the Ministry of Housing, Communities and Local Government (MHCLG) invited pilot bids for 75% localisation of Business Rates in 2019/20.

In September 2018 the Authority submitted an expression of interest to MHCLG to be considered with Newcastle City Council and Northumberland County Council to become a Business Rate Pool and by doing so become a 75% Business Rate Retention pilot for the financial year 2019/20. The expression of interest was submitted with the knowledge that part of the requirement was that any bid was to support the aims and objective of a Combined Authority.

In order to further consider the expression of interest submission MHCLG have advised that a Memorandum of Understanding (MoU) between the three authorities must be submitted by the 30 November 2018.

The MoU acts as a statement of intent that will support the realisation of the benefits that will be gained from becoming a Business Rate Pool with 75% retention. It also looks to formalise the commitment to the becoming a Business Rate Pool and sets out the respective roles and responsibilities that will be in place from the 2019/20 financial year.

Any gain achieved by the 75% pilot will be allocated by the North of Tyne Combined Authority in line with its vision and investment priorities.

### **1.2 Recommendation(s):**

It is recommended that the Elected Mayor:

- (1) approve the Authority to become a member of the Newcastle Upon Tyne, North Tyneside and Northumberland Business Rate Pool 2019/20; and
- (2) approve the delegation to the Head of Resources in consultation with the Cabinet Member for Finance, the Chief Executive and the Senior Manager: Legal Services and Information Governance to agree the Memorandum of Understanding for the proposed Business Rate Pool.

### **1.3 Forward Plan:**

It has not been practicable to give twenty eight days' notice of this report. However, it is required to be considered without the twenty eight days notice being given because the Authority is required to submit a Memorandum of Understanding to MHCLG on the 30 November 2018. The Authority only became aware of this requirement on the 21 November 2018.

### **1.4 Council Plan and Policy Framework**

This report relates to the following priority in the 2018-2020 Our North Tyneside Plan;

Our Economy will:

- Continue to support investment in our business parks, units and Town Centres.

### **1.5 Information:**

#### **1.5.1 Background**

On 24 July 2018, the Ministry of Housing, Communities and Local Government (MHCLG) invited pilot bids for 75% localisation of Business Rates in 2019/20.

In September 2018 the Authority submitted an expression of interest to MHCLG to be considered with Newcastle City Council and Northumberland County Council to become a pilot for 75% Business Rate Retention 2019/20. To achieve this the three authorities are required to form a Business Rate Pool.

The main reason for submitting a bid to become a business rates pilot is to benefit from the retention of a higher level of business rates income over and above the baseline funding level set by Government.

The Baseline Funding Level along with the Revenue Support Grant make up the totality of the non-ring fenced funding to local government (known as the Settlement Funding Assessment). The Baseline Funding Level is set by the Government for each local authority as part of the local government finance settlement and comprises our share of business rates collected locally, and for the three North of Tyne authorities a top up grant paid by Government. The details of this are set out in the Table 1 below

**Table 1 2018/19 Settlement Funding Assessment and Baseline Funding**

<b>50% local Share</b>	<b>Newcastle</b>	<b>North Tyneside</b>	<b>Northumberland</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Settlement Funding Assessment	122,343,798	63,376,691	85,280,502	271,000,991
Made up of				
Revenue Support Grant	35,393,713	16,914,499	18,989,969	71,298,181
<b>Baseline funding</b>	<b>86,950,085</b>	<b>46,462,192</b>	<b>66,290,533</b>	<b>199,702,810</b>
Baseline funding is made up of				
Retained Business Rates	70,066,305	26,737,921	39,804,216	136,608,441
Top up grant	16,883,780	19,724,271	26,486,317	63,094,369

1.5.2 Under the current arrangements, where 50% of business rates collected locally is retained by each local authority (in North Tyneside 1% is paid over to the Tyne & Wear Fire & Rescue Authority therefore only 49% is retained), each local authority retains any business rates income over and above the amount set by Government. The business rates income in excess of the figure estimated by Government that is currently expected to be retained by the three local authorities in 2018/19 is £11.0m as shown in the Table 2 below.

**Table 2 Current 2018/19 Business Rate Retention Surplus**

<b>50% local Share</b>	<b>Newcastle</b>	<b>North Tyneside</b>	<b>Northumberland</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Net rates payable	68,013,449	27,841,444	38,747,017	134,601,910
Section 31 Grants Payable	4,825,242	2,716,954	5,504,028	13,046,224
<b>Total Income</b>	<b>72,838,691</b>	<b>30,558,398</b>	<b>44,251,045</b>	<b>147,648,134</b>
Less: retained business rates	(70,066,305)	(26,737,921)	(39,804,216)	(136,608,441)
<b>Difference @ 49 / 50%</b>	<b>2,772,386</b>	<b>3,820,477</b>	<b>4,446,829</b>	<b>11,039,693</b>

A key feature of becoming a 75% business rates pilot is that business rates income would be pooled across the pilot, and the three local authorities would be regarded as one entity in business rates terms.

If we were to become a business rates pilot and retain 75% of any business rates income above the amount estimated by Government, then the amount retained by the three local authorities is likely to increase.

1.5.3 Although the Settlement Funding Assessment (SFA) for each local authority would not change, the Baseline Funding Level would be increased by Government to reflect the fact that no Revenue Support Grant would be payable. Furthermore, the Government would adjust its estimate of the amount of business rates collected locally from 49% / 50% (Northumberland) of the total to 74% / 75% of the total and adjust the Top Up Grant to balance back to the new Baseline Funding Level as shown in the Table 3

**Table 3 Revised SFA funding**

<b>75% Local Share</b>	<b>Newcastle</b>	<b>North Tyneside</b>	<b>Northumberland</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
SFA	122,343,798	63,376,691	85,280,502	271,000,991
Broken down as follows:				
• Revenue Support Grant	0	0	0	0
• Retained business rates	105,814,419	40,379,717	59,706,324	205,900,460
• Top Up Grant	16,529,379	22,996,974	25,574,178	65,100,531

The Baseline Funding Level would increase from £199.7m to £271.0m to reflect the fact that no Revenue Support Grant would be payable, the level of retained business rates would increase from £136.6m to £205.9m and the Top Up Grant would increase from £63.1m to £65.1m to balance back to the Baseline Funding Level.

The amount of business rates income retained locally would also increase as shown in the Table 4 below.

**Table 4 Potential Increase in 75% Business Rate Retention**

<b>75% Local Share</b>	<b>Newcastle</b>	<b>North Tyneside</b>	<b>Northumberland</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Net rates payable	102,714,188	42,046,262	58,120,526	202,880,976
Section 31 grants payable	7,287,100	4,103,155	8,256,042	19,646,297
<b>Total Income</b>	<b>110,001,288</b>	<b>46,149,417</b>	<b>66,376,568</b>	<b>222,527,273</b>
Less: retained business rates at baseline	(105,814,419)	(40,379,717)	(59,706,324)	(205,900,460)
Difference compared to 49% / 50% retention	<b>4,186,869</b>	<b>5,769,700</b>	<b>6,670,244</b>	<b>16,626,814</b>

1.5.4 The business rates income in excess of the figure estimated by Government that would be retained by the three local authorities in 2018/19 is £16.6m, and the additional business rates retained by the three local authorities due to being a 75% business rates pilot would be an estimated £5.6m as shown in the Table 5 below

**Table 5 Net Increase in 75% Business Rate Retention**

	<b>Newcastle</b>	<b>North Tyneside</b>	<b>Northumberland</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Difference at 74% / 75%</b>	4,186,869	5,769,700	6,670,244	16,626,814
<b>Difference at 49% / 50%</b>	2,772,386	3,820,477	4,446,829	11,039,693
<b>Net Increase</b>	<b>1,414,483</b>	<b>1,949,223</b>	<b>2,223,415</b>	<b>5,587,121</b>

1.5.5 The modelling work set out in the tables above demonstrates that financially the North of Tyne authorities would retain a greater share of business rates revenue through pooling that it would otherwise do so, as long as it experiences economic growth.

The purpose of the Memorandum of Understanding (MoU) is to act as a statement of intent that will support the realisation of the benefits outlined above. It also formalises the Pool Members commitment and sets out each members respective roles and responsibilities from the 2019/20 financial year. Further details on the MoU can be found in Appendix 1.

## 1.6 Decision options:

The following decision options are available for consideration by the Elected Mayor

### Option 1

Agree to the submission of the Memorandum of Understanding to the MHCLG, and agree to the Pooling of business rates should the submission to MHCLG be successful.

### Option 2

Do not agree the submission of the Memorandum of Understanding to the MHCLG

Option 1 is the recommended option.

## 1.7 Reasons for recommended option:

Option 1 is recommended for the following reasons:

Should option 1 not be agreed the opportunity to become a Business Rate Pilot Scheme would be missed with the potential £5.5m of business rates being retained by Central Government rather than be secured for the North of Tyne region.

If taxation receipts grow faster than spending on additional responsibilities, a successful bid should result in a greater share of local taxation being retained in the area, for the benefit of residents and service users.

Supporting the submission of the Memorandum of understanding would give further incentives to all the pooling authorities to work proactively together to drive economic growth within the North Tyneside, Newcastle and Northumberland areas. In North Tyneside this would ensure that we are working towards the priorities as set out in the 2018-2020 Our North Tyneside Plan

## 1.8 Appendices:

Appendix 1: Memorandum of Understanding Newcastle, North Tyneside and Northumberland Business Rate Pool 2019/20

Appendix 2: Business Rates Pilot Scheme 2019/20 Application Form

## 1.9 Contact officers:

Janice Gillespie, Head of Resources – Tel (0191) 643 5701

## 1.10 Background information:

The following background information has been used in the compilation of this report and is available at the office of the author:

- (1) 75% business rates retention pilots 2019 to 2020: prospectus  
<https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019-to-2020-prospectus>

## PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING

### 2.1 Finance and other resources

The government published its prospectus to local authorities for the 2019/20 round of business rates pilots.

Newcastle City Council together with North Tyneside Council and Northumberland County Council submitted a bid to MHCLG become a 75% Business Rates Retention pilot in 2019/20.

The main reason for submitting a bid to become a business rates pilot is to benefit from the retention of a higher level of business rates income over and above the Baseline Funding Level set by the government.

A key feature of becoming a 75% business rates pilot is that business rates income would be pooled across the pilot, and the three local authorities would be regarded as one entity in business rates terms.

If we were to become a business rates pilot and retain 75% of any business rates income above the amount estimated by government, then the amount retained by the three local authorities is likely to increase. Based on the current performance this could be an estimated £5.5m for 2019/20. This retained growth in business rates will be used to support the delivery of the ambitions of the North of Tyne Combined Authority.(NTCA)

Key features to note:

- All individual local authority gains / losses under 49% / 50% retention will be retained by each local authority.
- 100% of the gain from moving to 74% / 75% retention will be passed to the NTCA.
- If one or more local authorities incurs a loss under 49% / 50% retention (i.e. total business rates income including section 31 grants is less than the baseline funding level) then this will be netted off the amount to be passed to the NTCA. If the gain arising from moving to 74% / 75% retention is less than the individual local

authority losses under 49% / 50% retention then the benefit of the gain will be divided between the loss-making local authorities on a pro-rata basis.

- If the pool makes an overall loss then the individual local authority losses under 49% / 50% retention will be retained by each local authority but the loss arising from the move to 74% / 75% retention will be divided between the three local authorities on a pro-rate basis.

It will be important to ensure that governance arrangements are established with the North of Tyne Combined Authority undertake strategic decision-making in relation to any additional business rates retained from the pilot and manage any risks associated with the pool. It is proposed a steering group consisting of the three Section 151 Officers will be set up to oversee decision-making in relation to the business rates pool – this will involve agreeing approaches to all matters that may have an impact on the level of business rates income across the pilot area and a framework agreement will be developed by the three local authorities with the North East Combined Authority to set out the rules of the pilot that will cover:

- Approach to granting discretionary rate reliefs
- Approach to setting provisions for bad debts and back-dated appeals
- How any 'losses' within the pool will be managed
- Information sharing
- Residual benefits / liabilities

## **2.2 Legal**

To be accepted as a pilot for 2019/20, agreement must be secured locally from all relevant authorities to be designated as a pool for 2019/20 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988) and to put in place local arrangements to pool their additional business rates income.

## **2.3 Consultation/community engagement**

### **2.3.1 Internal Consultation**

The Mayor, Cabinet Member for finance and the Deputy Mayor have been consulted on the proposal directly and Cabinet were advised of the proposals as part of the 2019-23 Financial Planning and Budget process report to Cabinet 28 November 2018.

## **2.4 Human rights**

There are no human rights implications arising from this report.

## **2.5 Equalities and diversity**

There are no equality and diversity implications directly arising from this report.

## **2.6 Risk management**

A successful bid should result in a greater share of local taxation being retained in the area, for the benefit of residents and service users.

The 2019/20 business rates pilots would not benefit from the “no detriment” clause that previous pilots have benefited from. This means there is a risk that the three local authorities could be worse off as a 75% business rates pilot compared with remaining as they are. The risk arises due to the possibility that the business rates collected by the three local authorities can decrease as well as increase, with the reduction as a result of successful appeals. This risk has been mitigated in part by the government raising the safety net from 92.5% to 97.5% for the successful pilots. That means income across the three local authorities would ‘only’ need to drop to 97.5% of the Baseline Funding Level of the pilot area compared with 92.5% of the individual local authorities’ Baseline Fund Levels as at present. That would be a significant drop and monitoring would give early indications if this was indeed happening.

None of the three local authorities are expecting their business rates income to significantly reduce to the extent that they will be worse off as a 75% business rates pilot than they would otherwise be, however, unforeseen circumstances could result in this occurring.

Risks associated with Pooling will be managed through the proposed governance arrangements set out in section 2.1 of this report.

## 2.7 Crime and disorder

There are no crime and disorder implications arising from this report.

## 2.8 Environment and sustainability

There are no direct environment and sustainability implications arising from this report.

## PART 3 - SIGN OFF

- Chief Executive  X
- Head of Service  X
- Mayor Member(s)  X
- Chief Finance Officer  X
- Monitoring Officer  X
- Head of Corporate Strategy and Customer Service  X