

DECISION TAKEN UNDER DELEGATION TO THE CHIEF EXECUTIVE

Subject:

Business Rates Pooling and Pilot for Non-Domestic Rates in 2024-25

Date of Decision:

20th September 2023

Decision Number:

04/2023

Background:

Business Retention scheme

In April 2013 the Government introduced a business rates retention scheme that was intended to create incentives for local authorities to promote business growth over the long term. Under the scheme local authorities are allowed to retain some of the benefit from any growth in non-domestic rates, however, are also exposed to the risk of reduced income from any reduction in the amounts of Rates collected.

If an authority collects more business rates than the Government has determined they need to fund their services (business rates baseline funding) then these authorities are required to pay over the excess to Central Government in the form of a tariff. Conversely, if an authority's funding requirement is higher than income collected, then they will receive a "top-up" from central government.

There is a levy mechanism built into the Business Rates Retention regime, so that authorities will pay a proportion of their growth to Central Government. The levy rate is set at 50% for Chelmsford City Council, which means the Council will only retain half of the increase in business rates growth over and above a Government set business rates baseline.

The Government has put in place a safety net to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall beyond 7.5% of its spending baseline. The maximum loss for Chelmsford in this instance would be £0.3m.

Business Rates Pooling

As part of the rates retention scheme, authorities can formally seek designation as a pool. The pool will be formed of two or more authorities and enables those authorities to retain a higher percentage of business rate growth by reducing or removing the levy that needs to be paid on any income growth. If an authority experiences negative growth that falls below the Government set 7.5% safety net, the loss needs to be funded by the pool and therefore has an adverse impact on the other authorities in the pool. The Government treat the Pool and its members as one authority and the safety net limit is calculated on overall Baseline funding level of the Pool.

For 2024/25 it worth noting that :

- The Government can nationally decide to abolish pools, even after the Council has signed up. This is thought to be unlikely but none the less is possible.

Pool arrangements for 2023/24

Chelmsford entered into an Essex Business rates pool with other Local Authorities in 2018/19 and remained member of the Essex pool in 2019/20, 2020/21 2021/22 2022/23 and 2023/24. In 2018/19

the Council received additional income of £1m, in 2019/20 received additional income of £0.6m, in 2020/21 received additional income of £0.8m in 2021/22 received an additional income of £1.1m and in 2022/23 received an additional income of £0.8m from the pool as a proportioned benefit of levy saved that would have otherwise been paid to the Government. The income from the Pool for 2021/22 and 2022/23 is subject to the risk of change during the external audit of member authorities. The lead authority (Essex County Council) is currently estimating £0.7m of additional income from the Pool in 2023/24 for Chelmsford.

Chelmsford's options for 2024/25

Chelmsford and the lead authority is required to notify the Government of its intentions for pooling for the next financial year by 10th October 2023. Essex County Council are therefore seeking a formal confirmation of our intention to remain in the Essex Business rates pool. Depending on the response from other Essex authorities, the options for the pool are to either continue as it is with the current members, to dissolve completely or to dissolve and seek designation as a new pool for 2024/25 should the pool's membership change.

To provide assurances before entering the pool, historic experience has shown pool membership to be beneficial to the authority, even during the COVID-19 pandemic due to government support. This support meant that there has not been the need to further increase the bad debt provision however this could potentially be impacted by any future recession. The current pool members have been asked to expressed confidence in being able to maintain their business rates income at a required level for the pool to remain successful. Brentwood was removed from the pool in 2023/24 and will remain a non-member of the pool in 2024/25 as it does not have confidence that it will not be in a safety net position.

Option 1

Notify the lead authority of the intention to leave the Essex Business rates pool and continue as a standalone authority

- Potential increase from Business Rates growth £0.3m
- Maximum loss £0.3m (7.5% of Government set Baseline need)

Option 2

Join the Essex business rates pool for another year, with the intention to maximise the business rates income retained by the authority. Indicatively the gain to the City Council could be an extra £0.7m.

The risk, in the unlikely situation where income for the whole pool falls below its business rates baseline is that Chelmsford will lose its additional income and will have to proportionately suffer the loss of pool income. The extent of City Council losses will depend on the overall position of the pool. This cannot be accurately quantified until the end of the pool's financial year, but losses could exceed the £0.3m maximum identified in option 1.

Decision and Reasons for Urgency:

The Chief Executive was of the view that option 2 would be of most benefit to the Council. As a decision on whether to join the Pool needed to be made by 22 September 2023, he agreed to exercise his delegated authority to take urgent decisions and authorised the Accountancy Services Manager to negotiate for the Council the terms on which the Council would enter the Pool and to join it if those terms were acceptable.

Supporting Information:

The Leader of the Council was consulted before making this decision and had no objection to it.