ECONOMIC DEVELOPMENT, ENVIRONMENT AND INFRASTRUCTURE SCRUTINY PANEL

A meeting of the Economic Development, Environment and Infrastructure Scrutiny Panel was held on Wednesday 18 January 2023.

PRESENT:	Councillors R Arundale, (Chair), D Branson, C Dodds, T Furness, A Hellaoui, B Hubbard, T Mawston and J Thompson
OFFICERS:	S Lightwing and J Weston
APOLOGIES FOR ABSENCE:	were submitted on behalf of Councillor M Saunders

22/51 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

22/52 **DECLARATIONS OF INTEREST**

There were no declarations of interest received at this point in the meeting.

22/53 **MINUTES - ECONOMIC DEVELOPMENT, ENVIRONMENT AND INFRASTRUCTURE SCRUTINY PANEL - 8 DECEMBER 2022**

The minutes of the meeting of the Economic Development, Environment and Infrastructure Scrutiny Panel held on 8 December 2022 were taken as read and approved as a correct record.

22/54 **BUSINESS RATES POOLING**

The Head of Finance and Investment gave a presentation in relation to Business Rates Pooling. Business rates were a key funding source for the Council and a complex topic. Essentially business rates were an occupation tax on companies that occupied premises. There had been different ways of collecting and distributing business rates and it was a source of Council funding. Middlesbrough Council acted as the Billing Authority for the collecting income from all business properties in the Borough.

The basis of the business rate charge was the rateable value of the property based on a multiplier in the pound. The Government's Valuation Office determined and set a comparable rateable value for every property. The Valuation Office had criteria including floor space, type of occupation, and age of the building to set the rateable value. The multiplier was set by the Government each year in the Fiscal Statement. The multiplier for a business was currently 49.9 pence in the pound and for a small business 48.5 pence in the pound.

The national valuation was updated every 4 to 5 years and the Valuation Office would inspect certain properties and re-assess them. For example, if the use of the property had changed. Like for like uses might be inspected every few years. The Council needed to keep track of properties that were empty or where business uses had changed. Initially no business rates were payable on an empty property for the first twelve months but the charge then doubled.

The Government's business rates multiplier usually increased by the rate of inflation each year. However, since inflation was currently around 10%, the Government had frozen the multiplier to try and protect businesses.

Prior to 2013, every business premises had a rateable value and a national multiplier was used to calculate business rates. The Council, as the Billing Authority, would collect that amount and give 100% to the Government. The Government would then redistribute the money collected based on population. This meant there was no relationship between business rates and growth in the local area.

In 2013 the Government established Business Rates Retention; so if businesses grew in the area, the Local Authority could keep some of that growth. The rateable value of

Middlesbrough was about £95 million, so around £45 to £50 million was collected. 50% of the business rates collected was paid to the Government, 1% to the Fire Authority and 49% retained by Middlesbrough Council, which equated to around £24 million. As part of the local government finance settlement, if Middlesbrough went below the safety net of £24 million the Government would provide a top up grant. A levy charge would be made if that amount went higher.

In 2013 Middlesbrough Council was collecting around £40 million in business rates and was now collecting around £30 million. The rateable value and the amount being collected was now significant lower and the Government protected the Council once the amount dropped below 10% of the original starting point.

Payments collected on business rates were generally much higher than on Council Tax. 97-98% of the amounts owed were collected. If not, there was a normal debt collection process. There were various discounts that businesses could qualify for including small business rates relief for those below a certain turnover. The reduction could be up to 25% of the charge. Provision was also made in the Council's budget for bad debt where business rates were not collected.

On the Council's net budget of £120 to £125 million around £25 million was received from business rates. Whilst this was not as much as Council Tax, it was a significant factor that influenced the budget. It was highlighted that the rateable value of properties in the north of England might not be comparable to those in the south west. The Valuation Office used their own formula, the details of which were not published. Businesses or the Local Authority could challenge or appeal against a valuation.

Over time, as businesses had not succeeded, the level of income to Middlesbrough Council was reducing. Currently the figure was around £17 million. The Council could have requested a higher percentage of business rates retention but this only made sense if business rates were growing.

The intention of the updated business rates retention scheme was to provide incentives for local authorities to increase economic growth, through retention of a share of revenue generated from locally collected business rates.

A business rate pool was a voluntary arrangement between a group of local authorities in England whereby their combined business rates income and any growth was collected as one common fund or 'pool'. The pooling process was a statutory mechanism based on powers conferred by Part 9 of Schedule 7B to the Local Government Finance Act 1988 (inserted by Schedule 1 to the Local Government Finance Act 2012). Broadly, the Act provided a mechanism for two or more authorities to pool business rates and pools would start in each financial year from 1 April.

The rationale as to the benefits of pooling had been stated by the Government in previous pooling prospectuses since 2013-14. The Government believed that pooling could deliver a range of benefits for local authorities:

- The act of setting up pools could help further the process of joint working and could result in wider benefits that go well beyond the immediate scope of pooling;
- The pooling of business rates across a wider and economically coherent area ensured that all authorities in the pool could benefit. This could mean that the strategic decisions that were needed about economic growth and infrastructure investment are easier to make;
- Pooling can help authorities manage the volatility of income through business rates retention by spreading this risk across a wider geographical area.

It was for local authorities to establish if pooling was a benefit to them. The effect of forming a pool would be different in each case, depending on the membership of the pool, and their individual circumstances (ie the balance of top-ups and tariffs) and the rate of growth in business rates income over the life of the pool. Local authorities would need to undertake their own due diligence, modelling the individual position alongside the pool position.

An application to the Government to pool must include an explanation of the potential benefits to pool members from pooling their business rates under the rates retention scheme. 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. The management of the pool, the distribution of pool income, the arrangements for meeting any liabilities and the overall governance of the pool were entirely matters for each individual pool.

At the present time there was no business rates pooling in the Tees Valley or indeed the North East. Generally in the north east, business rates income had reduced since 2013 and in the Tees Valley there were pinch points around properties. The only way a Local Authority could benefit if their business rates were reducing would be if they were to reduce less than others and the Authority was willing to take a risk.

With regard to the proposed Middlesbrough Mayoral Development Corporation and the new Freeport, both would impact on business rates. Enterprise Zones could be created where there was an emphasis on growing businesses and business rates retention could be 100%. For the Mayoral Development Corporate for example, the business rates money would go to the Tees Valley Combined Authority (TVCA). Potentially, it could be redistributed to Middlesbrough or some grant funding provided. If business rates in Middlesbrough fell beyond a certain rate, it was anticipated that the government would protect the Council with an extra safety net grant.

Teesside Park Shopping Centre was an example of an Enterprise Zone in the neighbouring Stockton Local Authority area. It was highlighted that TVCA, as the planning authority, would make decisions as to where businesses would be placed.

If the Councils worked together and used the land and space together, business pooling and business rates retention was a good idea. However in the Tees Valley, Local Authorities wanted to get some of the growth into their own budgets and were not currently prepared to go into a pool.

AGREED that:
1. the information provided was received and noted.
2. further information would be sought from other Authorities that had pooling arrangements.

22/55 **DATE OF NEXT MEETING - 15 FEBRUARY 2023**

The time and date of the next meeting of the Economic Development, Environment and Infrastructure Scrutiny Panel was confirmed as Wednesday 15 February 2023 at 10.30 am.

22/56 **OVERVIEW AND SCRUTINY BOARD UPDATE**

Items considered at the meeting of the Overview and Scrutiny Board held on 12 January 2023 were:

- Executive Forward Work Programme.
- Executive Member Update – Neighbourhood Safety.
- Scrutiny Chairs' Updates.

22/57 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

<u>Middlesbrough Council Motion No. 153 – Toxic Chemicals in the River Tees</u>

The Department for Environment, Food and Rural Affairs had commissioned an independent expert assessment of the unusual crustacean mortality in the north east of England in 2021/2022. A report from the Crustacean Mortality Expert Panel (CMEP) was currently awaited.

Members were extremely concerned in relation to the impact on both fishermens' livelihoods and the damage caused to marine life, which was potentially linked to the dredging taking place in the River Tees for the provision of a deep water berth at Teesport.

A further update would be provided at the next scrutiny panel meeting.