Committee:	**Cabinet**	**Agenda Item**
Date:	**12 September 2013**	**13**
Title:	**Pooling of Business Rates**	
Portfolio Holder:	**Councillor Robert Chambers**	Key decision: **No**

Summary

1. In September 2012 the Cabinet received an outline of the new business rates localisation system, which came into force on 1 April 2013.

2. In summary, whereas before 1 April all business rates income was paid over to Central Government in full, now 50% is paid to Central Government and 50% retained by local government (40% district council, 9% county council, 1% fire authority). A complex array of tariffs, top-ups, levies and safety net adjustments operate to avoid significant adverse fluctuations or enrichment, nevertheless risks and opportunities for local authorities now exist.

3. In previous years any increase in business rates within an area has been paid to Central Government with no direct benefit to the local authority itself. In setting up the new process, the Government has tried to incentivise authorities to pursue economic growth by allowing them to retain some of the benefit from growth in business rates.

4. It is possible for groups of local authorities to be collectively financially better off if they pool their business rates, compared with each local authority acting alone. By combining in a pool it is possible to retain more of the additional funds from growth in business rates within a county wide area.

5. Pooling was considered in Essex for 2013/14 but was not pursued. However, Suffolk has implemented a pooling scheme and the modelling of this scheme currently indicates that £2.4 million of income will be retained in Suffolk which would otherwise have been paid to Central Government. The Suffolk scheme has been constructed on the basis that no authority can be worse off as a result of joining the pool.

6. It is now time to look at the potential for setting up a pool for 2014/15. It is proposed to develop a scheme for Essex that closely follows the Suffolk model and minimises the amount of growth in business rates that is paid to Central Government, thus maximising the funds retained in Essex.

7. The matter has been discussed at the Essex Strategic Leaders Finance group. In principle commitment to pursue the pooling project is sought from each Essex authority. Although in September 2012 the UDC Cabinet decided that the Council should continue to participate in such discussions, it is timely to refresh the Cabinet's awareness of the issue and reaffirm its commitment to exploring the pooling idea.

Recommendations

8. The Cabinet is recommended to:

   a) Confirm, in principle, that the Council is willing to join a business rates pool, subject to a final decision at the 24 October Cabinet meeting.

   b) Agree, in principle, that a scheme similar to that in existence in Suffolk be pursued, on the basis that no authority can be worse off in the pool than they would have been outside it

   c) Authorise the Assistant Chief Executive – Finance, in consultation with the Leader and the Finance Portfolio Holder, to contribute to the development of the pooling proposal and pooling governance arrangements.

Financial Implications

9. The Council's share of the direct consultancy costs arising is £1,175. There are no other direct financial implications at this stage.

Background Papers

10. None

Impact

Communication/Consultation	Cross-Essex collaboration through the Essex Strategic Leaders Finance Group.
Community Safety	No specific issues.
Equalities	No specific issues.
Health and Safety	No specific issues.
Human Rights/Legal Implications	No specific issues.
Sustainability	No specific issues.
Ward-specific impacts	No specific issues.
Workforce/Workplace	No specific issues.

Financial Benefits of Pooling

11. Under the new system of local business rate retention some authorities collect more rates than the Government has determined they need to fund their activities and these authorities are required to pay over the excess to the central pool. Because these authorities are paying in to the central pool they are known as **tariff** authorities and most district councils are in this position. Those authorities with insufficient income in their own area get payments from the central pool and are known as **top up** authorities. The most common group of authorities receiving top ups is county councils.

12. Where an authority sees growth in its non-domestic rates it has to pay a proportion of that growth to Central Government as a **levy**. The levy rate is calculated using the following formula:

$$\text{Levy rate} = 1 - \frac{\text{baseline funding level}}{\text{business rates base line}}$$

Using our own figures produces a levy figure of 91% -

UDC Baseline funding level £1,356,046
Divided by UDC Business rates base line £15,489,885 = 0.09
Levy rate = 1 – 0.09 = **91%**

However, the levy is capped at **50%** and so this is the proportion of growth that is paid to Central Government leaving 50% as the effective amount of growth that districts (including UDC) will be able to retain if they do not pool.

13. The advantage that comes from pooling is the inclusion of a large top up authority in the levy calculation, which substantially boosts the baseline funding level relative to the business rates baseline. Using the Suffolk example, inclusion of Suffolk County Council increases the baseline funding level by £89.7 million and the rates baseline by only £23.3 million. For the Suffolk Pool the calculation becomes:

£107.4m / £116.6m = 0.92

1 – 0.92 = **8%**

This means that only 8% of the growth within the Suffolk Pool is now lost to Central Government, based on the current modelling this will mean an additional £2.4 million of growth will be retained in Suffolk in 2013/14. This can be illustrated using their modelling figures:

	Growth retained no pool (£m)	Growth retained with pool (£m)	Gain / (loss) £m
Suffolk County Council	1.5	1.6	0.1
Suffolk Districts	3.0	3.6	0.6
Suffolk Pool Reserve	-	1.7	1.7
Central Government	3.0	0.6	(2.4)
Total Growth	**7.5**	**7.5**	**-**

14. The Suffolk Pool Reserve comprises of £1 million retained by the pool to cover any safety net payments that are subsequently required and £0.7 million that is to be spent on projects determined by the Suffolk Leaders and Chief Executives Group. If payments are not ultimately required to support any authority in the safety net the £1 million will also become available for distribution to the pool members.

15. Given the greater size of the Essex economy it may be appropriate to retain more than £1 million to cover potential safety net payments. There is a balance here between being sufficiently prudent to ensure the scheme is financially robust and not restricting the distribution of growth to the extent that it becomes a disincentive.

16. Much of the growth in Suffolk is due to the port of Felixstowe and Essex could benefit in a similar way through, for example, port development at Thurrock.

Key Aspects of the Suffolk Pool

17. There are a number of pools across the country and in moving forward part of the work required is to evaluate the aspects from particular schemes that Essex would want to copy. The Suffolk scheme provides a useful starting point for discussion and has much to recommend it. How the Suffolk scheme operates is set out below:

    a) Each council will receive and make the same payments as though they had not pooled. This includes the treatment of growth in enterprise zones and new renewable energy schemes.
    b) If a district experiences a fall in business rates they have to absorb that fall, up to the level of the Government's safety net (thus mirroring the Government scheme).
    c) The authority acting as banker receives the money from the other members and pays the net balance to the Government. The retained balance represents the net benefit of pooling.
    d) The banker will pay the equivalent of any safety net payments where needed during the year, to ensure that the Pool completely matches the position a member would have been in if they had not pooled. The payments are then offset against growth from other members when the year-end position is calculated.

18. A crucial aspect, and one that may prove difficult to agree across Essex, is how the gain from pooling is shared. Whilst Suffolk has a County Council (including Fire) and seven Districts (including three closely aligned pairs) i.e. five key partners, Essex has separate County and Fire Authorities, two Unitary Authorities and twelve Districts. This means agreement will be necessary from up to sixteen partners instead of five, although it will still be possible to construct a pool if some decide not to join. Flexibility in the number of participants in the pool is probably essential to achieve agreement on any pooling scheme.

19. In Suffolk the financial gain from pooling is split on the following bases:

    a) In the initial year of operation only, the first £1m will be retained to establish a reserve to fund potential future safety net payments. Transfers in future years will only be to the extent necessary to maintain a reserve of £1m.

    b) The second £1m will be split 50% to district councils and 50% to the Leaders and Chief Executives Group.

    c) Any benefit exceeding a) & b) will be split 40% to districts, 40% to Leaders and Chief Executives and 20% to the County Council.

    d) The Chief Executives and Leaders Group will determine how the money allocated to them is to be spent.

    e) If agreement cannot be reached on spending priorities under d) any unspent money will be distributed 60% to districts and 40% to the County.

    f) Where money is distributed to districts under b), c) and e) this will be done on the basis of 50% of their spending baseline and 50% of their share of growth. This ensures that every district will be in a better position as a consequence of pooling.

20. Within Suffolk the Chief Executives and Leaders Group have agreed that their share of the funds will be used for infrastructure and business development, facilitating additional housing or to supplement resources for projects identified by the LEP to bring them to fruition more quickly. In Essex there is an Integrated County Strategy and the Chief Executives and Leaders may want to use their funds to support projects from that strategy.

Essex Strategic Leaders Finance Group (ESLF)

21. This group was established by the Essex Leaders and Chief Executives to take forward work on financial collaboration across the county. Any Chief Financial Officer, Chief Executive, Leader or Finance Portfolio Holder can attend. Essex County Council took the lead initially and the meetings were chaired by Cllr David Finch as their Finance Portfolio Holder. Although the meetings are open to all, the core district members who regularly attend are Castle Point, Chelmsford, Colchester and Epping Forest. At the end of the group's first year the chairmanship moved to Cllr Paul Smith, the Finance Portfolio Holder from Colchester. The Assistant Chief Executive – Finance has attended a couple of meetings on behalf of UDC.

22. It is suggested that ESLF take forward this work as it is an existing body already established for county wide collaboration. The group has already proved effective in overseeing the work on the introduction of Local Council Tax Support and achieving agreement on the implementation of technical changes to Council Tax and sharing the financial gains from the technical changes.

Use of LG Futures

23. Taking forward the work on pooling requires a dedicated and expert resource that is not available in any of the Essex authorities. LG Futures is an established and respected consultancy that has worked with seven potential pooling groups, five of which became pools (Devon, Leicestershire, Lincolnshire, Nottinghamshire and Worcestershire). Chelmsford City Council, acting on behalf of the Essex Chief Finance Officers Group, has commissioned LGFutures for a fee of £18,795 to take forward the pooling project. This work includes producing a report, modelling a number of different scenarios and the provision of an excel tool to allow the development of further options. The cost per authority is £1,175.

24. Initial modelling by LG Futures suggests that an Essex pool would be financially viable and would benefit the county as a whole, while ensuring that no pool member was worse off.

25. A pool can have many different permutations of member authorities. The table below, produced by LG Futures, shows some possible scenarios and estimates by how much each pool would be better off compared with the individual authorities acting alone. There are many other possible permutations so this is just an illustration.

		2014/15 £m	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**
1	All sixteen Essex authorities	3.2	3.8	5.7	6.3
2	County, Fire & districts	2.5	2.6	3.2	3.4
3	County and districts	2.2	2.3	2.8	3.0
4	County, districts & Thurrock	2.4	2.8	4.3	4.7
5	County, districts & Southend	2.6	2.7	3.3	3.5

Source: LG Futures

Next Steps

26. The following are the next steps to progress the pooling proposal:

September	Each authority to confirm through its governance process that in principle it is willing to join a pool
September / October	Pan-Essex meetings to progress the financial analysis and agree the pool constitution and governance arrangements
24 October	UDC Cabinet meeting – update on progress and confirmation of agreement to join a pool, subject to this being in UDC's interests
31 October	Pooling proposal to be submitted to DCLG
November	DCLG to consider proposals and issue "designations" to authorise the approved pools.
Late November / early December	2014/15 provisional Local Government Finance Settlement issued Each authority then has 28 days to withdraw from the pool. In the event of any authority withdrawing, the DCLG designation would be revoked, and the pool would not go ahead.
1 April	Commencement of pooling arrangement.

27. If an authority does not withdraw from the pool under the 28 day notice period, then that authority has made a formal commitment to belong to the pool which would be binding for 2014/15. This would be subject to annual review i.e. an authority can withdraw from the pool for 2015/16 or any subsequent year. DCLG will deem that the pool will carry on unless a formal application to dissolve it is received.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
There is a risk that by not pooling the resources available to Essex authorities are not being maximised.	2 (setting up the pool will be a challenging process)	3 (loss of funds to Central Government)	Collaborative working via ESLF to investigate opportunities for setting up a pool. The risk to each authority is limited by the scheme being constructed such that no authority can be worse off than if they had remained outside the pool.

Risk	Likelihood	Impact	Mitigating actions
Difficulties gaining cross-Essex agreement on pooling principles	3 (up to sixteen partners potentially involved)	3 (the beneficial effects of pooling may be diminished)	Strong leadership by senior members and officers Flexibility on the membership of any proposed pool

1 = Little or no risk or impact
2 = Some risk or impact – action may be necessary.
3 = Significant risk or impact – action required
4 = Near certainty of risk occurring, catastrophic effect or failure of project.