REPORT TO THE MEETING OF THE EXECUTIVE 9 OCTOBER 2013

PORTFOLIO: FINANCE & RESOURCES

REPORT FROM HEAD OF FINANCE

SUBJECT: POOLING OF BUSINESS RATES

1 DECISION BEING RECOMMENDED

1.1 To confirm that the Council is willing to join a business rates pool.

1.2 To agree 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.

1.3 To authorise the Head of Finance, in consultation with the Portfolio Holder for Finance and Resources, to agree the development of the pooling proposal and governance arrangements.

2 REASON/S FOR RECOMMENDATION

2.1 The aim of this report is to get agreement to join a pool for business rates. Discussions have currently been going on at a county-wide level, overseen by the Essex Strategic Leaders Finance Group, on the options and draft governance arrangements. An application to pool would need to be submitted to the Department for Communities and Local Government by 31 October 2013.

2.2 The Local Government Finance Act 2012 changed how local authorities are financed by introducing local retention of business rates. In summary, whereas before 1 April 2013 all business rates income was paid over to Central Government, now 50% is paid to central Government and 50% retained by local government (40% district council, 9% county council and 1% fire authority). A complex arrangement of tariffs, top-ups, levies and safety net adjustments operate to avoid significant adverse fluctuations or enrichment but, nevertheless, risks and opportunities for local authorities now exist.

2.3 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 wider geographical area. 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 £2.4m of funding will be retained in that county, 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.

2.4 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 the central pool, thus maximising the funds retained in Essex.

2.5 As reported to the Executive in July, the matter has been pursued at the Essex Strategic Leaders Finance group and commitment to participate is sought from each Essex authority.

3 SALIENT INFORMATION

3.1 Under the new systems of local business rate retention, some authorities collect more rates than the Government has determined that 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 into the central pool they are known as “tariff” authorities and most district councils, like Rochford, 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.

3.2 Where an authority sees growth in its business rates it has to pay a proportion of that growth into the central pool as a levy. For Rochford District Council, this is calculated as:-

3.3 $1 - \dfrac{\text{Baseline funding level}}{\text{Business rates baseline}} \qquad 1 \quad \dfrac{£1.518\text{m}}{£6.180\text{m}} \qquad = \quad 75\%$

3.4 However, the levy is capped at 50%, so this is the effective amount of growth that districts will be able to retain if they do not pool.

3.5 The advantage that comes from pooling is that the inclusion of a large top-up authority in the levy calculation 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 £90m and the rates baseline by only £23m. The Suffolk pool levy calculation results in a levy of 8%. This means that only 8% of the growth within the Suffolk pool is lost to the central pool and an additional £2.4m of growth will be retained in Suffolk. A pool of all the Essex authorities would have a levy rate of 14%.

3.6 The safety net within the Business Rates Retention System ensures that no authority’s income will fall by more than 7.5% of the original baseline need.

3.7 Under a pooling arrangement, local authorities within the pool are treated as a single authority. This results in the lower levy rate but similarly means that safety net eligibility is also calculated at an aggregate pool level. This does mean that although there is the potential to gain from pooling through the reduced levy amount, there is also the risk 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.

3.8 Although there are a number of pools across the country, the Suffolk scheme has provided a useful starting point for discussion and is considered to have much to recommend it. The key aspects of the Suffolk scheme are:-

a) Each authority will receive and make the same payments as though they have 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's 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.

3.9 The other crucial aspect, and one that may prove difficult to agree across Essex, is how the gain for pooling is shared. Within the Suffolk pool there were 5 partners, but with separate county and fire authorities, 2 unitary authorities and 12 districts, an Essex county-wide pool would require the agreement of up to 16 partners.

3.10 In Suffolk the financial gain from pooling is split on the following basis:

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 the reserve at £1m. This £1m comes out of the additional benefit.

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) and b) will be split 40% to districts, 40% to Leaders and Chief Executives Group and 20% to the County Council.

d) The Leaders and Chief Executives 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 un-spent 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.

3.11 Within Suffolk the Leaders and Chief Executives 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 Local Enterprise Partnership (LEP) to bring them to fruition more quickly. In Essex there is an Integrated County Strategy and the Leaders and Chief Executives may want to use their funds to support projects from that Strategy.

3.12 The Essex Strategic Leaders Finance Group was established by the Essex Leaders and Chief Executives to take forward work on financial collaboration across the county. It is currently chaired by Councillor Paul Smith, the Finance Portfolio Holder from Colchester. As an existing body established for county-wide collaboration, this group has already proved effective in overseeing the work on the introduction of the Local Council Tax Support Scheme and implementation of the technical changes to Council Tax including the sharing of financial gains from those changes.

4 FINANCIAL MODELLING

4.1 Taking forward the work on pooling required a dedicated and expert resource, and LG futures, who worked with 5 pools that have been set up, was commissioned on behalf of the Essex authorities to take forward the pooling modelling.

4.2 Initial modelling 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.

4.3 A pool can have many different permutations of member authorities. The table below 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:-

Member Authorities £m	2014/15	2015/16	2016/17	2017/18	Total
All Authorities	3.2	3.8	5.7	6.3	19.1
County, Fire & Districts	2.5	2.6	3.2	3.4	11.7
County and Districts	2.2	2.3	2.8	3.0	10.3
County and selected Districts (Basildon, Castle Point, Chelmsford, Colchester, Essex, Maldon, Rochford, Tendring and Uttlesford)	2.9	3.0	3.8	4.0	13.8
County, Districts and Thurrock	2.4	2.8	4.3	4.7	14.3
County, Districts and Southend	2.6	2.7	3.3	3.5	12.1
Thames Gateway South Essex	0.3	0.3	0.5	0.5	1.6

4.4 Based upon these initial assessments it is clear that there is a sound financial case for entering into a pool with other authorities.

4.5 Proposals need to be submitted to Communities and Local Government (CLG) for consideration by 31 October 2013. The proposals need to detail the rationale behind the pool, the activities that they would hope to take forward using the benefits derived from pooling and the governance arrangements that would be put in place to ensure the appropriate operation of the pool. During November CLG would issue ‘designations’ to authorise the approved pools.

4.6 Then, as part of the Finance Settlement announcement by Government, expected in December, CLG will publish the funding figures for each authority plus the appropriate figures for the proposed pools. There would then be a period of 28 days for any authority to withdraw from the pool. In the event that an authority withdraws, the CLG designation would be revoked and the pool would not go ahead.

4.7 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. CLG deem that the pool will carry on unless a formal application to dissolve it is received.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 To not pursue the option of pooling or to pool on a different basis to that adopted in Suffolk.

6 RISK IMPLICATIONS

6.1 By not pooling, there is a risk that the resources available to Essex authorities are not being maximised. The main risk in pooling is the loss of the safety net payment to individual authorities. For Rochford District Council we would need to see a reduction in business rates income of about £113,000 in 2014/15, to reach the 7.5% safety net boundary. If the pool is set up on the same basis as the Suffolk pool, then any reduction over the 7.5% would be met by the pool, so in effect the Authority would be in the same position as if it was treated outside a pool.

6.2 A more significant risk to the setting up of the pool is getting the agreement of 16 partner authorities. Thurrock Council have already reported to their Cabinet on pooling options outside of Essex county and some authorities may be looking at permutations that create larger returns for the member authorities. However, there is only benefit in pooling if one member of the pool is a top-up authority. The top-up authorities in Essex are Essex County Council, Essex Fire & Rescue Authority, and Southend on Sea Unitary.

7 RESOURCE IMPLICATIONS

7.1 If all the Essex authorities join in a pool, the estimated benefit over the next four years is an additional income of £19.1m. If the unitaries are not involved this falls to £11.7m and if it is just the County and Districts, the income would be £10.3m. The individual benefit to Rochford District Council would depend on the final agreement of the governance arrangements and how the benefits would be shared.

8 LEGAL IMPLICATIONS

8.1 The Local Government Finance Act 2012 creates the ability for authorities to pool their business rates. In constructing a scheme it will be necessary to agree the terms of governance and this will be done as part of the work on constructing a pool, but it is proposed to use the Suffolk scheme as a starting point.

I confirm that the above recommendation does not depart from Council policy and that appropriate consideration has been given to any budgetary and legal implications.

SMT Lead Officer Signature: ___________________________________

Head of Finance

Background Papers:-

None

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