

## **Report to the Cabinet**

**Report reference:** C-059-2013/14  
**Date of meeting:** 2 December 2013



**Portfolio:** Finance and Technology  
**Subject:** Pooling of Non-Domestic Rates  
**Responsible Officer:** Bob Palmer (01992 564279).  
**Democratic Services Officer:** Gary Woodhall (01992 564470).

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### **Recommendations/Decisions Required:**

- (1) To confirm the previous in principle decision to join the Essex Region Business Rates Pool; and**
- (2) To delegate authority to the Director of Finance & ICT, in consultation with the Finance & Technology Portfolio Holder, to approve and sign the detailed pooling agreement.**

### **Executive Summary:**

Cabinet received a report on 22 July 2013 which set out the potential advantages of entering into a non-domestic rates pool. This work has been taken forward and an expression of interest was submitted to the Department of Communities & Local Government (DCLG) before the deadline of 31 October.

The principles underlying the scheme were agreed by the Essex Strategic Leaders Finance Group but the formal pooling agreement is still to be completed and signed.

### **Reasons for Proposed Decision:**

To confirm the Council's membership of the Essex Region Business Rates Pool for 2014/15.

### **Other Options for Action:**

Members could decide not to pursue the option of pooling, although to do so would expose the Council to a greater degree of financial risk.

### **Report:**

1. On 22 July Cabinet gave in principle agreement to joining a pool for non-domestic rates. It was agreed that this work would be supervised by the Essex Strategic Leaders Finance Group and that a scheme similar to that already in existence in Suffolk should be pursued.
2. The Essex Strategic Leaders Finance Group met on 30 September and 23 October and agreed the underlying principles of the scheme so that an expression of interest could be submitted before the 31 October deadline. DCLG have acknowledged receipt of the

application but they will need to evaluate all of the expressions of interest they have received before being able to determine which can go forward. The guidance issued by DCLG made it clear that if there were too many pooling applications across the country some could be refused.

3. The document submitted to DCLG is attached as Annex 1 and there are a number of points in it to bring to the attention of Members. Firstly, not all eligible authorities joined and this is summarised in the table below –

<u>Authorities joining the pool</u>	<u>Authorities not joining the pool</u>
Braintree District Council	Basildon District Council
Castle Point District Council	Brentwood Borough Council
Chelmsford City Council	Maldon District Council
Colchester Borough Council	Southend Unitary Council
Epping Forest District Council	Thurrock Unitary Council
Essex County Council	Uttlesford District Council
Essex Fire Authority	
Harlow District Council	
Rochford District Council	
Tendring District Council	

4. Basildon and Thurrock councils have accepted an invitation to join an alternative pool with two London Boroughs. Uttlesford have voluntarily excluded themselves as they were concerned that they might be in the non-domestic rate system safety net in 2014/15. Brentwood, Maldon and Southend did not offer any comment or reasoning for deciding not to join the pool.

5. One of the aspects claimed for the Suffolk scheme that came under greater scrutiny in constructing detailed models of an Essex scheme was the claim that members of a pool could not be worse off inside a pool than they would have been outside the pool. The modelling has shown that if all authorities in the pool suffer reductions of approximately 5% in their rating lists this could result in an authority being worse off. However, it should be stressed that this is an extreme and very unlikely scenario. It is possible that an individual authority may see a decline of that magnitude but for all of the pool members to see reductions of that size there would have to be a severe economic recession across the entire county.

6. To provide confidence to other partners in the pool, there is a requirement that no authority should join if they anticipate a reduction in their rate list of 7.5% which would put them in the non-domestic rate safety net. All authorities were required to provide evidence on their current rating lists before being eligible to join the pool. This Council's list is currently showing a reduction of approximately 1% but this is within acceptable limits for membership and several other members have recorded growth in their lists.

7. There was some debate about how the financial gain (or loss) from pooling should be split. The Districts and Boroughs felt greater weighting should be given to each authority's share of business rates income whilst the County felt greater weight should be given to each authority's baseline funding. A compromise position was reached with a formula that is based half and half on rates income and baseline funding level. One of the models of the potential financial outcomes assumed no overall growth in the pool. This model showed that compared to not pooling an additional £2.154 million is retained across the pool as a whole, with this Council gaining approximately £100,000 of additional funding.

8. The previous report included the idea of the first £1 million of additional funds being retained as a safety net, mirroring the Suffolk scheme. On further consideration it was decided to fully distribute any additional funds. The contrast with the Suffolk scheme is a reflection on the different nature of the schemes. The Suffolk scheme involves all authorities in that county and is likely to continue in a steady state with that same membership. So it is reasonable to retain some funds within the scheme as the same members will contribute and benefit. In Essex it is likely that authorities will join or leave the scheme in subsequent years and so the scheme will probably only exist in its current form for one year. Therefore, it is not appropriate to retain funds within the Essex scheme for any longer than one year.

9. The Pooling prospectus issued by DCLG required expressions of interest to be submitted by 31 October but did not provide a timetable beyond that for when pools would be informed of the success or failure of their applications. So the Essex Pool is ready to proceed if approved, work is being done to draw up a more formal and detailed pooling agreement. This work has been taken on by the Public Law Partnership and allocated to the legal team at Colchester Borough Council. As a response may be required that does not fit with our calendar of meetings it is recommended that the original in principle decision is now confirmed and that authority to conclude the final agreement is delegated to the Director of Finance & ICT in consultation with the Finance & Technology Portfolio Holder.

#### **Resource Implications:**

The implications cannot be precisely quantified as they will depend on the changes in non-domestic rates lists in the pooling authorities during 2014/15. However, based on the modelling it is anticipated that even with no growth in the pool this Council would be approximately £100,000 better off.

If all authorities participating in the pool simultaneously experienced significant reductions in their rating lists it is possible that an authority could be worse off than if they had not pooled. However, this scenario is extremely unlikely to arise.

#### **Legal and Governance Implications:**

The Local Government Finance Act 2012 creates the ability for authorities to pool their non-domestic rates. Work on a detailed pooling agreement is being undertaken by the legal team at Colchester Borough Council, under the supervision of the Public Law Partnership.

#### **Safer, Cleaner and Greener Implications:**

There are no implications arising from the recommendations of this report in respect of the Council's commitment to the Climate Local Agreement, the corporate Safer, Cleaner, Greener initiative, or any crime and disorder issues within the district.

#### **Consultation Undertaken:**

Consultation has been undertaken with all Essex authorities through the Essex Strategic Leaders Finance Group.

#### **Background Papers:**

Report to 22 July Cabinet

#### **Impact Assessments:**

### Risk Management

There is a risk that if a pool is not constructed the resources available to Essex authorities are not being maximised. The risk to each authority is reduced by joining with a wider geographical area covering a more diverse range of business activities. It is less likely that the whole area of the pool will suffer a reduction in rating lists than any one authority standing alone.