

Report to the Cabinet

Report reference: C-037-2014/15
Date of meeting: 3 November 2014



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

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 Resources, in consultation with the Finance Portfolio Holder, to approve and sign the detailed pooling agreement.**

Executive Summary:

Cabinet received reports last year on 22 July 2013 and 2 December 2013 which set out the potential advantages of entering into a non-domestic rates pool. Unfortunately, due to the late changes to the system in the Autumn Statement, several authorities decided not to pool for 2014/15.

There is another opportunity to pool for 2015/16 and it is proposed to proceed on a similar basis to that agreed last year. Current predictions indicate the additional business rates income that could be retained in Essex for 2015/16 would be approximately £3.4 million and that this Council could benefit by more than £100,000.

The principles underlying the scheme have previously been agreed by Cabinet 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 2015/16.

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 2013 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 and agreed the underlying principles of the scheme and an expression of interest was submitted before the 31 October deadline. Not all eligible authorities wanted to join 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	

3. Basildon and Thurrock councils accepted an invitation to join an alternative pool with two London Boroughs. Uttlesford 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.

4. The Chancellor's Autumn Statement contained a number of changes to the business rates system which undermined the financial modelling and created more uncertainty around the outcomes from pooling. Given the increased uncertainty several authorities decided against pooling for 2014/15 and the expression of interest was withdrawn.

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. It is anticipated that the membership of the pool for 2015/16 will be broadly similar to the proposed membership shown above for 2014/15.

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 £3.431million is retained across the pool as a whole, with this Council gaining approximately £136,000 of additional funding.

8. 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 update the draft 2014/15 pooling agreement. 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 Resources in consultation with the Finance 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 2015/16. However, based on the modelling it is anticipated that even with no growth in the pool this Council would be approximately £136,000 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.

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:

Reports to Cabinet on 22 July 2013 and 2 December 2013

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.