# Supplementary Committee Agenda

Epping Forest District Council

## Cabinet
## Monday, 24th October, 2011

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| **Place:** | Council Chamber<br>Civic Offices, High Street, Epping |
| **Time:** | 7.00 pm |
| **Democratic Services:** | Gary Woodhall (The Office of the Chief Executive)<br>Tel: 01992 564470<br>Email: democraticservices@eppingforestdc.gov.uk |

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**8. FINANCE & PERFORMANCE MANAGEMENT CABINET COMMITTEE - 26 SEPTEMBER 2011 (Pages 51 - 56)**

(Finance & Economic Development Portfolio Holder) To consider the minutes from the recent meeting of the Finance & Economic Development Cabinet Committee held on 26 September 2011 and any recommendations therein.

**9. LOCAL DEVELOPMENT FRAMEWORK CABINET COMMITTEE - 3 OCTOBER 2011 (Pages 57 - 62)**

(Leader of the Council) To consider the minutes from the recent meeting of the Local Development Framework Cabinet Committee held on 3 October 2011 and any recommendations therein.

**18.a GOVERNMENT CONSULTATION - LOCAL GOVERNMENT RESOURCE REVIEW: PROPOSALS FOR BUSINESS RATES RETENTION (Pages 63 - 94)**

(Finance & Economic Development Portfolio Holder) To consider the attached report (C-036-2011/12).

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# EPPING FOREST DISTRICT COUNCIL
# COMMITTEE MINUTES

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| **Committee:** | Finance and Performance Management Cabinet Committee | **Date:** | Monday, 26 September 2011 |
| **Place:** | Council Chamber, Civic Offices, High Street, Epping | **Time:** | 6.30 - 8.43 pm |

**Members Present:** Councillors G Mohindra (Chairman), Mrs M McEwen, J Philip, Mrs P Smith and Mrs L Wagland

**Other Councillors:** Councillors D Stallan, G Waller, C Whitbread and J M Whitehouse

**Apologies:**

**Officers Present:** R Palmer (Director of Finance and ICT), J Gilbert (Director of Environment and Street Scene), E Higgins (Insurance & Risk Officer), J Lewis (Benefits Manager), D Macnab (Acting Chief Executive), B Moldon (Principal Accountant), R Rose (Senior Lawyer), J Twinn (Assistant Director (Benefits)), A Hendry (Democratic Services Officer) and R Perrin (Democratic Services Assistant)

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## 10. Declarations of Interest

There were no declarations of interest pursuant to the Council's Code of Member Conduct.

## 11. Minutes

**RESOLVED:**

(1) That the minutes of the meeting held on 20 June 2011 be taken as read and signed by the Chairman as a correct record.

## 12. Government Consultation - Localising support for Council Tax in England

The Chairman brought this item forward because of the potential increased interest.

The Benefits Manager presented the report following the announcements made in the 2010 Spending Review that the Department for Communities and Local Government had issued a consultation paper on the proposals to replace Council Tax Benefit in England with a system of localised support administered by local authorities from 2013. With the consultation closing on the 14 October 2011.

The Cabinet Committee were advised that the Government had announced proposals to localise the Council Tax benefit and reduce the expenditure on the replacement scheme by 10%, with Council Tax Benefit not forming part of the Universal Credit but becoming the responsibility of local authorities.

The proposed consultation responses had been considered by the Finance and Performance Management Scrutiny Panel on Tuesday 20 September 2011, where the panel commented that a consistent view should be expressed in the response

and that the Cabinet should have their comments included. The Finance and Performance Management Scrutiny Panel asked for section 9 to be altered to ask for a “national consistent approach”, wording should be strengthened on the unintended consequence of migrating claimants, under section 7, a consistent approach to Joint Working, by having a consistent scheme developed and perhaps responses should be shared with other local councils.

A member asked that Section 13 – Transitional & Implementation Issues 13d should express more details on the Councils I.T problems and why it could not be installed. The Assistant Director (Benefits) advised that the system manufacturers can not comply with the deadline, which would result in not being able to complete the annual billing in 2013.

**RESOLVED:**

(1) That the report on the proposed changes to Council Tax Benefits be noted;
(2) That the proposed response be amended as indicated by the Finance and Performance Management Scrutiny Panel
(3) That 13 – Transitional & Implementation Issues 13d be strengthened to express the problems that the Council would have with I.T implantations; and
(4) That the local MP’s are written to and informed.

## 13. Annual Outturn Report on the Treasury Management and Prudential Indicators 2010/11

The Principal Accountant presented the 2010/11 Outturn Report on the Treasury Management and Prudential Indicators 2010/11.

The Principal Accountant stated that the annual treasury report was a requirement of the Council’s reporting procedures. It covers the treasury activity for 2010/11 and the actual Prudential Indicators for 2010/11. During the year the Council had financed all of the capital activity through capital receipts, capital grants and revenue contributions which had resulted in the Council remaining debt free and that the Council had achieved the targets for the treasury and prudential indicators. The Icelandic investments had received 15% dividends during the year, which translates to 50% recovery of the total funds back to date.

In addition the Cabinet Committee was advised that the Audit and Governance Committee on Thursday 22 September 2011 had considered the Annual Treasury report and concluded that they were satisfied with the management of the risks associated with treasury management.

**RESOLVED:**

(1) That the 2010/11 Outturn for Prudential Indicators be noted; and

(2) That the Treasury Management Stewardship report for 2010/11 be noted.

**Reasons for Decision:**

The report is presented for noting as scrutiny is provided by the Audit and Governance Committee who make recommendations on amending the documents, if necessary.

**Other Options Considered and Rejected:**

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

## 14. Value For Money and Data Quality Strategies 2010/11-2012/13

The Acting Chief Executive presented a report concerning the Value for Money and Data Quality Strategies 2010/11-2012/13.

The Acting Chief Executive reminded the Cabinet Committee that pursuant to the Local Government Act 1999, the Council was required to make arrangements to secure continuous improvement in the way in which its functions and services were exercised, with regard to a combination of economy, efficiency and effectiveness. The relationship between economy, efficiency and effectiveness was often defined as 'Value For Money', and the Council's Value For Money Strategy set out the overall approach to ensuring the provision of value for money services.

The Chief Executive added that as part of the duty to secure continuous improvement, the Council should also ensure that all data and information used to plan and deliver services was accurate, valid, reliable, timely, relevant and complete, in order to inform decision-making in respect of functions and services. Performance information was increasingly being used for the external assessment of local authority performance, and the Council's Data Quality Strategy set out the arrangements for ensuring that the quality of key data meets the highest standards.

Value For Money and Data Quality have traditionally formed essential components of local authority assessment and inspection frameworks.

**RESOLVED:**

(1) That the Council's Value For Money and Data Quality Strategies for 2010/11 be noted.

**Reasons for Decision:**

The Value For Money Strategy sets out the Council's overall approach to ensuring the provision of value for money services. The Data Quality Strategy sets out the Council's management arrangements to secure the quality of the data used to manage its functions and services. The Strategies build upon previous work to address issues arising from former assessment and inspection frameworks, and to highlight areas of best practice.

**Other Options Considered and Rejected:**

None. The Value For Money and Data Quality Strategies aim to bring together best practice within the Council in terms of the provision of value for money services and securing the quality of data and information used by the Council to plan and deliver functions and services. Failure to identify arrangements for securing and improving Value For Money and Data Quality could mean that opportunities for improvement were lost, and might adversely affect the reputation of the authority.

## 15. Annual Governance Report

The Director of Finance and ICT presented the Annual Governance Report from the External Auditors. The report had been presented to the Audit and Governance Committee on the 22 September 2011, and had been presented to ensure that the Cabinet Committee were aware of the key issues raised.

The Cabinet Committee were informed of the key findings of the report. The key financial systems were generally adequate as a basis for preparing the financial statements, although a deficiency in control had been identified in respect of the housing and council tax benefits system. They were able to place reliance on the work of Internal Audit. The financial statements had no material misstatements, although some presentational issues of a material amount were corrected but these had not affected the Council's reported outturn. They were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information that they were aware of from their audit of the financial statements and subject to satisfactory completion of the outstanding work, they anticipate issuing an unqualified "true and fair" opinion.

The Value for Money conclusion, subject to satisfactory completion of the remaining work in progress would also be unqualified.

**RESOLVED:**

(1) That the External Auditor's Annual Governance Report be noted.

**Reasons for Decision:**

To ensure that Members are informed of any significant issues arising from the audit of the Statutory Statement of Accounts.

**Other Options Considered and Rejected:**

The report is for noting, no specific actions are proposed.

## 16. Sundry Income and Debt Policy

The Risk Management & Insurance Officer presented the Sundry Income and Debt Policy report to the Cabinet Committee. Following a review of the policy at the previous meeting of the Committee further clarification on debt referred to Court and debts referred to a debt agency had been requested.

The Risk Management & Insurance Officer reported that legislation dictates that only County Court or High Court could deal with these type of debts. The £100 debts limit referred to the debt agency had been reviewed by the Finance and Legal officers. It was felt that the level for referral was appropriate whilst the support officer was in post; it would be reviewed after the contract ends in March 2012.

**RESOLVED:**

(1) That the updated Sundry Income and Debt Policy be adopted; and
(2) That a report was brought back to the committee after the support officer's contract expiries, with a clear break down of the debts collected.

**Reasons for Decisions:**

To ensure the Sundry Income and Debt Policy is kept up to date.

**Other Options Considered and Rejected:**

Members could make amendments to the Policy or request further information.

**17. Quarterly Financial Monitoring**

The Director of Finance and ICT presented the Quarterly Financial Monitoring report for 1 April 2011 to 30 June 2011, which considers financial monitoring reports on key areas of income and expenditure in each directorate that was responsible for the services. Salaries monitoring data was presented as well as it represents a large proportion of the Council's expenditure.

The Director of Finance and ICT highlighted some of the issues arising from the Council's budget monitoring. The Council had received 60.7% of the original investment placed in Heritable Bank and could now expect to receive 86% to 90% of the original investment. Building control income was on track and Development Control was above expectations, whilst income from the MOT's carried out by the Fleet Operations was ahead of expectations. In conclusion the income and expenditure was broadly in line or better than expected.

**RESOLVED:**

(1) That the Quarterly Financial Monitoring report for the period 1 April 2011 to 30 June 2011 regarding the revenue and capital budgets be noted.

**Reasons for Decision:**

To note the first quarter financial monitoring report for 2011/12.

**Other Options Considered and Rejected:**

No other options available.

**18. Financial Issues Paper**

The Director of Finance & ICT presented the Financial Issues Paper to the Cabinet Committee. The report provided the framework for the Budget 2012/13 and a number of financial issues that would affect the Authority in the short to medium term.

The Director of Finance & ICT stated that the greatest areas of current financial uncertainty and risk to the Authority were Local Government Resources Review, New Homes Bonus, Localisation of Council Tax Benefit, Self-financing for the Housing Revenue Account, Possible Double-dip Recession, Development Opportunities, Capitalisation of Pension Deficit Payments and Shared Services.

The Cabinet were informed that the Council was in a stronger financial position than had been anticipated, due to the greater level of savings in 2010/11, the transfer of non-housing property to the General Fund, savings being negotiated on key contracts and reductions in underspent budgets. The DDF was also more buoyant than anticipated due to another substantial VAT Reclaim. Through the proposals to retain NNDR and localise Council Tax Benefit, the Government was adding to the existing incentive of the New Homes Bonus to encourage authorities to promote development. If the authority was more successful in growing the Council taxbase and NNDR list, it would gain at the expense of others, although these opportunities also represent financial risk and given the overall problems in the UK and world economies, it would be debateable if it was a good time to take on more financial risk.

**RECOMMENDED:**

(1) That the 2012/13 budget guidelines be set in accordance with the revised four year forecast as follows:

(a) The ceiling for Continuing Services Budget net expenditure be no more than £14,880 million including net growth;
(b) The ceiling for District Development Fund expenditure be no more than £763,000;
(c) The balances continue to be aligned to the Council's net budget requirement and that balances be allowed to fall no lower than 25% of the net budget requirement; and
(d) The Council Tax not be increased, with Council Tax for a Band 'D' property remaining at £148.77.

(2) That a revised Medium Term Financial Strategy for the period to 2015/16 be developed accordingly; and

(3) That communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders be undertaken.

**Reasons for Proposed Decisions:**

By setting out clear guidelines at this stage the Committee establishes a framework to work within in developing growth and savings proposals. This should help avoid late changes to the budget and ensure that all changes to services have been carefully considered.

**Other Options for Action:**

Members could decide to wait until later in the budget cycle to provide guidelines if they felt more information, or a greater degree of certainty, was necessary in relation to a particular risk. However, any delay will reduce the time available to produce strategies that comply with the guidelines.

**19. Any Other Business**

It was noted that there was no other urgent business for consideration by the Cabinet Committee.

**CHAIRMAN**

# EPPING FOREST DISTRICT COUNCIL
# COMMITTEE MINUTES

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| **Committee:** | Local Development Framework Cabinet Committee | **Date:** | 3 October 2011 |
| **Place:** | Council Chamber, Civic Offices, High Street, Epping | **Time:** | 6.00 - 7.25 pm |

**Members Present:** Mrs L Wagland (Chairman), Mrs R Gadsby, Mrs M McEwen and J Philip

**Other Councillors:** Mrs D Collins, Mrs A Grigg, Mrs C Pond, Mrs M Sartin, C Whitbread, Mrs J H Whitehouse and D Wixley

**Apologies:** None.

**Officers Present:** J Preston (Director of Planning and Economic Development), K Polyzoides (Assistant Director (Policy & Conservation)), N Richardson (Assistant Director (Development Control)), M Houseago (Olympics Regeneration Officer) and G J Woodhall (Democratic Services Officer)

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## 12. DECLARATIONS OF INTEREST

(a) Pursuant to the Council's Code of Member Conduct, Councillor Mrs M Sartin declared a personal interest in agenda item 5, Lee Valley White Water Centre Economic Development Study – Update, by virtue of being a member of the Lee Valley Regional Park Authority. The Councillor had determined that her interest was not prejudicial and would remain in the meeting for the consideration of the issue.

## 13. MINUTES

**Resolved:**

(1) That the minutes of the meeting held on 1 August 2011 be taken as read and signed by the Chairman as a correct record.

## 14. TERMS OF REFERENCE

The Cabinet Committee noted its terms of reference, as agreed by the Council on 17 February 2009 (minute 113(a) refers).

## 15. LEE VALLEY WHITE WATER CENTRE ECONOMIC DEVELOPMENT STUDY - UPDATE

The Cabinet Committee received a presentation from the Olympic Regeneration Officer, jointly funded by Epping Forest District, Broxbourne Borough and Hertfordshire County Councils.

The principal points of the presentation were:

- the appointment of consultants Nathaniel Lichfield to undertake the Economic Development Study for the White Water Centre;
- the development of additional leisure activities around the White Water Centre;
- the identification of activities for development in the short, medium and long terms;
- a review of existing activities in the area;
- the creation of zones for adrenaline, ecology, heritage and sports activities;
- the examination of linkages across the immediate and wider areas;
- a list of actions in the short, medium and long-terms to bring about the development of the White Water Centre; and
- a structure chart showing the responsibilities of the Legacy Board and the Olympic Regeneration Officer.

The Olympic Regeneration Officer stated that the next step would be to create cultural, health and wellbeing hubs. The emphasis would be upon family orientated activities with particular attention paid to the pricing involved. However, the White Water Centre had been oversubscribed since it had opened, despite the relatively high cost of the activities. The other White Water Centre in Nottingham had not been as successful, and the visitor numbers for the Centre in the Lee Valley Park had been very encouraging. The Assistant Director (Policy & Conservation) added that soft market testing of the proposed development ideas with leisure operators and developers would be the next stage, but admitted that the project was dependent to a certain degree on private involvement in the developments; the Legacy Board was laying the foundations for the future success and prosperity of the area.

In response to questions from the Members present, the Olympic Regeneration Officer agreed that it would be difficult to measure the success of some of the proposals and more provision should be made for educational and cultural events; there should not be a complete focus on adrenaline sports. The World Canoe Championships in 2015 would also benefit the area after the Olympics, but it was acknowledged that the potential development of hotels and housing could be problematic given their proposed proximity to the Lee Valley Regional Park. The Cabinet Committee was reminded that nature based educational facilities already existed within the Lee Valley Park.

It was highlighted that the future membership of the Legacy Board would be a critical issue to its future success and would need to command support from local residents and Councils. There was also a further issue over the accountability of the Legacy Board as well. The Olympic Regeneration Officer felt that the Board would develop over time and that its membership would change. However, consideration could be given to develop more local representation on the Board in future.

Finally, the Olympic Regeneration Officer outlined his proposed work programme for the next six months:

(i) co-ordinate a master plan for an area-wide branding and marketing strategy;

(ii) co-ordinate a strategy to implement a wayfinding, pathway and gateway improvement scheme for walking and cycling routes across the project area;

(iii) create a business prospectus for potential leisure developers and operators;

(iv) establish a business breakfast for developers and operators promoting the potential of the place; and

(v) co-ordinate the next round of submissions for the Heritage Lottery bid in respect of the Town Heritage Initiative for Waltham Abbey.

**Recommended:**

(1) That the projects related to the 2012 Olympic Games being delivered by the Council and its partners be noted;

(2) That the progress of and key findings and outputs from the Lee Valley White Water Centre Economic Study be noted; and

(3) That the six-month proposed work programme for the Olympic Regeneration Officer be approved.

**Reasons for Decision:**

To update the Cabinet Committee on the progress of the projects identified by the Council's Officers, the Olympic Regeneration Officer, and other partner agencies.

To approve the proposed work programme for the next 6 month period and propose any other actions and activities to be undertaken by the Olympic Regeneration Officer.

**Other Options Considered and Rejected:**

To not approve the Olympic Regeneration Officer's proposed work programme for the next 6 months.

## 16. DRAFT NATIONAL PLANNING POLICY FRAMEWORK CONSULTATION

A report on the draft National Planning Policy Framework Consultation was introduced by the Director of Planning & Economic Development, and presented by the Assistant Director (Policy & Conservation).

The Assistant Director reported that the proposed National Planning Policy Framework (NPPF) would replace the current Planning Policy Statements, Planning Policy Guidance Notes and a number of the circulars with a more concise single document. The aim was to reduce bureaucracy, promote sustainable growth, empower local communities, and make it easier for the public to engage in local planning decisions. The consultation consisted of 70 questions in total and was due to end on 17 October 2011. The suggested main principles for the Framework were outlined:

(i) planning should be plan-led;

(ii) all plans should be up-to-date, contain a presumption in favour of sustainable development, and make adequate provision for growth;

(iii) plans should be explicit about the housing, business and other development needs of their areas and how these needs would be met; and

(iv) development proposals should be agreed, except where they would compromise key sustainable development principles.

The four main issues that the Cabinet Committee had indicated an interest in were: Sustainable Development; Green Belt issues; Town and Parish Plans; and Gypsy Roma Travellers.

The Assistant Director advised the Cabinet Committee that the Framework was looking to pursue the three components of sustainable development in an integrated fashion, with solutions that delivered multiple goals. Although never explicitly stated, the key components of sustainable development was assumed to be economic, social and environmental. The suggested Officer response to question 1a was that the Council strongly disagreed that the Framework had the right approach to establishing the presumption in favour of sustainable development. In question 1b, Officers had concerns that there was no practical definition of sustainable development; not even the glossary which accompanied the consultation had a definition. This would provide developers with opportunities to submit statements claiming that their development proposals were sustainable and that the presumption should be for the Council to grant planning permission.

The Cabinet Committee agreed that ‘sustainable’ had different meanings to different people, and that the lack of a specific definition with more loopholes would lead to a lack of clear planning decisions. Large areas of the District were not appropriate for any sort of development as they were designated as Green Belt land. The Framework, as currently worded, was felt to be encouraging an approach that was stronger than a presumption in favour of sustainable development, and that this should be included in the response to question 1b.

The Assistant Director informed the Cabinet Committee that the Framework retained the five key purposes of Green Belts, with the fundamental aim of preventing urban sprawl by keeping land permanently open. However, there were four proposed changes to the detail of the policy:

(i) extending ‘major developed site’ status to similar sites not previously identified;

(ii) permit a wider range of local transport infrastructure to be permissible, such as bus shelters and small transport depots, within the Green Belt;

(iii) Community Right to Build schemes to be permissible if backed by the local community; and

(iv) extend the alteration or replacement of dwellings to include all buildings provided the original size of the building was retained.

Whilst Officers had been encouraged that the importance of Green Belt strategy had been retained in the Framework, there were concerns about the first of the four proposed changes. If land had not already been identified as a major developed site, then it had to be assumed that the local authority concerned had been satisfied that the current land usage had no significant effects upon the Green Belt. Also, it was felt that the appropriateness of any development within the Green Belt should be decided by the local community, in line with the Government’s Localism approach. Of the other three proposed changes, Officers felt that a greater degree of guidance should be provided. Consequently, an additional paragraph for the Green Belt section had been suggested by Officers.

The Cabinet Committee felt that the use of the word ‘similar’ in the first proposed change was too vague, and that the Council’s response to question 13a should be ‘strongly disagree’, not ‘disagree’. There were also concerns with the fourth proposed

amendment; this could result in the replacement of barns with dwellings of the same size as the original building, which would lead to urban development within the Countryside.

The Assistant Director added that the guidance was for Neighbourhood Plans (also known as Town or Parish Plans) to be developed in tandem with the Local Plan and Local Development Framework. The process in compiling a Neighbourhood Plan was lengthy taking at least a year, as it involved consultations and referendums, and the estimated cost of production (anywhere between £17,000 and £63,000) would be a deterrent to most Town and Parish Councils. The raison d'etre of a number of these Plans would be to deter development and protect the Green Belt, but there was a risk of developers taking advantage of this delay in producing a Neighbourhood Plan.

Allied to the Green Belt and Neighbourhood Plans was the issue of Land Supply to increase the delivery of new homes. The Director of Planning & Economic Development reported that proposals had been included for:

(i) identifying and maintaining a continuous five-year supply of deliverable sites, including a minimum additional allowance of 20% to ensure choice and competition;

(ii) any 'windfall' sites not to be included in the first ten years of supply, or any continuous five-year period afterwards unless there were special circumstances; and

(iii) removing the national brownfield target for development and allowing local councils to choose the most suitable locations.

Following discussions with the Council's Housing Officers, most of the proposals were considerable favourable, but with some caveats about definitions and whether the protection of the Green Belt outweighed the delivery of new homes, and the proposed responses had reflected this. The Cabinet Committee felt that 'windfall' sites should be taken account of when identifying possible land for housing, both within the first ten years of supply and subsequent five-year periods, and requested that the Council's response be amended accordingly.

Finally, the Director of Planning & Economic Development highlighted the Council's response to the recent Government consultation on Gypsy Roma Travellers, which had been attached as an appendix to the report. It was highlighted that the work that had been performed by the Council in respect of the provision of land for sites for Gypsy Roma Travellers had delayed the process of producing the Local Development Framework quite considerably.

**Recommended (to the Planning Services Scrutiny Panel):**

(1) That the proposed responses by Officers to key questions in the Government's consultation on the draft National Planning Policy Framework be recommended to the Planning Services Scrutiny Panel for approval, subject to the following amendments:

(a) question 1b, the wording of the Framework was encouraging an approach that was stronger than a presumption in favour of sustainable development;

(b) question 13a, to strongly disagree that the proposed Framework gave a strong, clear message on Green Belt protection; and

(c) question 10b, that allowance should be made for windfall sites, both in the first ten years of supply and the rolling five-year periods thereafter.

**Reasons for Decision:**

To respond proactively to the Government's consultation on the draft National Planning Policy Framework.

**Other Options Considered and Rejected:**

To not respond to the consultation, however the Council's views would not then be considered by the government.

**17. ANY OTHER BUSINESS**

There was no other urgent business for the Cabinet Committee to consider.

**CHAIRMAN**

## *Report to the Cabinet*

Epping Forest
District Council

## *Report Reference: C-036-2011/12*
## *Date of meeting: 24 October 2011*

**Portfolio:** **Finance & Economic Development.**

**Subject:** **Government Consultation – Local Government Resource Review: Proposals for Business Rates Retention.**

**Responsible Officer:** **Rob Pavey** **(01992 564211).**

**Democratic Services:** **Gary Woodhall** **(01992 564470).**

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**Recommendations/Decisions Required:**

**(1) That the proposals for Business Rates Retention be noted; and**

**(2) That the Cabinet approves and amends where necessary the proposed responses to the consultation set out in Appendix 1.**

**Executive Summary:**

On 18 July 2011, the Government published its 'Local Government Resource Review' consultation paper. The review proposes that the current local government finance system, under which the Government distributes Business Rates to Local Authorities, is replaced. The proposed reform would allow Local Authorities to keep a share of the growth in local Business Rate income to incentivise them to promote business growth. They would also bear the impact of any reduction in Business Rates. Following the publication of the consultation paper, the Government released eight technical papers on 19 August which aimed to provide more detail on the proposed reform. The deadline for responses to the consultation is 24 October 2011 with the Government aiming for legislation to be in place by April 2013.

The proposed responses to the consultation have been prepared following discussions with other Essex authorities and after considering the views expressed in responses from the Society of County Treasurers and the Society of District Council Treasurers.

**Reasons for Proposed Decisions:**

The consultation contains a number of inter-related options, which make it difficult to predict with any confidence the likely impact on this Council. However, within the broad principals of the scheme there are clearly aspects that would either be more favourable or more detrimental to this Council. Therefore it is important to respond to the consultation to seek the best possible outcome for this Council.

**Other Options for Action:**

Members could decide not to respond to the consultation.

**Report:**

1. Currently, local authorities collect around £19 billion in business rates annually, which are pooled centrally by the Government and redistributed back to local authorities according to a complex formula. On average, councils receive 53% of their income from central

government grants, of which there are two types. Firstly, there are specific grants which are generally ring fenced for particular purposes and secondly there is a formula grant which is unringfenced revenue distributed through the Local Government Finance Settlement. Redistributed Business Rates are a large component of this Formula Grant. Epping Forest District Council currently collects around £31m in Business Rates annually and receives back £5.6m.

2. The proposals will see changes to the way Business Rates are distributed, rather than to the system of Business Rate taxation itself. Businesses will see no difference in the way they pay tax or the way the tax is set. The Rate setting powers will remain under the control of Government and the revaluation process will be unchanged.

3. The Government argues that enabling councils to keep a share of the growth in their Business Rates will make councils more financially independent and give them a strong incentive to promote local business growth. It is also argued that members of the general public will find their local council's budget is more strongly linked to local business growth as the more new businesses there are, the more funding the Council has for services. Business rate payers should see that their rates paid will have more impact on the local spending in the area and developers will find councils have greater incentives to grant planning permissions for appropriately sited and well –planned non-residential development, especially those related to new renewable energy projects as councils retain all this additional income. Whilst this is welcomed, renewable projects have relatively low rateable values, as little as 1/40th of an equivalent sized retail or warehouse development. This means the retained income with these projects would be relatively modest. Local authorities will also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure. County Councils will receive a share of business rates from their districts, including a share in the income growth or loss if the income falls. It is suggested that Counties may wish to look at pooling arrangements with local districts to make decisions about the distribution of funding locally.

4. Billing Authorities, such as Epping Forest District Council, will still bill and collect Business Rates. But as stated previously, instead of contributing all business rates into the central pool and receiving formula grant, under these proposals, some of the Business Rates will be retained locally. Our baseline of funding would be set so that at the start of the system, our funding (or needs) would be calculated by reference to the 2012-13 Formula Grant. From then on our funding will grow if the Business Rates in our district grows, but could fall if our Business Rates base declines.

5. The Consultation Paper goes on to describe its proposals for how the scheme will work and was supplemented by technical papers issued in August. There are seven components to the scheme. Component 1 is concerned with setting the baseline for the scheme. To establish a fair starting point for all local authorities and ensure that no-one loses out at the outset of the system a baseline position will be set for all local authorities, within the overall expenditure control totals of the 2010 Spending Review. This will involve a re-balancing of resources at the outset of the scheme with some authorities paying a 'tariff' to Government and some receiving a 'top-up' from Government. This is in effect an assessment of the level of funding against the amount of Business Rates collected. Those authorities with Business Rates in excess of their funding will pay a tariff and those authorities with business rates yield below their baseline would receive a top-up. The tariffs and top-ups form Component 2 of the system. It is anticipated that Epping Forest District Council will be in receipt of a top up.

6. The Spending Review 2010 set out the expenditure control totals for local government over the four-year period 2011-12 to 2014-15. The Government expects that Business Rates revenues in England up to 2014-15 will be greater than the expenditure control totals. Forecast Business Rates levels above the limits will be set aside and directed to local government grants. These other grants include the New Homes Bonus. This interaction with the New Homes Bonus will be discussed later.

7. Under the proposed scheme, individual local authorities' baselines will ultimately be set by reference to the government's calculation of Forecast National Business Rates for 2013-14 and 2014-15. This will necessarily involve estimates being made by Government. The resulting yield, adjusted for mandatory reliefs and other items, will form the national baseline, from which individual billing authority's baselines will be derived from the use of proportionate shares. Once set the proportionate share remains fixed until a reset of the system takes place.

8. A billing authority's proportionate share would be its individual business rates income expressed as a percentage of the aggregate of all authorities. In two-tier areas there would be a further apportionment between districts and counties, which will be discussed later. Individual authority business rates would be calculated using each authority's gross yield, adjusted for any additional income and allowable deductions such as mandatory and discretionary reliefs and other items.

9. The baseline calculation is critical to each authority as this would be fixed until any future reset. The principle around establishing the baselines is to establish a fair starting point for growth and ensuring that resources keep pace with spending needs. This then depends on accurate forecasting by Government of forecast national business rates and inflation. It is not clear how Government intends to deal with any discrepancies between estimates and final totals. As the baseline determines the level of tariff or top-up for each authority which is then fixed, the baseline level is fundamental. In addition, there is a significant decision to be made about whether the tariffs and top-ups should be index linked. Those contributing a tariff would probably support a level fixed at the outset of the scheme whilst those receiving a top-up would want the amount to be index linked.

10. There are implications with the fixing of the baseline until any future reset. Firstly, the authority would be vulnerable to the effects of reductions in the rateable values set by the Valuation Office Agency subsequent to appeals by ratepayers. These reductions would be offset against any future growth in income and to which the Council has no control. This makes predicting future income difficult. Also, the baseline takes account of the reliefs granted by the authority at the start of the scheme, such as for mandatory reliefs for charitable and empty properties. However, should a large assessment become eligible for such a relief after the baseline then this would be offset against any future growth in income. The Government is attempting to mitigate against some of these risks through a levy discussed in Component 4, which is intended to act as a potential safety net.

11. Component 3 of the scheme relates to what is termed 'the incentive effect'. In future years, local authorities would keep a significant proportion of increases in their Business Rates. Authorities whose Business Rates grew would retain a significant proportion of that growth in revenues, while those whose rates declined or grew at a lower rate would have lower or negative growth.

12. Component 4 relates to a levy recouping a share of disproportionate benefit. To manage the possibility that some local authorities with high business rate taxbases could see disproportionate financial gains, government would recoup a share of disproportionate benefit through a levy. The proceeds from the levy would be used to manage significant financial volatility in individual business rates and so ensure stability in the system. Depending on the amounts raised, resources could also be redistributed to authorities with lower growth, or to fund regeneration schemes, in areas with high growth potential. There are two main reasons for this significant volatility. Firstly, as discussed previously, rates income can vary year-on-year because of appeals and physical changes to properties. This does place a greater onus on the Valuation Office Agency to get valuations right first time so that reductions upon appeals are minimised. Only recently, a large number of schools within the district have received rateable valuation reductions of around 10%. These reductions would in the future be offset against growth levels. Secondly, there can be a sudden change in local economic circumstances, such as through the closure or relocation of a large business.

13. The Review proposes that a proportion of the levy pot is used to protect the spending power of authorities who are less able to respond and have low growth making it difficult to fund the service needs of their area. Based on a percentage amount to be defined, this safety net could offer short-term protection against major drops in income so that local authorities have time to adjust budgets and also long –term protection against drops in income that actually fall below the baseline.

14. Although this would provide assurances for authorities that there income cannot fall below a certain position and would help ensure spending is provided on services rather than offsetting risk, there is a trade-off between the level of protection and the incentive effect. This is a major challenge for the Review to get this balance right – the stronger the protection, the less the incentive effect.

15. Component 5 is concerned with adjustments for revaluation. The system would be adjusted to take account of changes in the distribution of Business Rates yield resulting from five yearly revaluations, while ensuring that the incentive to promote physical growth in the Business Rates base remained in place for all authorities. This means that as the Business Rate taxbase goes up, the nationally-set multiplier goes down. The impact of the lowering of the multiplier has a variable effect on local rates yield and historic evidence shows this could lead to considerable change in the local Business Rates income following a revaluation, even if the local taxbase has stayed constant or even grown. To address this risk, the Government proposes to adjust each authority's top up or tariff, following a revaluation, to ensure that retained income is the same after revaluation as immediately before.

16. Component 6 concerns the ability of Government to reset the system if it was felt that resources no longer met service pressures within individual local authority areas. The longer the period between resets, the greater the incentive effect and level of certainty for local authorities about the funding system. If reset periods are too short, new developments may not be completed and begin generating Business Rates in time for the local authority at all. There are two possible approaches to the reset period. Firstly, it could decide not to set a fixed period for resets in advance, but instead take an objective assessment of resources against changing levels of need to judge whether a reset was necessary. The Review argues this strengthens the incentive effect, but it does add an element of uncertainty to long-term planning. Alternatively, the Government could set a fixed period for resets which would provide that certainty and the length of time involved would have an effect on incentive i.e. a longer term would offer a strong incentive for long-term growth whilst a shorter term would offer more frequent reassessment of spending needs. Interestingly, it is proposed that it would be open to Government to change the basis on which need was determined.

17. Before moving on to Component 7 which describes the potential for pooling arrangements it is worth looking at how non-billing authorities (county councils, police and single purpose fire and rescue authorities) would be funded under the scheme. The Review proposes that the incentive for growth should apply equally to counties and districts in two tier areas to reflect levers for growth. To achieve this, a fixed percentage of all Business Rates income collected by districts will be paid to the county either on the basis of fixed national shares or individually-tailored shares which would itself be based on each district council's Business Rates as a proportion of the county total.

18. The Review argues that police authorities have more limited levers to influence growth and therefore proposes that they will receive a fixed sum of forecast national Business Rates for 2013-14 and 2014-15. The Government will review police authority funding beyond this period. The Review also proposes that county fire authorities should be funded in the same way as other county services, through a percentage share of retained Business Rates and any tariff or top up. The Review asks for views on whether single purpose fire authorities should be funded in the same way as county fire authorities or through fixed funding allocations as for police authorities. The Government intends to also fully review the way fire and rescue authorities are funded after 2014-15.

19. Component 7 suggests that local authorities, such as those in local enterprise partnerships, or districts and counties, could choose to form voluntary pools within the system, allowing them to share the benefits of growth and smooth the impact of volatility over a wider economic area. There would be a single tariff or top up for the pool which would be the sum of all tariffs or top ups for the individual authorities. In addition there would be a single levy for the pool calculated on the aggregate income and growth for all the authorities rather than individually. Pools would be able to decide for themselves how they distribute revenues, including any levy proceeds, amongst their members.

20. The Review argues that pooling has two potential benefits. Firstly, it could enable groups of local authorities to make additional increases in growth through collaborative effort by taking advantage of economic efficiencies and working across natural economic geographies. Secondly, pooling could also help local authorities to manage volatility by sharing fluctuations in their budgets across wider economic boundaries. However, despite the potential benefits there are practical challenges including getting the geographies right and the reliance on significant co-operation between member authorities to ensure the workability and stability of the pool. Other requirements to be met would be agreeing to each member's tariff contribution or top-up entitlement; agreeing each member's contribution to the levy which in effect determines how the proceeds of growth are shared; agreeing how the proceeds of growth should be spent and how to deal with the failure to agree on any issue

21. Nevertheless the Government wishes to encourage pooling based on them being voluntary, having assurances around governance and workability prior to Government approval and in the event that the pool dissolved the members would return to their original tariff, top up and levy amounts. In addition, the Government wishes to require that pooling arrangements do not separate districts from their counties as it could mean that districts could, for example promote growth in another county, which could result in a lower level of funding for its own county which would still need to provide the same level of upper tier service in that area.

22. The Government is considering offering further incentive to encourage the formation of pools such as by allowing them to retain a greater proportion of growth within the rates retention system, or by offering additional incentives outside the system.

23. The future interaction with the New Homes Bonus is important. The Bonus is based on the additional Council Tax raised for new homes and properties brought back into use, with an additional amount for affordable homes, for the following six years to ensure that the economic benefits of growth are returned to the local area. The DCLG has set aside almost £1bn over the current Spending Review period to fund the scheme, including nearly £200m in 2011-12 in year 1 and £250m for each of the following three years. Under the current local government finance system, funding beyond those levels is due to come from the formula grant i.e. centrally pooled business rates.

24. The Government is to fund the New Homes Bonus within the Business Rates retention system by fixing individual authorities' tariffs and top up amounts at a level which leaves a sufficient sum aside to fund the future cost of the New Homes Bonus. This requires making a judgement, at the start of the rates retention scheme, about the likely sum needed to fund future New Homes Bonus payments, which would need to take into account the latest housing growth projections and the potential level of central support available. To ensure that the tariffs and top-ups are able to remain fixed, it will be necessary to take out the total required to fund the Bonus at its steady state. The consultation recognises that particularly in the early years, a significant amount of the pot will not be needed and the Government has committed to ensure that this is refunded in full each year to local government, possibly by redistributing the amount in proportion to each local authority's baseline. However, because the Bonus will be effectively funded from the estimated future increased income in Business Rates, Local Government is not receiving its full reward for both Council Tax and Business Rates growth.

25. The Review introduces proposals to implement Tax Increment Financing (TIF) which would allow local authorities to borrow for capital projects against future predicted increases in Business Rates growth, provided that they can afford to service the borrowing costs out of revenue resources, subject to the normal operation of the prudential borrowing system. Such borrowing needs certainty for local authorities and developers about future tax revenue and guarantees that they will remain within the authority. The Review proposes two ways in which TIF schemes could come forward under the Business Rates retention system. The first option would allow local authorities to determine for themselves whether to invest in a TIF scheme, but would not exempt revenues from the risks of the impact of the retention scheme such as a potential loss of a share of revenue to the levy or resets in the system. It is suggested that this risk could be mitigated by using all growth across their area, not just development unlocked by TIF infrastructure, and by pooling across a wider area. Option 2 would involve stronger government controls on the ability to bring forward such a scheme but would guarantee revenues, without the risk of loss to the levy and reset process. This option offers a guarantee that Business Rates growth in an area could be used to secure debt and was free from the levy and resets. However, this would also mean that there would be less money in the levy pot to manage volatilities and potentially less resources available for any necessary reset. The Review argues therefore that government control or approval would be required to limit the number of schemes coming forward, which is a more centralised approach and against the principles of the Business Rates retention scheme.

26. Business Rates collected from renewable energy projects will be retained in full by the relevant local authorities. They will be disregarded in any reset of tariffs and top-ups and in the calculation of any levy. 'New project' means one that enters the valuation list after 1 April 2013 when the retention scheme comes into effect. The projects will be based on defined eligible renewable energy technologies. The preferred option within the Review for the allocation of the additional revenue in two-tier areas is a simple process of the local planning authority retaining the full amount. Alternatively, similar arrangements to the New Homes Bonus could be introduced, where in two-tier areas, the lower tier received 80% of the bonus, whilst 20% goes to the upper tier.

27. In considering the response to the consultation there are key areas to highlight:

(a) It is disappointing that the funding for New Homes Bonus is intended to come from the proceeds of Business Rates growth so that Local Government will not receive the full proceeds from both schemes.

(b) There are still so many variables relating to the scheme that this has made modelling very difficult. The DCLG produced an interactive calculator but this did not allow for future projections so has not been useful.

(c) The Baseline is critical to the fairness of the scheme but it appears that it will be based on estimates and the mechanism for resolving imbalances is not clear. It could have significant consequences if unfair for tariffs and top ups.

(d) The establishment of a 'Levy' and 'Safety Net' are sensible provisions but the balance needs to be right to retain the incentive effect.

(e) Pooling could be an option but is unclear how many would be adopted given the many practical considerations.

(f) There is not necessarily a direct relationship between economic growth and Business Rate income growth. Recent economic growth has seen the emergence of internet based companies which require little or no business premises compared with traditional industries, such as manufacturing which are on the decline, and therefore the growth in Business Rates will not correspond to growth in the economy. In addition, with the current economic situation, many businesses may be under-utilising their premises and any economic growth will be

absorbed within their current set-up and there will be no growth in Business Rates income. There may be the need for an additional indicator to more accurately align any economic growth such as levels of Corporation Tax income or unemployment.

28. Attached to this report is Appendix 1 which provides responses to the questions asked in the main consultation paper.

**Resource Implications:**

Attached as Appendix 2 is a report from LGFutures which examines the potential impact of business rates retention for the Essex region. This report was jointly commissioned by the Essex Authorities (apart from Maldon DC). The key points from the report are:

1. EFDC, in common with most Essex districts, will be a “top up” rather than a “tariff” authority.

2. The projections for income in the model are greater than those currently included in the Medium Term Financial Strategy (MTFS), although this is seen as providing some comfort on the figures in the MTFS rather than an opportunity to increase them.

3. As a “top up” authority EFDC should support the use of the RPI to inflate top up payments.

4. EFDC would benefit if it was possible to agree an Essex wide pool.

**Legal and Governance Implications:**

What is being proposed is a radical change to the current system of funding and new legislation will be required. Governance arrangements for any pools will need to be carefully considered.

**Safer, Cleaner, Greener Implications:**

There are no environmental implications.

**Consultation Undertaken:**

The draft response has been formulated following consultation with other Essex authorities and various professional associations.

**Background Papers:**

Local Government Resource Review: Proposals for Business Rates Retention – Consultation and technical papers

**Impact Assessments:**

Risk Management
Responding to the consultation is one of the few steps the Council can take to attempt to reduce the risks associated with a major change to the system for financing local authorities.

Equality and Diversity

| | |
|---|---|
| *Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?* | No |
| *Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* | No |

*What equality implications were identified through the Equality Impact Assessment process?*
N/A

*How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?*
N/A

**EFDC CONSULTATION RESPONSE TO LOCAL GOVERNMENT RESOURCES REVIEW: BUSINESS RATES RETENTION**

**COMPONENT 1: SETTING THE BASELINE**

**Q1: What do you think that the government should consider in setting the baseline?**

Local authorities are facing huge financial pressures as a result of the challenging economic climate. Furthermore they are also managing the impact of other significant changes to the local government finance system including the localisation of council tax benefit localisation, the creation of Enterprise Zones and self financing for the Housing Revenue Account. Therefore, EFDC agrees with the government that minimising the impact of the business rates system upon local authorities' budgets in the first year of the new system is of paramount importance.

The Council also recognises that the additional incentives to generate NNDR growth ought to be embedded within the business rates retention system as soon as possible after the business rates retention system is introduced.

The baseline should also include any one-off grants given to fund Council Tax freezes. If such grants are not included local authorities would be penalised in future years funding for complying with Government policy.

**Q2: Do you agree with the proposal to use 2012-13 formula grant as the basis for constructing the baseline? if so, which of the two options at paragraphs 3.13 and 3.14 do you prefer and why?**

Given the importance of minimising turbulence in authorities' funding positions in 2013-14 EFDC believes that option 1 should be adopted. Reviewing limited aspects of the formula and updating the data used in the formula will create turbulence within a system that will already be subject to significant change.

**COMPONENT 2: SETTING THE TARIFFS AND TOP UPS**

**Q3: Do you agree with this proposed component of tariff and top up amounts as a way of re-balancing the system in year one?**

To ensure that authorities do not have problems funding their core services or find they have excess funding a system of tariffs and top-ups as described in the consultation paper would be required.

**Q4: Which option for setting the fixed tariff and top up amounts do you prefer and why?**

EFDC supports the use of RPI indexing for the calculation of tariff and top-up amounts. The Council recognises that not applying RPI to the top-up amounts could pose significant challenges for top-up authorities who would experience a real terms cut in funding if they experienced stagnation of their NNDR taxbase. Adjusting local authorities' top-up and tariff amounts by RPI would also mitigate against the extent to which top-up authorities would have to rely upon any safety net to protect against reductions in their NNDR taxbase.

## COMPONENT 3: THE INCENTIVE EFFECT

**Q5: Do you agree that the incentive effect would work as described?**

EFDC agrees that in principle the proposal to allow local authorities to retain the increase in their business rates will provide an incentive to grow their business rates taxbase. That said, EFDC already works closely with the local business community, the voluntary sector, and its public sector partners to foster economic growth in the area.

The council is concerned that the incentive effect could be diluted by a number of factors:

1. <u>System complexity and opaqueness:</u> the Local Authority Business Growth Incentives (LABGI) scheme failed to change authorities' behaviour as the approach was convoluted and overly complex. The NNDR retention scheme should be based on transparent financial information and CLG could assist authorities by sharing financial modelling used to design the scheme. In that context EFDC was disappointed that CLG's interactive calculator was of limited use and some financial information such as HM Treasury's forecasts of NNDR growth have still not been shared with local authorities.
2. <u>Set aside:</u> CLG propose calculating the difference between forecast NNDR growth (as yet unknown) and the Departmental Expenditure Limit with the difference, known as the set aside, removed from the local government finance system. The financial challenges facing the country are clear but it must be recognised that local authorities will have to exceed the Government's NNDR growth forecasts to see significant financial benefits from NNDR growth. There must be transparency of the NNDR growth forecasts, local government involvement in the calculation of the forecasts, and CLG should keep the set aside amount under review between resets in case HM Treasury's NNDR forecasts are overstated.
3. <u>Levy on disproportionate benefit:</u> EFDC is concerned that the levy on disproportionate benefit must only be used to fund safety net initiatives. There is a significant risk that setting the levy on disproportionate benefit at too high a level will create a disincentive to generate economic growth.

## COMPONENT 4: A LEVY RECOUPING A SHARE OF DISPROPORTIONATE BENEFIT

**Q6: Do you agree with our proposal for a levy on disproportionate benefit, and why?**

EFDC supports a levy on disproportionate benefit but only if the proceeds are specifically ringfenced to provide support to authorities that experience a significant decline in their NNDR receipts. EFDC would not support a cap on disproportionate benefit such that all NNDR receipts over a defined threshold were appropriated as this would undermine incentives to generate NNDR growth.

EFDC strongly supports the use of pooling arrangements to mitigate the impact of NNDR volatility upon local authorities' net funding positions. The levy on disproportionate benefit should be reduced for pooling authorities to reflect the reduced likelihood of these authorities having to call upon the safety net.

**Q7: Which option for calculating the levy do you prefer and why?**

The third option is preferable as it provides a more equal incentive.

**Q8: What preference do you have for the size of the levy?**

EFDC feel that it would be unwise to set a value for the levy prior to seeing the Government's forecasts for business rates. There should also be an estimate of the draw on the levy pot (for example, to fund the "safety net") which should inform any decisions about the levy. This would mimic the situation in current local government finance settlements where the scaling factor and floor are set in order that they are self funding. Obviously under the rates retention it would not be possible to be so accurate, nevertheless the Council feels that it is not possible to set the size of the levy so far in advance.

**Q9: Do you agree with this approach to deliver the renewable energy commitment?**

EFDC agrees that additional NNDR receipts generated by renewable energy projects should be retained by local authorities and that the associated NNDR revenue should be discounted in the calculation of any levy that might be applied to growth in business rate revenues.

EFDC believes that the sharing of gains from the delivery of renewable energy projects should reflect the following principles:

- The split of NNDR between tiers should recognise the key role of districts in delivering projects in their communities and then being able to directly demonstrate the benefit through local retention of the growth;
- There is no justification for treating the split of growth in NNDR receipts relating to renewable energy projects any differently to other business sectors;
- To avoid burdensome complexity there should be a consistent approach for all renewable energy projects in terms of the split of NNDR between council tiers; and
- There should be a clear separation of the decision to grant planning consent for renewable energy projects from any financial incentives.

Therefore, EFDC believes that retained additional NNDR growth relating to renewable energy projects should be shared by district and county council using the same methodology as applied with the New Homes Bonus of an 80/20 split in favour of district councils. Indeed this split should be used consistently throughout the entire NNDR local retention scheme for rewarding growth.

**Q10: Do you agree that the levy pot should fund a safety net to protect local authorities:**

**i) Whose funding falls by more than a fixed percentage compared with the previous year (protection from large year to year changes); or**

**ii) Whose funding falls by more than a fixed percentage below their baseline position (the rates income floor)?**

Since decline in income will happen for various reasons it would seem sensible to protect authorities from absolute falls in income (when compared with the baseline) in addition to large year-on-year negative fluctuations.

**Q11: what should be the balance between offering strong protections and strongly incentivising growth?**

A stated objective of the reform is to incentivise growth and for this to happen more emphasis will have to be given to growth than protection.

**Q12: which of the options for using any additional levy proceeds, above those required to fund the safety net, are you attracted to and why?**

Prior to implementation of the business rate retention system EFDC wishes to see transparent guidelines that precisely detail how any of the levy proceeds over and above the safety net would be either used to support local authorities or reallocated back to them. There ought to be very limited scope for subjective judgements on the application of the levy pot. In particular EFDC does not wish to see a bid based approach for any of the applications of the levy pot.

EFDC supports the use of the levy to provide ongoing support to authorities that have experienced significant losses that take more than one financial year to recover from. EFDC would then like to see the remaining levy pot being redistributed to all local authorities in proportion to each authority's baseline.

**Q13: Are there any other ways you think we should consider using the levy proceeds?**

No. There should be a clear and transparent rationale for distributing levy proceeds that do not rely upon subjective political judgements. The use of levy proceeds should be focussed upon providing a safety net for authorities.

**COMPONENT 5: ADJUSTING FOR REVALUATION**

**Q14: Do you agree with the proposal to readjust the tariff and top up of each authority at each revaluation to maintain the incentive to promote physical growth and manage volatility in budgets?**

EFDC recognises that the process of revaluation is a given; changes in the property market must be reflected in adjustments to the rateable value of properties. Furthermore, without an adjustment to the tariffs and top-up amounts local authorities could see significant turbulence in their funding positions. Therefore, EFDC supports the adjustment of tariffs and top-ups at revaluation. However, further analysis based upon previous revaluations is required to establish what would be the impact upon local authorities if their position switched from a tariff to a top-up authority, or if the extent of their tariff and top-up changed significantly.

**Q15: Do you agree with this overall approach to managing transitional relief?**

EFDC agrees with the approach to transitional relief as the best way of mitigating against the exposure of local authorities to financial pressures over which they have no control.

**COMPONENT 6: RESETTING THE SYSTEM**

**Q16: Do you agree that the system should include the capacity to reset tariff and top up levels for changing levels of service need over time?**

The current local government finance system is based upon an assessment of each authority's needs and resources. Local authorities provide a wide range of services which are not all linked to the generation of economic growth, and in some areas (e.g. where there is a focus on high technology or service industries that generate significant economic activity from a small property base) the link between economic growth and NNDR growth is weak. EFDC is concerned that the consultation leaves open the possibility of no reset to the system and the abandonment of the link between service demand and funding. EFDC supports the capacity to reset tariff and top-up levels for changing levels of service need.

**Q17: Should the timings of reset be fixed or subject to government decision?**

EFDC believes that there should be a fixed period between resets. This will maximise transparency and certainty in the local government finance system. Furthermore it will mitigate against Government undertaking resets to reflect changing political priorities and will limit the extent to which local authorities are incentivised to lobby for resets to reflect their particular interests.

**Q18: If fixed, what timescale do you think is appropriate?**

A five year period between resets would offer a balance that incentivises local authorities to grow their NNDR taxbase but that maintains the link to underlying service pressures facing local authorities.

**Q19: What are the advantages and disadvantages of both partial and full resets? Which do you prefer?**

EFDC is concerned that there is a lack of detailed information on how a full or partial reset would operate. This makes it difficult to draw any conclusions on the advantages and disadvantages of each approach. A partial reset may be inadequate to reflect the changing balance of service needs across the country.

**Q20: Do you agree that we should retain flexibility on whether a reset involves a new basis for assessing need?**

The current assessment of need is subjective and does not reflect actual levels faced by individual local authorities. The timetable for implementation of the business rates retention system and the importance of avoiding turbulence in authorities' funding allocations, rule out introducing a revised assessment of need before the NNDR retention system is introduced in April 2013. However, in advance of the first reset local and central government should work together to agree a revised approach to the assessment of need.

**COMPONENT 7: POOLING**

**Q21: Do you agree that pooling should be subject to the three criteria listed at paragraph 3.50 and why?**

EFDC agrees with the three criteria for pooling in the consultation paper.

**Q22: What assurances on workability and governance should be required?**

Central government should only require the minimum of assurances for pools to be approved. Local government interest groups should be tasked with working together to establish minimum governance arrangements. Each group of local authorities that

decide to explore pooling should then have the freedom to tailor the governance of pools to their requirements. The following issues would need to be addressed:

1. Terms of reference of pooling arrangements
   The aims and objectives of pooling arrangements must be clearly set out before the pool is established.
2. Apportioning growth in NNDR amongst pool members
   Whilst this could be a contentious area, EFDC believes that if the default is sharing NNDR growth amongst pool members on the basis of their actual contribution to NNDR growth this would leave authorities in a no better no worse position.
3. Management of the pool
   The management arrangements for the pool should be clearly articulated and agreed to by all pool members. This would have to address factors including how members would be involved in decision making, the links to each authority's governance procedures, the chairing and secretariat for the pool.
4. Apportioning the costs of managing the pooling arrangements
   As per EFDC's response to Q24 the lead authority should be provided with funding to support the management of the pool.
5. Dispute resolution
   There are a range of factors including the scale of the financial benefits at stake, potential different political control of local authorities in the pool, self interests of pool members etc. that a clear dispute resolution process covering the operation and administration of the pool must be agreed.
6. Termination arrangements
   The governance documents for the pool should set out the circumstances under which the pool would be terminated or individual members could withdraw from the pool should be addressed.
7. Dissolving the pool
   Arrangements for dissolving the pool such as sharing the costs of closing the pool should be agreed by pool members.

**Q23: How should pooling in two tier areas be managed? should districts be permitted to form pools outside their county area subject to the consent of the county or should there be a fourth criterion stating that there should always be alignment?**

Districts ought to be permitted to participate in pools outside of their county area if that allows the benefits of pooling to be realised more successfully than pooling with the county and districts in the county area. There should be the freedom for authorities to create pooling arrangements with other districts or unitaries without the relevant county council being involved in the relevant pooling arrangement if this serves to manage billing authorities' NNDR volatility and maximise economic growth.

EFDC believes that if any districts decided to enter into pools with authorities outside of their county area then they should only be able to do so in 2013-14 when the new system is implemented or when the partial or full reset takes place.

**Q24: Should there be further incentives for groups of authorities forming pools and if so, what would form the most effective incentive?**

Authorities that express an interest in creating a pool should be provided with funding to develop pooling proposals including procuring legal and financial advice. Upon implementation central government should recognise that there will be a lead authority for each pool and the costs of administering the scheme ought to be an

allowable deduction that is not subject to the pool on disproportionate levy. Such arrangements are not incentives but merely eliminate disincentives to establish pools; they would put pooling authorities on a no better, no worse position relative to non pooling authorities.

To overcome authorities' potential concerns that they will lose control of NNDR growth strong incentives to form pools need to be built into the business rates retention system. To achieve this local authorities entering into pooling arrangements should see a reduction in the levy on disproportionate benefit applied to the pool. The reduction in the levy should be sufficiently large to incentivise authorities to come together to form pools

**IMPACT ON NON-BILLING AUTHORITIES**

**Q25: Do you agree with these approaches to non-billing authorities?**

EFDC agrees with CLG that police and fire authorities have limited influence over the generation of NNDR growth in an area. The council therefore supports the removal of police and fire authorities from the business rates retention system. Following the end of this Spending Review period EFDC would support an approach that provided all government funding for police and fire authorities through the Home Office rather than providing a proportion through the local government funding system.

EFDC acknowledges that county councils have some influence upon economic growth and that therefore they should be allocated a proportion of NNDR receipts for their area. However, the reward share for growth should be consistent with the 80/20 split of New Homes Bonus (NHB) funding between districts and counties.

**CHAPTER 4: INTERACTIONS WITH EXISTING POLICIES AND COMMITMENTS**

**NEW HOMES BONUS**

**Q26: Do you agree this overall approach to funding the new homes bonus within the rates retention system?**

EFDC welcomes the commitment that central government made to ring fence £1bn for the NHB during this Spending Review period. We also recognise that there was a commitment that any additional costs of the scheme during this Spending Review period and beyond would be financed from centrally pooled business rates. The proposal in the consultation paper appears to step back from this commitment and proposes funding the ongoing costs of the NHB from centrally pooled business rates after the calculation of the set aside adjustment. EFDC does not agree with this approach. Instead EFDC would strongly support the set aside adjustment being calculated after reducing forecast NNDR for 2013-14 and 2014-15 by the projected costs of the NHB scheme.

Within two-tier areas the NHB grant is split 80/20 amongst districts and counties. This properly reflects the limited role county councils play in new homes development. As stated above, this split should also be used for sharing growth in NNDR to reflect the key role of district councils in driving growth in their areas and provide consistency in funding methodologies.

**Q27. What do you think the mechanism for refunding surplus funding to local government should be?**

EFDC supports the return of surplus funding to local government in proportion to their 2012-13 baseline funding levels. The surplus funding must not be top sliced to fund any new burdens; any such adjustments ought to be met from within the 'set aside' amount.

**BUSINESS RATES RELIEF**

**Q28: Do you agree that the current system of business rates reliefs should be maintained?**

Given the breadth of the changes to the local government finance system EFDC agrees that the system of business rate reliefs should be maintained.

However, EFDC believes that the element of the current system of reliefs that is determined centrally should not be part of the business rates retention system i.e. they should not be deducted from NNDR projections before the calculation of tariff and top-ups. Fixing tariffs and top-ups between resets such that a level of reliefs is assumed passes the risk that the actual level of reliefs exceeds forecasts to individual local authorities. Given that the level of mandatory reliefs granted is volatile and that local authorities have no control over the level of reliefs then mandatory relief should be managed using the same approach proposed for transitional relief. This approach would ensure that local authorities continue to be incentivised to increase take-up of mandatory relief for those recipients that government wishes to target with financial assistance.

**CHAPTER 5: SUPPORTING LOCAL ECONOMIC GROWTH THROUGH NEW INSTRUMENTS**

**Q29: Which approach to tax increment financing do you prefer and why?**

Local authorities will be free to undertake projects that would be captured by option 2 under their prudential borrowing powers. Under CIPFA's prudential code local authorities will have to satisfy themselves that it remains prudent, affordable and sustainable to borrow to fund infrastructure projects that generate additional NNDR growth. The key factor that authorities will consider is the certainty that they will be able to retain the associated additional NNDR growth. EFDC believes that it appears unlikely given the levy on disproportionate benefits, potential resets, set aside adjustments etc. that there will be a significant number of TIF projects funded by additional prudential borrowing. Therefore, whilst EFDC welcomes the additional infrastructure opportunities provided by the NNDR retention scheme it is clear that this is a fortunate by-product of the reforms rather than an option that needs central government approval or action to be implemented.

Experience from TIF projects in other countries suggests that projects are successful when they:

1. are small scale;
2. very clearly generate additional (i.e. not just displacement) local tax receipts over and above that which would have been generated without the TIF infrastructure investment;
3. have a relatively low ratio of capital investment to additional local tax receipts; and
4. are bankable i.e. if they are to facilitate additional borrowing then projects must have certainty that over the lifecycle of the TIF project the lead partner will continue to receive any additional tax receipts generated.

To fulfil the fourth condition NNDR receipts must therefore be ringfenced as is proposed under option 2. Whilst this will reduce the resources available to protect against NNDR volatility EFDC believes that if the second condition identified above is fulfilled then the number of projects will be limited to those projects that generate additional NNDR growth that would not otherwise have been created.

Therefore, EFDC would accept central government approval of TIF projects delivered under option 2 if the following preconditions are applied to the evaluation of the projects:

- Clear and unambiguous demonstration of the additionality of NNDR growth;
- More frequent than quinquennial revaluations of properties covered by the TIF project area;
- Robust governance procedures e.g. identification of lead authority in two tier areas;
- Demonstration of the support of all LAs affected by the TIF scheme;
- Use of standard form contracts e.g. financing documentation; and
- Compliance with a common approach to financial modelling of TIF benefits. For example, common assumptions on interest rates, modelling NNDR growth, discount rates etc.

EFDC is disappointed that of all the additional tax receipts that would be generated by a TIF project only additional NNDR growth will be included within the remit of any TIF project. This is not how TIF projects have been made to work successfully in other countries. Local authorities alone will take the risk that additional infrastructure investment generates additional economic growth that leads to growth in the taxbase. If a TIF project succeeds then central government would reap the benefits of additional VAT, corporation tax, NI etc. receipts generated by the TIF project. Central government should bear some of the financial risk associated with the success of the TIF project or alternatively the local authority leading the TIF project should take a share of all additional tax receipts generated.

**Q30: Which approach do you consider will enable local authorities and developers to take maximum advantage of tax increment financing?**

For the reasons cited in the response to Q29 describing infrastructure projects delivered under option 1 as TIF projects relies upon a very wide interpretation of TIF – they are merely capital infrastructure projects funded by prudential borrowing. Nevertheless, the more certainty and transparency of the NNDR retention system, the more likely authorities will be able to undertake prudential borrowing to finance infrastructure projects that generate additional NNDR growth.

**Q31: Would the risks to revenues from the levy and reset in option 1 limit the appetite for authorities to securitise growth revenues?**

For the reasons identified in Q29 EFDC believes the uncertainty associated with retained NNDR growth under the new system will not allow LAs to 'securitise growth revenues'. The inherent uncertainty of NNDR receipts for local authority areas, rather than NNDR growth relating to specific developments, and the impact of the levy, resets etc. means it is likely that there will only be a marginal increase in prudential borrowing to fund infrastructure projects.

**Q32: Do you agree that pooling could mitigate this risk?**

No, pooling authorities will still be subject to the funding uncertainties identified in the responses to Q29 to Q31. Furthermore pools would have to manage the added complexity of having to establish how the downside risks of a failing TIF structure would be managed between pooling authorities.

**Q33: Do you agree that central government would need to limit the numbers of projects in option 2? how best might this work in practice?**

EFDC recognises that projects delivered under option 2 would have to be limited because approving these projects would take NNDR receipts out of the NNDR retention system. However, EFDC is more concerned that TIF projects delivered under option 2 must be able to clearly demonstrate that any infrastructure investment will generate additional NNDR growth over and above any growth that would have been generated had the TIF project not been undertaken. Subject to fulfilment of the preconditions identified in Q29 then projects should be taken forward. Additionality of NNDR receipts means that there would be no reduction in the NNDR receipts available to manage volatility or to provide a safety net for authorities.

# Examining the Potential Impact of Business Rates Retention for the Essex Region:

# Executive Summary

September 2011

# Executive Summary

### The Business Rates Retention Scheme

1. The government's stated aim through business rates retention is to provide a greater incentive to local authorities to increase NDR revenues. This incentive would be created through proposals that would allow authorities to retain an element of any increased revenues due to growth in NDR revenues.

2. The complex nature of local government finance, the need for some element of funding stability, and, in particular, the variation between local authorities in terms of the amount of business rates retained locally, means that the proposed scheme, whilst simple in principle, will require a number of features to provide sufficient incentives to all authorities and protect those that are not able to increase NDR revenues or may have one-off reductions in the amount of NDR collected.

3. The key features of this system are as follows:

   - Local authorities will still need to operate within the existing NDR system. They will not have control over how the level of tax is determined for ratepayers i.e. the rateable value of properties or the national multiplier (the rate of tax).
   - Each local authority will be provided with an initial baseline level of funding - this is known as its **'needs baseline'**. Local authorities' needs baselines will be based upon the 2012/13 Formula Grant allocation (with adjustments for the 2013/14 control totals and possibly other changes to the formula and underlying data). The needs baseline is effectively the starting point for the rates retention system.
   - Not all growth in NDR receipts will be distributed to local authorities – sufficient resources to fund the **New Homes Bonus** scheme will be retained centrally. There will also be deductions for **Police authorities**, where funding will continue (at least in the short term) to be provided through a formulae-based grant (and potentially for single purpose Fire and Rescue authorities, depending upon the option chosen from the consultation).
   - An additional amount will also need to be removed from the system in 2013/14. This represents the difference in funding for local authorities between 2013/14 and 2014/15. It is necessary to remove this amount, as the baselines need to be based upon the lowest funding point (i.e. in 2014/15). The government plans to distribute the amount removed from the baseline to local authorities in 2013/14 as section 31 grant, using authorities' needs baselines as the basis for apportionment. This funding will be known as the **'2013/14 adjustment grant'.**
   - A system of '**tariffs'** and '**top ups'** will be introduced, in order to allow for the fact that authorities have significantly different capacities to generate NDR income, depending upon their NDR taxbase. A tariff will be paid by an authority to

government where their NDR income exceeds their needs baseline. A top up will be received by authorities from government where their NDR income is below their needs baseline. Tariff/top up amounts could be **(i) indexed to RPI** or **(ii) fixed** as a cash amount.

- There will be a '**reset mechanism'**, designed to keep resources broadly in line with need. Without resets, there is the potential for authorities' levels of need (based upon population and socio-economic factors, for example), to become significantly higher or lower than the amount that is being received through rates retention. Each year between resets, individual authorities will either pay the same tariff or receive the same top up. Resets could be **(i) partial** (where authorities benefit from growth in business rates obtained before the reset) or **(ii) full** (authorities only benefit from any growth in their local business rates obtained in the time period between two resets).
- There will be a **'safety net'** for payments to local authorities experiencing negative volatility in business rate income. There could be **(i) an 'annual' safety net** (where income in any year declines by more than a set percentage when compared to the previous year's income) or **(ii) a 'baseline' safety net** (where income in any year declines by more than a set percentage below the baseline funding level).
- A **'levy'** system will scale back the amount of resources that are retained locally (and this may be linked to the size of authorities' NDR base). Three options have been put forward for how a levy could be calculated: **(i) Flat rate levy**, such that an authority pays x pence of every pound of business rate growth into the levy pot, **(ii) Banded levy**, where authorities would be grouped into bands based on their gearing ratios, with the levy being higher for those authorities in bands with higher levels of gearing or (iii) **Proportional levy**, with each authority being assigned an individual levy rate, set such that a 1% increase in an authority's business rates would result in a fixed percentage increase in its retained income.

## Methodology

4. In order to forecast resources at a local authority level, it is first necessary to determine national level figures for the amount of funding that local authorities would be expected to receive and estimate the level of NDR income that will be collected nationally. The majority of these figures can be derived from figures provided by CLG within Spending Review 2010, with adjustments then being made in order for the rates retention scheme to work in practice i.e. for New Homes Bonus and the 2013/14 adjustment grant.

## Projecting Individual Local Authority Resources

5. In arriving at forecasts at an individual local authority level, there are three key areas for consideration:

- Determining the starting point for local authorities within the system i.e. the starting level of need and the amount of NDR resources retained locally.

- Assumptions regarding the specific CLG options that could be chosen from the consultation.
- Assumptions regarding the level of NDR change at a local level.

6. The starting point for each local authority was determined by translating the national level figures to an individual local authority level. This required an assumption regarding the amount of resources that district councils would retain/how much would be passed to the county council. The CLG option to use a fixed national split, based on actual expenditure, was used in the first instance. The table below shows the top up/tariff status of the individual authorities within the region:

**Table 1 Top up/tariff status, based on the starting NDR and Needs baselines**

| | Needs Baseline £m | NDR Baseline £m | NDR as a % of Need | Status |
|---|---|---|---|---|
| Essex | 221.121 | 302.584 | 137% | Tariff |
| Southend-on-Sea | 49.891 | 34.223 | 69% | Top up |
| Thurrock | 48.520 | 78.335 | 161% | Tariff |
| Basildon | 8.829 | 6.391 | 72% | Top up |
| Braintree | 5.673 | 3.311 | 58% | Top up |
| Brentwood | 2.847 | 2.499 | 88% | Top up |
| Castle Point | 3.498 | 1.200 | 34% | Top up |
| Chelmsford | 5.638 | 6.163 | 109% | Tariff |
| Colchester | 7.138 | 4.765 | 67% | Top up |
| Epping Forest | 5.481 | 2.746 | 50% | Top up |
| Harlow | 4.774 | 3.758 | 79% | Top up |
| Maldon | 2.483 | 1.072 | 43% | Top up |
| Rochford | 2.760 | 1.257 | 46% | Top up |
| Tendring | 8.208 | 2.167 | 26% | Top up |
| Uttlesford | 2.350 | 3.200 | 136% | Tariff |

7. In order to present the analysis in a logical manner, an initial scenario was determined based on assumptions on how the levy, tariff/top up and the safety net were determined. Within the initial scenario, the following assumptions were made:

- Inflating the tariff/top up amount by RPI
- A proportional levy (using a 1:1 ratio)
- NDR growth based on historic growth patterns

8. This "initial scenario" provided an initial five-year resource forecast for the Essex authorities. The forecast showed the following resource projection:

**Table 2 – Five-year resource projection for retained income using the initial scenario**

| Local Authority | 2012/13* £m | 2013/14 £m | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m |
|---|---|---|---|---|---|---|
| Essex | 260.332 | 260.689 | 248.872 | 251.100 | 257.640 | 267.356 |
| Southend-on-Sea | 58.738 | 58.669 | 55.843 | 56.174 | 57.463 | 59.456 |
| Thurrock | 57.124 | 57.542 | 55.316 | 56.203 | 58.072 | 60.673 |
| Basildon | 10.395 | 10.413 | 9.945 | 10.038 | 10.304 | 10.698 |
| Braintree | 6.680 | 6.685 | 6.378 | 6.431 | 6.595 | 6.839 |
| Brentwood | 3.351 | 3.354 | 3.199 | 3.225 | 3.306 | 3.428 |
| Castle Point | 4.118 | 4.110 | 3.909 | 3.929 | 4.016 | 4.151 |
| Chelmsford | 6.637 | 6.638 | 6.328 | 6.376 | 6.532 | 6.769 |
| Colchester | 8.404 | 8.368 | 7.937 | 7.956 | 8.110 | 8.363 |
| Epping Forest | 6.453 | 6.450 | 6.144 | 6.185 | 6.332 | 6.557 |
| Harlow | 5.620 | 5.656 | 5.431 | 5.511 | 5.688 | 5.936 |
| Maldon | 2.923 | 2.926 | 2.792 | 2.816 | 2.888 | 2.996 |
| Rochford | 3.249 | 3.247 | 3.092 | 3.113 | 3.186 | 3.298 |
| Tendring | 9.663 | 9.699 | 9.284 | 9.394 | 9.667 | 10.061 |
| Uttlesford | 2.767 | 2.756 | 2.615 | 2.623 | 2.675 | 2.759 |
| **Total** | **446.454** | **447.202** | **427.085** | **431.074** | **442.474** | **459.340** |
| **Percentage change (year on year)** | | 0.2% | -4.5% | 0.9% | 2.6% | 3.8% |
| **Percentage change overall** | | 0.2% | -4.3% | -3.4% | -0.9% | 2.9% |

**Provisional Formula Grant allocations for 2012/13*

## Sensitivity Analysis

9. In order to test the implications of different assumptions around NDR growth and the options that CLG could decide to use within the scheme, further resource forecasts were made based on alternative scenarios.

10. Firstly, the six permutations in relation to setting the top up/tariff amount (indexed to RPI/fixed) and the levy (flat rate/banded/proportional) were considered. The resulting resource projections are shown in the table below.

**Table 3 Forecast retained income resources for 2017/18 under the six permutations, in relation to the determination of the top up/tariff amount and the calculation of the levy**

| | Fixed & Flat £m | Fixed & Banded £m | Fixed and Proportional £m | RPI & Flat £m | RPI & Banded £m | RPI and Proportional £m |
|---|---|---|---|---|---|---|
| Essex | 252.755 | 271.735 | 267.356 | 266.342 | 267.660 | 267.356 |
| Southend-on-Sea | 53.149 | 56.408 | 56.408 | 59.456 | 59.456 | 59.456 |
| Thurrock | 58.33 | 64.217 | 60.673 | 60.150 | 61.464 | 60.673 |
| Basildon | 9.526 | 10.223 | 10.223 | 10.622 | 10.698 | 10.698 |
| Braintree | 6.027 | 6.380 | 6.380 | 6.808 | 6.839 | 6.839 |
| Brentwood | 3.103 | 3.360 | 3.360 | 3.414 | 3.428 | 3.428 |
| Castle Point | 3.601 | 3.704 | 3.704 | 4.151 | 4.151 | 4.151 |
| Chelmsford | 6.256 | 6.627 | 6.769 | 6.753 | 6.765 | 6.769 |
| Colchester | 7.519 | 7.901 | 7.901 | 8.363 | 8.363 | 8.363 |
| Epping Forest | 5.753 | 6.024 | 6.024 | 6.552 | 6.557 | 6.557 |
| Harlow | 5.256 | 5.739 | 5.739 | 5.819 | 5.936 | 5.936 |
| Maldon | 2.602 | 2.721 | 2.721 | 2.981 | 2.996 | 2.996 |
| Rochford | 2.883 | 3.006 | 3.006 | 3.298 | 3.298 | 3.298 |
| Tendring | 8.546 | 8.885 | 8.885 | 9.933 | 10.061 | 10.061 |
| Uttlesford | 2.637 | 2.810 | 2.847 | 2.759 | 2.759 | 2.759 |
| **Total** | **427.943** | **459.740** | **451.996** | **457.401** | **460.431** | **459.340** |

11. The following conclusions were drawn regarding the six permutations:

- For top up authorities, the options to uprate the top up/tariff by RPI provides the highest forecasts. This is because the top up is an income source to these authorities (i.e. to supplement NDR revenues) and therefore increasing this by RPI increases the value of the top up year on year. Whilst the figures for 2017/18 are the only ones shown, the same conclusions would hold for each year.
- For top up authorities that are not expecting taxbase growth, all three options in relation to the levy give the same resource forecast. This is due to the levy only operating on resources increases above RPI, and, as the top up authorities will not have any growth above RPI (as the only growth is at RPI), no levy applies.
- For top up authorities that are expecting growth, the proportional or banded options provide the highest resource forecasts, as, under these options, no levy is applied, whereas the flat rate levy option is paid by all authorities i.e. both top up and tariff authorities.
- The flat rate levy and a fixed top up/tariff is the worst case scenario for all authorities. This is because (i) it applies a levy on the total NDR income increase i.e. the increase due to the increase in the multiplier (through RPI) and any growth

to the taxbase and (ii) the rate at which we have assumed the levy to be (i.e. 50%) is higher than the rate that has been applied though the banded or proportional options. Under these options, the top up authorities pay no levy on growth and tariff authorities pay a levy rate that is less than 50% (varying on an individual authority basis).

12. Using the initial scenario, assumptions in relation to the top up/tariff, the levy and the safety net, three additional scenarios were modelled based on different NDR growth rates. The outcome of this analysis is shown in the table below:

**Table 4 – Variation in total funding between 2013/14 and 2017/18 using three NDR growth scenarios**

| Local Authority | -0.25% Growth £m | Zero Growth £m | +0.25% Growth £m |
|---|---|---|---|
| Essex | (12.813) | 1,276.499 | 9.470 |
| Southend-on-Sea | (1.453) | 288.013 | 1.471 |
| Thurrock | (3.295) | 280.098 | 2.077 |
| Basildon | (0.270) | 50.968 | 0.273 |
| Braintree | (0.139) | 32.752 | 0.142 |
| Brentwood | (0.107) | 16.433 | 0.106 |
| Castle Point | (0.051) | 20.192 | 0.051 |
| Chelmsford | (0.263) | 32.546 | 0.241 |
| Colchester | (0.204) | 41.206 | 0.205 |
| Epping Forest | (0.117) | 31.644 | 0.117 |
| Harlow | (0.158) | 27.557 | 0.160 |
| Maldon | (0.046) | 14.334 | 0.046 |
| Rochford | (0.055) | 15.933 | 0.053 |
| Tendring | (0.090) | 47.381 | 0.092 |
| Uttlesford | (0.137) | 13.565 | 0.100 |
| **TOTAL** | **(19.198)** | **2,189.121** | **14.604** |

13. The table shows total resources of £2,189m for zero growth. A group-wide reduction in growth of 0.25% results in a reduction of funding to the group of £19.2m, whereas the same 0.25% increase, results in funding increasing by £14.6m. The difference between the level of decrease and increase is due to the levy that would act on any increased resources for tariff authorities.

14. The final variable to be considered was the amount of resources that districts retain locally i.e. the district/county split. The following three options were considered:

- **Fixed National Share version 1 –** this share (88.7% to county councils and 11.3% to districts) is based on net current expenditure by county and district councils.

- **Fixed National Share version 2 –** this share (82.5% to county councils and 17.5% to districts) is based on net current expenditure by county and district councils, excluding Dedicated Schools Grant.
- **Individual Shares –** using local business rates distribution.

15. The overall funding change (i.e. 2013/14 to 2017/18) is shown in the table below. The figures show the increase or decrease in resources compared to the initial scenario i.e. the fixed national split (1), which includes DSG within county-level expenditure.

**Table 5 – Net change in total funding 2013/14 to 2017/18, compared to the initial scenario of fixed national splits, including DSG**

| | Fixed National incl. DSG | Fixed National excl. DSG | Individual Shares |
|---|---|---|---|
| **Local Authority** | £m | £m | £m |
| Essex | 1,285.657 | 0.000 | 0.000 |
| Southend-on-Sea | 287.605 | 0.000 | 0.000 |
| Thurrock | 287.806 | 0.000 | 0.000 |
| Basildon | 51.562 | 0.164 | 0.164 |
| Braintree | 33.026 | 0.098 | (0.041) |
| Brentwood | 16.522 | 0.010 | (0.034) |
| Castle Point | 20.073 | (0.042) | 0.057 |
| Chelmsford | 32.643 | 0.000 | 0.000 |
| Colchester | 40.475 | (0.259) | (0.052) |
| Epping Forest | 31.682 | 0.014 | (0.009) |
| Harlow | 28.400 | 0.178 | (0.100) |
| Maldon | 14.464 | 0.046 | (0.064) |
| Rochford | 15.939 | 0.003 | (0.003) |
| Tendring | 48.504 | 0.399 | (0.375) |
| Uttlesford | 13.354 | (0.074) | 0.036 |
| **Total** | **2,207.712** | **0.537** | **-0.421** |

16. The following observations can be drawn from the tables above:

- The fixed national splits excluding DSG option provides the highest forecast overall (+£0.537m). The difference between the forecasts is due to different tariff levels applying to the NDR growth within the county i.e. depending on whether districts have more or less of the NDR.
- For the county council, the change in the county/district split has no impact on the forecast level of resources received under the initial scenario. This is due to the county remaining a tariff under all three options (and therefore the levy reduces the amount of resources received, due to NDR growth, by the same amount under all three scenarios).

- There is no impact for Chelmsford, which remains a tariff authority under all three options and has positive growth. These characteristics therefore mean that its proportional levy will adjust upwards or downwards, in order that a 1% growth in NDR only equals a 1% growth in resources, irrespective of the actual size of the NDR taxbase.
- For both top up and tariff authorities with negative NDR growth, reducing their share of the taxbase is favourable.  For top up authorities, this is because a greater proportion of resources is paid through the top up, which is not subject to decline (unlike the taxbase).  For tariff authorities, this is because the amount that is expected to be raised (prior to the tariff) is lower, and therefore the percentage of income lost due to negative NDR growth, is a lower cash amount.

## Pooling

17. The government proposes to allow authorities to voluntarily form a business rates retention pool.  This would require tariffs/top-ups to be combined and an overall levy to be determined for the pool authorities.  The distribution of resources within the pool would be determined locally.  As outlined in the main consultation paper, a single tariff or top up would be set for a pool, calculated as the sum of its individual members' tariffs and top ups.

18. The consultation paper raises the possible issue of incentives being given to authorities that form pools e.g. by allowing a greater proportion of resources to be retained or by allowing additional incentives outside of the system.  The paper does not provide any examples as to how this incentive would operate.

19. Based on feedback from the 13 commissioning authorities, the following three pooling scenarios were considered:

    - For all 15 authorities
    - For the districts and county only
    - 4 sub-pools i.e.
        - Heart of Essex – Chelmsford, Brentwood and Maldon
        - Haven Gateway – Braintree, Tendring and Colchester
        - West Essex – Epping Forest, Uttlesford, Harlow
        - Thames Gateway – Basildon, Castle Point, Rochford, Southend and Thurrock

20. In order to determine the implications of the pool, the total level of resources for the 15 authorities in an individual context, against resources as a pool, were compared for each of the three scenarios above.

21. Using the initial scenario, it was also assumed that the funding received by the pool is distributed to all authorities based upon their share of the previous year's funding i.e. the

funding levels in 2012/13 are used to determine individual authorities' respective share of the pool.

**Pooling Scenario 1 – all 15 authorities**

22. The potential change in projected resources for all 15 authorities entering into a pooling arrangement are shown in the table below.

**Table 6 – Gain/(loss) in funding under pooling, compared to individual resource forecasts, using the initial scenario (for all 15 authorities)**

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | Total |
|---|---|---|---|---|---|---|
| **Local Authority** | £m | £m | £m | £m | £m | £m |
| Essex | 0.213 | 0.445 | 0.697 | 0.973 | 1.273 | 3.601 |
| Southend-on-Sea | 0.198 | 0.410 | 0.639 | 0.887 | 1.154 | 3.287 |
| Thurrock | (0.293) | (0.610) | (0.952) | (1.325) | (1.729) | (4.908) |
| Basildon | 0.005 | 0.010 | 0.015 | 0.022 | 0.028 | 0.080 |
| Braintree | 0.009 | 0.019 | 0.029 | 0.041 | 0.053 | 0.150 |
| Brentwood | 0.005 | 0.011 | 0.017 | 0.023 | 0.030 | 0.085 |
| Castle Point | 0.017 | 0.035 | 0.054 | 0.075 | 0.098 | 0.279 |
| Chelmsford | 0.014 | 0.028 | 0.044 | 0.061 | 0.080 | 0.227 |
| Colchester | 0.053 | 0.111 | 0.172 | 0.238 | 0.309 | 0.882 |
| Epping Forest | 0.017 | 0.036 | 0.057 | 0.079 | 0.102 | 0.292 |
| Harlow | (0.023) | (0.048) | (0.075) | (0.105) | (0.137) | (0.389) |
| Maldon | 0.004 | 0.007 | 0.012 | 0.016 | 0.021 | 0.059 |
| Rochford | 0.009 | 0.019 | 0.030 | 0.042 | 0.054 | 0.155 |
| Tendring | (0.014) | (0.030) | (0.048) | (0.068) | (0.090) | (0.249) |
| Uttlesford | 0.016 | 0.034 | 0.053 | 0.073 | 0.095 | 0.272 |
| **TOTAL** | **0.230** | **0.477** | **0.743** | **1.032** | **1.343** | **3.823** |

23. From the table above, the following conclusions can be drawn:

- Of the fifteen authorities, three would see a reduction in funding.
- The three authorities that see a reduction have the highest historic NDR growth rates. The reduction to their respective funding forecasts would therefore be expected (as they pool resources with authorities with lower historic NDR growth).
- For the group overall, there is an increase in the resource forecast of £3.823m over the five-year period. This is due to the growth in NDR income of the group being subject to a lower level tariff under the proportional system than if calculated for individual authorities.

24. It would also be possible to assume a different split in resources locally, e.g. provide each authority with the resources it would have received under an individual approach and then share the proceeds of the financial benefit of pooling.

25. The size of the possible benefits of pooling would be increased if CLG decided to provide a further incentive for authorities to pool. It was determined that there would be an increase of £8.120m between 2013/14 and 2017/18, if CLG reduced the levy for pooled authorities by using a 1:1.2 ratio for NDR growth to resources growth, rather than the current ratio of 1:1.

**Pooling Scenario 2 - For the districts and county only**

26. Using the initial scenario again, the implications of pooling have also been assessed for a group containing the county and districts only. The total gain, due to pooling for this group was projected to be £0.883m between 2013/14 and 2017/18.

**Pooling Scenario 3 – Four sub-pools**

27. Using the initial scenario again, the implications of pooling have also been assessed for the four sub-pools.

**Pool 1:** Heart of Essex – Chelmsford, Brentwood and Maldon

**Pool 2:** Haven Gateway – Braintree, Tendring and Colchester

**Pool 3:** West Essex – Epping Forest, Uttlesford, Harlow

**Pool 4:** Thames Gateway – Basildon, Castle Point, Rochford, Southend and Thurrock

28. Essex CC also asked that it would like to identify not only the benefits of pooling, but also the level of additional resources that each pool would raise due to NDR growth from increases to its NDR taxbase.

29. The table below shows the net change in resources for each of the four pools under pooling arrangements.

**Table 7 – The net change in resources for the four sub-pools 2013/13 to 2017/18**

| Local Authority | 2013/14 £m | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | Total £m |
|---|---|---|---|---|---|---|
| **Pool 1:** Heart of Essex | 0.001 | 0.001 | 0.002 | 0.002 | 0.003 | 0.009 |
| **Pool 2:** Haven Gateway | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Pool 3:** West Essex | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Pool 4:** Thames Gateway | 0.235 | 0.489 | 0.763 | 1.061 | 1.382 | 3.929 |

**Resources within each pool due to NDR growth**

30. The level of resources raised by each pool from NDR growth was determined. It was identified that the overall gain due to NDR growth for the region would be £21.998m using the four pool scenario (including £9.159m outside of the four pools that the county would receive). The main reasons for this growth, however, are the growth achieved by Thurrock (and the benefit of pooling via the Thames Gateway group) and the gain made by the county council outside of the pool (as a result of receiving 88.7% of individual authorities' growth).

31. The table below splits the county council growth across the four pools, based on the growth achieved by the districts within each pool. The county share of growth (the £9.159m) has been distributed according to the NDR growth achieved by the districts in each pool.

**Table 8 – The increase in resources due to NDR growth for the four sub-pools (with Essex CC growth apportioned across the pools)**

| Local Authority | 2013/14 £m | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | Total £m |
|---|---|---|---|---|---|---|
| Pool 1: Heart of Essex | 0.109 | 0.230 | 0.356 | 0.488 | 0.630 | 1.807 |
| Pool 2: Haven Gateway | 0.170 | 0.352 | 0.551 | 0.776 | 1.022 | 2.877 |
| Pool 3: West Essex | 0.224 | 0.460 | 0.719 | 0.996 | 1.294 | 3.694 |
| Pool 4: Thames Gateway | 0.817 | 1.698 | 2.646 | 3.676 | 4.784 | 13.621 |
| **Total** | **1.320** | **2.741** | **4.273** | **5.936** | **7.730** | **21.998** |

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## Next Steps

32. This report provides the Essex authorities with information to assist in:

- Informing medium term financial planning scenarios.
- Responding to the consultation paper and the questions in the eight technical papers.

33. The original consultation paper included 33 questions that the government were seeking responses to and the technical papers include an additional 63 questions. The deadline to respond to both consultation papers is 24 October 2011.

34. LG Futures will be providing the Essex authorities with a list of potential areas where they may be common ground within Essex, in order to assist them in submitting a joint response.

35. Once authorities have had the opportunity to consider this report, other areas that we could potentially provide support on to take this work forward, if required, include:

- **Assistance with individual local authority responses.** Individual authorities may also want to respond to the consultation in order to attempt to influence the final design of the scheme. LG Futures is able to assist individual authorities through either drafting responses on behalf of the authority or reviewing drafted responses.
- **Presenting information to officers and Members.** Due to the complexity of the business rates retention scheme and the potential difference between NDR income collected and the amount that is retained, it is important that there is a clear understanding of the scheme locally. LG Futures is able to assist local authorities in explaining the scheme and the potential implications locally, if required. This includes our attending meetings to offer support/advice or preparing and delivering a presentation regarding the scheme and its potential implications locally.
- **Further scenario analysis.** We have presented a range of potential scenarios within this report. We could also run further possible scenarios; for example, using individual authorities' own local projections for NDR growth.
- **Further detailed modelling.** Following CLG's decisions regarding the options chosen, it will be possible to update the resource projections included within this report. Using our funding model, with further detail being available about the final design of the scheme and any additional information that may emerge in relation to NDR growth and RPI, LG Futures will subsequently be able to assist local authorities in updating their medium term financial planning figures.

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