Report to the Cabinet

Report reference: *C-011-2013/14*
Date of meeting: *22 July 2013*

Epping Forest District Council

Portfolio: **Finance and Technology**

Subject: **Pooling of Non-Domestic Rates**

Responsible Officer: **Bob Palmer** **(01992 564279).**

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

Recommendations/Decisions Required:

(1) That in principle agreement be given to joining a pool for non-domestic rates;

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

(3) That the work on developing a county-wide pool be supervised through the Essex Strategic Leaders Finance Group; and

(4) That the Council agrees to share equally with other participating authorities the costs of using LG Futures to support this work.

Executive Summary:

The Local Government Finance Act 2012 changed how local authorities are financed by introducing local retention of non-domestic rates. In previous years any increase in non-domestic rates within an area has been paid into a central pool with no direct benefit to the local authority itself. The Government felt it important to incentivise authorities to pursue economic growth by allowing them to retain some of the benefit from growth in non-domestic rates.

By combining in a pool it is possible to retain more of the additional funds from growth in non-domestic rates within a county wide area. Pooling was considered in Essex for 2013/14 but was not pursued. However, Suffolk has implemented a pooling scheme and the modelling of this scheme currently indicates that £2.376 million of funding will be retained in that county which would otherwise have been lost to the central pool.

The Suffolk scheme has been constructed on the basis that no authority can be worse off as a result of joining the pool. It is proposed to develop a scheme for Essex that closely follows the Suffolk model and minimises the amount of growth in non-domestic rates that is paid to the central pool.

Reasons for Proposed Decision:

To provide a structured framework for taking forward work on pooling non-domestic rates.

Other Options for Action:

Members could decide not to pursue the option of pooling, to pool on a different basis to that adopted in Suffolk or that the work should be overseen by a body other than the Essex Strategic Leaders Finance Group.

Report:

The Financial Benefits of Pooling

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

2. Where an authority sees growth in its non-domestic rates it has to pay a proportion of that growth into the central pool as a levy. The levy rate is calculated using the following formula:

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

Using our own figures produces a levy figure of 77%:

£2,909,311 / £12,755,334 = 0.23

1 – 0.23 = 77%

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

3. The advantage that comes from pooling is the inclusion of a large top up authority in the levy calculation substantially boosts the baseline funding level relative to the business rates baseline. Using the Suffolk example, inclusion of Suffolk County Council increases the baseline funding level by £89.723 million and the rates baseline by only £23.322 million. For the Suffolk Pool the calculation becomes –

£107.387m / £116.611 m = 0.92

1 – 0.92 = 8%

4. This means that only 8% of the growth within the Suffolk Pool is now lost to the central pool, based on the current modelling this will mean an additional £2.376 million of growth will be retained in Suffolk in 2013/14. This can be illustrated using their modelling figures in the table below:

	Growth retained no pool £m	Growth retained with pool £m	Gain / (loss) £m
Suffolk County Council	1.482	1.557	0.075
Suffolk Districts	2.963	3.613	0.650
Suffolk Pool Reserve	0	1.651	1.651
Central Government	2.963	0.587	(2.376)
Total Growth	7.408	7.408	

5. The Suffolk Pool Reserve comprises of £1 million retained by the pool to cover any safety net payments that are subsequently required and £0.651 million that is to be spent on projects determined by the Suffolk Leaders and Chief Executives Group. If payments are not ultimately required to support any authority in the safety net the £1 million will also become available for distribution to the pool members.

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

7. Much of the growth in Suffolk is due to the port of Felixstowe and Essex could benefit in a similar way through growth at Stansted. The new owners of the airport have already unveiled a significant improvement scheme for the existing facilities and further investment may follow.

Key Aspects of the Suffolk Scheme

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

(a) Each council will receive and make the same payments as though they had not pooled. This includes the treatment of growth in enterprise zones and new renewable energy schemes.

(b) If a district experiences a fall in business rates they have to absorb that fall, up to the level of the Government's safety net (thus mirroring the Government scheme).

(c) The authority acting as banker receives the money from the other members and pays the net balance to the Government. The retained balance represents the net benefit of pooling.

(d) The banker will pay the equivalent of any safety net payments where needed during the year, to ensure that the Pool completely matches the position a member would have been in if they had not pooled. The payments are then offset against growth from other members when the year-end position is calculated.

9. The other crucial aspect, and one that may prove difficult to agree across Essex, is how the gain from pooling is shared. Whilst Suffolk has a County Council with an integrated Fire Authority and seven Districts (which include three aligned pairs working closely) Essex has separate County and Fire Authorities, two Unitary Authorities and twelve Districts. This means agreement will be necessary from sixteen partners instead of five, although it will still

be possible to construct a pool if some of the Unitary or District Councils in Essex decide not to join in a county wide pool.

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

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

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

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

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

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

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

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

Essex Strategic Leaders Finance Group (ESLF)

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

13. It is suggested that ESLF take forward this work as it is an existing body already established for county wide collaboration. The group has already proved effective in overseeing the work on the introduction of Local Support for Council Tax and achieving agreement on the implementation of technical changes to Council Tax and sharing the financial gains from the technical changes. The next meeting of ESLF is scheduled for 26 July and the group will be considering its work programme at that meeting. The agenda will include a report on Pooling and this report will be made available to colleagues to assist them in taking the project forward through their own democratic processes.

Use of LGFutures

14. Taking forward the work on pooling requires a dedicated and expert resource that is not available in any of the Essex authorities. LGFutures are an established and respected

consultancy who has worked with seven potential pooling groups, five of which became pools (Devon, Leicestershire, Lincolnshire, Nottinghamshire and Worcestershire). Chelmsford City Council has obtained a quote from LGFutures of £18,795 to provide 21 days work to take forward the pooling project. This work includes producing a report, modelling a number of different scenarios and the provision of an excel tool to allow the development of further options. A copy of the full proposal from LGFutures is attached as a background paper.

15. The quote was obtained by Chelmsford City Council on behalf of the Essex Finance Officers Association. The proposal has received wide support from across the county and most of the Chief Finance Officers have confirmed that they are happy with it and support the sharing of the fee equally amongst all participating authorities.

16. When LGF have completed their initial work it is likely that some further resource will be needed to take the pooling project through to completion. In Suffolk the County Council provided a senior officer who led on the project. The scale and source of resource needed in Essex can only be determined once there is a clearer idea of the number of participants and the complexity of the proposed arrangements.

Resource Implications:

If all sixteen of the eligible Essex authorities participate the cost to each authority will be £1,175. It is unlikely that the cost will exceed £2,000 and this amount can be found from savings within the Finance & ICT Directorate.

The benefits cannot be quantified as they will depend on the amount of growth in non-domestic rates in the pooling authorities during 2014/15. However, based on the modelling from the Suffolk scheme it is likely that the benefits will be substantially greater than the costs.

Legal and Governance Implications:

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

Safer, Cleaner and Greener Implications:

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

Consultation Undertaken:

Consultation has been undertaken with both the Essex and Suffolk Finance Officers Associations.

Background Papers:

Proposal from LGFutures.

Impact Assessments:

Risk Management
There is a risk that by not pooling the resources available to Essex authorities are not being

maximised. The risk to each authority is limited by the scheme being constructed such that no authority can be worse off than if they had remained outside the pool.

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?	N/A

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.