

AGENDA ITEM NO. 9

COUNCIL

Date **13 SEPTEMBER 2012**

Title **BUSINESS RATES RETENTION – POOLING SUBMISSION**

1. PURPOSE/SUMMARY

To agree to Cabinet’s recommendation that Fenland District Council be included within the proposal to Government for business rates pooling, in partnership with Cambridgeshire County Council and the five District Councils in Cambridgeshire.

2. KEY ISSUES

- The Business Rates Retention scheme comes into effect from April 2013 and will fundamentally change the way local authorities are funded by government.
- Fenland District Council was part of an expression of interest with Cambridgeshire local authorities on the 26th July 2012.
- Modelling suggests that, as long as Cambridgeshire as a whole can at least retain business rates at their existing levels, then pooling should be beneficial.
- Further work has been carried out by the Cambridgeshire Public Service Board on the pooling arrangements regarding governance, transparency, investment, distribution of revenues and dissolution.
- The proposal is set out within Appendix B and must be submitted to the DCLG by the 19th October 2012.
- The Council will have opportunity to consider whether they remain part of the proposed pooling arrangement during the consultation on the Local Government Finance Settlement.

3. RECOMMENDATION(S)

It is recommended by Cabinet that Council:-

- (i) Note the benefits and risks of pooling business rates as set out within the report;
- (ii) Approve the business rates pooling and governance proposal contained within this report at Appendix B;
- (iii) Authority is delegated to the Chief Executive and Chief Finance Officer, in consultation with the Leader of the Council and Portfolio Holder for Quality Organisation, for agreeing minor changes as appropriate following other partner’s member approval processes in time for sign-off to be secured and the proposal be submitted to the DCLG.

Wards Affected	All
Forward Plan Reference No.	
Portfolio Holder(s)	<p>Cllr Alan Melton, Leader and Portfolio Holder, Policy and Resources</p> <p>Cllr Chris Seaton, Deputy Leader and Portfolio Holder, Open for Business</p> <p>Cllr John Clark, Portfolio Holder, Quality Organisation</p>
Report Originator	<p>Paul Medd, Chief Executive</p> <p>Rob Bridge, Corporate Director and Chief Finance Officer</p> <p>Mark Saunders, Chief Accountant</p>
Contact Officer(s)	<p>Paul Medd, Chief Executive</p> <p>Rob Bridge, Corporate Director and Chief Finance Officer</p> <p>Mark Saunders, Chief Accountant</p>
Background Paper(s)	<p>Business Rates Retention – Pooling Options (Cabinet 21st June 2012)</p> <p>Business Rates Retention Scheme – DCLG guidance.</p> <p>Cambridgeshire Public Service Board reports.</p>

1. BACKGROUND

- 1.1 Under the business rates retention scheme, which is expected to come into force in April 2013 (assuming the passage of the Local Government Finance Bill), authorities are able to come together to form a pooling arrangement for the business rates collected within a Council boundary.
- 1.2 The retention scheme is intended to provide incentives for local authorities to drive economic growth, as the authorities will be able to retain a share of the growth that is generated in business rates revenue in their areas, as opposed to the current system where all business rates revenues are held centrally.
- 1.3 When authorities decide to enter into a pooling arrangement, a single funding baseline and single business rates baseline will be calculated for the whole pool, meaning that a combined tariff and levy is applied to the pool's rates revenue as opposed to this being applied to each individual authority.
- 1.4 This means the level of funds returned to Government will be reduced, therefore potentially allowing the local area to retain a greater share of business rates revenue than it would without a pooling arrangement.
- 1.5 Cabinet approved on the 21st June 2012 to join the other local authorities in Cambridgeshire to submit an expression of interest to the DCLG on the 26th July 2012 with Cambridgeshire County Council as the lead authority for the pool.
- 1.6 Since this date, as also approved, the Cambridgeshire Public Services Board have worked up arrangements for governance, transparency, investment, distribution of revenues and a dissolution of a Cambridgeshire pool. This is for consideration by all potential pooling authorities and for a final decision and submission to the DCLG for a pooling proposal for Cambridgeshire.

2. BENEFITS OF POOLING IN CAMBRIDGESHIRE

- 2.1 Modelling forecasts indicate that there would an increase in rates retained in Cambridgeshire as a whole by forming a pool, as long as negative growth is not experienced.
- 2.2 There are a number of strategic benefits anticipated from pooling across the Cambridgeshire authorities, as the long-established joint approach to growth and development would be underpinned by a joint approach to business rates retention. This would in turn create incentives for a continuing collaborative approach to investment and planning to support business growth and thus to create greater potential for future rates growth, with the growth dividends retained locally and shared across the partnership.
- 2.3 Similarly, pooling across a wider economic area can help to underline the importance of considering the operation of labour markets, housing and transport across administrative boundaries. It can also help to smooth the volatility in rates income across the pool, which may be particularly important should one District-level Council find a sudden loss of rates from, for example, the closure of a major employment site.
- 2.4 Modelling has been undertaken by Cambridgeshire County Council to demonstrate the anticipated effects of pooling in Cambridgeshire. This modelling can be seen at Appendix A. The modelling is of course indicative at this point, but it clearly shows unless economic

growth is below -0.25%, it would be financially beneficial for the Cambridgeshire authorities to pool.

2.5 The modelling that has been carried out also demonstrates that, if all six local authorities in Cambridgeshire form a pool, the levy on business rates growth that is payable to central government would be 36%, rather than around 75% without pooling, a benefit to Cambridgeshire of 39%.

2.6 The figures quoted are estimates at this stage. Although the modelling to date has been carried out using the latest information available, there are still many unknowns and decisions to be made nationally which will impact on the outcome of the funding levels and also the pending Local Government Finance Settlement announcement due in the Autumn.

3. KEY ELEMENTS OF PROPOSAL

3.1 The draft proposal for submission to the DCLG is attached at Appendix 2. This covers all of the key areas required as part of the Government’s pooling prospectus. Specifically this covers:

- Aims and objectives of the pool
- Use of revenues
- A ‘no worse off’ principle
- Proposals on how any pooling gain is distributed
- Treasury Management principles
- Investment decision framework
- Governance arrangements, covering the decision making structure, transparency, dissolution and term commitments

3.2 Using the proposals for how the pooling gain is distributed, if 2% growth is experienced in 2013/14 the distribution will be as follows:

- Strategic investment: £1,288,000
- Cambridge City Council: £128,800
- East Cambridgeshire District Council: £86,940
- Fenland District Council: £98,532
- Huntingdonshire District Council: £175,168
- South Cambridgeshire District Council: £154,560
- Cambridgeshire County Council: £644,000

3.3 The table below sets out the additional funding Fenland District Council would receive for three different growth levels based on the pro-rata distribution of 7.65%. In addition to this funding, Fenland District Council may benefit from the Strategic Investment pot by these funds being allocated to Fenland based projects and also from the County Council allocation which may also be allocated to services within the District.

2013/14	Fenland - 7.65%	Strategic Investment	County
	£	£	£
0% growth	13,885	181,500	90,750
2% growth	98,532	1,288,000	644,000
3.6% growth	172,278	2,252,000	1,126,000

3.4 For Fenland District Council, the three amounts in the first column would be the additional funding we would receive over and above our agreed baseline position and will be one element of revenue growth to the Council as it sets its budget.

4. TIMEFRAMES

- 4.1 The deadline for submission of final pooling proposals, including sign off by all Chief Executives and Section 151 Officers, is Friday 19th October 2012. The proposal needs to proceed through the member processes of all prospective partner authorities in time for this deadline. Working backwards from this demonstrates a need for this proposal to be prepared to proceed through member processes throughout September.
- 4.2 If Cabinet and Council agree for Fenland to continue to be part of the pooling arrangement with these governance arrangements it is recommended that delegated authority is given to the Chief Executive and Chief Finance Officer, in consultation with the Leader of the Council and Portfolio Holder for Quality Organisation, for agreeing any minor changes as appropriate following other partners member approval processes in time for sign-off to be secured and the proposal be submitted to the DCLG by Cambridgeshire County Council.
- 4.3 Government will designate pools in November 2012, alongside the publication of the draft Local Government Finance Review. After this point, while the consultation of the draft Local Government Finance Review is ongoing, there will be a final opportunity for the Council to consider whether to withdraw from the pooling arrangement.
- 4.4 Once the consultation has closed, there will be no further opportunity to withdraw before pooling arrangements are implemented. Financial details in the settlement will allow each authority to compare its anticipated position through pooling with the position it could otherwise expect to be in. If this financial information demonstrates that pooling is not a benefit to Fenland, then the Council can withdraw before the consultation for the settlement closes.
- 4.5 The budget reports for Cabinet and Council in December and February will clearly set out whether Fenland have remained part of this pooling arrangement following the baseline and settlement announcements.

5. RISKS

- 5.1 Assuming countywide economic growth is experienced, it is inherently difficult to accurately forecast business rates growth, therefore weaker than expected economic performance would lead to below-expected benefits.
- 5.2 Modelling demonstrates that pooling would allow the county to retain more revenue than it otherwise would as long as economic growth is experienced – if economic growth is not experienced then pooling would lead to the partner authorities being worse off than otherwise due to the safety net payments being calculated on a pool-wide level rather than individual authority level.
- 5.3 One partner requesting dissolution would require the pool to be dissolved, risking disruption and reduced revenue retention for the other partners if not mitigated.
- 5.4 Due to the level of interest from local authorities across the country in pooling arrangements, which could lead to overall funding issues, there is a risk that the DCLG may propose a different pooling scheme within the final regulations to mitigate this. This could mean that a pooling arrangement for Cambridgeshire may no longer be beneficial.

APPENDIX A: MODELLING OUTPUTS

Growth assumptions from Insight East	2013/14	2014/15	2015/16	2016/17
Total Allocation for Cambridgeshire	£m	£m	£m	£m
No pooling	151.687	142.425	133.850	132.184
With pooling	156.191	148.731	141.951	142.104
Gain/loss from pooling	4.504	6.306	8.101	9.920

0% growth	2013/14	2014/15	2015/16	2016/17
Total Allocation for Cambridgeshire	£m	£m	£m	£m
No pooling	146.713	135.318	124.633	120.842
With pooling	147.076	135.688	125.010	121.227
Gain/loss from pooling	0.363	0.370	0.377	0.385

2% growth	2013/14	2014/15	2015/16	2016/17
Total Allocation for Cambridgeshire	£m	£m	£m	£m
No pooling	149.523	139.174	129.594	126.976
With pooling	152.099	142.581	133.879	132.191
Gain/loss from pooling	2.576	3.407	4.285	5.215

5% growth	2013/14	2014/15	2015/16	2016/17
Total Allocation for Cambridgeshire	£m	£m	£m	£m
No pooling	153.949	145.399	137.803	137.377
With pooling	160.011	153.708	148.551	150.785
Gain/loss from pooling	6.062	8.309	10.748	13.408

10% growth	2013/14	2014/15	2015/16	2016/17
Total Allocation for Cambridgeshire	£m	£m	£m	£m
No pooling	161.908	157.027	153.734	158.355
With pooling	174.238	174.495	177.030	188.284
Gain/loss from pooling	12.330	17.468	23.296	29.929

1% reduction	2013/14	2014/15	2015/16	2016/17
Total Allocation for Cambridgeshire	£m	£m	£m	£m
No pooling	144.614	132.715	121.606	117.431
With pooling	143.763	131.048	119.006	113.858
Gain/loss from pooling	-0.851	-1.667	-2.600	-3.573

Growth % at which pooling generates additional revenue for the county.

-0.25%

APPENDIX B - DRAFT PROPOSAL TO GOVERNMENT

'Growing Cambridgeshire': a proposal for business rates pooling

1. Introduction

This proposal relates to a business rates pool to cover all of Cambridgeshire. This will cover all local authorities in the county, namely:

- *Cambridge City Council*
- *East Cambridgeshire District Council*
- *Fenland District Council*
- *Huntingdonshire District Council*
- *South Cambridgeshire District Council*
- *Cambridgeshire County Council*

As per the expression of interest submitted on 26th July 2012, the name for this pool is proposed to be 'Growing Cambridgeshire'. The lead authority for this pool is proposed to be Cambridgeshire County Council.

2. Aims and objectives

The main aim of the pool will be to more effectively drive economic growth within Cambridgeshire to secure the maximum possible benefit for the county and allow for targeted strategic and local investment of business rates revenue. This will facilitate an improved level of already effective integrated working on strategic investment in economic growth.

Pooling will also provide an additional incentive to all pooling partners to do what it takes to secure economic growth by providing further benefits to the county when growth is experienced. Modelling undertaken to date demonstrates that, financially, the county would retain a greater share of business rates revenue through pooling than it otherwise would do, as long as it experiences economic growth.

Finally the pool will aim to manage, to as great an extent as possible, the volatility that the partner authorities would otherwise face through the business rates retention scheme. In effect, the pool will be able to act as insurance for the pooling partners in the case of negative economic events affecting one of the prospective partner authorities. How this precisely would work needs to be discussed and determined locally.

3. Use of revenues

As the lead authority, Cambridgeshire County Council is expected to be the channel through which payments from and to the pool are made. Cambridgeshire County Council will also be responsible for supplying information on behalf of the pool concerning the operation of the scheme. It is extremely important that any revenue that is to be distributed to the partner authorities is distributed rapidly to ensure that disruptions in funding are not experienced. All partners should gain feedback from their external auditors on these arrangements.

3.1 'No worse off'

It is crucial to the operation of this pool that, as long as countywide economic growth is experienced, no partner authority is worse off than it would be without having entered into the pool. Failure to do so would disrupt the delivery of necessary services and the use of economic growth levers by the partner authorities and would be to the detriment of all partners. If negative economic growth is experienced to the point at which a safety net payment would have been

triggered by an individual authority, modelling demonstrates that the pool would be worse off than if each of the partner authorities operated independently, due to the safety net payment arrangements working on a pool-wide level rather than at an individual authority level. This provides a strong growth incentive but is also an area of risk, and arrangements will need to identify actions in the case of negative economic growth as the 'no worse off' principle could not then be applied to individual authorities whose business rates income has reduced significantly.

The annual Local Government Finance Settlement is expected to make available figures for the level of business rates revenue that each local authority is able to retain. Where those authorities are in a pool, this is expected to demonstrate both the revenue retained by the pool as a whole and the amount that each individual authority could expect to retain if it were not a member of a pool. This will meet the need for a system of shadow calculations, with the latter figure taken as the baseline figure in this pool in a context of economic growth being experienced, and each partner authority being guaranteed at least that amount of revenue. Under a pooling arrangement in which economic growth is experienced, Cambridgeshire is expected to retain more revenue than the sum of those baselines – this is referred to here as the “pooling gain”.

3.2 Use of the pooling gain

There are two apparent options for the use of the pooling gain: to distribute the increment between the partner authorities on a pro rated basis; and to retain the increment as a strategic investment fund to be invested on behalf of all pooling partners. It is proposed that 'Growing Cambridgeshire' will adopt a hybrid stance with half of the gain being distributed on a pro rated basis between the partner authorities and the other half being retained for strategic investment. However, to protect all authorities through the 'no worse off' principle, any authority who would have been better off if they had remained outside the pool will receive a balancing payment to remedy their loss, and this would be a first call on any pooling gain. The balance would then be distributed under the hybrid approach.

Pro rated distribution

It is proposed that the share of the pooling gain that is distributed between the partner authorities is distributed on the basis of population. This would lead to the following distribution of this share (according to Census 2011 results):

- *Cambridge City Council: 10%*
- *East Cambridgeshire District Council: 6.75%*
- *Fenland District Council: 7.65%*
- *Huntingdonshire District Council: 13.6%*
- *South Cambridgeshire District Council: 12%*
- *Cambridgeshire County Council: 50%*

Strategic investment

The remaining 50% of any pooling gain will be retained for strategic investments to support economic growth across the county. Decisions regarding the investment of the share of the pooling gain that is to be allocated for strategic investment will be made in collaboration between all of the pooling partners through a governance framework (detailed in section 5), and according to an agreed set of investment priorities (as per section 4).

Strategically investing this share of the pooling gain will help to bring a greater recognition of cross-boundary issues and of cross-boundary investment and economic growth potential. By making decisions regarding this investment in a collaborative way, the partners can ensure that it is used in a truly effective manner to help drive economic growth in and around Cambridgeshire, for example by targeting investment where it would contribute the greatest Gross Value Added.

3.3 Treasury Management

As the lead authority, Cambridgeshire County Council's Treasury Management Strategy and Policies will be used for any investments made from when the pooled funds are held (subject to agreement from all partners external auditors). A mechanism to redistribute investment income to the Districts will be agreed in line with the 'no worse off' principle.

4. Investment

There will need to be a framework implemented through which investment decisions can be made regarding the strategic investment share of the pooling gain, along with an agreed set of priorities to guide that investment, which will need to reflect economic growth potential in particular. It is proposed that these priorities are initially agreed and confirmed through the process detailed in section 5.1. These would then be reviewed on an annual basis.

5. Governance

Investment decisions will need to be made in accordance with agreed investment priorities and by the elected representatives of the authorities making up the pool.

5.1 Decision-making structure

It is proposed that decisions regarding strategic investment and the governance of the pool will be made collectively by the Leaders of each of the partner authorities, supported by senior officers. This Leaders Group would act as the strategic lead for the pool. It is proposed that this group have responsibility for setting and reviewing the investment priorities, making investment decisions and reviewing progress. Meetings of this group will operate in an integrated, accountable and transparent way.

On an annual basis – expected to be in January of each year – the Leaders Group would meet to review the investment priorities and set them for the coming financial year, as well as to decide on an investment programme for that period. These decisions would then be put to the member processes of each partner authority for approval in time for the coming financial year.

5.2 Transparency

Through the key role played by each partner authority's member processes, transparency would be ensured. For the sake of transparency the pool will need to regularly publish financial information to allow public and political scrutiny of the arrangements and of performance. It is proposed that annual statements are published through each of the partner authorities, detailing business rates retained, use made of the pooling gain, and investments made over that financial year. It is proposed that Overview and Scrutiny functions are exercised through the existing effective arrangements of the partner authorities to ensure transparency and accountability.

5.3 Dissolution

When a partner authority requests a pool's dissolution, it must be dissolved by DCLG. For the following financial year, unless a new pool is formed, the partner authorities would return to their individual tariff, top-up, levy and safety net arrangements. Given the significant disruption involved in dissolution, the pooling arrangements will include a requirement for any partner authority that intends to request dissolution to notify the other partner authorities of that intention before the end of the first half of the financial year (30th September). If that notification is not made before this time, then this would take effect from the financial year following the next financial year.

If the pool is dissolved, then it will continue on its pooled basis until the end of the financial year. Arrangements within the pool would be expected to continue until that time. If this is the case, then arrangements to re-form the pool with altered membership can be worked up and put in place, as long as this meets DCLG's timeframes.

5.4 Term commitments

As part of business rates pooling, the partner authorities can agree to commit to remain members of the pool for a number of years, although there is no obligation to do so. It is proposed that no term commitments are set for the Growing Cambridgeshire pool, however the possibility of committing to set terms in the future to provide greater certainty to all partners should be kept under consideration.

6. Signatures

TO BE COMPLETED FOLLOWING FORMAL POLITICAL APPROVAL BY EACH PARTNER AUTHORITY