Agenda Item No: 9

BUSINESS RATES POOLING

To:	**Cabinet**		
Date:	**10th July 2012**		
From:	**Alex Plant: Executive Director, Economy Transport & Environment**		
Electoral division(s):	**All**		
Forward Plan ref:	**N/a**	*Key decision:*	**No**
Purpose:	**To seek approval to express an interest, in association with the County's City and District Councils, in forming a pool for business rates retention and to work up a proposal for a pool for determination at a later date.**		
Recommendations:	**Cabinet is asked to:**		

a) Approve an expression of interest to Government, with the County's City and District Councils, in working up a proposal for a Cambridgeshire pool.
b) Ask the Cambridgeshire Public Services Board to work up arrangements for a proposal for a Cambridgeshire pool, with a view to taking a decision on pooling in line with government timeframes.
c) Agree that Cambridgeshire County Council should signal to partner authorities that it would be willing to act as the lead authority if a pool were to be formed.

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1. BACKGROUND

1.1 One of the features of the Local Government Finance Bill, currently going through Parliament, is the retention of a proportion of the business rates revenue generated in a local area by the relevant local authorities.

1.2 Business rates retention 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 The new system will preserve the existing Spending Review 2010 settlements for individual authorities in 2013/14 through a system of tariffs and top ups. For each council, a baseline position is set, based on their 2010 funding settlement and their 2010 business rates yield. These figures are then used to set the levy rate, as explained in section 2 of Appendix A. Depending on the performance of business rates yields thereafter, councils will either be subject to a tariff or a top-up payment.

1.4 In two-tier areas 80% of business rates will be retained by district or city councils. One of the consequences of this is that county councils will usually be “topped up” through this system as their business rates income will fall a long way behind their funding needs. And districts in two tier areas, if they are experiencing any growth in business rates income, will usually be subject to a tariff. In future years any ‘excessive’ changes in funding for authorities would further be dampened through levies for those areas seeing very strong rates growth and through safety nets for those seeing big reductions in rates income.

1.5 The Local Government Finance Bill also allows local authorities to form pools for the purposes of business rates retention. It is expected that pooling could offer local authorities an opportunity to retain more of the rates generated in their local areas and could allow them to use that additional revenue more effectively to drive future economic growth, which in turn should increase future business rates yield.

1.6 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. This can deliver collective benefits for those involved in the pool.

1.7 If a pool is dissolved then the member authorities would revert to their individual baselines, tariffs and levies.

2. BENEFITS OF POOLING IN CAMBRIDGESHIRE

2.1 Modelling has been undertaken which demonstrates that, under the majority of scenarios, a pool that incorporates all 6 Cambridgeshire local authorities would see a greater total amount of business rates revenue retained than if no pool were formed.

General benefits of pooling

2.2 The key benefits to local authorities of pooling business rates are that it can:

- provide a new tool to deliver what is needed to promote growth and jobs, allowing investment decisions to support economic priorities;
- encourage collaborative working across local authorities, rather than constraining activity within administrative boundaries;
- allow the benefits from investment in economic growth to be shared across the wider area, providing a growth dividend to the partners; and
- help local authorities to manage volatility in income by sharing fluctuations across budgets.

2.3 Pooling could also place authorities in a more beneficial collective position than would otherwise be the case as it could see the tariffs and levy rates reduced, allowing the members of the pool to benefit from additional retained income.

Specific benefits of pooling in Cambridgeshire

2.4 The modelling that has been carried out (Appendix A) demonstrates that, if all six local authorities in Cambridgeshire form a pool, the levy on business rates growth that is payable to central government could be expected to amount to 36%, rather than around 75% without pooling. These figures are indicative only at this point, but demonstrate the potential benefits of pooling in terms of a reduced levy rate.

2.5 Under a 0% growth scenario, modelling shows that such a pool could be £0.363m better off in 2013/14 than the collection of individual authorities operating outside of a pool. Using growth assumptions from EEDA's Insight East forecasts, the anticipated benefits from pooling rise to around £4.5m for 2013/14 and build up each year thereafter, with a predicted pooling benefit of nearly £10m in 2016/17. If additional revenue at these levels could be secured through pooling, it would benefit all residents and businesses in Cambridgeshire and would put the authorities collectively in a significantly better position to drive future sustainable economic growth than if each authority were to go it alone.

2.6 The modelling shows that, as long as Cambridgeshire can avoid a sustained diminution in business rates, the county as a whole would benefit from pooling. As the county is expected to experience economic growth (and so increased business rates), there is a case for the six local authorities to form a pool and benefit from this likely additional revenue.

Safety net

2.8 As part of the business rates retention regime, an authority whose rates drop below a set percentage of their funding baseline (likely to be 90%) would trigger a 'safety net' payment from central government to make up the difference to that set percentage – this is to be funded through levy revenue.

2.9 Under a pooling arrangement, a safety net payment will be triggered according to the baselines of the pool rather than the individual authorities, so it is important to consider the costs and benefits of this where an authority would be relevant for a safety net payment. Since none of the Cambridgeshire authorities are expected to trigger a safety net payment, this is not expected to be an issue for a Cambridgeshire pool.

3. FUNCTIONING OF A POOL

Geographical coverage

3.1 Pools are expected to operate on the basis of a whole local authority area – an authority cannot be in two pools. The most obvious geographic alignment in a two-tier area such as Cambridgeshire this could be to operate a countywide pool. A smaller pool, say of the County Council and some District Councils, would still be beneficial. It could also be possible, though complex, to operate on a LEP-wide basis.

Investment and distribution of revenues

3.2 Under pooling arrangements, it will be left to the pools themselves to decide how to invest and distribute revenues within the pool, and how best to support shared economic priorities across the pool.

Lead authority

3.3 Under pooling arrangements, one member authority must be nominated to act as a lead authority. Payments from and to the pool would be channelled through this lead authority, and the lead authority would be responsible for supplying any information on behalf of the pool in connection with the operation of the rates retention regime.

Dissolution

3.4 If any of the conditions set when a pool is designated are breached, DCLG will be able to dissolve a pool, following consultation with its members and other relevant people. DCLG must dissolve a pool when a member authority requests its dissolution. Provision for dissolution is expected to be made as part of pooling proposals.

Transparency

3.5 In any pooling arrangement, transparency will be important. As such, Government expects pools to publish their pooling arrangements along with financial information on the operation of the pool.

4. PROCESS

4.1 Local authorities are invited to submit expressions of interest to DCLG by Friday 27th July 2012. It is recommended that an expression of interest be put forward for a Cambridgeshire pool, consisting of all six local authorities in the county, in the knowledge that this can be withdrawn over the months preceding the designation of pooling proposals if it is not considered to be appropriate.

4.2 DCLG will have to make a pooling designation for a pool to come into effect before local authorities are notified of the basis on which they intend to calculate tariffs and top-ups – i.e. before the publication of the draft Local Government Finance Report, which is expected to be published in November or December.

4.3 In order to ensure that pools come into effect in time for the start of the business rates retention regime, the timetable anticipated by DCLG for pooling is:

- 17.05.2012: Invitation to bring forward pooling proposals
- 27.07.2012: Deadline for submission of expressions of interest
- Sep. 2012: Develop proposals for consultation
- Oct. 2012: Consult on pooling proposals
- Nov. 2012: Designation of pooling proposals
- Apr. 2013: Business rates retention begins

4.4 If it comes to developing a firm pooling proposal after submitting an expression of interest, a template form will need to be submitted for the pool. The key questions that are asked in the template application form, and will therefore need to be considered, are:

- What is the aim/rationale for the pool?
- How, if at all, does the pool support the area's growth priorities (including LEP strategy and priorities)?
- Is there a pooling agreement setting out governance structures for management of the pool, decision making structures, how investment decisions will be made, and how the pool will handle dissolution?
- Has the pooling agreement been signed off by the Chief Executive and Section 151 officer for each local authority within the pool?
- Is there a lead authority that has been agreed by the pool? If so, which?
- Briefly set out how the pool will provide transparency to its decision making.

4.5 There is time between submitting an expression of interest and committing to a pooling arrangement to work through these questions and come up with a governance arrangement that would be fit for purpose. It is suggested that the Public Service Board be asked to work this up for consideration by Councillors across the six local authorities in the Autumn. Although any authority could be the lead authority within the pool (the penultimate question above), the County Council may be best placed to take on this role, not least as it would cover the whole geographic area to which the pool related.

5. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING

5.1 Developing the local economy for the benefit of all

The decision to express an interest in pooling business rates would have no significant implications for this priority, nor would working up arrangements in case a pool is formed.

The formation of a pool for business rates would be likely to both increase the level of integration of local strategies and plans, thereby increasing the effectiveness of efforts to drive the growth of the local economy. Pooling would also be likely to make available additional funding for investment in the local economy.

5.2 **Helping people live healthy and independent lives**

There are no significant implications for this priority in relation to expressing an interest in pooling. However, if pooling were to generate additional funding for Cambridgeshire, this could help to achieve our goals against this priority.

5.3 **Supporting and protecting vulnerable people**

There are no significant implications for this priority in relation to expressing an interest in pooling. However, if pooling were to generate additional funding for Cambridgeshire, this could help to achieve our goals against this priority.

5.4 **Ways of Working**

Expressing an interest in pooling business rates along with the District Councils of Cambridgeshire would demonstrate leadership by showing local willingness to take more integrated approach to investments that would support economic growth and generate future business rates growth.

Pooling would show willingness among the local authorities of Cambridgeshire to work closely at the local level by both investigating the possibility of strategically investing additional resources where they can best deliver local results and retaining a greater share of business rates revenue than would otherwise be the case.

A business rates pool would, in the majority of scenarios, make more funding available for Cambridgeshire. It could also allow for more strategic investment in growth. Expressing an interest in forming a pool could help to achieve these goals.

6. SIGNIFICANT IMPLICATIONS

6.1 **Resource and Performance Implications**

Expressing an interest in pooling would have no implications for resource and performance. If a business rates pool were to be formed, then it is likely that greater levels of funding would be retained in Cambridgeshire than otherwise.

6.2 **Statutory, Risk and Legal Implications**

There are no statutory or legal implications.

Expressing an interest in pooling business rates and working up the outline of a pooling system could increase the reputation of the Cambridgeshire local authorities with business by demonstrating an eagerness to more effectively drive local economic growth.

6.3 **Equality and Diversity Implications**

There are no significant implications for any of the prompt questions within this category.

6.4 **Engagement and Consultation**

Discussion on the proposals has taken place with members and senior officers from all of the local authorities in Cambridgeshire. Senior members have been consulted on the proposals, and their views have been taken into consideration.

7. RECOMMENDATIONS

7.1 As set out in the Cover Sheet.

Source Documents	**Location**
Department for Communities and Local Government: Business Rates Retention Scheme Pooling Prospectus.	http://www.communities.gov.uk/publications/localgovernment/businessratespooling

Annex A : LGSS Modelling Report

Pooling – To pool or not to pool

1. Introduction

This paper looks at how levies and safety nets operate for single authorities and then how they would operate in a pooling scenario. It will look at the potential benefits or disadvantages of pooling with some basic scenario modelling to illustrate where a pool would be beneficial for the county.

2. Calculating the Levy for Individual Authorities.

The Levy is calculated as follows:

1 - (Spending Baseline / Business Rates Baseline)

So for an authority with a spending baseline of £3.614m and a business rates baseline of £20.408m their levy rate would be calculated as

1 – (3.614 / 20.408) = 82.3%

This means that everything that the authority collects (and keeps – after the central share, any precepting authority payments and their tariff payment) would be subject to the levy. In other words, they could only keep 17.7% of any increases above their spending baseline.

For example:

If this authority grew their rates by 10% from £20.408m to £22.449m, an increase of £2.041m, they would pay 82.3% of the increase as a levy and keep just 17.7%

82.3% of £2.041m = £1.680m: Given to Central Government
17.7% of £2.041m = £0.361m: Kept by the authority

We know this is correct as £0.361m is 10% of their spending baseline (£3.614m) and enforces the levy rule that a 10% increase in business rates must not exceed 10% of spending baseline.

3. Calculating the Safety Net for Individual Authorities

The Safety Net is only triggered when an authority's business rates income (i.e. after central share, precepting authority payments and tariff/top-up) falls by more that x% below the baseline funding level.

So, for the above example authority, assuming an 8% safety net, they would only receive a safety net payment if their income fell below £3.325m (£3.614 minus 8%).

4. What Happens When You Form a Pool?

When authorities decide to enter a pooling arrangement the DCLG will calculate a single funding baseline and a single business rates baseline for the whole pool. This will simply be a sum of all the pool members' individual baselines.

Authority A
Business Rates Baseline: £100m
Funding Baseline: £50m
Tariff £50m

+

Authority B
Business Rates Baseline: £50m
Funding Baseline: £150m
Top-up £100m

+

Authority C
Business Rates Baseline: £100m
Funding Baseline: £75m
Tariff £25m

=

POOL
Business Rates Baseline: £250m
Funding Baseline: £275m
Top-up £25m

In this example, local authorities A and C benefit by being part of the pool as the pool becomes a top-up authority so local authorities A and C no longer pay a tariff.

Cambridgeshire example; if the county council and all the districts in Cambridgeshire decided to form a pool the new baselines would be as follows:

Authority	Business Rates Baseline	Spending Baseline	Tariff (Red) / Top-up
	£m	£m	£m
Cambridgeshire	25.950	61.740	35.791
Cambridge City	34.958	4.689	-30.269
East Cambridgeshire	6.957	2.747	-4.210
Fenland	8.812	3.897	-4.915
Huntingdonshire	23.202	5.166	-18.036
South Cambridgeshire	26.626	2.951	-23.675
POOL	**126.505**	**81.191**	**-45.314**

Calculation of baselines are shown in Appendix A below.

The Pool's Business Rates Baseline would be £126.505m, the Pool's Funding Baseline would be £81.191m and then the Pool would be required to pay a tariff of £45.314m to Central Government.

5. Calculating the Levy for the Pool

For the purposes of calculating the levy (and eligibility for receiving any safety net payments) the pool is treated as a single entity by Central Government. Therefore, using the same formula as before, the pool's levy rate would be:

$$1-(81.191 \div 126.505)=36\%$$

This means that 36% of any growth in income above £81.191m must be paid to Central Government as a levy.

Comparing the pool's levy rate with some of the individual authorities' previous levy rates it becomes clearer where some of the financial benefit of forming a pool comes from.

Authority	Business Rates Baseline	Spending Baseline	Tariff (Red) / Top-up	Levy Rate
	£m	£m	£m	%
Cambridgeshire	25.950	61.740	35.791	
Cambridge City	34.958	4.689	-30.269	-87%
East Cambridgeshire	6.957	2.747	-4.210	-61%
Fenland	8.812	3.897	-4.915	-56%
Huntingdonshire	23.202	5.166	-18.036	-78%
South Cambridgeshire	26.626	2.951	-23.675	-89%
POOL	**126.505**	**81.191**	**-45.314**	**-36%**

Rather than pay a levy on growth of around 75% the rate falls to just 36%.

Depending on the make-up of the growth patterns in the pool's authorities it may be possible to have some authorities growing very healthily whilst others grow at a slower pace or decline and not result in any levy payment.

However, this does mean that the county council, who never paid a levy (as a top-up authority) will now become levy-able.

6. Calculating the Safety Net for the Pool

As explained above, for the purposes of levy and safety net calculations a pool is treated as a single body. The result is that the pool will only receive a safety net payment if the pool's income falls more than x% below £81.191m.

Individual authorities will not receive safety net payments if they see significant decline – only if it is enough to push the whole pool below the safety net threshold.

7. Pooling – Positives and Negatives

There are some rough guidelines to forming pools:

- Authorities who tend to pay high tariffs (frequently districts) will need to pool with a top-up authority (frequently a county council) in order to see the significant reduction in the levy rate
- Authorities who would have received a safety net payment will need to consider whether the benefits of joining the pool would outweigh the loss of the safety net payment
- Similarly, authorities forming a pool will also need to consider whether they are able to "support" an authority who would individually have triggered the safety net
- The only direct financial benefit to shire counties to forming a pool is any agreement reached within the pool to share some of the gains with the upper tier authority.

Depending on the growth predictions in each area there could be significant gains to pooling – aside from the obvious benefits of joint working and collaboration. As illustrated above, much of these gains will tend to come from the reduced levy rate.

However, if it is felt that the pool's area, or some members of a pool, could be heading for significant falls in income then it may be worth carefully considering whether they and the pool are better off separate, at least until the period of decline has passed.

This means that growth forecasting will be a key factor in deciding whether areas will benefit from pooling.

The tables in Appendix B show the potential gains / losses that could be expected from pooling across Cambridgeshire for growth levels of 0%, 2%, 5% and 10% over the 4 years. The appendix also shows the impact of pooling using growth figures obtained from Insight East which were used for the modelling exercise undertaken in October last year.

8. Risks

These figures come with some very large caveats.

- There are still many unknowns and decisions to be made nationally which will impact on the outcome of future modelling.
- The figures have been calculated using the Society of County Treasurers model which is yet to be updated following the announcements from 17th May. (This should be ready shortly).
- Impact of Enterprise Zones could be significant but have not been included here for simplicity's sake.
- A risk analysis has not been undertaken to determine the potential impact of an authority in the pool losing a large employer which forms a large proportion of their collected business rates.

These figures come with some very large caveats (see risks above). Taking those into account this basic modelling exercise shows that as long as Cambridgeshire can retain business rates close to their existing levels the county would benefit from pooling.

Sharon Gregory
Group Accountant
LGSS
30th May 2012

Appendix A

Baseline Calculation

	National Business Rates Forecast	National Business Rates Forecast Local Share	Average Contribution to Business Rates over the Past 5 years	Rates Allocation per billing authority	Shared Between Service Tiers	2012/13 Formula Grant including 2011/12 Council Tax Freeze Grant	2013/14 Formula Grant SCALED TO NNDR TOTAL	Tariff (Red) / Top-up	
	£m	£m	%	£m	£m	£m	£m	£m	% of shared rates
ENGLAND	**22,199.534**	**11,099.767**	**100%**	**11,099.767**	**11,099.767**	**20,354.001**	**11,099.767**		
Cambridgeshire					25.950	113.215	61.740	35.791	138%
Cambridge City			0.41%	45.107	34.958	8.599	4.689	-30.269	-87%
East Cambridgeshire			0.08%	8.977	6.957	5.038	2.747	-4.210	-61%
Fenland			0.10%	11.370	8.812	7.146	3.897	-4.915	-56%
Huntingdonshire			0.27%	29.938	23.202	9.473	5.166	-18.036	-78%
South Cambridgeshire			0.31%	34.357	26.626	5.412	2.951	-23.675	-89%

Appendix B: Growth Scenarios

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 becomes viable.	-0.25%