Agenda Item No: 8

BUSINESS RATES POOLING – PROPOSAL TO GOVERNMENT

To:	**Cabinet**		
Date:	**17th September 2012**		
From:	**Alex Plant: Executive Director, Economy Transport & Environment/Matt Bowmer: Head of Finance**		
Electoral division(s):	**All**		
Forward Plan ref:	**2012/046**	*Key decision:*	**Yes**
Purpose:	**To agree to submit a proposal to Government for the purposes of business rates pooling, in partnership with all Cambridgeshire City and District Councils.**		
Recommendations:	**Cabinet is asked to:**		

a) Approve the business rates pooling proposal contained in this report.

b) Agree to act as lead authority for the purposes of business rates pooling.

c) Designate responsibility to the Chief Executive, in consultation with the Leader of the Council, for making minor changes as appropriate following other member processes in time for sign-off to be secured and the proposal to be submitted.

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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 pool in order to further incentivise them to drive economic growth, as well as to bring a more integrated approach to this. By forming a pool that combines tariff and top-up authorities the levy on growth that is returned to government can be reduced, thereby potentially allowing the local area to retain a greater share of business rates revenue than it would without a pooling arrangement. The effect and benefit of this depends on economic circumstances and growth.

1.2 The Enterprise Zones will operate independently of the business rates retention and pooling schemes, so rates receipts from the Alconbury Enterprise Zone are separated from this process. Arrangements are in place between the Council, Huntingdonshire District Council, the Local Enterprise Partnership and the developers to manage the risk of displacement.

1.3 Preliminary modelling forecasts an increase in rates retained in Cambridgeshire as a whole by forming a pool, as long as negative growth is not experienced. On 26th July 2012, an expression of interest was submitted to Government with regard to forming a pool for the purposes of business rates retention in Cambridgeshire. This included the Council as the lead authority. Work has since been undertaken by the Public Services Board to agree a proposal to submit to each prospective partner authority's member processes. This is shown in section 4.

2. BENEFITS OF POOLING

2.1 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.

2.2 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.

2.3 Modelling has been undertaken to demonstrate the anticipated effects of pooling in Cambridgeshire. This is attached as an annex to this paper. The modelling is of course indicative at this point, but the conclusions are clear. Unless economic growth is below -0.25%, it would be financially beneficial for the Cambridgeshire authorities to pool.

3. TIMEFRAMES

3.1 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. It is recommended that Cabinet delegate responsibility to the Chief Executive to make any necessary minor changes resulting from member processes, in consultation with the Leader of the Council, in advance of sign-off and submission.

3.2 Government will designate pools in November 2012, alongside the publication of the draft Local Government Finance Report. During the period of statutory consultation of the draft Report, there will be a final opportunity to withdraw from the pooling arrangement proposed. After this point, no further opportunity will then be available to withdraw before the pooling arrangements are implemented (although the dissolution arrangements will then apply). Financial details published in the draft Report will allow each authority to compare its anticipated position through pooling with the position it could otherwise expect to be in.

4. DRAFT PROPOSAL TO GOVERNMENT

<u>'Growing Cambridgeshire': a proposal for business rates pooling</u>

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 Review 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 outwith 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

5. FINANCIAL IMPACTS

5.1 Modelling demonstrates a positive financial impact from pooling, as long as countywide economic growth is above -0.25%. This provides indicative figures that can be used for illustration. For example, using the proposals made above for use of the pooling gain, if countywide growth of 2% is experienced in 2013/14 the distribution would 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

5.2 If negative economic growth is experienced, then the 'no worse off' principle would not be applicable and revenue retained would be likely to be lower through pooling than otherwise. This is an inherent risk of pooling.

6. KEY RISKS

6.1 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.

6.2 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.

6.3 One partner requesting dissolution would require the pool to be dissolved, risking disruption and reduced revenue retention for the other partners if not mitigated.

6.4 As mentioned in paragraph 3.2 above, Government has not yet finalised the details of the scheme they will propose through the Local Government Finance Report. It could be that there are significant changes to the current proposals which could materially alter the assessment of the benefits of pooling as set out in this paper. Any such material changes would be shared with Cabinet at that point, and as mentioned above, it would be still be possible to withdraw our pooling proposal at this stage.

7. ALIGNMENT WITH PRIORITIES AND WAYS OF WORKING

7.1 Developing the local economy for the benefit of all

The formation of a pool for business rates retention 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, and to make available additional funding for investment in the local economy.

7.2 Helping people live healthy and independent lives

No significant implication for this priority is expected, however the additional revenue that could be retained through pooling could be used to help achieve our goals against this priority.

7.3 **Supporting and protecting vulnerable people**

No significant implication for this priority is expected, however the additional revenue that could be retained through pooling could be used to help achieve our goals against this priority.

7.4 **Ways of Working**

Pooling would demonstrate a willingness among the local authorities of Cambridgeshire to work closely at the local level by both 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.

8. SIGNIFICANT IMPLICATIONS

8.1 **Resource and Performance Implications**

The formation of a pool would be likely to allow the retention of a greater level of funding than would otherwise be the case, with a share of this pooling gain being allocated to the Council.

8.2 **Statutory, Risk and Legal Implications**

There are no statutory or legal implications.

8.3 **Equality and Diversity Implications**

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

8.4 **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.

8.5. **Health Implications**

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

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: 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%