

29 October 2014

Agenda Item: 10

Finance and Resources Committee - Urgent Business

Essex Wide Pool for Business Rates

Report of: *Jo-Anne Ireland – Acting Chief Executive*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 A report presented to Policy and Resources Board on 13 December 2012 outlined the changes to the distribution of business rates income with effect from 1 April 2013.
- 1.2 Under the Business Rates Retention Scheme, Local Authorities are able to voluntarily form a business rates retention pool. Local Authorities within a pool are treated as a single authority with all Tariffs and Top-Ups being combined and a single levy rate being applied.
- 1.3 This report considers the concepts and implications of joining an Essex Wide Pool in 2015/16 and seeks a decision on whether Brentwood Borough Council should be included.
- 1.4 In its meeting on 9 October 2013 the Performance and Resource Committee agreed not to join the Essex Wide Pool in 2014/15.

2. Recommendation(s)

- 2.1 **To agree that the Council joins the Essex Wide Pool for business rates in 2015/16.**

3. Introduction and Background

- 3.1 With effect from 1 April 2013, Business Rates continues to be collected locally, with 50% being retained by Local Authorities and 50% being paid over to the Department for Communities and Local Government (DCLG).
- 3.2 A system of top-ups and tariffs has been established to allow the locally retained business rates to be redistributed from high business rate yield

Authorities (e.g. Brentwood) to low-yield Authorities. This is designed to ensure that no Authority is worse off under the new arrangements at the outset.

- 3.3 Levies are also payable on any growth in Business Rates (above the pre-determined Baseline) which is then used to provide a safety net for those Authorities experiencing little or negative growth.

4 Issue, Options and Analysis of Options

4.1 Under the business rates retention scheme, Local Authorities are able to voluntarily form a business rates retention pool. Local authorities within a pool are treated as a single authority, with all Tariffs (i.e. where the NDR Baseline is higher than the Baseline Need) and all Top-Ups (i.e. where the NDR Baseline is lower than the Baseline Need), being combined, and a single levy rate being applied. Similarly, safety net eligibility is also calculated at aggregate pool level.

4.2 Through pooling, groups of authorities are able to reduce the levy amount paid i.e. by acting as a single authority; the levy amount would be lower than had they acted individually. This therefore can create a gain from pooling, over and above what pooling authorities would have received, had they acted individually.

4.3 Local autonomy to distribute resources amongst pool members applies; for example, authorities could decide that each member will receive at least the same amount as they would have if a pool had not been in place, and additional resources could be distributed through local discretion or weighted (potentially according to the level of benefit received).

4.4 The main points therefore in relation to pooling are that:

- Pooling is entirely voluntary.
- Local authorities will themselves determine a pool's geographic coverage, including wider than within a county-region, although government has the ability to refuse pooling proposals where they perceive that there is no clear rationale for the proposed pool. Government also has the right to consider whether the operation of pools could impact upon the level of funding available for the safety net and (in exceptional circumstances) consider such affordability, when making decisions on pools.
- One pool member will need to act as the lead authority, in terms of payment/administrative arrangements (i.e. Essex Country Council).
- Pools can be any size, although authorities can only be a member of

one pool.

- Pools will need to determine their own governance arrangements and transparently publish their pooling arrangements and financial information on how the pool will operate.
- Political support and understanding of the shared risks and rewards is required.
- A mechanism for how the pool will manage the impact of volatility at an individual authority level needs to be agreed.
- There is a “cooling off period” for all Authorities to withdraw from the pool once the draft Local Government Finance Report is issued.
- There are currently 18 pools in operation.

4.5 Local Authorities who intend to pool for the financial year 2015/16 must notify DCLG by 31 October 2014.

4.6 To assist with the analysis of the financial implications of pooling arrangements; LG Futures were commissioned to evaluate the potential gains and associated risks of an Essex Wide Pool in 2014/15 and this work has been updated for 2015/16.

4.7 The following table shows that, if all the Essex authorities currently considering pooling were acting as a single pool, there would be an overall Top-Up of £29.9m i.e. the NDR Baseline is £29.9m higher than Baseline Need. As the pool is in a Top-Up position no levy would be payable. The individual levy rates of the authorities are also shown in the table.

Local Authority	Top up/ Tariff	Baseline Need (£m)	NDR Baseline (£m)	Top up/ (Tariff) £m	Levy
Braintree	Tariff	3.1	15.8	(12.7)	50%
Brentwood	Tariff	1.5	11.8	(10.3)	50%
Castle Point	Tariff	2.0	5.9	(3.9)	50%
Chelmsford	Tariff	3.0	30.6	(27.6)	50%
Colchester	Tariff	3.9	23.4	(19.5)	50%
Epping Forest	Tariff	3.0	13.0	(10.0)	50%
Essex	Top up	157.3	41.9	115.4	0%
Essex CFA	Top up	14.7	6.2	8.5	0%
Rochford	Tariff	1.5	6.3	(4.8)	50%
Tendring	Tariff	4.5	9.7	(5.2)	50%
Total	Tariff	194.5	164.6	29.9	0%

4.8 The financial modelling undertaken by LG Futures for 2014/15 has been updated for 2015/16 and projections show that an Essex Wide Pool will gain £3.5m depending on which Authorities choose to join the pool.

4.9 The pooling group would need to determine in advance (within its governance arrangements) how any net benefit will be distributed. It is important to note that:

- The additional resources would allow all of the authorities to receive the amount that they would have received if they had acted individually and also receive an additional amount, due to the benefits of pooling.
- It is for the pooling group to determine how the gains from pooling are to be split.
- The projected gains above are based on local projections for business rates income, which are not guaranteed. The actual amount of business rates collected will differ and therefore the forecast gains should only be used as a guide.

4.10 It is proposed the pool distributes any gains or losses based on the following proportions:

- 25% on Baseline Need;
- 25% on retained NDR income;
- 50% on NDR growth.

The projection of how this method would allocate the estimated £3.5m pooling gain is shown in the table.

Local Authority	25% Baseline Need (£000)	25% Retained Income (£000)	50% NDR Growth (£000)	Total Gain (£000)
Braintree	14	86	213	313
<i>Brentwood</i>	7	61	31	99
Castle Point	9	32	83	124
Chelmsford	14	160	170	344
Colchester	17	128	332	477
Epping Forest	13	71	199	283
Essex	714	223	382	1,319
Essex CFA	67	33	53	153
Rochford	7	34	93	134
Tendring	20	55	211	286
Total	882	883	1,767	3,532

5 Reasons for Recommendation

- 5.1 Membership of the Essex Wide Pool has the potential to generate additional income for the Council. Current projections indicate the Council could gain £99k in 2015/16 by joining the Pool.

6 References to Corporate Plan

- 6.1 The proposal links to the 'A Prosperous Borough' priority by ensuring as much of the rates paid by local businesses as possible is retained for reinvest in the Borough.

7 Implications

Financial Implications

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- 7.1 The Governance arrangements of an Essex Wide Pool are an essential part of the arrangements. The key advantage of a pooling arrangement (particularly for Brentwood Borough Council) is the potential for a reduced tariff. The disadvantages of a pool are that any fall in business rates will most likely need to be absorbed by the Council, up to the level of the Government's Safety Net, whilst growth in business rates is shared.

Legal Implications

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7.2 The ability to join a Non-domestic Rating Pool was introduced by the Local Government Finance Act 2012. In constructing a scheme it will be necessary agree the terms of governance.

8 Background Papers (include their location and identify whether any are exempt or protected by copyright)

8.1 None

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