



To: The Leader of the Council and Executive
Councillor for Strategy
Report by: Director of Resources
Relevant scrutiny Strategy and Resources Scrutiny 15/10/2012
committee: Committee
Wards affected: All Wards

**LOCAL GOVERNMENT RESOURCE REVIEW - BUSINESS RATES
RETENTION: POOLING OPTIONS
Key Decision**

1. Executive summary

1.1 This report presents coverage of updated information since the publication of the September 2012 MTS, where recommendations are required.

2. Recommendations

2.1 The Leader is asked to:

- Decide whether to support the proposed 'Growing Cambridgeshire' pooling scheme.
- In the event that the Leader decides to support the scheme, to delegate responsibility to the Chief Executive, through Cambridgeshire County Council as lead authority, to engage with DCLG on the final detail of the proposed pooling scheme and to submit the final proposal in time for the 19 October deadline.

3. Background

Previous Reports

3.1 A report was submitted to the 9 July meeting of the Strategy & Resources scrutiny committee outlining the developing proposals for the introduction of Business Rates Retention (BRR) with effect from 1

April 2013. This included coverage of the proposal to include the option to form local pools for the purpose of BRR. The report recommended that the Leader:

- Confirm that the City will join with other Cambridgeshire authorities in submitting an expression of interest to DCLG by 27 July 2012;
- Instruct officers, in conjunction with other authorities, to work up arrangements for governance, transparency, investment and distribution of revenues and dissolution of a Cambridgeshire pool – enabling a final decision on whether to take forward a pooling arrangement in time for the Government's November 2012 deadline.

3.2 The MTS provided an update on the proposals for the new national scheme (as part of Section 3), and noted that work was ongoing to evaluate the effects and benefits / risks associated with entering into a countywide 'pooling' arrangement, as permitted under the scheme.

Background

3.3 The Business Rates Retention scheme, is expected to come into force from 1 April 2013 (assuming the passage of the Local Government Finance Bill)

3.4 The Bill will allow for authorities 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 the promotion and delivery of growth. By forming a pool that combines tariff (like the City Council) and top-up (like the County Council) authorities the overall 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.

3.5 Enterprise Zones will operate independently of the business rates retention and pooling schemes so, in Cambridgeshire, rates receipts from the Alconbury Enterprise Zone are treated separately. Arrangements are in place between the County Council, Huntingdonshire District Council, the Local Enterprise Partnership and the developers to manage the risk of displacement.

3.6 Preliminary modelling for a Cambridgeshire pool forecast an increase in rates retained in the area as a whole by forming a pool, as long as negative growth is not experienced.

- 3.7 On this basis, an expression of interest was submitted to Government with regard to forming a pool for the purposes of business rates retention in Cambridgeshire on 26 July 2012. This included the County Council as the lead authority.
- 3.8 Further modelling work has now been undertaken together with partners across the County and proposals for a countywide pooling scheme have been drafted. The draft scheme to be proposed to Government is shown at Appendix A.
- 3.9 The proposal and the draft scheme are currently being considered by each of the prospective partners through their own processes, with a view to submitting a final pooling proposal for the 19 October 2012 deadline.

Benefits Of Pooling

- 3.10 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 continued collaborative approach to investment and planning to support business growth – which in turn would create greater potential for future rates growth, with the growth dividends retained locally and shared across the partnership.
- 3.11 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.
- 3.12 It can also help to smooth the volatility in business rates income across the pool, which may be particularly important should one District Council be subject to a sudden loss of rates from, for example, the closure of a major commercial premise or site. Predicting the future trend in business rates will be difficult in practice, as the authorities will have limited information on the plans of businesses in their area, so reducing the potential risk will provide for greater stability in financial projections.
- 3.13 Modelling has been undertaken to demonstrate the anticipated effects of pooling in Cambridgeshire. This is attached as Annex A to this report. 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.

Timescales

- 3.14 The deadline for submission of final pooling proposals, including sign-off by all Chief Executives and Section 151 Officers, is 19 October 2012.
- 3.15 Government will designate pools it accepts in December 2012, alongside the publication of the draft Local Government Finance Report. The financial details contained within this will allow each authority to compare its anticipated position through pooling with the position it could otherwise expect to be in.
- 3.16 During the Government's consultation period on the draft Local Government Finance Report, there will be a final opportunity for authorities to withdraw from proposed pooling arrangement. After this point, they would be committed to the approved pooling arrangements (subject to national dissolution provisions. Together with any local scheme modifications). However, this would mean that the whole pool would be dissolved if any partner withdrew, and the remaining partners would be unable to submit a new revised proposal until the following financial year (i.e. for 2014/15 not 2013/14).

4. Implications

Financial Implications and Risks

- 4.1 Modelling demonstrates a positive overall financial impact from pooling, as long as countywide economic growth is above -0.25%.
- 4.2 By way of illustration, countywide growth of 2% in 2013/14 under the draft Cambridgeshire scheme would result in a distribution of additional funding as follows:

Funding Available to:	£'s
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

- 4.3 If negative economic growth is experienced across the whole countywide area, then the 'no worse off' principle would not be applicable and revenue retained could be lower through pooling than otherwise. This is an inherent risk of pooling.
- 4.4 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.
- 4.5 Modelling demonstrates that pooling would allow the countywide area 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.
- 4.6 One partner requesting dissolution would require the pool to be dissolved, risking disruption and reduced revenue retention for the other partners if not mitigated.
- 4.7 It should be noted that 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 evaluated and shared with all partners at that point allowing consideration of whether to continue or withdraw from the proposed pool.

5. Background papers

These background papers were used in the preparation of this report:

-

6. Appendices

Appendix A - 'Growing Cambridgeshire': a proposal for business rates pooling

7. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

Author's Name:	David Horspool
Author's Phone Number:	01223 – 457007
Author's Email:	David.Horspool@cambridge.gov.uk

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 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.

High-Level 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%)
