Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

6 SEPTEMBER 2013

REPORT OF FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDER

A.4 POOLING OF NATIONAL NON DOMESTIC RATES (NNDR)

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To present the option of the Council joining a pool for NNDR purposes and seek agreement in principle to the Council being a member of an Essex Pool which is currently being developed.

EXECUTIVE SUMMARY

- The Local Government Finance Act 2012 changed how local authorities are financed by introducing local retention of non-domestic rates. In previous years any increase in non-domestic rates within an area has been paid into a central pool with no direct benefit to the local authority itself. The Government felt it important to incentivise authorities to pursue economic growth by allowing them to retain some of the benefit from growth in non-domestic rates.

- By combining in a pool it is possible to retain more of the additional funds from growth in non-domestic rates within a county wide area. Suffolk has implemented a pooling scheme and the modelling of this scheme currently indicates that £2.376 million of funding will be retained in that county which would otherwise have been lost to the central pool.

- The Suffolk scheme has been constructed on the basis that no authority can be worse off as a result of joining the pool. It is proposed to develop a scheme for Essex that closely follows the Suffolk model and minimises the amount of growth in non-domestic rates that is paid to the Government via the central pool.

- For the Government to consider new pools for 2014/15, authorities have to apply by 31 October 2013.

RECOMMENDATION(S)

It is recommended that:

(a) The principle of joining a pool for non-domestic rates on the basis that no authority is worse off in the pool than they would have been outside it is agreed.

(b) That subject to (a) above, the Corporate Director (Corporate Services) undertakes the necessary activities to support the development of an Essex wide pool in partnership with other Essex Local Authorities.

(c)	**Officers provide an update to Cabinet as appropriate to enable a final decision on joining an Essex NNDR Pool to be determined.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Maximising financial opportunities and financial planning are essential to support the delivery of financial stability and resilience especially in the context of the current and challenging financial climate. Such an approach underpins the Council's capacity to deliver on its commitments, objectives and priorities.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

It is currently proposed to engage an external consultant (LG Futures) in collaboration with other Essex Local Authorities to develop the pooling proposal. If all sixteen of the eligible Essex authorities participate the cost to each authority will be £1,175. It is unlikely that the cost will exceed £2,000 per authority and this amount can be found by reprioritising existing budgets within Corporate Services.

The benefits of an Essex NNDR Pool cannot be quantified at this stage as they will depend on a number of assumptions such as the amount of growth in non-domestic rates in the pooling authorities during 2014/15.

Risk

There is a risk that by not pooling the resources available to Essex authorities are not being maximised. The risk to each authority is limited by the scheme being constructed such that no authority can be worse off than if they had remained outside the pool.

LEGAL

The Local Government Finance Act 2012 creates the ability for authorities to pool their non-domestic rates. In constructing a scheme it will be necessary to agree the terms of governance. This will be done as part of the work on constructing the pool but it is proposed to use the Suffolk scheme as a starting point.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no implications directly arising from this report.

PART 3 – SUPPORTING INFORMATION

NNDR POOLING – FINANCIAL BENEFITS

Under the new system of local business rate retention some authorities collect more rates than the Government has determined they need to fund their activities and these authorities are required to pay over the excess to the central pool. Because these authorities are paying into the central pool they are known as tariff authorities and most district councils, including Tendring are in this position. Those authorities with insufficient NNDR income in their own area get payments from the central pool and are known as top up authorities. The most common group of authorities receiving top ups is county councils.

Where an authority sees growth in its non-domestic rates it has to pay a proportion of that growth to the Government via the central pool as a levy. The levy rate is capped at 50%.

The advantage that comes from pooling is the inclusion of a large top up authority, such as Essex County Council (ECC) in the levy calculation. This significantly 'dilutes' the overall levy payment to the Government as the levy rate is the average rate as if the authorities in the pool were a single entity.

Suffolk has already set up an NNDR pool which includes Suffolk County Council. The outcome from this approach is that taking the pool as a whole, the levy rate is reduced, with 8% being paid to the Government rather than 40% if there were no pooling arrangements. Based on the current modelling this will mean an additional £2.376 million of growth being retained in Suffolk in 2013/14 as set out in the following table:

	Growth retained no pool £m	Growth retained with pool £m	Gain / (loss) £m
Suffolk County Council	1.482	1.557	0.075
Suffolk Districts	2.963	3.613	0.650
Suffolk Pool Reserve		1.651	1.651
Central Government	2.963 (40% of growth)	0.587 (8% of growth)	(2.376)
Total Growth	7.408	7.408	

The Suffolk Pool Reserve comprises of £1 million retained by the pool to cover any safety net payments that are subsequently required and £0.651 million that is to be spent on projects determined by the Suffolk Leaders and Chief Executives Group. If payments are not ultimately required to support any authority in the safety net the £1 million will also become available for distribution to the pool members.

Given the greater size of the Essex economy it may be appropriate to retain more than £1 million to cover potential safety net payments. There is a balance here between being sufficiently prudent to ensure the scheme is financially robust and not restricting the distribution of growth to the extent that it becomes a disincentive.

Much of the growth in Suffolk is due to the port of Felixstowe and Essex could benefit in a similar way through growth at Stansted. The new owners of the airport have already unveiled a significant improvement scheme for the existing facilities and further investment may follow.

KEY ASPECTS OF THE SUFFOLK SCHEME

There are a number of pools across the country and in moving forward, part of the work required is to evaluate the aspects from particular schemes that we would want to replicate. However, the Suffolk scheme provides a useful starting point for discussion with a brief summary of how it operates as follows:

a) Each council will receive and make the same payments as though they had not pooled. This includes the treatment of growth in enterprise zones and new renewable energy schemes.
b) If a district experiences a fall in business rates they have to absorb that fall, up to the level of the Government's safety net (thus mirroring the

Government scheme).

c) An authority acting as ‘banker’ receives the money from the other members and pays the net balance to the Government. The retained balance represents the net benefit of pooling.

d) The ‘banker’ will pay the equivalent of any safety net payments where needed during the year, to ensure that the Pool completely matches the position a member would have been in if they had not pooled. The payments are then offset against growth from other members when the year-end position is calculated.

The other crucial aspect, and one that may be more challenging to agree across Essex, is how the gain from pooling is shared. Whilst Suffolk has a County Council with an integrated Fire Authority and seven Districts (which include three aligned pairs working closely) Essex has separate County and Fire Authorities, two Unitary Authorities and twelve Districts. This means agreement will be necessary from sixteen partners instead of five, although it will still be possible to construct a pool if some of the Unitary or District Councils in Essex decide not to join in a county wide pool.

In Suffolk the financial gain from pooling is split on the following bases –

a) In the initial year of operation only, the first £1m will be retained to establish a reserve to fund potential future safety net payments. Transfers in future years will only be to the extent necessary to maintain a reserve of £1m.

b) The second £1m will be split 50% to district councils and 50% to the Leaders and Chief Executives Group.

c) Any benefit exceeding a) & b) will be split 40% to districts, 40% to Leaders and Chief Executives and 20% to the County Council.

d) The Chief Executives and Leaders Group will determine how the money allocated to them is to be spent.

e) If agreement cannot be reached on spending priorities under d) any unspent money will be distributed 60% to districts and 40% to the County.

f) Where money is distributed to districts under b), c) and e) this will be done on the basis of 50% of their spending baseline and 50% of their share of growth. This ensures that every district will be in a better position as a consequence of pooling.

Within Suffolk the Chief Executives and Leaders Group have agreed that their share of the funds will be used for infrastructure and business development, facilitating additional housing or to supplement resources for projects identified by the LEP to bring them to fruition more quickly. In Essex there is an Integrated County Strategy and if the Suffolk scheme is replicated to the extent that the Chief Executives and Leaders Group play an important role in distributing funds, gains from pooling could be spent to support projects from that strategy. However the final governance and distribution of funds arrangements will be subject to final consideration and agreement by members of an Essex Pool.

DEVELOPING POOLING ARRANGEMENTS

Taking forward the work on pooling requires a dedicated and expert resource that is not available in any of the Essex authorities. Initial discussion between Essex Authorities has led to the identification of a company (LG Futures) to support the development of an Essex Pool. LG Futures are an established consultancy firm who have worked with seven potential pooling groups, five of which became pools (Devon, Leicestershire, Lincolnshire, Nottinghamshire and Worcestershire). Chelmsford City Council, on behalf of other Essex Authorities, has obtained a quote from LG Futures of £18,795 to take the pooling project forward. It is proposed on sharing this cost across the interested Essex Authorities.

When LG Futures have completed their initial work it is likely that some further resource will be needed to take the pooling project through to completion. In Suffolk the County Council provided a senior officer who led on the project. The scale and source of resource needed in Essex can only be determined once there is a clearer idea of the number of participants and the complexity of the proposed arrangements.

The Essex Strategic Leaders Finance Group, which was established via the Essex Leaders and Chief Executives Group, is currently supporting the development of the proposed pooling arrangements. At its last meeting on 26 July 2013 it agreed to review the work of LG Futures in consultation with the Essex Finance Officers Group before final outcomes are established for consideration by each individual authority. The Government have set a deadline of 31 October 2013 for the receipt of applications for new pools for 2014/15. Therefore final proposals will need to be presented to Cabinet within these timescales to determine whether or not to join an Essex NNDR Pool.

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
None