Gloucester City Council

AUDIT AND GOVERNANCE COMMITTEE

Meeting: Monday, 26th November 2012 at 18.30 hours
in Cabinet Suite, Shire Hall, Westgate Street, Gloucester GL1 2TH
(please access via rear entrance)

ADDENDUM

The following items although provided for on the agenda front sheet were not available at the time of dispatch:

7.	**REVISED INTERNAL AUDIT PLAN 2012/13 (PAGES 1 - 6)** To consider the report of the Group Manager, Audit and Assurance (to follow).
9.	**GOVERNANCE ARRANGEMENTS FOR BUSINESS RATES POOLING (PAGES 7 - 20)** Information item

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Julian Wain
Chief Executive

NOTES

Disclosable Pecuniary Interests
The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

Interest	Prescribed description
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area. For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and

(b) either –

i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or

ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, "securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

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For further details and enquiries about this meeting please contact Tanya Davies, 01452 396125, tanya.davies@gloucester.gov.uk.

For general enquiries about Gloucester City Council's meetings please contact Democratic Services, 01452 396126, democratic.services@gloucester.gov.uk.

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- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
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Gloucester City Council

Meeting:	**GLT** **Audit & Governance Committee**	**Date:**	**20th November 2012** **26th November 2012**
Subject:	**Revised Internal Audit Plan 2012-13**		
Report Of:	**Group Manager Audit & Assurance**		
Wards Affected:	**N/A**		
Key Decision:	**No**	**Budget/Policy Framework:**	**No**
Contact Officer:	**Terry Rodway, Group Manager Audit & Assurance** **Email: Terry.Rodway@gloucester.gov.uk**	**Tel: 396430**	
Appendices:	**1. Revised Internal Audit Plan 2012-13**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To provide Members with the reasons for, and the details of, the revised Internal Audit Plan 2012/13.

2.0 Recommendations

2.1 Audit & Governance Committee is asked to **RESOLVE** that the Revised Internal Audit Plan 2012-13 be approved.

3.0 Background and Key Issues

3.1 The work of Internal Audit should comply with the CIPFA Code of Practice for Internal Audit (the Code). The Code includes a requirement for the Group Manager Audit & Assurance (GMAA) to prepare a risk-based plan that should be fixed for a period of no longer than one year.

3.2 Members will be aware that the Internal Audit Plan 2012-13 was approved in March 2012. (Min no. 47), and that they received a monitoring report on audits completed at the September 2012 meeting. The Code states that significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the Audit & Governance Committee.

3.3 Members will be aware from the previous Internal Audit Plan Monitoring report that there have been issues with the completion of the Audit Plan due to staff sickness. Unfortunately this is still an issue, albeit now with a different member of staff. In addition, Members will be aware from the KPMG report presented at the previous meeting that there have been issues within Financial Services.

3.4 As a result of the issues identified in 3.3, a revised Internal Audit Plan 2012-13 has been produced for review and approval by Members. Again, this Plan has been produced using a risk based approach, and is divided into the following areas:-

3.4.1 <u>Corporate Governance/ Annual Governance Statement (AGS)</u>
The production of the AGS is a requirement under the Accounts and Audit Regulations 2011. The purpose of the AGS is to provide assurance that the Council's governance framework is adequate and effective. This area of Audit & Assurance audit work is one of the key components of the internal control assessment that supports the completion of the AGS

3.4.2 <u>Work on fundamental financial systems</u>
This is the work on the Council's financial systems, which are significant in relation to financial control and materiality. The work supports the Corporate Director of Resources to discharge his duties as the Council's s.151 Officer. It also forms a key element of the Joint Working Protocol with the Council's External Auditors, as the External Auditor can place reliance on the internal audit work on these systems. This will help inform their judgement on the council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

3.4.3 <u>Work of a service based or cross council nature</u>
This is all of the other service activities or cross cutting themed audit reviews that could be undertaken.

3.4.4 <u>Follow-up reviews</u>
The plan will include follow-up reviews, which will ensure recommendations have been adopted and successfully implemented, providing the enhanced control/reduced level of risk exposure intended. The extent of this work will again be risk based dependant upon the audit findings and the recommendations made within the original audit reports.

3.4.5 <u>Contingency</u>
In line with the Code, the Annual Plan includes a contingency element to accommodate assignments which could not have been reasonably foreseen e.g. investigation of alleged fraud.

3.4.6 <u>Work for Gloucester City Homes (GCH)</u>
The Audit & Assurance team undertakes work for GCH under a service level agreement. A similar risk-based approach has been adopted to inform the Audit plan for GCH.

3.4.7 <u>Work for Aspire Sports & Cultural Trust (Aspire)</u>
The Audit & Assurance team undertakes work for the Aspire under a service level agreement. A similar risk-based approach has been adopted to inform the Audit plan for Aspire.

3.5 Having completed the risk assessment, the next stage is for the assessment to be compared to resource availability, i.e. the number of audit days available. This is calculated as the gross number of days available during the remaining months of the financial year, less an allocation for leave, training, sickness etc. The number of available days for audit for December 2012 to March 2013, based on the current establishment of 2.6 FTE audit staff is 190 days (73 days per FTE for the 4 month period). Approval has been given by the Director of Resources to the use of agency staff to assist with the completion of the Revised Plan.

4.0 Alternative Options Considered

4.1 Internal audits as detailed in the original Annual Plan 2012-13 could have been continued to be carried out, however, this would mean that high risk audits may not be undertaken/completed and that the performance monitoring data would have limited use

5.0 Reasons for Recommendations

5.1 Members will be aware from the previous Internal Audit Plan Monitoring report that there have been issues with the completion of the Audit Plan. The Code states that significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the Audit & Governance Committee.

6.0 Future Work

6.1 Regular reports on achievement against the Revised Internal Audit Plan, and any significant control issues identified, will be presented to the Audit & Governance Committee.

7.0 Conclusions

7.1 The work of Internal Audit should comply with the CIPFA Code of Practice for Internal Audit (the Code). The Code includes a requirement for the Group Manager Audit & Assurance (GMAA) to prepare a risk-based plan that should be fixed for a period of no longer than one year.

7.2 The Code also states that significant matters that jeopardise the delivery of the plan or require changes to the plan should be identified, addressed and reported to the Audit & Governance Committee.

7.3 As a result of the issues identified in para.3.3 above, a revised Internal Audit Plan 2012-13 has been produced for review and approval by Members. This Plan has been produced using a risk based approach

7.0 Financial Implications

7.1 The cost of agency staff can be found from within existing budgets.

(Financial Services have been consulted in the preparation this report.)

8.0 Legal Implications

8.1 There are no specific legal implications.

(Legal Services have been consulted in the preparation this report.)

9.0 Risk & Opportunity Management Implications

9.1 The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit, through the delivery of the annual audit plan, plays a vital part in advising the organisation that these arrangements are in place and operating properly.

10.0 People Impact Assessment (PIA):

10.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

10.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

11.1 There are no community safety implications arising out of this report.

Sustainability

11.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

11.3 There are no staffing and Trade Union implications arising out of this report.

Background Documents: The CIPFA Code of Practice for Internal Audit in local Government in the United Kingdom 2006.

APPENDIX 1

Revised Internal Audit Plan 2012-13

	Est No. of Days	Total
Corporate Governance/AGS		
Risk Management	15	15
Work on Fundamental Financial Systems		
Civica - Benefits	15	
Civica - Council Tax	7	
Civica - NNDR	7	
Civica - Sundry Debtors	7	
Payroll (Project Fusion)	8	
Creditors	8	
Treasury Management	8	
Cash & Bank	8	
General Ledger	8	
Budgetary Control	8	
Capital Accounting	8	92
Work of a service based or cross council nature		
Civica Contract Client Monitoring	8	
Streetcare Contract/client Monitoring	12	
Payroll (Project Fusion) - Client Monitoring	8	28
Follow-Up Reviews		
15 Audits @ 2 days per audit		30
GCH		10
Aspire		10
Contingency		5
TOTAL		190

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Gloucester City Council

Meeting:	**GLT**	**Date:**	**20th November 2012**
	Audit & Governance Committee		**26th November 2012**
Subject:	**Local Pooling of Business Rates - Proposed Governance Arrangements**		
Report Of:	**Corporate Director of Resources**		
Wards Affected:	**N/A**		
Key Decision:	**No**	**Budget/Policy Framework:**	**No**
Contact Officer:	**Peter Gillett, Corporate Director of Resources**		
	Email: peter.gillett@gloucester.gov.uk		**Tel: 396400**
Appendices:	**A: Report to Full Council 27th September 2012**		
	B: Proposed Governance Arrangements		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To provide members of the Audit and Governance Committee with the final governance arrangements for the operation of the proposed county-wide business rates pool which have been submitted to central government for approval.

2.0 Recommendations

2.1 Audit & Governance Committee is asked to **NOTE** the proposed governance arrangements attached at Appendix B.

3.0 Background and Key Issues

3.1 Members will recall the meeting of full council on 27th September where approval was given in principle to be part of a Gloucestershire Business Rates Pool, subject to a thorough assessment of risks/rewards and agreement on satisfactory governance arrangements. With delegated authority given to the Chief Executive and Director of Resources, in consultation with the Leader and Deputy Leader, to finalise those arrangements. A copy of the report for full council is attached as Appendix A.

3.2 Since the meeting, the proposed governance arrangements have been finalised and agreed by each of the six District Councils and the County Council. This sign-off has been made by each council's Chief Executive and Section 151 Officer. The proposed arrangements have also been agreed by *Leadership Gloucestershire,* the forum that includes Leaders from each of the Councils. A copy of the proposed governance arrangements are attached at Appendix B.

4.0 Reasons for Recommendations

4.1 Full Council requested that an information report was sent to the Audit and Governance Committee, for noting.

5.0 Future Work

5.1 The governance arrangements have been submitted for approval by CLG and feedback is currently awaited on the proposals.

5.2 Stroud District Council have been identified as the administering council to operate the county-wide pool.

5.3 The final decision on membership of the pool may still be subject to detail emerging from the Local Government Finance Settlement, which is expected to be announced in early December 2012. A cooling-off period has been built into the government's timetable to allow councils to finalise their decision in the light of the settlement announcement.

6.0 Financial Implications

6.1 Covered in the report – particularly Appendix A – report to full council on 27th September 2012.

7.0 Legal Implications

7.1 Covered in the report - particularly Appendix A – report to full council on 27th September 2012.

8.0 Risk & Opportunity Management Implications

8.1 Covered in the report - particularly Appendix A – report to full council on 27th September 2012.

9.0 People Impact Assessment (PIA):

9.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

10.0 Other Corporate Implications

<u>Community Safety</u>

10.1 There are no community safety implications arising out of this report.

<u>Sustainability</u>

10.2 There are no sustainability implications arising out of this report.

<u>Staffing & Trade Union</u>

10.3 There are no staffing and Trade Union implications arising out of this report.

Background Documents:

Appendix A: Report to Full Council 27th September 2012

DCLG Business Rates Retention Scheme Pooling Prospectus, July 2012:
http://www.communities.gov.uk/documents/localgovernment/pdf/2182704.pdf

DCLG Business Rates Retention Technical Consultation, July 2012:
http://www.communities.gov.uk/documents/localgovernment/pdf/21825021.pdf

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APPENDIX A

Gloucester City Council

Meeting:	Cabinet Council	Date:	12 September 2012 27 September 2012
Subject:	Business Rates Retention Scheme – Pooling		
Report Of:	Cabinet Member for Performance and Resources		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	Yes
Contact Officer:	Peter Gillett, Corporate Director of Resources		
	Email: peter.gillett@gloucester.gov.uk	Tel: 39-6400	
Appendices:	1. Glossary of Terms		

FOR GENERAL RELEASE

Note: The special circumstances for non-compliance with Access to Information Rule 5 and Section 100B (4) of the Local Government Act as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that an urgent decision is required to enable full Council to consider the matter at its next meeting on 27 September. This will allow the Council to meet the tight timescales for submitting proposals to the Department for Communities and Local Government by 19 October 2012.

1.0 Purpose of Report

1.1 To present to Members the Government's proposals for Business Rates Pooling from April 2013 and to seek Cabinet and Council approval in principle to enter into a Pooling Agreement with all Gloucestershire district councils and the County Council, subject to agreement on satisfactory governance arrangements and a full assessment of the risks and rewards.

2.0 Recommendations

2.1 Cabinet is asked to **RECOMMEND**

(1) To agree in principle to be part of a Gloucestershire Business Rates Pool, subject to a thorough assessment of risks/rewards and agreement on satisfactory governance arrangements.

(2) That, subject to (1) above, to approve the submission of a proposal to the Government for a Gloucestershire Pool by the 19th October 2012 deadline.

2.2 Council is asked to **RESOLVE**

(1) To agree in principle to be part of a Gloucestershire Business Rates Pool, subject to a thorough assessment of risks/rewards and agreement on satisfactory governance arrangements.

(2) That, subject to (1) above, to approve the submission of a proposal to the Government for a Gloucestershire Pool by the 19th October 2012 deadline.

3.0 Background and Key Issues

3.1 The Local Government Finance Bill was introduced in December 2011 and set out the Government's intention to introduce a Business Rate Retention (BRR) scheme from 01 April 2013.

3.2 BRR forms part of a wider policy of decentralisation, aimed at giving councils increased financial autonomy and a greater stake in the economic future of their local area.

3.3 Details of the BRR scheme have been provided in a series of consultation documents and other government papers over the last 12 months. The most recent of these is the Technical Consultation published in July 2012 which builds on the proposals in the Government response to consultation published in December 2011, and on the statements of intent published in May 2012. The Government have also published a Pooling Prospectus which outlines the benefits of pooling.

3.4 Whilst the government have provided some clarity on how the BRR scheme will work, there remains a great deal of uncertainty around the actual level of funding councils can expect to receive in 2013/14. This uncertainty may not be resolved until the Local Government Finance Settlement is announced in late November or early December 2012.

4.0 Business Rates Retention Scheme

Rationale behind changes to the current funding of local government

4.1 The UK local government finance system is one of the most centralised in the world, with councils getting more than half of their income from a central government grant. Under the current funding arrangements, Gloucester City council collects business rates from all the business in the city and then pays it over to the Government into a central pool. This is then redistributed back to local authorities via a complex funding formula.

4.2 This means that councils are not rewarded and have no direct financial incentive to promote and /facilitate business growth in their area, as any new business rates are paid over to the central pool.

4.3 The Government's proposals on BRR enable councils to keep a share of the business rate growth in their area promoting financial autonomy and giving councils a greater stake in the economic future of their local area.

4.4 The Government is not proposing to make any changes to the way in which business rates are calculated or paid which will continue to be set nationally. There will also be no change to the existing mandatory and discretionary reliefs available to eligible ratepayers.

Spending Control Totals, Central & Local Shares

4.5 The Government has made clear from the outset that the BRR scheme must not put at risk the deficit reduction programme and should operate within existing spending control totals and be fiscally sustainable in future years. To ensure this, some business rates income would need to be retained by central government. It is proposed that councils can keep 50% of business rates collected (the **local share**), with the remaining 50% (the **central share**) retained by government and paid into a central pool and redirected to local government through other grants.

4.6 However, assumptions set out in the Technical Consultation document the overall design of the BRR scheme has reduced the control totals by a further £216 million in 2013/14 and £517 million in 2014/15, based assumptions around public sector pay and other funding commitments outlined in the document.

4.7 The government is also holding back £100 million to fund capitalisation and up to £250 million to forward fund the safety net. The government will also be removing £2 billion out of each year's spending control total (up to 2020) to fund the New Homes Bonus (NHB). The government have stated that any money that is not needed will be retuned to local government through the Revenue Support Grant (RSG) and other grants.

4.8 According to the LGA, the effect of all these changes means that the decrease in the control total for all local government (including police and fire) is 10.8 per cent in 2013/14 and then 7.7 per cent in 2014/15. This is a significantly worse position than the original Spending Review figures which were 0.8 per cent decrease for 2013/14 and 5.8 per cent decrease for 2014/15.

4.9 As a result, of the estimated £23 billion of business rates for 2013/14 £10.6 billion will be the local share and £13.5 billion will be the central share.

Operation of the BRR scheme

4.10 The government will calculate each billing authority's **proportionate share** of the estimated £23 billion aggregate business rates. This will establish a billing authority's **business rates baseline** at the outset of the scheme so that no council is worse off. The **proportionate share** of business rates will be based on the average rates income over 5 years from 207/08 to 2011/12.

4.11 Billing authority **business rates baseline** will be split between the billing authority and major precepting authorities. The District share has been set at 80%, with the County share being 18% and the Fire and Rescue authority share being 2%.

4.12 The **baseline funding level** for each authority is then defined as being the authority's **proportionate share** of the **local share** of the estimated aggregate business rates.

4.13 Some local authorities collect more business rates than they currently receive in formula grant (which is based on relative need and resources), while the business rates collected by other authorities are lower than their current funding level. It is proposed to rebalance resources at the outset of the scheme through a system of **tariffs and top ups**.

4.14 An authority which collected more business rates than its **baseline funding level** would pay the difference to central government as a **tariff**. An authority which collected less business rates than its baseline funding level would receive the difference from central government as a **top-up**. These will remain fixed in future years to ensure that changes in budgets reflect business rates growth.

Levy & Safety Net, System Reset

4.15 The BRR scheme will protect local authorities from significant reductions in their income through a **safety net** payment. This will be funded by a **levy** on disproportionate growth that some authorities will achieve due to being able grow business rate income easily in relation to others.

4.16 The government proposes a proportional **levy** ratio at a 1:1 level. This means that for every 1% increase in the individual authority's **business rates baseline** the authority would see no more than a corresponding 1% increase against its baseline funding level. In practice, this means that all **tariff** authorities (e.g. District councils) would pay a **levy**, since by their nature, **top-u**p authorities (e.g. County councils) would not be able to achieve more than 1% increase in their baseline funding level for every 1% increase in their individual authority **business rates baseline**.

4.17 The government would pay a **safety net** to authorities who see their income from BR drop by a set percentage below their **baseline funding level**. It is proposed that this percentage is set in the range 7.5% to 10%. In practice, this means that every local authority would be guaranteed to receive at least 90% to 92.5% of its **baseline funding level**.

4.18 The government have indicated the once the **baseline funding levels** have been set, they will only be amended when the spending needs of councils become out of balance with the resources they receive. At this point, the scheme would be **reset**, which would necessitate a review of **baseline funding levels** for each authority taking into account any changes to relative funding needs and resources.

4.19 It is the government's aim that they do not intend to **reset** the BRR scheme until 2020 at the earliest (except in exceptional circumstances).

Pooling

4.20 Under the BRR proposals, local authorities will be able to come together voluntarily to pool their business rates. There are a number of potential benefits to be gained through the pooling of business rates. :

- provides local authorities with a mechanism to deliver and promote Jobs & Growth and to allow for investment decisions to support economic priorities.
- encourages collaborative working across local authorities, rather than being constrained by administrative boundaries
- allows the benefit from investment in economic growth to be shared across the wider area and helps local authorities to manage volatility in income by sharing fluctuations across budgets.

4.21 Pooling could, depending on local arrangements and circumstance, place member authorities in a beneficial collective financial position. Pooling could allow the members of the pool to benefit from the business rates income through off-setting tariffs against top-ups and reduction in levy rates.

4.22 Where local authorities come together to form a pool there will be a single tariff or top-up figure, which will be the sum of all the tariffs and top-ups of the individual authorities within the pool. There will also be a single levy rate for the pool, calculated on the aggregate income and growth across the pool. Pooling also means that eligibility for safety-net payments will be calculated at the pool-wide level.

4.23 The government has indicated that if local authorities want to pool, they will need to consider the best economic geography (e.g. County-wide, Local Enterprise Partnership-wide)

4.24 The government highlights the link between local authorities and Local Enterprise Partnerships (LEPs). The Growing Places Fund has been allocated to LEPs to generate economic activity, prioritise infrastructure needed to deliver economic strategies, and to leverage in private investment.

4.25 An Expression of Interest was submitted to the government on behalf of all the Gloucestershire councils in July 2012. The proposed Gloucestershire pool is closely aligned to the Gloucestershire LEP and would enable Gloucestershire's local authorities and LEP to work collaboratively using pooling to help deliver their growth objectives.

Governance Issues

4.26 When submitting the final proposal to pool business in October 2012, members of the pool will have to consider and agree the governance issues, such as:

- governance structure for the management of the pool including the decision making process
- how the pool will share the benefits of growth and the impacts of volatility between member authorities
- how investment decisions will be made – (for example,it should be noted that being part of a pool may remove some flexibility for the City Council to introduce a separate tax incremental finance (TIF) scheme, without approval of the pool members.)
- how the pool will ensure transparency of decision making and investment decisions
- how the pool will handle dissolution etc

4.27 Members of the pool will be responsible for any decisions on how to distribute the total business rates within the pool. In doing this, local authorities will need to consider how to distribute any growth in business rate income across the members of the pool.

4.28 Pools may look at a number of different distribution options:

- Simple distribution – members of the pool distribute the aggregate revenue on the same basis as they would have been treated outside the pool (i.e. no individual authority is worse off in the pool)
- Weighted distribution based on relative growth of each member
- Growth in the pool up to certain value of percentage is shared, but growth gained by each individual pool member over and above that level is retained by them.
- Distribution prioritised to delivering growth in future years (i.e. growth distributed for investment in new developments)

4.29 In designating a pool, one member is required to act as lead authority. It is the government's intention that payments from/to the pool under BRR will be channelled through the lead authority. The lead authority responsible for supplying any information on behalf of the pool in connection with BRR.

4.30 The government may also attach conditions such as a requirement to publish an annual financial statement showing how the income has been distributed, or what income has been retained within the pool for future investment.

What Pooling means for Gloucester City and Gloucestershire

4.31 In a pool, several authoritiescome together and are treated as a single entity for business rates –with all the rates targets, funding targets, top-ups and tariffs added together. The arithmetic means that as a whole, the pool will face a much lower levy rate than had the councils remained separate. Pooling would therefore maximise the resources that can be retained for Gloucestershire. If all the councils in Gloucestershire pooled their business rates, county-wide there will be a benefit of a reduced **levy** rate. This is because the **tariffs** paid by the district councils are offset by the **top-up** received by the county council.

4.32 In the case of Gloucester City, the **levy** rate is estimated to be around 82%. That means for every £100 of growth in business rates over and above the **business rates baseline**, Gloucester would retain £18 but would pay a **levy** over to the government of £82.

4.33 The actual benefit will depend on the actual amount of business rates collected by each authority and how this compares to each authority's **business rates baseline**. It is too early to say with any degree of certainty the exact financial benefit that would be gained, but the table below illustrates the theoretical benefit. This shows that the **levy** rate for the pool drops to around 20%.

Authority	Business Rates Baseline (£m)	Spending Baseline (£m)	Tariff / Top-up (£m)	Individual Levy Rates
Cheltenham	22.000	2.500	(19.500)	88.64%
Cotswold	12.000	1.900	(10.100)	84.17%
Forest of Dean	5.000	2.400	(2.600)	52.00%
Gloucester	19.000	3.300	(15.700)	82.63%
Stroud	10.000	2.400	(7.600)	76.00%
Tewkesbury	14.000	1.700	(12.300)	87.86%
Gloucestershire	20.000	67.100	47.100	0.00%
The Pool	**102.000**	**81.300**	**(20.700)**	**20.29%**

4.34 This means that for every £100 of growth in business rates over and above the pool's business rates baseline, the pool would retain £80 but would pay a levy to the government of £20.

4.35 Pooling business rates does bring with it some risks. The safety net payment is calculated at the pool-wide level. This means that individual authorities who suffer a large reduction in their business rates (and would meet the safety net criteria individually outside of the pool), may not receive any financial support through the pool. This would be because the overall reduction in the pool is not large enough to trigger the pool-wide safety net payment.

4.36 For example, with a safety net set at 7.5%, Gloucester, as an individual authority outside the pool would trigger the safety net with a the business rates it collects falls to 92.5% of the Spending Baseline (i.e. If spending baseline is £3.4m, the safety net is triggered when local share of business rates fall to £3.1m). However, for the pool-wide safety net to trigger the pool would need to see the total business rates collected fall below £75.2m – the spending baseline being £81.3m). Therefore, if Gloucester's business rates are falling but other authority's are increasing, the pool-wide safety net would not trigger. The 'rules' and governance arrangements behind operating the pool could therefore include the need to include a reserve to cover local fluctutations.

Pooling Timetable

4.37 The Government published a timetable in their Pooling prospectus outlining the key dates to ensure pools are able to come into effect in April 2013. This is shown in the table below:

27 July 2012	Invitation for local authorities to submit expressions of interest
August 2012	Development of detailed pooling proposals
10 September 2012	Submission to DCLG of firm list of pool members, pool's consideration of impact on other parties, pool's view of emerging governance arrangements and proposed process for final sign-off by each pool member prior to 19 October submission
September 2012	DCLG consults interested parties from those affected by the pooling proposals (responses by 28 September 2012)
24 September 2012	Deadline for responses to the Business Rates Retention Technical Consultation.
19 October 2012	Submission of final pooling proposal including governance arrangements signed off by the Chief Executives and Section 151 officers of each authority in the pool
November 2012 (date subject to timing of draft Local Government Finance Settlement)	Designation of pooling proposals, ahead of publication of draft Local Government Finance Report
December 2012 / January 2013	Local authorities to notify DCLG of their intention not to proceed. This must be before statutory consultation on the draft Local Government Finance Report closes.

4.38 This means that for the Gloucestershire pool to be in place by April 2013, the formal pooling proposal will need to be signed off by the Chief Executive and Corporate Director of Resources before 19 October 2012. This is before we will know the amount of funding Gloucester can expect to receive for 2013/14. As such, a cooling-off period has been built into the timetable which allows for local authorities to reassess the relative benefits or risks of being part of the pool.

5.0 Alternative Options Considered

5.1 The alternative option to pooling is for the City Council to operate business rates outside of a pool. The report demonstrates the risks associated with such an arrangement. Councils are not required to join a Business Rates Pool, they do so voluntarily. A thorough assessment of the risks and rewards is essential to inform the decision whether to pool or not. The Council may miss an opportunity to increase its funding from business rates or reduce the risk of losses in funding should it not consider the pooling option.

6.0 Reasons for Recommendations

6.1 To enable the council to take part in a county-wide pooling arrangement, which requires approval of cabinet and full council, to meet the challenges from a very tight timescale as indicated in the timetable in paragraph 4.7.

7.0 Future Work and Conclusions

7.1 This report has highlighted the opportunities and risks of adopting a pooled approach to business rates or not. All of the Gloucestershire councils are working collaboratively to further assess the advantages and disadvantages, risks and rewards of pooling.

7.2 A smaller sub-group of officers from the Gloucestershire councils is currently working through different growth scenarios and modelling the outcomes. Once this work has been completed, we will provide further detailed information to members including an analysis of the benefits, risks & rewards of pooling.

7.3 The Governance issues are also being explored by officers from the Gloucestershire councils. A draft of the governance arrangements for the Gloucestershire pool will also be provided to members at a later date.

8.0 Financial Implications

8.1 The financial implications are set out in the main body of the report. The Business Rates Retention Scheme forms part of the government's agenda of localising funding for local government.

8.2 Pooling of business rates with the other local authorities in Gloucestershire will ensure more funding in Gloucestershire as a whole. It may also help mitigate some of the risks associated with the localisation of the business rates. Quantifying these risks and rewards at this early stage is very difficult.

8.3 The exact impact of business rate pooling may not be fully known until the Draft Local Government Finance Settlement is announced in late November/early December 2012. However, a cooling-off period has been built into the government's timetable to allow councils to finalise their decision in the light of the settlement announcement.

(Financial Services have been consulted in the preparation this report.)

9.0 Legal Implications

9.1 The Local Government Finance Bill has reached the Report Stage in the House of Lords (due 10 October 2012) and subject to the House of Commons agreeing any amendments Royal Assent should follow within a few weeks afterwards.

9.2 As presently drafted the Bill will insert a new Schedule 7A into the Local Government Finance Act 1988. Schedule 7A will enable the Secretary of State to make regulations designating groups of two or more local authorities for the purposes of retaining business rates locally. The effect of designation will be that the group will collectively be a Relevant Authority and exercise the functions conferred by Schedule 7A. In the absence of the detail of any regulations it is the principle of pooling that is the issue for members.

9.3 An agreement will need to be put in place between all the authorities in the Pool to deal with how the Pool will work; decisions are taken and depending on the regulations, include provision for changing membership/lead authority.

(Legal Services have been consulted in the preparation this report.)

10.0 Risk & Opportunity Management Implications

10.1 The risks and opportunities of pooling are covered within the main body of the report. Officers have been working with all Gloucestershire councils on pooling of business rates, including the County Council.

10.2 Consultation has taken place with the Chief Executives and Leaders of Gloucestershire councils, with an expression of interest submitted on behalf of all Gloucestershire councils to the DCLG in July 2012.

10.3 Further consultative work is scheduled to take place with interested parties over the coming weeks as the government provide further information.

11.0 People Impact Assessment (PIA):

11.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, there a full PIA was not required.

12.0 Other Corporate Implications

Community Safety

12.1 There are no community safety implications arising out of this report.

Sustainability

12.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

12.3 There are no staffing implications arising out of this report.

Background Documents:

DCLG Business Rates Retention Scheme Pooling Prospectus, July 2012:
http://www.communities.gov.uk/documents/localgovernment/pdf/2182704.pdf

DCLG Business Rates Retention Technical Consultation, July 2012:
http://www.communities.gov.uk/documents/localgovernment/pdf/21825021.pdf

Appendix 1

Glossary of key terms

Listed below are the definitions provided in the Government's Technical Consultation document on the Business Rates Retention scheme published in July 2012.

Baseline funding level
The amount of a local authority's *start up funding allocation* which is provided through the *local share* of the estimated business rates aggregate (England) at the outset of the scheme. It will form the baseline against which *tariffs* and *top-ups* will be calculated.

Billing authority
A local authority which bills and collects business rates, for example a district council or unitary council.

Billing authority business rates baseline
Determined by dividing the *local share* of the estimated business rates aggregate (England) between billing authorities on the basis of their *proportionate shares*, before the payment of any *major precepting authority share*.

Central share
The percentage share of locally collected business rates that will be paid to central government by billing authorities. This will be set at 50%. The *central share* will be re-distributed to local government through grants including the *Revenue Support Grant*. This replaces the previous 'set-aside' policy.

Individual authority business rates baseline
Derived by apportioning the *billing authority business rates baseline* between billing and major precepting authorities on the basis of *major precepting authority shares*.

Levy
Mechanism to limit disproportionate benefit. This will be set on a proportionate basis so that an authority never sees more than a 1% increase in its *baseline funding level* for each 1% increase in its *individual authority business rates baseline*.

Local government spending control total
The total amount of expenditure allocated to the local government sector by HM Treasury for each year of a Spending Review.

Local share
The percentage share of locally collected business rates that will be retained by local government. This will be set at 50%. At the outset, the *local share* of the estimated business rates aggregate will be divided between billing authorities on the basis of their *proportionate shares*.

Lower tier share
The percentage of the *local share* that is retained by a billing authority in two tier areas. This will be set at 80%.

Major precepting authority
A local authority that does not collect business rates but is part of the business rates retention scheme. They are county councils in a two tier areas, single purpose fire and rescue authorities and the Greater London Authority.

Tax Increment Financing (TIF)

TIF is a method to use future gains in business rates to finance current improvements (which theoretically will create the conditions for those future gains). When a development or public project is carried out, there is often an increase in the value of surrounding land and buildings, and perhaps new investment (new or rehabilitated buildings, for example).

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APPENDIX B

RATES RETENTION SCHEME:

POOLING GOVERNANCE ARRANGEMENTS

Pool Title:

Gloucestershire

Lead contact for Pool:

Sandra Cowley
Head of Finance Stroud District Council Ebley Mill, Ebley Wharf, GL5 4UB
Telephone: 01453 754136

Email: sandra.cowley@stroud.gov.uk

Objectives

The aim of the Gloucestershire Pool is to maximise the financial resources that can be retained for the benefit of the County of Gloucestershire. Gloucestershire as a whole could benefit from offsetting top ups and tariffs and pay a reduced levy on disproportionate growth.

The overarching aim of the Pool will be to ensure that no authority within the Pool should be worse off than if it were not in the Pool.

Additional resources generated would be used to; help Gloucestershire authorities manage volatility in business rates collection and the increased risk that would now be carried locally as a result of the safety net being harder to trigger and to promote local economic growth.

Pooling is a voluntary arrangement between the councils within the Pool and in order to be successful strong governance arrangements are required. Clear guidelines outlining how the Pool works will allow all Pool members and their elected representatives to see the benefits of the partnership working and promote shared strategic priorities for economic growth.

Membership

The Pool includes all the major local authorities within the Gloucestershire area as stated below:

Cheltenham Borough Council
Cotswold District Council
Forest of Dean District Council
Gloucester City Council
Gloucestershire County Council
Stroud District Council
Tewkesbury Borough Council

The proposed Pool aligns with the Gloucestershire Local Enterprise Partnership (LEP). It includes all 6 Districts and the County Council, all of whom have made a clear decision to endorse and form the Gloucestershire LEP.

The Pool aims to make the link between retaining resources locally within Gloucestershire and reinvesting in the local economy. The Pool will set aside funding for a Strategic Economic Development Fund, where funding could be accessed to support shared economic strategic priorities within Gloucestershire.

Duration

The Pool is a voluntary arrangement and hence Members will be able to terminate their Membership on an annual basis in accordance with Communities and Local Government (CLG) deadlines, and the termination requirements of the Pool as detailed in the Dissolution Section. Thus the Pool may dissolve after year one if the forecasting suggests that continuing the Pool would result in a deficit position.

However the rationale for the Pool is to deliver sustained economic growth. In order to do this with a viable Investment Strategy that continually re-invests in Gloucestershire, a longer term view of potential benefits is being taken. Regular reviews will be undertaken to understand the assessment of any surplus / deficit on the Pool, and hence the continuing viability of the Pool.

These Governance arrangements will be updated annually to ensure that they continue to meet the evolving needs and requirements of the Pool.

Management of the Pool

Stroud District Council is nominated to act as the Lead Authority for the Pool. All correspondence with CLG will be directed via this lead authority, and it will report regularly to the Pool Management Team and copy in participants to any communications from or to CLG. Any additional costs associated with this Lead Authority status, will be absorbed by the Lead Authority, and no additional payment can be claimed from the Pool. In the event the Lead Authority wishes to cease being the Lead Authority they will be required to give a minimum of 3 months notice to other Pool members who can then discuss alternatives. They will also be required to undertake a hand-over to ensure a smooth transition to the next Lead Authority.

The following Management Structure of the Pool is recommended:

Pool Management Team

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Working Group

It is recommended that the Working Group meet quarterly. Membership will be drawn from revenue and benefits teams across the District Councils, and Technical Officers, drawn from representatives at both District and County level. This working group will produce intelligence to feed into modelling undertaken by the Technical Officers. This will include business rate projections, liaison with Planning and Development Control Teams to inform forecasting, and Collection Fund analysis following year end to determine the surplus / deficit to be declared.

The Technical Officers will produce updated modelling on performance projections of the Pool. These projections will feed into the meetings of the Pool Management Team, and aid decision making on the performance of the Pool and the distribution of any surplus / deficits on the Pool.

The Pool Management Team will consist of all s151 officers (or their deputies) from each member authority. They will meet regularly as part of the normal cycle of Chief Financial Officer Meetings with Pooling becoming a regular agenda item on a quarterly basis. The meeting timetable will be agreed before the start of the financial year and is attached as an appendix to this document. The Management Team will agree how Pool surpluses / deficits are distributed and the value of the Pool reserve in accordance with the distribution of the risk / reward section.

It is recommended that each member authority be responsible for reporting as appropriate to their members as part of the normal cycle of budgetary reporting.

Distribution of Risk / Reward

It is the aim of the Pool that no member will be any worse off than if they had not joined the Pool. Therefore before any additional money is distributed the Pool will provide funding based on the original pre-Pooling allocations. Councils in the Pool will use this funding for the normal budget setting priorities that they have.

Pool Deficits
It may be the case that the Pool has insufficient funds to bring each member authority up to pre-pooling positions. If this occurs and the deficit cannot be met from any Pool reserve, the deficit will fall on each member on the following basis:

- The County Council will incur 20% of the loss,
- Each District will incur the remaining 80% loss allocated in proportion to baseline funding.

If a Pool dissolves and a deficit exists, this deficit will be shared as per the above methodology.

Pool Reserve
Where the Pool generates funds in excess of the pre-pooling position, these amounts will be treated as a surplus on the Pool. In the first instance, a pool reserve will need to be established using these surplus funds.

From year one, a minimum of £300,000 up to a maximum of £500,000 per annum will be set aside in this reserve until the reserve value reaches £1m. This represents approximately 1% of the total business rates in Gloucestershire. The actual amount paid into the reserve each year will be dependent on the annual surplus achieved. Any balance left after this reserve has been established will be redistributed back to authorities as set out in the Pool Surplus Distribution section.

It is recognised that the pooling arrangement offers opportunities to invest growth in business rates to support the County's wider economic policies and the pool members are keen to ensure that additional resources are used in this way. The purpose of the reserve is purely to manage the risks that being in a pool will create, in particular managing safety net payments, appeals and losses. The need for and the level of the reserve will be kept under review by the Pool Management Team to ensure it reflects the risks of the Pool.

Pool Surplus Distribution
1. Once the appropriate amount has been set aside in the reserve, the remaining surplus will be split **20/80**.
2. 20% will be paid into a Strategic Economic Development Fund.
3. The remaining 80% will be split again **20/80** with 20% being allocated to the County Council and 80% being split across District Councils;
4. Of the amount allocated to district councils:
    - 50% will be divided **equally** between the 6 district councils. This will ensure that all members of the pool see a benefit from pooling.
    - 50% will be allocated to those districts that have grown, based on growth generated as a proportion of total growth.

This distribution methodology will ensure that all participants benefit from pooling.

Where a surplus exists at the end of the year and the Pool is dissolved, this surplus will be split in the same way as illustrated above for the pool surplus position. Any balance in the reserve or in the Strategic Economic Development Fund will be distributed in proportion to the total surplus distributed over the life of the pool. For example if the pool is dissolved at the end of 4 years, any surplus achieved in year 4 will be distributed as described in the Pool Surplus Distribution above. Then the total of the balance on the reserve and in the Strategic Fund will be distributed in proportion to the total distributed to the pool members over the 4 years.

Access to the Strategic Economic Development Fund
This fund will be for the benefit of the whole of Gloucestershire. It will facilitate more collective work on the Economic Development agenda and reflects the commitment of the pool participants to drive economic investment, which also links to the planning and infrastructure process. Criteria will need to be established and agreed by all participants against which bids for funding can be assessed. The Pool Management Team will liaise with Chief Executives and Leaders from each of the participating authorities to agree the approach.

The award of funds must be agreed unanimously by each of the members of the pool.

Dissolution

The Government is clear that Pooling should be voluntary, and this means that members of the Pool should be able to leave should they decide it is no longer in their best interests.

There will be a cooling off period before the initial Pool is finalised and designated by CLG. This will occur within 28 days of the draft Local Government Finance Report being published in December. During this period any authority can withdraw from the Pool.

Under these governance arrangements it is recommended that an authority wishing to exit the Pool gives other members at least 4 months notice of their intention to leave. This will allow the Pool Management Team sufficient time to assess the impact on the Pool, and to allow members to discuss the reasoning behind this wish to leave the Pool, to see if a solution could be reached. This will also give the Management Team sufficient time to submit a new pooling proposal for the following financial year should they wish to do so.

If a solution cannot be reached and dissolution is confirmed, the Lead Authority will notify CLG as soon as possible that the existing Pool will dissolve. CLG will then carry out a consultation exercise with remaining members of the pool on the impact of this decision. The Pool will be dissolved effective from the following financial year.

Once a Pool has been designated and the Local Government Finance Report laid, it is indissoluble for the entire period of the financial year.

After the dissolution of the Pool any surpluses or deficits on the Collection Fund will be shared at year end as agreed within the terms of this document (Distribution of Risk / Reward).

Operation of the Pool

The Collection Fund for Business Rates will operate as normal at each individual Council level. Payments will be made to / from the Lead Authority who will hold a Pool Collection Fund. All payments to / from CLG will now pass through this Pooled Collection Fund. This will ensure that each Council remains in a position whereby it is no worse off by the pooling arrangement. It is recommended that the following apply:

i. Each District will maintain its own Collection Fund for the purposes of collecting Business Rates.
ii. Each Council will receive and make the same payments to / from the Pool from the individual Collection Funds as though they had not pooled. It is envisaged that this will involve fortnightly payments in accordance with the national scheme.
iii. Should a delay occur in passing over payments to / from the Lead Pool, any interest incurred as a result will be charged at the LA 7 day rate.
iv. Should a District experience a fall in business rates, it will have to absorb that fall initially, and may be required to borrow in the short term to fund the shortfall.
v. Should a District trigger a safety net payment during the year, the Working Group will inform the Pool Management Team who will then authorise the Lead Authority to make a payment.
vi. The lead authority will receive all payments from the Districts and pay the net balance to Central Government.
vii. At year end all Districts will calculate the surplus / deficit on the individual Collection Funds. This will be paid over to the Lead Authority Collection Fund Pool, supported by pre-audited NNDR3 forms.
viii. The retained balance will be the net benefit of Pooling. This will be distributed as per the Distribution of Risk / Reward section.
ix. Any retained surplus kept in a Pool reserve will be invested in accordance with the Lead Authority's investment strategy in its Treasury Management Strategy with interest accrued to the Reserve.

The Lead Authority will supply information to CLG on behalf of the Pool in connection with the operation of the rates retention scheme. This will include any returns or statements as required.

The Lead Authority will be responsible for all accounting and administration of the Pooled Fund, the Reserve and the Strategic Economic Development Fund. All funds relating to the Pool including the reserve and the Strategic Economic Development Fund will accrue interest. The Lead Authority will also be responsible for all auditing and financing requirements as set out in legislation.

Timetable

The following timetable is proposed:

Key Timeline	Detail	Comment
Early December 2012	Initial NNDR 1 forecast produced by Billing Authorities for consideration by the Technical Team	Technical Team meet to model NNDR 1 projections
Mid December 2012	Draft LG Finance Report Published	Authorities have 28 days within which to withdraw from Pool arrangements. Technical Team to model impact of LG Settlement on proposed Pool, taking account of NNDR 1 estimates.
February 2013	Pool Designated	The Pool cannot now be dissolved for a minimum period of one year
February 2013	Final Allocation Figures Provided for the Pool	Working Group to review and update forecasts as necessary
April 2013	Pool Management Team (PMT) Meet	This will be a quarterly requirement.
July 2013	Working Group (WG) meet	First assessment of performance on Collection Fund (CF)
July 2013	PMT Meet	
October 2013	WG meet	Second assessment of performance on CF
October 2013	PMT Meet	
January 2014	WG meet	Third assessment of performance on CF
January 2014	PMT Meet	
April 2014	WG meet	Fourth assessment of performance on CF
April 2014	PMT Meet	
June 2014	Final NNDR3 produced	Working group meet to assess final position on Pool
Sept 2014	Notice given on intent to leave Pool	If an Authority wishes to leave the Pool notice should be given to allow sufficient analysis on the impact on other members of the pool

Agreement to Pooling Governance Arrangements

We, the undersigned, agree to the Pool Governance Arrangements across the local authorities of Gloucestershire.

Cheltenham Borough Council

Andrew North Chief Executive	Mark Sheldon Director of Resources (S151Officer)

Cotswold District Council

David Neudegg Chief Executive	Jenny Poole Chief Finance Officer (S151Officer)

Forest of Dean District Council

Sue Pangbourne Head of Paid Services	Derek Broom Group Manager, Finance & Property (S151Officer)

Gloucester City Council

Julian Wain Chief Executive	Peter Gillett Corporate Director of Resources (S151Officer)

Gloucestershire County Council

Pete Bungard Chief Executive	Jo Walker Strategic Finance Director (S151Officer)

Stroud District Council

David Hagg
Chief Executive

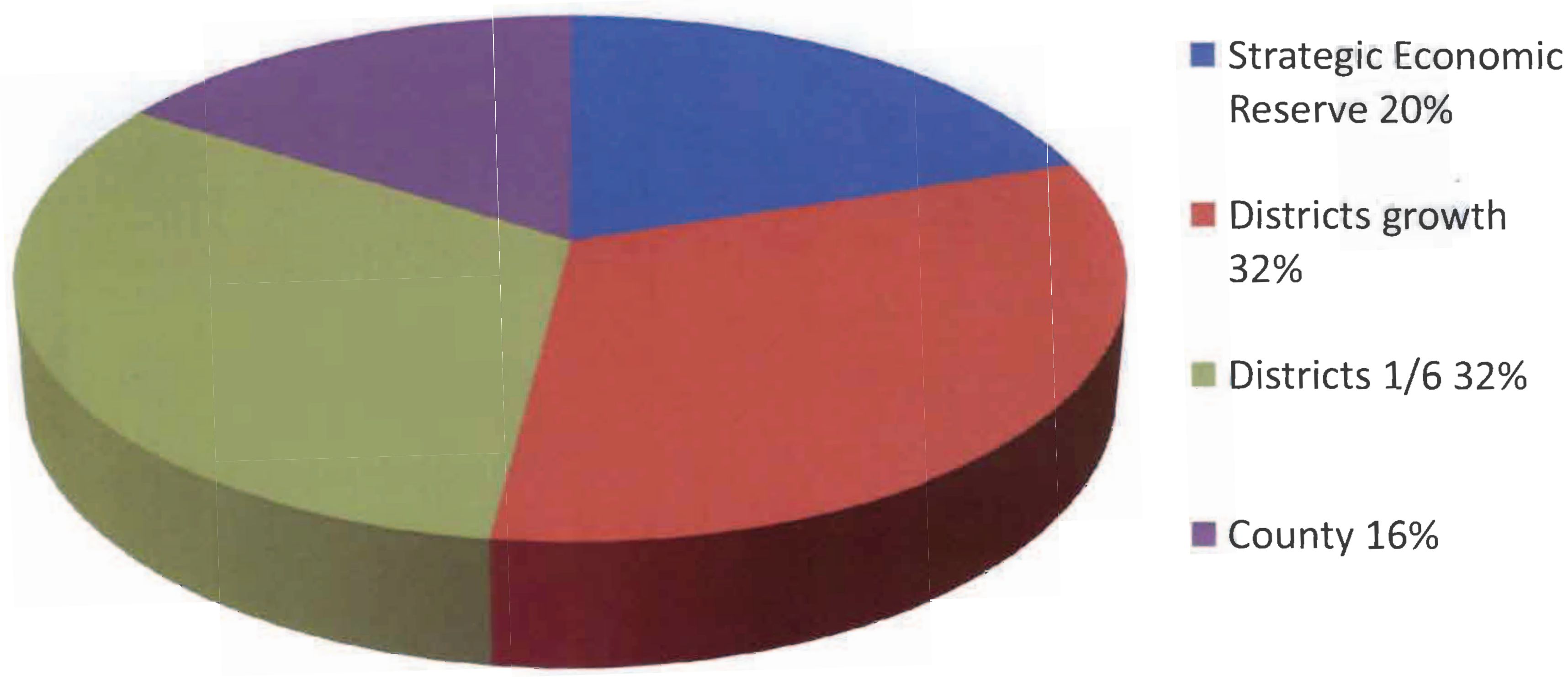
Sandra Cowley
Head of Finance (S151Officer)

Tewkesbury Borough Council

Mike Dawson
Chief Executive

George Hill
Director of Resources (S151Officer)

Business Rates Pooling Proposed Surplus Distribution



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