

<b>12 September 2013</b>		<b>ITEM: 5</b>
<b>Corporate Overview and Scrutiny Committee</b>		
<b>National Non-Domestic Rates – Pooling Opportunities</b>		
<b>Report of:</b> Matthew Essex, Head of Regeneration		
<b>Wards and communities affected:</b> All	<b>Key Decision:</b> Non key	
<b>Accountable Head of Service:</b> Matthew Essex, Head of Regeneration		
<b>Accountable Director:</b> Steve Cox, Assistant Chief Executive		
<b>This report is public</b>		
<b>Purpose of Report:</b> This report builds on an earlier report (June 2013) outlining the potential to enter into pooling arrangements to maximise the possible financial benefits of retained National Non-Domestic Rates (Business Rates). It reviews the work completed since June 2013 and proposes some high level principles to be used in negotiating the terms of any pooling arrangements with other authorities.		

## **EXECUTIVE SUMMARY**

Corporate Overview and Scrutiny Committee considered a report in June 2013 outlining the changes made through the 2013/14 Local Government Finance Settlement which saw the launch of the Business Rates Retention Scheme as the main form of Local Government funding. The report, which preceded a similar report to Cabinet in July 2013, considered the likely impact on the Council's overall financial position and identified entry into a pooling arrangement as an opportunity to gain greater financial benefit than might otherwise be the case.

Three pooling options were considered; a Barking and Dagenham, Havering, Thurrock and Basildon pool, a Thames Gateway South Essex pool and a Southend and Thurrock pool and it was noted that work was ongoing on an Essex-wide pool. Whilst Members were keen to understand the outcome of the Essex wide work before making a firm decision, the Committee supported the principle of entering into a pool and suggested that the final arrangement should be on the basis of whatever secured maximum financial benefit for Thurrock.

Since the June 2013 report the Essex wide work has been completed, high level discussions have been held with the authorities involved in the initial pooling assessments and the formal guidance for the next pooling application process has been released. These are all reviewed within the report.

On the basis of the information now available it is proposed that Thurrock seeks to enter into a 4 way pool with Barking and Dagenham, Havering and Basildon. This

arrangement has the potential to generate up to £4.5m in additional funding up to 2017/18. This paper outlines the work which has informed this proposal and suggests some high level principles to be used in negotiating the terms of any pooling arrangements with the other authorities

## **1. RECOMMENDATIONS:**

- 1.1 Members of the Overview and Scrutiny Committee are asked to acknowledge the work which has been completed to date and consider and comment upon the pooling proposals and high level principles.**

## **2. INTRODUCTION AND BACKGROUND:**

- 2.1 The background to the changes to Local Government funding were covered in detail within the June 2013 report. Whilst it is not repeated here, the salient points are reviewed to set the context for the information that follows. The 2013/14 Local Government Finance Settlement saw the launch of the Business Rates Retention Scheme as the main form of Local Government funding. Under the previous Formula Grant system Councils received funding via a fixed grant made up of the sum of Revenue Support Grant and nationally reallocated Business Rates. Under this arrangement, Councils simply collected Business Rates and passed them back to Central Government who redistributed them according to need.
- 2.2 Under the Retention Scheme Councils continue to be funded through a mixture of the Revenue Support Grant and Business Rates but these are no longer combined into a fixed level of Formula Grant. Instead Councils receive a guaranteed Revenue Support Grant with the balance made up of a share of retained Business Rates. This broad arrangement was covered in the February 2013 Cabinet Paper on the Council's Revenue Budget which confirmed that the Council's overall funding of £72.6m (2013/14) would be made up of £29m in retained Business Rates and £43.6m in Revenue Support Grant. Under the system, any growth in the value of Business Rates collected (through either new or expanded businesses) results in an increase in funding to the Council.
- 2.3 Given Thurrock's growth ambitions and the scale of development which is either committed or underway in London Gateway, Tilbury Port and the Lakeside Basin there would seem to be the potential for the Council to gain significant benefit from the scheme. However, the Retention Scheme is subject to a complex series of checks and balances which ultimately serve to reduce the amount of funds which individual authorities can receive. The effect of these mechanisms is that the Council is only able to retain 27% of all new Business Rates generated in the Borough with the balance being returned to Central Government.
- 2.4 The June 2013 report outlined the work that had been completed to consider the potential to use a pooling arrangement to increase the level of new

Business Rates retained locally. Under the Retention Scheme, Local Authorities are able to voluntarily form a Business Rates Retention Pool. Authorities within the pool are treated as a single Authority with their assessed levels of need and business rates collected considered as an aggregate total. The benefit of a pool is that, through appropriate selection of members, the extremes of some Authorities (i.e. Thurrock's high levels of Business Rates collected relative to its assessed level of need) can be netted off against others (i.e. those who do not collect sufficient Business Rates to meet their assessed level of need). Under such circumstances, the Levy applied to the aggregate total would result in a greater proportion of Business Rates growth remaining within the local area.

2.5 Three pooling options were considered:

- A pool made up of Barking and Dagenham, Havering, Thurrock and Basildon (or variants of that group) based upon geographical proximity and similarity in terms of economic conditions;
- A pool reflecting the Thames Gateway South Essex boundaries made up of Thurrock, Basildon, Castle Point, Rochford and Southend; and
- Recognising their Unitary status and proximity within South Essex, a pool made up of just Thurrock and Southend.

2.5.1 All eleven possible combinations of the Thurrock, Basildon, Havering and Barking and Dagenham pool were modelled. Most combinations delivered a positive outcome with only a Thurrock/Basildon (two Tariff Authorities) combination generating a negative outcome. The five most beneficial combinations are shown in the table below. It should be noted that the amounts (in £m) shown are in addition to those which the Authorities would receive if they were not within a pool:

Perm.	Authority	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	TOTAL £m	Pool Mix
1	BD, B, H, T	1.7	2.4	4.3	4.8	<b>13.2</b>	2 x Top-Up 2 x Tariff
2	BD, H, T	1.2	1.9	4.0	4.6	<b>11.7</b>	2 x Top-Up 1 x Tariff
3	BD, T	1.2	1.9	4.0	4.6	<b>11.7</b>	1 x Top-Up 1 x Tariff
4	BD, B, T	1.2	1.6	3.0	3.5	<b>9.3</b>	1 x Top-Up 2 x Tariff
5	H, T	0.7	1.1	2.3	2.6	<b>6.7</b>	1 x Top-Up 1 x Tariff

2.5.2 The Thames Gateway South Essex group was made up of mainly Tariff Authorities with the exception of Southend, i.e. the Authorities collect higher levels of Business Rates than their level of assessed need. Whilst Southend is a Top Up Authority (collecting less in Business Rates than its level of assessed need), the scale of the Top Up it receives was too small to have a significant impact on the combined Tariff rate of the other Authorities although it did generate a positive outcome of £1.6m over four years:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	TOTAL £m
Individually	73.2	76.1	81.0	84.3	<b>314.6</b>
Pooled	73.5	76.4	81.4	84.9	<b>316.2</b>
Difference	<b>+ 0.3</b>	<b>+ 0.3</b>	<b>+ 0.5</b>	<b>+ 0.5</b>	<b>+ 1.6</b>

2.5.3 Southend's Top Up status provided a positive outcome in the Thurrock and Southend pool and the exclusion of the other South Essex Authorities served to reduce the dilution of any benefit. As shown in the table below, this arrangement generated an additional £6.7m over the four years:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	TOTAL £m
Individually	63.3	65.9	70.4	73.4	273.1
Pooled	64.0	67.0	72.7	76.1	279.8
Difference	<b>0.7</b>	<b>1.1</b>	<b>2.3</b>	<b>2.6</b>	<b>6.7</b>

2.6 Based upon these initial assessments it was concluded that there seemed to be a sound financial case for considering entering into a pool with other Authorities. However, at the time of the June 2013 report, an assessment of the potential for an Essex wide pool was underway but had not yet been concluded; this work has subsequently been completed. The assessment considers the potential benefits arising from the 16 authorities that make up Greater Essex (County Council, 12 Districts, two Unitaries and the Fire and Rescue Authority) forming a pool and then variations on that theme.

2.7 As with the work completed previously, all authorities have been asked to provide an estimate of the level of growth (or otherwise) that they anticipate within the Business Rates they collect and these have been used to project the impact of pooling under a number of scenarios. At a headline level, all 16 authorities pooling could result in an overall benefit to £19.1m over four years with other combinations generating lesser returns but with fewer partners for those returns to be shared amongst. A summary of the assessment is provided below:

	Average Levy Rate	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	TOTAL £m
All authorities	14%	3.2	3.8	5.7	6.3	19.1
County, Fire & districts	12%	2.5	2.6	3.2	3.4	11.7
County and districts	17%	2.2	2.3	2.8	3.0	10.3

County and 8 selected districts <sup>1</sup>	0%	2.9	3.0	3.8	4.0	13.8
County, districts & Thurrock	22%	2.4	2.8	4.3	4.7	14.3
County, districts & Southend	11%	2.6	2.7	3.3	3.5	12.1

2.7.1 Beyond the headline figures, an assessment has been made of the optimum mix of authorities which would provide the greatest financial benefit. The group of 13 authorities (the original 16 excluding Brentwood, Chelmsford and Harlow) could generate an additional £24.7m over the four years although it is unclear whether this arrangement would be agreed by the excluded authorities. The build up of additional benefit is shown below:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	TOTAL £m
Individually	267.5	275.6	286.7	297.2	1,126.9
Pooled	271.7	280.6	294.0	305.2	1,151.6
<b>Difference</b>	<b>4.3</b>	<b>5.1</b>	<b>7.3</b>	<b>8.1</b>	<b>24.7</b>

2.8 At the end of July 2013, the Government issued the Business Rates Retention Pooling Prospectus which contains guidelines for authorities considering establishing a pool and outlines the process for applications for 2014/15. The guidelines identify four critical elements to any application:

1. Membership – clear details of the members of the pool. No authority can be a member of more than one pool;
2. Benefits – an outline of the benefits of the pool which might include the rationale for the pool’s geography and a description of its role in promoting growth, promoting strategic and service integration and managing cash flows;
3. Lead Authority - a single authority through whom payments due to and from the Government can be channelled. This can be any one of the pool members; and
4. Governance Agreement – a contract document to be entered into by the pooling authorities outlining the arrangement for the management of the pool, the distribution of pool income, the arrangements for meeting any liabilities and the overall governance of the pool. Standard templates have been provided and the majority of existing pools have made use of those.

2.8.1 In deciding whether to designate a pool or not, the guidance states that Government will consider:

1. the likely benefits of the proposals for local authorities and the Government’s wider objectives for growth and improved strategic and service delivery;
2. the proposed governance arrangements; and

3. the extent to which proposals are affordable in terms of the Retention Scheme as a whole.

2.8.2 The guidance notes that pooling remains entirely voluntary and that it is for 'local authorities to determine the geographic coverage of the pool' although there are clear references highlighting an expectation that pools are constituted on a basis that best supports economic geography and have continuous boundaries. Whilst it is acknowledged that there may be instances where that is not the case these are generally expected to be where an authority drops out or does not want to participate. This is considered likely to preclude the Barking and Dagenham and Thurrock and Southend and Thurrock only pools.

2.8.3 Any proposals to create a new pool must be submitted to Communities and Local Government by the 31<sup>st</sup> October 2013.

### **3. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:**

3.1 In July 2013 Cabinet received a report based largely upon that previously considered by the Corporate Overview and Scrutiny Committee and agreed the principle that the Council seek to enter into a pooling arrangement. The anticipated financial benefit of the Thurrock and Barking and Dagenham pool made it the favoured option at the time although Cabinet was keen that the outcome of the Essex wide work be known before a final decision be made. Given the strong in principle agreement to establishing a pool, the primary issues for the Committee to consider are the make-up of the pool and the basis upon which the Council should seek to participate.

3.2 The analysis reviewed in section two above shows a number of potentially positive arrangements with a range of authorities. However, the primary focus should be on determining which of the options provides the greatest benefit for Thurrock set against the criteria stated within the pooling guidance. Recognising the relatively small benefit generated it is proposed that the TGSE pool be discounted from consideration. Additionally, despite the Thurrock and Barking and Dagenham pool potentially providing the greatest financial benefit, the clear expectation within the guidance that pools should have continuous boundaries represents a significant risk to the likelihood of such an arrangement being agreed by Communities and Local Government. It is therefore proposed that both the Thurrock and Barking and Dagenham and Thurrock and Southend only pools also be discounted.

3.3 The key determinant of benefit from pooling is the basis on which proceeds arising from the pool are distributed. A review of the existing pools already operating (see Appendix One) shows that they all employ the principle that no authority should be worse off than it would have been outside of the pool. In short, this means that pooled authorities will still receive whatever funding they would have received without the pool and that the pool operation is only concerned with additional benefits generated through the pool itself. Beyond this principle, it is clear that a number of methodologies are in use with some

choosing to create funds which can be jointly applied across the geographic areas, others simply dividing the funds up between pool members on the basis of an allocation formula and others using a mixture of the two approaches. As noted above, it is for individual pools to determine how to apply any funds generated through pooling.

- 3.4 The simplest and seemingly most common methodology, which was used within the Essex wide work, is to allocate funds on the basis of one of the following:
1. **Baseline Need** – This is a function of the Retention Scheme which determines the scale of funds to be retained locally. It is essentially an assessment of the scale of funding that an authority needs to provide the necessary services to support its population. However, it takes no account of the Business Rates base within an area or the level of growth in Business Rates. As a result it can provide a very uneven distribution and is not commonly used in isolation;
  2. **NDR Baseline** – This seeks to allocate funds on the basis of the NDR Baseline of each authority and therefore links the share back to its contribution to the pool. This approach is used in isolation elsewhere but favours authorities (like Thurrock) with relatively high Business Rate receipts irrespective of levels of need; and
  3. **A combination of Baseline Need and NDR Baseline** – this simply combines the two measures and broadly reflects the balance of need and input into the pool and generally provides sufficient incentive to all authorities to participate. This mechanism is currently in use in the Coventry & Warwickshire, Devon, Lincolnshire, Nottinghamshire and Worcestershire pools.

- 3.5 Using the combination methodology outlined above, it is possible to run a simple comparison between the various pooling options to determine which provides the greatest benefit to Thurrock. Under the four authority (Barking and Dagenham, Havering, Thurrock and Basildon) scenario the potential benefit (above and beyond what each authority would receive anyway) is shown in the table below:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	TOTAL £m
Barking and Dagenham	0.49	0.7	1.25	1.39	<b>3.82</b>
Havering	0.37	0.53	0.95	1.06	<b>2.91</b>
Thurrock	0.58	0.82	1.47	1.65	<b>4.53</b>
Basildon	0.25	0.35	0.63	0.71	<b>1.94</b>

- 3.5.1 Using precisely the same methodology, Thurrock’s participation, shown with Basildon for context, in an Essex-wide pool would generate the following possible benefit:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	TOTAL £m
Thurrock	0.46	0.53	0.80	0.88	<b>2.68</b>
Basildon	0.20	0.23	0.34	0.38	<b>1.15</b>

3.5.2 Although it is considered unlikely that the optimised Essex pool would be forthcoming an assessment has been completed on the same basis to determine what the maximum possible benefit to Thurrock could be from an Essex pool. The potential benefit is shown in the table below:

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	TOTAL £m
Thurrock	0.70	0.83	1.19	1.32	<b>4.05</b>
Basildon	0.30	0.36	0.52	0.58	<b>1.77</b>

3.6 Whilst this is a simple analysis and fails to take into account the costs of some of the principles outlined below, it does serve to demonstrate that the greatest financial benefit to Thurrock is served through establishing a four way pool with Barking and Dagenham, Havering and Basildon. This has the added benefit of having relatively few members and therefore, potentially, being simpler to negotiate. This principle has been discussed with representatives from the other three authorities and there is support for such a proposal. Members are invited to comment upon this conclusion.

3.7 Beyond the membership of the pool it is important to consider the basis on which the pool will be established and operated. Clearly, as outlined within the guidance, there is an expectation that the pool will cover a functional economic area and will seek to resource and deliver activity in a coordinated way. However, consideration also needs to be given to the mechanics in terms of identifying a Lead Authority, ensuring that the pool is sufficiently resourced and ensuring that it is operated in a way which does not generate unacceptable financial risk to its members. Accordingly, it is proposed that the following principles be established which will guide the Council's negotiations with other authorities:

1. The pool should operate on the basis that no authority will be worse off than they would have been had the pool not been in operation;
2. Lead Authority – Thurrock Council should be prepared to act as the Lead Authority for the pool but will expect to levy a charge equal to the additional costs incurred in doing so;
3. The pool should make a provision to provide a safety net for members in the event that Business Rate income falls. The precise scale of this provision should be jointly agreed (analysis of the existing pools suggests that this varies between 2% and 25% of retained income);
4. The pool should make a provision to support the costs of cross boundary projects in support of the rationale for the creation of the pool. The precise scale of this provision should be jointly agreed (this varies wildly within existing pools from nothing up to 100%);  
and
5. The remaining benefit will be allocated between the members of the pool on the basis of the combined Baseline Need and NDR Baseline.

3.7.1 These principles are very much in line with the precedents set by the existing pools. However, Members are invited to consider and comment upon them.



- 3.8 On the assumption that Members remain minded to support the pooling proposals, a series of meetings have been established with the likely members to discuss the proposal in more detail and agree the principles that would secure its establishment. Recognising the significant amount of existing documentation which can be called upon it is anticipated that it will be possible to meet the Communities and Local Government deadline of the 31<sup>st</sup> October 2013 and submit an application which would see a pool becoming operational for the 2014/15 financial year.

#### **4. REASONS FOR RECOMMENDATION:**

- 4.1 The introduction of the Business Rates Retention Scheme together with Thurrock's considerable growth programme presents a real opportunity for the Authority to increase its funding levels. However, mechanisms within the Retention Scheme ensure that, whilst there is a benefit, it is not likely to be as great as it could be. The consideration of the potential to form a Business Rates Retention Pool seem to offer an opportunity to increase the benefit of the scheme from the analysis undertaken it is clear that a four authority pool made up of Barking and Dagenham, Havering, Thurrock and Basildon would seem to offer the greatest benefit. This should be progressed using the principles outlined above with a view to submitting an application to Communities and Local Government by the deadline of 31<sup>st</sup> October 2013.

#### **5. CONSULTATION (including Overview and Scrutiny, if applicable)**

- 5.1 This paper builds upon one considered by Corporate Overview and Scrutiny in June 2013 and another paper considered by Cabinet in July 2013.

#### **6. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT**

- 6.1 The Council has set out an ambitious regeneration agenda within the Corporate Plan, Regeneration Strategy and Local Development Framework. The delivery of this agenda requires the Council to take a proactive role, facilitating and directly delivering elements of this agenda to create the conditions for others (including the private sector) to contribute to. Entering into a Business Rate Retention Pool offers the opportunity to work across boundaries to address strategic issues in respect of skills, economic development and transport whilst also generating additional resources to help support this activity.

#### **7. IMPLICATIONS**

## 7.1 **Financial**

Implications verified by: **Sean Clark**  
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It is clear from this and previous budget reports that income from business rates is now far more important to the Council than previously and, as the government reduces revenue support grant and places more emphasis on business rates over the coming years, maximising returns will become even more critical if the Council is to protect its front line services.

Increases through growth have already been recognised in the MTFs on a prudent basis at £300k and £285k in 2013/14 and 2014/15 respectively.

As the report sets out, income can be further maximised through a pooling arrangement through offsetting tariffs, top ups and levies. There are some projections in this report from the work that Local Government Futures has carried out but a return to Thurrock obviously depends on growth being achieved and the allocation method to be agreed between participating authorities.

## 7.2 **Legal**

Implications verified by: **Daniel Toohey**  
 Telephone and email: **01375 652049**  
**daniel.toohey@BDTLegal.org.uk**

The regulatory framework is outlined within the body of the report. There are no direct statutory or legal implications arising from this report.

However an expression of interest in pooling business rates and exploring in outline such a pooling system may increase the reputation of the authority with local business by demonstrating a commitment to driving local economic growth.

## 7.3 **Diversity and Equality**

Implications verified by: **Sansom DeAlyn**  
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The consideration of pooling with other Authorities has no direct impact on Diversity and Equality issues. However, it is noted that the activities which could be supported through such an arrangement would directly support efforts to deliver the Council's regeneration agenda which seeks to secure the maximum potential benefit for Thurrock's communities and particularly those who exhibit high level of deprivation.

7.4 **Other implications (where significant) – i.e. Section 17, Risk Assessment, Health Impact Assessment, Sustainability, IT, Environmental**

N/A

**BACKGROUND PAPERS USED IN PREPARING THIS REPORT (include their location and identify whether any are exempt or protected by copyright):**

- National Non-Domestic Rates – Pooling Opportunities (Report to Corporate Overview and Scrutiny June 2013)
- National Non-Domestic Rates – Pooling Opportunities (Report to Cabinet July 2013)

**APPENDICES TO THIS REPORT:**

- Appendix One – Analysis of Existing Pooling Arrangements.

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