

23 January 2014		ITEM: 6
Corporate Overview and Scrutiny Committee		
National Non-Domestic Rates – Pooling Opportunities		
Report of: Matthew Essex, Head of Regeneration		
Wards and communities affected: All	Key Decision: No	
Accountable Head of Service: Matthew Essex, Head of Regeneration		
Accountable Director: Steve Cox, Assistant Chief Executive		
This report is public		
Purpose of Report: This report builds on earlier reports (June 2013 and September 2013) concerning entering into pooling arrangements to maximise the possible financial benefits to the Council of retained National Non-Domestic Rates (Business Rates).		

EXECUTIVE SUMMARY

Corporate Overview and Scrutiny Committee considered a report in June 2013 outlining the changes made through the Local Government Financial Settlement and the launch of the Business Rates Retention Scheme. The new funding arrangements replaced a fixed funding allocation from Government with a system of grant allocation and retention of a proportion of Business Rates collected. The new scheme meant Council income would vary depending on the growth or decline of the Business Rate base.

Mechanisms built into the scheme meant that the Council could only benefit from a proportion of any increase in rates income. However, this share could be increased by entering into a pooling arrangement with neighbouring local authorities. 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.

In September 2013 the Committee received a report summarising the modelling work used to inform a decision about entering into a pooling arrangement. The report expressed a preference for entering into a pooling arrangement with Basildon Borough Council and the London Boroughs of Barking & Dagenham and Havering on the basis of maximising financial benefit for Thurrock and meeting Government criteria for a pool concerning clear strategic links and a rationale for promoting growth.

Since September 2013 discussions have continued with key stakeholders in the pool and a proposal has been submitted to the Department for Communities and Local Government (DCLG). The DCLG considered the proposal and on 17 December confirmed designation of the Business Rates Pool for the financial year 2014-15.

1. RECOMMENDATIONS:

1.1 Members of the Overview and Scrutiny Committee are asked to note progress made on NNDR pooling arrangements.

2. INTRODUCTION AND BACKGROUND:

- 2.1 In June 2013 Corporate Overview and Scrutiny Committee received a report outlining changes to the 2013/14 Local Government Finance Settlement which increased the importance of National Non-Domestic Rates (NNDR) to the Council's funding position and introduced the potential to use pooling arrangements to increase funding available to the Council. The new funding system still funds Councils through a mixture of Revenue Support Grant and Business Rates but they 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, which can increase (or decrease) depending on the growth (or reduction) in business rates collected.
- 2.2 Given Thurrock's growth ambitions and the scale of development which is either committed or underway there is the potential for the Council to gain significant benefit from the system. However the system is subject to significant checks and balances which, in effect, limit the proportion of any new Business Rates that the Council retains to 27%, with the balance being returned to central Government. Pooling arrangements can increase the proportion of income retained because Tariff Authorities such as Thurrock, with a high level of Business Rates relative to assessed need, can pool their income with Top Up Authorities who do not collect sufficient Business Rates to meet their need. As a result the levy rate is reduced and a greater proportion of income from any Business Rates growth could be retained in the pool area.
- 2.3 The Council commissioned a review to assess the potential benefits of a pool with neighbouring authorities and initial results were presented to the Committee who concluded the Council should seek to enter into whichever pooling arrangement was likely to deliver the greatest direct cash benefit.
- 2.4 Further work on different pooling arrangements was carried out and, following release of the guidance by DCLG, a further report was received by the Committee in September 2013. The report reviewed the different pooling options for the Council, the results of high level discussions with potential pooling partners and the guidance on pooling arrangements. The most financially advantageous proposal likely to win approval from Government was establishing a four way pool with Basildon Borough Council, the London Borough of Barking & Dagenham and London Borough of Havering. This

arrangement also had the advantage of reflecting the Government guidance on the formation of pools, with an expectation that they would support economic geography and, in general, have continuous boundaries.

- 2.5 The report went on to consider the basis on which the pool would be established and operated. On the assumption that Members were still minded to support the pooling proposal a series of meetings had been established with the likely pool members to discuss the proposal in more detail and to develop and submit a proposal to central Government by the deadline of 31 October. Members considered the report and accepted the recommendation, adding that the Monitoring Officer should be consulted on the governance arrangements in making and implementing the decision during the purdah period.

3. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:

- 3.1 Between September 2013 and the submission deadline of 31 October 2013 Finance and Regeneration Officers met regularly to develop a submission to central Government for the four party pool.
- 3.2 The submission was based on the principles provided by DCLG and set out a case for the pool based on the shared economic history of the area, geography, common labour market issues, shared key sectors and building on existing collaborative arrangements. The submission sought to address the clear steer from Government guidance concerning the added value the pool could bring in terms of growth and improved strategic and service delivery.
- 3.3 Alongside the submission the pool prepared a Memorandum of Understanding (MoU), signed by the pool Members, setting out the broad principles, aims and objectives of the pooling arrangement. The MoU was established for a period of 6 years until the next re-set in the Business Rate Retention Scheme which will essentially disregard all business rate growth which has taken place in the previous period and will require a comprehensive re-assessment of the benefits afforded by a pooling arrangement in the next funding period. This should ensure the pool can continue until 2020 without submitting a new application for Government approval, unless one or more of the Pool Members decide to withdraw from the pool or the Government decides to revoke the pool, either of which can happen on an annual basis.
- 3.4 The Memorandum of Understanding reflected the principles for pooling arrangements set out in the September 2013 Committee report:
- Thurrock Council were selected as the Lead Authority for the pool on the basis that any additional costs incurred would be the first call on the allocation of resources in any financial year.
 - The second principal of the pool set out the intention that no authority will receive from business rates retention a lower level of funding than they would have received without the pooling arrangement.
 - Payments from the pool will be made to compensate any authority that suffers a loss as a result of the pooling arrangement, for example through

entitlement to a Safety Net Payment from the Government due to exceeding the Authority's Safety Net threshold.

- The remaining resource (the Net Retained Levy) would be shared across the pool in accordance with the formula agreed by the Pool Members.
- The pool members agreed to establish an Economic Growth Fund to support the costs of cross boundary projects in support of the rationale for creation of the pool.

- 3.5 Members of the Pool negotiated and agreed a model to share the Net Retained Levy. A maximum of 10% would be allocated to the Economic Growth Fund for cross boundary activity with the remainder shared between the four Local Authorities in the pool. The agreement summarised arrangements for Tariff Authorities (Thurrock and Basildon) to receive 60% of any additional NNDR income generated within their boroughs from pooling arrangements, with the remaining 40% shared between the Top-up Authorities (Barking and Dagenham together with Havering) on a ratio of 53:47 Barking and Dagenham : Havering. Over the four year period the potential financial benefits of pooling arrangements were estimated as:

Authority	Estimated Benefit
Thurrock	£5.9m
Basildon	£1.6m
LBBD	£2.7m
LBH	£2.4m

Members of the pool will closely monitor performance of the pool and have the opportunity to revoke the pooling arrangements on an annual basis should the anticipated financial benefits not materialise.

- 3.6 The Pooling proposal was submitted by the deadline set by DCLG of 31 October 2013. DCLG reviewed the submission in line with the criteria set out in the September 2013 report and on 17 December 2013 confirmed designation of the pool.

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. The mechanism for the Business Rates Retention Scheme means that Thurrock will only gain a proportion of any new Business Rates collected as a result of growth. Pooling arrangements are an opportunity for Thurrock to work collaboratively with members of the pool to address strategic issues and to increase the proportion of any additional Business Rates income retained.

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

- 5.1 This paper builds on papers considered by Corporate Overview and Scrutiny Committee in June 2013 and September 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 pro-active role, facilitating and directly delivering elements of this agenda to create the conditions for others (including the private sector) to contribute. 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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Members should note that the financial benefits set out in this report are both estimated and over a four year period. Councils are still waiting for guidance on the accounting treatment from Government that, along with issues such as business rate appeals and growth, will change these projections although the Council will still benefit overall.

7.2 Legal

Implications verified by: **Mike Kelly, Regeneration Lawyer**
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This Report recaps on the Councils proposal to enter into a joint arrangement to collect and distribute Business Rates with three neighbouring authorities. The link is reflective of geographical proximity and similar economic conditions. The arrangement combines Basildon Barking and Dagenham and Havering with Thurrock.

Formerly Councils were dependant on Grants Council Tax and charges for Services as a means of funding. Business rates were paid over to Central Government and were distributed back as part of grant payments. The revised system allows local authorities to collect business rates and retain a proportion of the rates collected.

A joint collection and administration arrangement is permissible and will assist authorities whose expenditure is high and business rate income is too low as they can be given a top up. This Council by Pooling can retain more of the

business rate than they would otherwise do so. That money can then go toward initiatives such as inward investment business support or specific projects in the pool area that can also benefit Thurrock or areas just over its boundary. There will need to be agreement between the pool members to fund these matters.

An Agreement (MOU) has been prepared that sets out the broad principles being applied it runs until 2020. It makes Thurrock lead authority and gives this Council responsibilities to account to Central government maintain the cash raised and to ensure the performance of other members in terms of contributions and their performance levels and annual reporting. In return Thurrock represents the pool with Government and is reimbursed its administrative costs from the pool funds. The MOU is not a contract but a statement of the parties intent there are provisions that allow members to leave without penalty at financial year end.

Ultimate decision making involving the committing of resources to projects still has to be referred to each pool members decision making scheme.

7.3 **Diversity and Equality**

Implications verified by: **Samson DeAllyn**
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The NNDR Pooling arrangement with other Authorities has no direct impact on Diversity and Equality issues. However, it is noted that the activities which could be supported through the potential increase in Council income generated 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 levels of deprivation.

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

None

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

APPENDICES TO THIS REPORT:

- Business Rates Retention Pooling Application: East London South Essex Pool
- Memorandum of Understanding

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