

10 July 2013		ITEM: 14 01104226
Cabinet		
National Non-Domestic Rates – Pooling Opportunities		
Report of: Cllr Andy Smith, Portfolio Holder for Regeneration, Highways & Transportation		
Wards and communities affected: All		Key Decision: Non key
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 outlines recent changes to local government funding mechanisms which have increased the importance of National Non-Domestic Rates (Business Rates) to the Council's overall funding position and introduces the potential, recognising the Borough's anticipated business growth, to use pooling arrangements to increase the funding available to the Council.		

EXECUTIVE SUMMARY

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 this scheme the Council will no longer receive a fixed funding allocation from National Government. Instead it will receive a fixed element through the Revenue Support Grant with the balance being provided through retained Business Rates. The risk associated with reducing levels of Business Rates will now be shared between Local and Central Government but so to will the benefit associated with any increases in the Business Rates base.

Thurrock's growth programme would seem to provide the opportunity for the Council to gain significant benefit from these changes. However, the mechanisms within the scheme (which is now in place) serve to greatly reduce the level of additional resources which the Council will receive as a result of this growth.

Officers have commissioned modelling work which has reviewed the potential benefit associated with forming a Business Rate Retention Pool with neighbouring Authorities. This modelling shows that the Council could generate significant additional income over and above that which would otherwise be received.

This paper reviews the background to the Business Rates Retention Scheme and presents the results of the work conducted to date on the potential for a Business Rate Retention Pool.

1. RECOMMENDATIONS:

- 1.1 Cabinet is invited to acknowledge the work which has been completed to date and, subject to the outcome of the Essex-wide pooling work, support the continuation of discussions with neighbouring Authorities with a view to submitting a proposal to form a Business Rate Retention Pool to Communities and Local Government.**

2. INTRODUCTION AND BACKGROUND:

- 2.1 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. Any changes in the local Business Rates base caused through business failures, defaults or reduced collections had no impact on the general level of Council funding.
- 2.2 Under the Retention Scheme Councils will continue to be funded through a mixture of the Revenue Support Grant and Business Rates but these will no longer be combined into a fixed level of Formula Grant. Instead Councils will 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.
- 2.3 One of the Government's stated ambitions in introducing the Retention Scheme is to incentivise Councils to deliver growth either through supporting the establishment of new businesses or the growth of existing businesses. The growth, or otherwise, of an area's Business Rates base will now have a direct impact on the level of funding which the Council receives. 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 first of these is a 50/50 split of all Business Rates collected between Local and National Government to ensure that there are sufficient funds to share across the country. The locally retained share is then subject to two primary mechanisms which are:

- A Tariff which seeks to ensure that no single Authority has more funding than it is assessed as needing by Central Government or a Top Up which provides an additional amount to Councils that do not collect sufficient Business Rates to cover their assessed needs; and
- A Levy to ensure that no single Authority can gain disproportionate benefit from high levels of growth.

- 2.4 The effect of these mechanisms is a dramatic reduction in the potential benefit which the Council will secure through the various developments expected to take place in the Borough. Work commissioned by the Council based upon projections of the known development programmes of the existing major schemes suggest that this growth could drive an increase of more than £33m in the Business Rates collected per annum (£104m to £137.5m) between 2013/14 and 2017/18. However, under the Retention Scheme Thurrock would only see an increase of around £9m in the funding it receives over the same period.
- 2.5 This situation is further complicated through the effect of other elements of the Retention Scheme which serve to increase the risks to the Council. The first of these is the effect of the Local and National share which requires the Council to share in the risk of a reduction in the amount of Business Rates collected. Whilst the benefit from increases in Business Rates is limited to 27% of any increase through the effect of the Tariff and Levy, reductions are effectively split in half. Whilst the Council expects Business Rates income overall to rise there are likely to be short term variations within year which could see income fall with a consequent reduction in funding levels. A prudent buffer will need to be established to guard against such issues.
- 2.6 The second element which needs to be factored into the forecasting is the impact of resets in the Retention Scheme which will essentially disregard all Business Rates growth which has taken place within the previous period. Through the resets levels of relative need, Tariffs and Levies will be set to a new baseline and the process of business growth driving increased Business Rates and funding levels will start again. The first reset is expected to be in 2020 and every 10 years thereafter. In Thurrock's case it is expected that the first reset will have a significant impact on the Council's annual budget; as noted above, there is projected to be a £9m increase in funding levels between 2013/14 and 2017/18 – a reset in March 2018 would return the Council's funding level to 2013/14 levels with some adjustments for changes in overall need. Given the scale of some of the major schemes expected to come forward, it is highly likely that growth will spread into the next reset period and so the Council can expect to see continued benefit, however the effect of the resets will need to be factored into budget setting exercises.
- 2.7 Whilst it is clear that the Retention Scheme does provide some local benefit to the Council in the form of increased funding, the relatively low level of assessed need combined with the high level of Business Rates collected serves to reduce the Council's benefit to 27% of any new Business Rates. Following the publication of all guidance and the ability to assess the scheme

in the first six months of operation, Officers have been considering mechanisms to increase the level of Business Rates retained locally. The only mechanism offered by Central Government is the formation of a pool with other authorities. This is reviewed below.

3 POOLING

- 3.1 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 all Tariffs and Top Ups combined and a single Levy rate being applied to the aggregate totals. 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.
- 3.2 Clearly, any discussions around pools would require the early agreement of some broad principles (governance, aims and the distribution of benefits) together with the detailed mechanics which would secure its operation. Despite the lack of clarity around the Retention Scheme, a number of Authorities have already established pools which are now in operation. There are a number of lessons which can be drawn from these examples; most notably all have adopted a principle that no Authority should be worse off than it would have been had it not entered into the arrangement. Beyond this, there are no over-riding requirements and it is clear that pooling authorities have used a variety of mechanisms to divide any benefit derived from pooling and direct its application. Ultimately, pools are subject to Government approval and in order to be approved will need to be able to demonstrate that there is a clear rationale to the pool and that it will not have a significant impact upon the affordability of the Retention Scheme nationally.
- 3.3 Officers have commissioned a review of the potential for Thurrock to pool with neighbouring Authorities together with an assessment of the level of additional resources which could be secured. Recognising that any pool proposal needs to have a clear rationale, two possible options have been identified:
 - A pool made up of Thurrock, Basildon, Havering and Barking and Dagenham (or variants of that group) based upon geographical proximity and similarity in terms of economic conditions; and
 - A pool reflecting the Thames Gateway South Essex boundaries made up of Thurrock, Basildon, Castle Point, Rochford and Southend.
- 3.4 The various Authorities involved within the two proposals have been asked to provide the expected levels of Business Rates to be collected in the current year together with their expectations of growth in future years. These have been used to project the impact of pooling under the scenarios listed above. The Authorities are all expected to have very different experiences under the Retention Scheme. The impacts of the two possible pools are covered below.

Since this work was completed proposals have also come forward for a Greater Essex pool incorporating Essex County Council, the various districts within Essex and the two Unitary Authorities. At the time of writing this work has yet to commence and so there is no information currently available on the relative merits of such an arrangement.

- 3.5 Thurrock and Basildon are large Tariff Authorities (i.e. they both collect significantly greater levels of Business Rates compared to their relative levels of assessed need) whilst Havering and Barking and Dagenham are both Top Up Authorities (i.e. they don't collect enough Business Rates to cover their assessed level of need and are paid additional sums by Central Government). The table below shows the impact of combining the Authorities; the Tariffs and Top Ups almost cancel each other out.

Local Authority	Top up/ Tariff	Baseline Need (£m)	NDR Baseline (£m)	Top up/ (Tariff) £m	Levy
Barking & Dagenham	Top up	50.4	16.7	33.7	0.0%
Basildon	Tariff	5.0	30.0	(25.0)	50.0%
Havering	Top up	30.2	21.2	9.0	0.0%
Thurrock	Tariff	29.0	51.8	(22.8)	44.0%
TOTAL	Tariff	114.6	119.6	(5.0)	4.2%

- 3.5.1 All possible combinations (11) of these Authorities have been modelled to understand the impact on the overall financial position. Most combinations would deliver 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 shown are in addition to those which the Authorities would receive if they were not within a pool:

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

- 3.6 The Thames Gateway South Essex group is 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 is too small to have a significant impact on the combined Tariff rate of the other Authorities. This is shown in the table below.

Local Authority	Top up/ Tariff	Baseline Need (£m)	NDR Baseline (£m)	Top up/ (Tariff) £m	Levy
Castle Point	Tariff	2.0	5.8	(3.8)	50%
Basildon	Tariff	5.0	30.0	(25.0)	50%
Rochford	Tariff	1.5	6.2	(4.7)	50%
Thurrock UA	Tariff	29.0	51.8	(22.8)	44%
Southend-On-Sea UA	Top up	30.8	21.7	9.1	0%
Total	Tariff	68.3	115.5	(47.2)	41%

- 3.6.1 The potential effect of pooling based upon the Authorities' Business Rate growth assumptions is considered within the table below. The relatively small benefit provided by Southend's Top Up status does 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	314.6
Pooled	73.5	76.4	81.4	84.9	316.2
Difference	+ 0.3	+ 0.3	+ 0.5	+ 0.5	+ 1.6

- 3.6.2 Recognising that Thurrock and Southend are both unitary authorities that could conceivably develop a proposal to work together on a range of projects, consideration has been given to the benefits of a Thurrock/Southend pool. Again, Southend's Top Up status provides a positive outcome and the exclusion of the other South Essex Authorities serves to reduce the dilution of that benefit. As shown in the table below, this arrangement could potentially generate an additional £6.7m over the four years.

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

- 3.7 Based upon these initial assessments it is clear that there is a sound financial case for considering entering into a pool with other Authorities. Acknowledging that there is no information available yet on the potential benefit of an Essex wide pool, the most beneficial arrangement would currently seem to be with Barking and Dagenham, Havering and Basildon (to create a four party pool) however it should be noted that this would likely see the benefit being distributed between the four parties. On this basis a pool consisting of Thurrock, Barking and Dagenham and Havering or just Thurrock and Barking and Dagenham would seem to offer the potential for greater benefit.
- 3.8 Members of the Corporate Overview and Scrutiny Committee considered the impacts and implications of the Business Rate Retention scheme and the potential benefits of the pooling options at their meeting of the 25th June 2013. It was recognised that, whilst the Council could expect to see some benefit from the Retention Scheme anyway, the potential to pool with other Authorities presented the opportunity to gain further benefit from business growth within the Borough. It was acknowledged that pooling with neighbouring Authorities would potentially generate direct benefits (in the form of additional income) to Thurrock as well as indirect benefits to Thurrock residents through additional funds to the pooling Authorities which might support services which Thurrock residents use. However, whilst it was acknowledged that ultimately the scale of benefit to Thurrock would be dictated by the make up of any pool and the basis on which any additional income was split, the overriding view of the Members of the Corporate Overview and Scrutiny Committee was that the Council should seek to enter into whatever pooling arrangement generates the greatest direct cash benefit.
- 3.9 In order to progress any pool proposal the interested Authorities would have to develop an agreed proposal detailing the rationale behind the pool, the activities that they would hope to take forward using the benefits derived from pooling and the governance arrangements which would be put in place to ensure the appropriate operation of the pool. Proposals need to be submitted to Communities and Local Government for consideration and, ultimately, approval. There is no timescale available at present for the development of submissions for pools for 2014/15 onwards. However, based upon the timescale for pooling submissions for 2013/14, it is anticipated that Communities and Local Government will invite expressions of interest in the Autumn (September) 2013.
- 3.10 Cabinet is invited to acknowledge the work which has been completed to date and, subject to the outcome of the Greater Essex pooling work, support the continuation of discussions with neighbouring Authorities on the potential to form a Business Rate Retention Pool which seeks to secure the greatest direct cash benefit to the Council. Should these discussions prove positive a further

report will be provided seeking approval of the pooling proposal before any submission is made to Communities and Local Government.

4. ISSUES, OPTIONS AND ANALYSIS OF OPTIONS:

- 4.1 Issues and Options are covered within the text of the report. Further work will be required to determine the detailed issues associated with the development of a Business Rates Retention Pool which will be guided in large part through the discussions with any Authorities that wish to participate.

5. REASONS FOR RECOMMENDATION:

- 5.1 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 and should be subject to further investigation with a view to submitting a proposal to Communities and Local Government in response to an anticipated call for expressions of interest in the Autumn.

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

- 6.1 The results of the modelling work commissioned by the Council were considered by the Corporate Overview and Scrutiny Committee at its meeting on the 25th June 2013. The key conclusions from the discussion are included within the body of the report.

7. IMPACT ON CORPORATE POLICIES, PRIORITIES, PERFORMANCE AND COMMUNITY IMPACT

- 7.1 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.

8. IMPLICATIONS

8.1 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.

8.2 **Legal**

Implications verified by: **David Lawson**
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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.

8.3 **Diversity and Equality**

Implications verified by: **Samson De'Alyn**
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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.

8.4 **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):

- N/A

APPENDICES TO THIS REPORT:

- N/A

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