

## **BUSINESS RATES RETENTION PILOT**

**Cabinet Member:** Councillor David Watson

**Wards Affected:** All

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### **PROPOSED DECISION**

It is recommended that:

- (i) Cabinet support the principle of the Council being a part of a Buckinghamshire wide bid to take part in the Government's proposed 75% Business Rates Retention Pilot commencing 1 April 2019; and
- (ii) Cabinet delegate authority to the Chief Executive in consultation with the Leader of the Council, to approve the final application subject to final details being agreed between prospective pool members.

### **Reason for Decision**

To update Cabinet on the opportunity for the Council to take part in a Business Rates Pooling Pilot, and to seek approval for the Council to progress with a county-wide application.

### **Corporate Implications**

1. The financial implications are set out in the report.
2. The main budgetary risks to the Council have been reviewed and are set out in the report.
3. This report supports all of the Council's Corporate Objectives.
4. Local Government Finance Act 1988, Part 9 of Schedule 7B requires agreement of all authorities to be designated as a pool and to put in place local arrangements to pool their additional business rates income.

### **Executive Summary**

5. The Ministry of Housing, Communities and Local Government (MHCLG), In July 2018, issued an invitation for Authorities to bid to become a pilot area for 75% Business Rates Retention. The pilot period lasts for one year, from 1 April 2019, and the bid must be submitted jointly by all Authorities within the county by 25 September 2018. The date for the announcement of MHCLG decision is yet to be confirmed.
6. The advantage of the pooling proposal for local authorities is that 75% growth in business rates across the county would be retained for local investment, as opposed to the current system which requires 50% of all growth to be surrendered to Central Government. The benefits and risks of pooling is contained within this report.

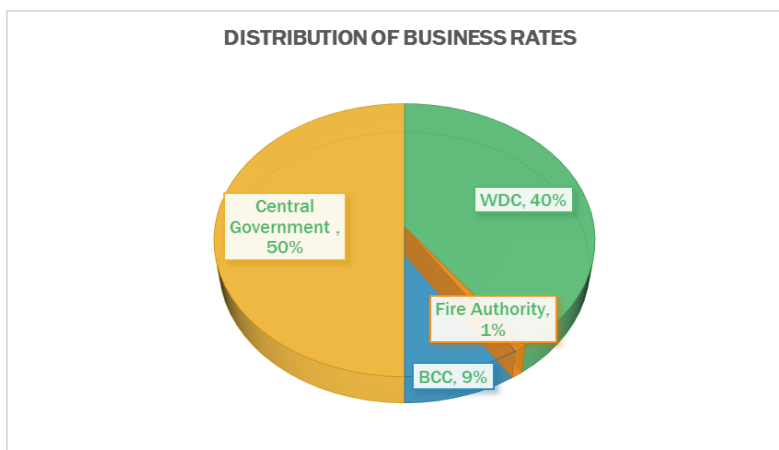
7. Based on modelling undertaken to date, indications are that if Buckinghamshire were selected as a pilot area there could be a county-wide gain of approximately £7.7m depending on the pooling arrangements. There is broad, informal agreement between all Authorities that a bid should be made and the gains should be shared 50:50 between Districts and the County, which must be submitted as part of the pilot bid.
8. It is recommended that Cabinet support the decision to proceed with the pilot in principle, but delegate the approval of final application to the Chief Executive, in consultation with the Leader of the Council, subject to the satisfactory resolution of final details.

### **Sustainable Community Strategy/Council Priorities - Implications**

9. Participating in the Buckinghamshire wide Business Rates Retention pilot will contribute to the delivery of the Council's priorities.

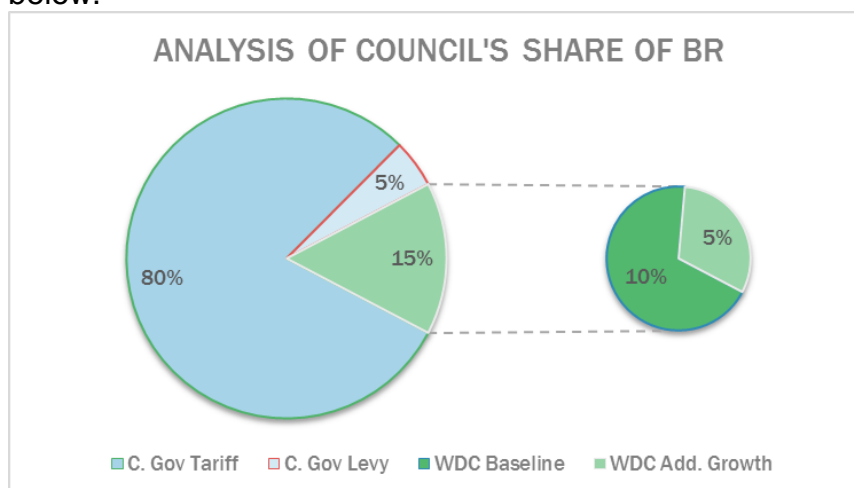
### **Background and Issues**

10. Prior to 1 April 2013, all the business rates collected locally were paid into a national pool and reallocated back to councils through a formula grant which was mainly based on the relative needs and resources of each authority.
11. From 1 April 2013 funding system was significantly changed by introducing the business rates retention scheme (BRRS). The main objective of the scheme is intended to give local authorities an incentive to grow their business rates base by allowing them to retain a proportion of the additional business rates earned. In the main the business rates income is apportioned 50% to Local Authorities and 50% to Central Government as summarised below.



12. To ensure councils do not lose out under this new scheme, a complex system has been introduced. The key elements are explained below:
  - a. Business Rates Baseline: Determined by an updated formula grant calculations which takes account of the relative needs and resources.
  - b. Tariffs and Top-ups: Determined by the difference between baseline funding and business rates baseline.
  - c. Levies and Safety Nets: The safety net is a system to protect councils from significant losses in income. This is funded by restricting the growth councils can retain (50%) using a levy.
  - d. Baseline Funding: Determined by the formula funding relative needs and resources.

13. At Wycombe the estimated total Business Rates Income is approximately £78m. Wycombe share is £30m (40%), however bulk of this (85%) is paid to Central Government through Tariff and Levy as demonstrated in the graph below.



14. As part of the Government's commitment to give local authorities greater control over the money they raise locally, five 100% retention pilot areas have been underway within the devolution deal areas of Greater Manchester, Liverpool, West Midlands, Cornwall and the West of England. In addition to this, it was confirmed in 2017 Autumn Budget that London would become a 100% business rates retention pilot for 2018/19 financial year. Government will continue to have separate discussions with the initial five area and London about their pilot programme.
15. In December 2017, the government announced a further ten 100% business rates retention pilots for the financial year 2018/19. These pilots are in Berkshire, Derbyshire, Devon, Gloucestershire, Kent, Leeds, Lincolnshire, Solent, Suffolk and Surrey. These pilots are set to end on 31 March 2019.

### **2019/20 Pool Pilot Requirements and Benefits**

16. The government is inviting all authorities in England (excluding the devolution deal areas as set out in paragraph 14 above and London but including the 2018/19 pilots as detailed in paragraph 15 above) to explore how 75% rate retention can operate across more than one authority. The main objective of business rate retention is to promote financial sustainability and to support coherent strategic decision-making across functional economic area.
17. For the pilots set to commence from April 2019, Government is particularly seeking applications from two-tier areas and adjoining unitaries. To be accepted as a pilot, agreement must be secured from all relevant authorities to be designated as a pool explaining how:-
- a. the pilot will manage risk and reward at a strategic level;
  - b. pay regard to the financial sustainability of all local authorities involved;
  - c. how any potential growth in business rates may be spent; and
  - d. the governance arrangements for strategic decision making.

18. The section 151 officer of each authority will need to sign off the proposal before its submission.
19. Participating authorities will be expected to work with MHCLG officials on the system design of the new business rates retention system and share additional data and information as required.
20. The financial benefit to pool members comes from the retention of income from business rates growth (above a government-determined baseline) that is currently paid over to MHCLG.
21. Work has been commissioned jointly by Buckinghamshire councils for LG Futures (Local Government funding analysts) to model the potential impact of a pilot pooling arrangement, based on current income forecasts for 2019/20. The potential gains for Buckinghamshire compared with all authorities acting individually are summarised below:

	£m
25% Net Growth currently paid to MHCLG to be retained by the pool	5.2
Less existing levy pool gain	-1.6
Levy on District Share of growth	4.1
Total Gain compared with Pool	<b>7.7</b>

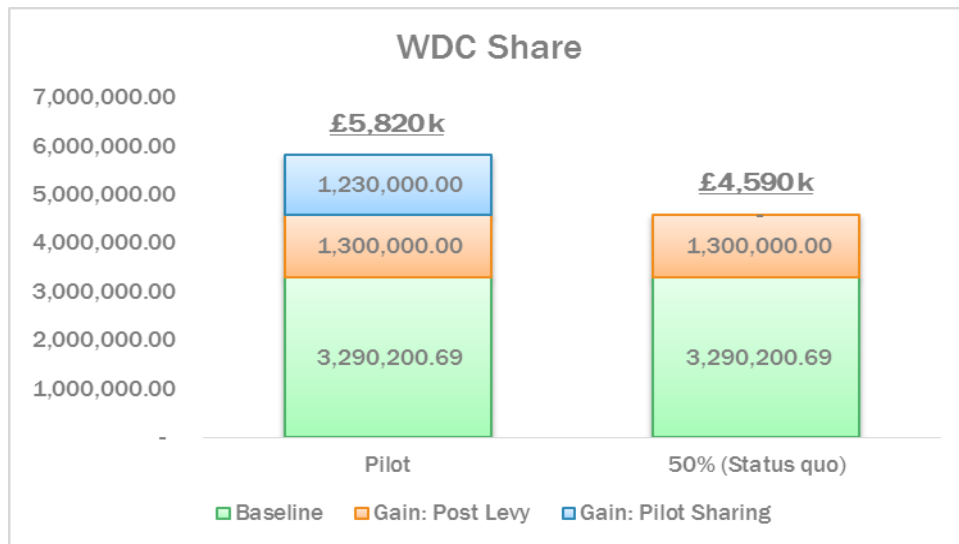
### **Risks of being in a pool**

22. Under the current Business Rates system, every District Council has a baseline level of business rates receipts, set by Government, which it is expected to achieve. If the Council collects in excess of this baseline then it is deemed to have achieved growth and it will be rewarded by keeping some of this growth.
23. If, however, a Council falls below the baseline level (e.g. through business closures or through business' successfully appealing their business rates), then it must absorb some of this loss through reductions to its *Baseline Funding*, i.e. the annual grant funding provided by Government. Baseline Funding is not linked to a Council's ability to collect business rates, but rather to Government's assessment of the Council's need. On this basis, Government provides some protection for Authorities by capping at 7.5% the level of loss that a Council can experience to its funding. This is called the 'safety net' arrangement.
24. Within a pilot arrangement, the pilot is treated as a single authority and safety net is capped at 5%. Therefore, the main risk of being in a pilot comes from the potential for a fall in business rates income by one or more authorities eroding the gains of the pool.
25. The modelled gains of £7.7m comfortably offset the total safety net payments of £3.1m currently forecast for pool members. However, there is a risk that forecast levels of income will not be achieved, which raises the question of how much protection is offered by the current forecast gain against unforeseen losses.
26. The modelling shows that a fall in receipts of 15% across all Districts would be required for the pilot to fall into a net loss position. It is

considered low risk that a fall of this magnitude would occur within Buckinghamshire over a 12-month period from 1 April 2019.

### Sharing the gains of the pilot

27. The Leaders or their delegated substitutes of all the prospective members (District and County within Buckinghamshire) have met and in principle have agreed a 50:50 share of the gains between the Districts and the County. The graph below demonstrates possible gain to the Council if it joins the pooling pilot.



### Consultation

28. The Leader and the Portfolio Holder for Finance of the Council have been consulted along with Buckinghamshire Chief Executives, Chief Financial Officers and Fire Authority to agree coherent strategic decision-making across functional economic areas.

### Options

29. There are two options, of which option 1 is recommended

- Option 1: Participate in the Buckinghamshire wide bid for Business Rates Retention Pilot and delegate authority as set out in recommendation.
- Option 2: Do not participate in the Business Rates Retention Pilot.

### Conclusions

30. Once the recommendations are approved, it will enable officers to progress the work on submission of Business Rate Retention Pilot 2019/20 applications by 25 September 2018.

### Next Steps

31. Work continues on the finalisation of the gain-sharing agreements, which will need to be complete by the 25 September deadline for submissions. This will be shared with the Chief Executive and the Leader in support of their decision to progress.

### Background Papers

MHCLG Invitation to Pilot 75% Business Rates Retention in 2019/20