

COUNCIL
27TH SEPTEMBER 2018

Report of the Head of Resources

PROPOSAL TO PILOT 75% BUSINESS RATES RETENTION IN 2019/20

PURPOSE OF REPORT

This report provides information relating to the Government's Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20. The report includes an assessment of the implications for the Council's finances and sets out the Council's response to the invitation.

RECOMMENDATION

That the report and urgent decision be noted.

WARDS AFFECTED

None

STRATEGIC LINK

Business rates are an important element of Council funding. The ability to finance the Council's strategies and plans is fundamental to maintaining services and achieving priorities.

1 REPORT

1.1 Background Information

- 1.1.1 Under the Business Rates Retention Scheme, local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional business rates growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. The Council has been part of a very successful Derbyshire Business Rates Pool that has been in operation since April 2015 which has helped to secure approximately £200,000 additional income per annum for this Council.
- 1.1.2 The Government has previously announced the expansion of the pilot programmes for 100% business rates retention for 2018/19. The Derbyshire Business Rates Pilot was accepted by the Government as one of ten pilots for 2018/19. As previously reported, forecasts show that the one year benefit to the Council will be in the region of £175,000. Additionally, there is a County wide benefit, estimated at around £8m which has been allocated to the Derby and Derbyshire Joint Committee for Economic Prosperity via its Accountable Body, Derbyshire County Council, to support new business and business growth across the county. The pilots are deemed as an opportunity for the Government to test more technical aspects of the 100% business

rates retention system, such as tier-splits. It will provide the opportunity to evaluate how collaboration between local authorities works in practice.

1.2 The Government's Invitation

- 1.2.1 The Government has recently invited authorities to make proposals to pilot business rates retention in 2019/20.
- 1.2.2 The main change from the 2018-19 pilot round is that the **local share** will reduce from 100% to 75%. It is likely that the reduction in local share from 100% to 75% has been done for two reasons: firstly, it makes sure that the pilots align with the 75% local share that will be in place nationally in 2020/21 and secondly, it helps to reduce the cost of the pilots, which in the current financial year could easily exceed £750m.
- 1.2.3 Another important change to the pilot programme is that there will not be a “**no detriment**” clause for the 2019/20 pilots. “No detriment” would have ensured that the pilot would not be worse off than the individual authorities would have been in aggregate in the 50% scheme.
- 1.2.4 To some extent, the risk to authorities in a pilot in 2019/20 will be mitigated by the safety net, which will be set at 95% (instead of the 92.5% used for 2018/19 pilots) of Baseline Funding Level. The safety net in the pilots operates at the overall pilot level (not the individual authority level).
- 1.2.5 There will be no levy for any authority in a 75% pilot. This continues the arrangements used for the 2018/19 pilots.
- 1.2.6 Not all authorities with pilots in 2018/19 will necessarily continue them into 2019/20. The Government says that it is likely that the pilot programme may be smaller than in 2019/20. All the pilots who were successful in 2018/19 will have to re-apply for 2019/20. There is also a suggestion that the number of pilots in 2019/20 will be fewer than in 2018/19. Again, this suggests an attempt to manage the cost of the pilot programme.
- 1.2.7 The pilots will allow the Government to test increased business rates retention and to aid its understanding of how they will transition into a reformed business rates retention system in 2019/20. The Government is interested in further exploring how rates retention can operate across more than one authority to promote financial sustainability and to support coherent decision-making across functional economic areas.
- 1.2.8 A proposal for a pool must be in the form of a business case with supporting analysis, which must set out the following:
- **Membership details** – including an explanation of relevance to the economic geography of the area, that each member fully supports the application and confirmation of the lead authority;
 - **Governance arrangements** – details of how the additional business rates income will be utilised, how risk is managed, proposals for sharing additional growth and how the pool will work together in the longer term;
 - **Additional supporting evidence** – benefits to the area of participation in the pilot and proposals for the tier-split;
 - **Membership** – the identity of all local authorities in the pool;

- **Benefits** – details on how participation in the pilot scheme will benefit the area;
- **Lead Authority** – the pool must nominate a lead authority who will be responsible for receiving payments from and to Government on behalf of the entire pool;
- **Governance agreement** – setting out how the pooling arrangements will work in terms of financial distribution and service provision, evidencing how business rates income growth will be shared.

1.2.9 Proposals had to be submitted by 25 September 2018, and had to be signed off by the s.151 (Chief Financial) officer of each authority in the pool. Successful pilots will be announced in December 2018 and launched in April 2019. Between these dates the Government will support authorities in preparing for implementation.

1.3 The Derbyshire Proposals

1.3.1 The Council has had preliminary discussions with the current members of the Derbyshire Pilot, who have, expressed an interest in forming a 75% pilot for 2019/20 subject to financial projections. It is anticipated that a similar arrangement would be adopted, therefore generating further retained income for each authority as well as wider economic prosperity options for the county as a whole.

1.3.2 Given the technical and complex nature of submitting a proposal in a short timeframe, Derbyshire County Council has engaged specialist support to draft the business case. The Council will be expected to make a contribution towards the costs of this but it is anticipated that this can be met from the General Reserve.

1.3.3 The financial modelling indicates that a Derbyshire Business Rates Pilot for 2019/20 across a two tier area should bring additional financial advantages through the retention of a higher proportion of business rates income (than simply remaining in a Derbyshire Business Rates Pool). The pooling arrangements in operation since April 2015, and more recently the 2018/19 pilot, have been a success, and we are looking to build upon these successes by participating further in a two tier pilot.

1.3.4 As stated above, the deadline for proposals to be submitted to the Government was 25 September 2018. All proposals had to be signed off by the S.151 (Chief Financial) Officer of each authority in the pilot. As there was no Council meeting within the timescales, it was necessary to seek an urgent decision from the Chair of Council to grant delegated powers to the Head of Resources to submit an expression of interest to enter into a Derbyshire Business Rates Pilot arrangement for 2019/20. Cllr Fitzherbert gave his approval for the application, which was submitted before the deadline of 25 September.

2 RISK ASSESSMENT

2.1 Legal

The report comments on the Government's proposals for a pilot. The level risk is therefore considered to be low.

2.2 Financial

The financial modelling indicates that the 2019/20 pilot could generate additional business rates income for the Council. A Government safety net arrangement will be in place for the pilot area and the authorities within the Derbyshire Pilot have agreed that there will be a Minimum Funding Guarantee to give protection to individual authorities. Therefore, the financial risk is assessed as low.

3 OTHER CONSIDERATIONS

In preparing this report, the relevance of the following factors has also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

4 CONTACT INFORMATION

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5 BACKGROUND PAPERS

Department for Communities and Local Government (DCLG) [Invitation to local authorities to pilot 100% business rates retention in 2018 to 2019 and to pioneer new pooling and tier-split models.](#)

6 ATTACHMENTS

None