

CABINET - 13TH SEPTEMBER 2018

Report of the Director of Corporate Services

Lead Member: Councillor Barkley

Part A

ITEM 11 PROSPECTIVE PILOT SCHEME PARTICIPATION - 75% BUSINESS RATES RETENTION

Purpose of Report

This report sets out the case for the Council's participation in a pilot scheme in which a substantial element of government funding would be received by retaining '75%' of business rates collected. The pilot scheme would operate on a sub-regional basis that would include all local authorities within the Leicester and Leicestershire Economic Partnership area. The report asks that Cabinet agree to the principles of the pilot scheme envisaged by member local authorities and requests that delegated authority be given to the Strategic Director of Corporate Services, in conjunction with the Lead Member, to agree the detailed elements of the Leicester and Leicestershire application on behalf of the Council, and to undertake any required administrative arrangements.

Recommendations

1. That Cabinet approve the Council's application to participate in a pilot scheme allowing 75% Business Rate Retention in 2018/19 in accordance with the principles set out in Part B of this report, as part of a Leicestershire-wide proposal.
2. That Cabinet give delegated authority to the Strategic Director of Corporate Services, in conjunction with the Cabinet Lead Member for Finance and Revenues and Benefits and the Chief Executive, to agree on behalf of the Council and with other Leicester and Leicestershire local authorities, the detail contained within the Leicestershire-wide application to participate in a 75% business rate retention pilot scheme.
3. That Cabinet note that, as the Chair of the Scrutiny Management Board agrees that the decision to be taken is both urgent and reasonable and delay caused by the Call-in process would not be in the interests of the Council or the public, the Call-in procedure is suspended in respect of this decision in accordance with Scrutiny Committee Procedure 11.9 of the Council's Constitution.

Reasons

1. To enable the Council to be part of a prospective wider Leicestershire pilot scheme with a view to increasing the funding available to the Council and across Leicestershire.

2. To enable the Council to provide its assent to the Leicester and Leicestershire application submission on a timely basis.
3. The Chair of the Scrutiny Management Board has agreed to the exemption from Call-in because the notice given of this opportunity and the timetable for applications is very tight, such that the effect of any call-in would be to prevent Charnwood participating in the scheme and, given that the application will be on a combined Leicestershire basis, could remove the opportunity for all Leicestershire Authorities to participate.

Policy Justification and Previous Decisions

Participation in the pilot offers the potential to increase the amount of funding available for the Council and/or other partners in Leicestershire (including Leicestershire County Council and the Leicestershire Local Enterprise Partnership). It would also help prepare the Council for the mooted change in local government funding envisaged for 2020. In terms of the Corporate Plan, participation in the pilot scheme can be justified under the objective of Delivering Excellent Services.

It may be noted that Cabinet agreed to participate in an application for the 2018/19 '100%' business rate retention pilot, as part of a wider Leicestershire bid in a report presented on 19 October 2017. This application subsequently proved unsuccessful.

Implementation Timetable including Future Decisions and Scrutiny

The deadline for applications is 25 September 2018. Under this timetable it would not be possible to 'call-in' this report for additional scrutiny and given the circumstances, the Chair of the Scrutiny Management Board has accepted that this report be exempt from call-in.

The report will be available for scrutiny by the Overview Scrutiny Group should they so wish.

The pilot scheme has an initial duration of one year and would commence on 1 April 2019, to run contiguously with the financial year ending on 31 March 2020. It is envisaged that this scheme will run for just one year.

Report Implications

The following implications have been identified for this report.

Financial Implications

It is envisaged that participation in this scheme will be financially beneficial to the Council, or at least will not result in any detriment. There is however a risk (considered very low) that should business rate collections across Leicestershire fail to reach projected levels then the Council could be worse off than had it not participated in the pilot scheme.

More detail of the financial implications is provided in Part B of this report. The risk associated with this decision are summarised below.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Risk Management Actions Planned</i>
Business rate collections across Leicestershire fall to levels such that local authorities are worse off than they would have been if not part of the pilot scheme.	2 (Unlikely)	4 (Major – losses could exceed £100,000 in a very negative scenario)	<ul style="list-style-type: none"> • Pre-decision modelling by Leicestershire Treasurers group suggests risks are low • Ongoing monitoring arrangements at Leicestershire level are in place (existing pool arrangements) • An internal ‘safety net’ provision will be created from existing surpluses generated by the existing business rate pool

Key Decision: Yes

Background Papers: ‘Business rates retention – how it works’
 Cabinet report 15 February 2015 – ‘Business rate pooling’
 Cabinet report 19 October 2017 - Prospective Pilot Scheme Participation - 100% Business Rates Retention

Officer to contact: Simon Jackson
 Strategic Director of Corporate Services
 01509 634699
 simon.jackson@charnwood.gov.uk

Part B

Background

1. The Ministry of Housing, Communities & Local Government (MHCLG) issued an invitation to Local Authorities in England to 'aid understanding of how we transition into a reformed business rates retention system in April 2020'. The invitation was issued at the end of July 2018 and requires completed applications to be submitted by midnight on 25 September 2018. The pilot will run for one year from 1 April 2019; given the planned inception of a reformed business rates retention system from April 2020 it seems unlikely that the pilot would be extended.
2. The invitation from the MHCLG states that the Government 'is interested in exploring how 75% rates retention can operate across more than one authority to promote financial sustainability and to support coherent strategic decision making across functional economic areas'. There is a clear expectation that any pilot application will be underpinned by a business rate pool.
3. The Government 'expects to learn' from pilot schemes with a view to the design and implementation of a national scheme of rates retention. The introduction of such a scheme has been mooted for the 2020/21 financial year but the timetable for this remains fluid.

Current arrangements for Business Rate retention

4. Until 31 March 2013, local authorities acted as collectors of business rates for central government with cash simply passported to HM Treasury.
5. The business rate collection regime changed from 1 April 2013 initiated by the local government finance settlement covering that financial year. The changes did not affect businesses, who saw no changes in the way that rates were calculated or billed, but did introduce a significant new dimension to local government funding.
6. Although headlined as '50% retention' for local government the calculations are somewhat complex in practice being based on a system of baselines, top-ups, tariffs, levies and safety nets. In Charnwood, the outcome of these calculations has been that whilst the Council collects around £46m of business rates annually, it can retain only about £4m (9% of the total collected) for its own funding. Additionally, the change in regime now means that the Council bears an element of business rate collection risk, stemming from both bad debts (where occupants refuse or are unable to settle their bills) and changes to the business rate 'listing' (the rateable values assigned to properties). The latter risk is particularly significant as the Council bears the risk of valuation appeals which may be both substantial in value and backdated for several years.
7. One of the features of the current regime is the ability to create a 'business rate pool' amongst neighbouring local authorities. Leicestershire local authorities formed such a pool which although creating a slight increase in financial risk, offers

the ability to retain levy payments within Leicestershire¹ which would otherwise have been payable over to central government. Latest forecasts for the current financial year suggest that around £6-7m will be retained in Leicestershire as a result of these pooling arrangements, with a further £9m projected for 2019/20.

8. Further detail on the calculations for business rate retention and the Leicestershire business rates pool are provided as background papers to this report:

- 'Business rates retention – how it works'
- Cabinet report of 15 February 2015 – 'Business rate pooling'

75% business rate retention - pilot scheme prospectus

9. Applications to pilot 75% business rate retention are required by midnight on Tuesday 25 September 2018. The rules of the pilot application process require that the s151 officers of all participating authorities sign off the pilot proposal (this would be enabled by approval of Recommendation 2 of this report).

10. Key features within the application prospectus issued by the MHCLG include:

- The overall objective to focus on the learning necessary for transition into the proposed new scheme from 2020/21
- An objective to develop a set of measures to support the smooth transition of funding for public health services from grant funding to retained business rates²
- An expectation that applicants set out how risk and reward will be managed at a strategic level; inter alia, in contrast to previous pilots where authorities were offered a 'no detriment' assurance current pilot rules include the possibility that authorities could be worse off
- That groups of local authorities applying to participate in the pilot would be expected to operate as a business rates pool
- That participating authorities would agree to forego Revenue Support Grant (RSG) and Rural Services Grant³ (as per the previous pilot scheme)
- In two-tier areas (such as Leicestershire) pilot applications will need to propose a 'tier split'

10. As Leicestershire is a two-tier area with a pre-existing business rates pool linked to the Leicester and Leicestershire Enterprise Partnership (LLEP) there appears to be a good basis for an application from Leicestershire local authorities.

¹ Leicestershire pooling arrangements are that surpluses are transferred to the Leicester and Leicestershire Enterprise Partnership, subject to retention of a provision to mitigate against financial shortfalls within the Pool in future years.

² Not directly applicable to Charnwood but a factor in developing a Leicestershire-wide pilot proposal

³ Not applicable to Charnwood

Principles of the envisaged Leicester and Leicestershire bid under the proposed 75% pilot scheme

11. The Council would be a participant in the pilot scheme as part of a wider Leicestershire pooled arrangement. In summary the arrangements would be:

- All business rates collected would flow into the Leicestershire pool
- In return (as noted above), the government would require participating authorities to forego certain grants
- Each local authority would be initially funded to a level equivalent to the retained business rates and grants receivable had they not been participants in the scheme (ie. this will include any grants foregone)
- It is also envisaged that funding that would have been generated through the pre-existing business rate pool arrangements will be maintained
- Any surplus generated over and above these initial ‘calls’ would allocated in accordance with an agreed protocol as outlined in paragraphs 14 to 16 below)
- Should retained business rates not cover funding requirements then losses would be shared amongst participants in accordance with an agreed formula akin to that applied in respect of the existing business rate pool

12. Funding that the Council would forego in the event that the Leicestershire pilot application was accepted would be:

	2019/20 £000	Comments
Retained business rates (current formula)	5,260	<ul style="list-style-type: none">• Estimate based on 2018/19 NNDR1• Varies based on actual collection
Revenue Support Grant	165	<ul style="list-style-type: none">• Settled figure
TOTAL	5,425	

13. As noted above, the Council is required to forego Revenue Support Grant. Modelling strongly suggests that this funding (along with that of other participating Leicestershire authorities) could be more than replaced under pilot scheme rules.

14. Latest modelling of the financial impact of the pilot scheme shows that a surplus in the order of £13.8m⁴ would be generated in 2019/20. The emerging proposals for the allocation of such a surplus are based on the allocations developed for the previous pilot bid but having regard to feedback from the MHCLG in relation to previously successful bids.

⁴ Estimated at 6 August 2018; verbal update to Cabinet will be offered at the meeting if any material variation

15. Allocations *based on the previous bid* would suggest the following:

- £5m⁵ would be allocated for transport and energy infrastructure with a view to encouraging growth in the sub-region: A range of illustrative schemes could be identified including road junctions within Loughborough, and infrastructure required to deliver the Enterprise Zone in the Borough
- £2.2m would be allocated to the City Council for public realm works
- A similar amount would be allocated amongst districts for public realm works within market towns: Illustrative schemes could include re-development of Bedford Square/ Wards End and Devonshire Square within Loughborough and improvements to the public realm in the Bull Ring at Shepshed
- Around £3.6m would then be allocated for 'spend to save' initiatives: This allocation could be a source of funding for the Council's customer service and digitalisation initiatives
- Approximately £0.5m – would then be shared amongst pilot participants to support revenue budgets (ie. assist in 'financial sustainability')

16. Recent MHCLG feedback on previous successful pilot bids⁶ suggests that 'financial sustainability' is likely to be a key element of new proposals (along with references to appropriate governance structures and partnership working). Therefore, whilst retaining the basis of allocations outlined above (as discussed amongst District Leaders), the final version of the 2019/20 Leicestershire bid is likely to emphasise this aspect of the proposals. An implication of this is that the allocations described above will be prioritised in order to retain the importance of the 'financial sustainability' element (so would almost certainly be fulfilled in full) whilst the funding for infrastructure would be more at risk, in that any overall shortfall in business rate receipts would reduce funding for these projects⁷.

17. Given the timescales involved in preparing the application it is unlikely that detailed assurances on the funding of specific projects in Charnwood could be obtained prior to the submission date. The decision as to whether to participate in the pilot will therefore need to be taken on the basis of the principles outlined above.

Assessment of financial risk

18. Financial modelling undertaken amongst Leicestershire treasurers indicate that the financial risks of entering into a pilot scheme would be low based on comparisons between expected business rate collection baselines and latest forecasts of actual business rate collections.

19. The pilot scheme mechanism within the prospectus includes a 'safety net' element that would ensure participating local authorities receive at least 95% of their

⁵ All allocations are indicative / estimated

⁶ Based on successful 2018/19 Kent bid; event held 3 September 2018

⁷ Conversely, this would imply any surplus receipts would allow additional projects to be funded

collective baseline funding need. This would equate to an amount in the order of £10m. This would be mitigated by creating a provision within the pilot scheme from unallocated surpluses built up by the current Leicestershire business rates pool, thereby significantly reducing the exposure of individual authorities.

19. In the event that financial losses did arise these would be shared amongst authorities on a similar basis to that agreed in respect of the existing Leicestershire business rates pool with losses being shared in proportion to relative funding baselines⁸.

Summary: Prospective benefits of being a pilot authority

20. The principal benefit of participation in the pilot scheme is the additional funding that would flow into the Leicestershire sub-region. Modelling the potential benefit to the sub-region based on these parameters suggests that additional funding in the order of £13.8m⁹ would be generated in 2019/20.

21. A national scheme of 75% business rates retention seems likely to be introduced from the 2020/21 financial year. Participation in the pilot would therefore provide useful experience in advance of national implementation.

Recommendation

22. Based on the information available, the potential benefits to both the Council and wider Leicestershire sub-region of participation in the pilot scheme outweigh the inherent risks. Cabinet are therefore asked to approve the Council's application to participate in a pilot scheme allowing 75% Business Rate Retention in 2018/19 in accordance with the principles set out above and provide delegations to the Strategic Director of Corporate Services, in conjunction with the Lead Member for Finance and the Chief Executive, to make the necessary arrangements.

⁸ The Charnwood share of any loss might be in the order of 3% of the total; implied maximum would be ~£0.3m

⁹ As noted previously; amount estimated at 6 August 2018