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Report to: Cabinet

Date of Meeting: **7 January 2019**

Report Title: **Business Rates Pilot 2019/20**

Report By: Peter Grace
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(Chief Finance Officer)

Purpose of Report

To agree to enter into a Business Rates Pilot for 75% business rates retention as part of the East Sussex Business Rates Pool

Recommendations

1. The Cabinet confirm the Council will participate in the 75% business rates retention Pilot.

2. Agree that the finalisation of the Memorandum of Understanding and any other arrangements are delegated to the Chief Finance Officer.

Reasons for Recommendations

Local authorities are free to come together to form pools for Business Rates purposes, as the Council has done for 2018/19. In this financial year the government asked for Pools to apply to be pilots of 75% rates retention (currently 50%). In such cases tariffs and top-ups are combined – and this should result in lower payments being made to the government. Authorities within such arrangements need to agree how risks and benefits are shared. A pilot pooling arrangement could result in additional resources being retained within East Sussex. The estimates identify sums of £4.3m in 2018/19 which would be shared between authorities and used for financial stability and economic development purposes.

Introduction

1. An application was submitted on behalf of the East Sussex County, Borough, and District Councils and the East Sussex Fire Authority in October 2018 to become a Business Rates Pilot for 75% business rates retention as part of the East Sussex Business Rates Pool.

2. In announcing the Local Government Settlement on 13 December 2018 the government advised that the bid has been successful. The Councils have the opportunity to say no during the local government finance settlement consultation period if on reflection it is not considered financially advantageous to do so.

Main Report

3. A new funding regime was introduced on 1 April 2013 whereby local authorities effectively retain a proportion of any additional business rate income collected (above inflation) or conversely will experience a reduction in resources if the business rate base declines.

4. Under the scheme 50% of business rates is localised through a system of top-ups and tariffs that fix an amount to be paid by high yield authorities and distributed to low yield authorities – this amount being increased annually by inflation (RPI). The proportion retained by individual collection authorities in East Sussex is 40%, 9% is payable to East Sussex County Council, and 1% to Fire and Rescue authority (the government receive 50%).

5. The 50% central government share is distributed through the Local Government settlement process (Settlement Funding Assessment) – thus enabling the government to control the overall amount received by local authorities. Where there is disproportionate growth this is used to provide a safety net for those authorities experiencing little or negative growth and allows the treasury to top slice business rates income. A reset mechanism will be in place with the first reset in 2020.

6. On Tuesday 24 July 2018 MHCLG (the Ministry) published the Business Rates Retention Pilot prospectus: Invitation to Local Authorities in England for 75% business rates retention in 2019-20.

Top ups and Tariffs

7. These are set that, all things being equal, an authority will have started with the same resources under the new system as it had under the old. Thus if a local authority collects £20m in Non Domestic rates and receives £5m in grant it will pay some £15m to the government.

The Levy (Payable on growth)

8. For each 1% increase in the business rates base, the authority will see no more than a 1% increase in income as measured against its spending baseline, i.e. a 5% increase in non-domestic rates would give a 5% increase in retained Business Rates relevant to the base line.

Pilot Application

9. A report on the potential for East Sussex being a 75% Business Rates Retention Pilot was first considered by Chief Executives/Directors of respective Councils and the Fire Authority where it was agreed unanimously that an application should be submitted on the basis of the arrangements and recommendations outlined in this report.

10. The Pilot is for the 2019/20 year only as Government has indicated that it intends to pursue 75% Business Rates Retention, which it can do within existing legislation, alongside the business rates reset and following the Fair Funding review.

11. The prospectus stated "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. Accordingly, the government would like to see authorities form pools (either on existing or revised boundaries) and, with agreement in place from all participating authorities, to apply jointly for pilot status. We would expect a proposed pool to comprise a county council and all of the associated district councils; a group of unitary authorities; or a two-tier area and adjoining unitaries, but it should extend across a functional economic area. Proposals will need to set out tier split arrangements of all precepting authorities, including Fire and Rescue authorities."

12. A company called LG Futures has been employed by the East Sussex authorities to collate and advise on the financial viability of the scheme, modelling some of the risks and identifying appropriate governance arrangements.

13. For the 2018/19 financial year, the County Council, Districts and Boroughs and the Fire Authority are in a Pool. This brings additional resources to the County area as it allows the pool to retain the levy otherwise charged on business rates. Under this arrangement, the retained levy (which is equal to 20% of the total growth) is split 40:50:10 across the County Council: Districts and Boroughs: Fire Authority respectively. The split of this gain within a pool area is agreed locally.

14. Without a pool the 50% retained rates would be split 9:40:1 respectively, with Districts and Boroughs having to pay 50% of their growth back to central government.

15. Table 1 below shows an analysis, based on Districts and Boroughs NNDR1 January forecasts, of business rate income in 2018/19 across authorities.

Table 1 Current Pooling Gains

	Forecast Income £m	Pooling Gain Redistributed £m
	NNDR1 18/19	**18/19 Pool Calculation**
Eastbourne BC	15.6	0.3
Hastings BC	9.4	0.1
Lewes DC	11.0	0.3
Rother DC	8.4	0.3
Wealden DC	14.7	0.6
East Sussex Fire	1.5	0.3
East Sussex CC	13.3	1.3
TOTAL	**73.9**	**3.2**

16. Table 2 shows the potential pilot gain over and above the pool by using the proposed pilot arrangements.

Table 2 Potential Pilot Gains

	Current Pool Split with levy	Split	Pilot Income 2019/20 £m	Pilot Gain
Eastbourne BC			5.0	0.5
Hastings BC			5.1	0.1
Lewes DC	30%	44%	3.2	0.4
Rother DC			3.4	0.4
Wealden DC			4.7	0.8
East Sussex Fire	3%	5%	8.0	0.3
East Sussex CC	17%	26%	81.8	1.7
TOTAL	**50%**	**75%**	**111.2**	**4.3**

17. In brief the financial case for a pilot bid is compelling. The pilot proposal for 2019/20 does not include a 'no detriment' clause. The pilot retention percentage relates to growth only, not all rates.

Risk Management

18. In agreeing to become a pilot, grant income relating to Revenue Support Grant (RSG) will be rolled into business rates for East Sussex. Therefore the risk is that

retained growth does not cover the guaranteed grant income (£988,000 for HBC) and the area could be worse off than if it operated under 50% arrangements.

19. The businesses in East Sussex are largely supermarkets and retail and there is no one single or few large hereditaments that make up the yield. This means that for East Sussex there would have to be a national event for business rates to fall significantly.

20. The memorandum of understanding (MOU) includes a no detriment clause for individual authorities so that authorities are no worse off than the existing pool arrangements. Authorities would only begin to lose out overall if business rate income fell across the whole of East Sussex.

21. The government's safety net for Pilot authorities at 95% provides a higher level of protection than the 92.5% that is available to authorities that are not in a pool or pilot.

22. If the Pilot bid is unsuccessful then the Councils will revert to the current 50% pooling arrangement.

Lead Authority

23. Wealden DC has been the lead authority and is happy to continue in this role LG Futures will be contracted to advise the pool in 2019/20), and this will also provide a degree of objectivity and impartiality for all parties. The very limited costs being shared equally between the seven authorities.

Splitting the Gains/Losses from Pooling

24. The allocation of resources will be based on the following principles:

    (i) Each individual authority, if resources allow, will receive at least the same level of funding they would have received without the 75% Pool (i.e. authorities acting as a 50% pool).

    (ii) Any additional resource that is generated will be shared by pool members using the basis of allocation below. This allocation methodology looks to reward members of the pool for achieving business rate growth.

25. The underlying basis of allocation is as follows:

    (a) The running costs of the pool, if any, will be initially paid by the lead authority and will be paid to them on a pro rata basis (based on the increased resources from being in the pool).

If after (a), there are still resources to be distributed, then authorities will retain their own growth, based on the following local shares:

Tier	Proportion
County	26%
District	44%
Fire	5%
Total	**75%**

26. Where the pool makes a loss, the loss will be funded by each Pool Member proportional to the cash amount that would have been received from central government if the Pool arrangement was not in operation from the business rates retention scheme.

27. The government have an expectation that pilot Councils will demonstrate how they will use the gains to benefit their local area. In relation to the East Sussex Business Rates Pilot the gains would be divided as follows:

    (a) Financial Stability Element – this will be the equivalent of the 50% gain under the current pooling arrangements;

    (b) The Economic Development Element – this will be the 25% additional gain from the Pilot.

Conclusion

28. Whilst the forecast gains are not as significant for Hastings BC as the other authorities in East Sussex they are much needed. The Council will also benefit with additional resources being available to neighbouring authorities, the County and the Fire authority.

    The Council has a greater degree of protection from the safety net in the pilot than it would as a stand-alone authority should business rate income fall significantly throughout the county.

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

None

Officer to Contact

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