

**Executive**

**7 December 2017**

Report of the Deputy Chief Executive/ Director of Customer and Corporate Services

## **APPLICATION FOR 100% BUSINESS RATES RETENTION PILOT IN 2018/19**

### **Summary**

1. In September the Government announced a decision to proceed with the expansion of the pilot programme for 100% business rates retention for 2018/19. These pilots will run for one year only. Applications for the 2018/19 pilot were required by 27 October 2017.
2. An application together with the current members of the Leeds City Region (LCR) business rates pool has been submitted. The application does not commit the Council to anything at this stage, but all the pool authorities are now being asked to formally agree that, if the application is successful, they are content to join.
3. Agreed pilots are expected to be announced in December 2017 before or alongside the draft local government finance settlement. If the LCR submission is successful but Executive decides not to proceed with the pilot, there is the option to revoke the application within 28 days of the announcement.
4. If the application to become a pilot is unsuccessful, all current members of the LCR business rates pool have indicated that they would like the existing pool arrangements to continue.

## Recommendations

5. Executive are asked to approve the Council's inclusion in the 100% business rates retention pilot in 2018/19, should the submission be successful.

Reason:

To improve the financial stability of the Council and the Leeds City Region, by providing greater capacity to invest in improvement and transformation.

## Background

### Current System

6. Under the current system, business rates receipts are shared approximately 50% each between central and local government and amounts are equalised through a system of 'tariffs' and 'top-ups', according to need.
7. Tariff authorities that are successful in growing their rates are also liable for 'levies' which scale back the rewards of growth – by as much as 50% in some cases.
8. Groups of authorities may join together to form business rates pools. Pooling allows groups of 'tariff' and 'top-up' authorities to gain financial advantage by enabling levy payments to be paid to the pool rather than central Government.
9. City of York Council is a tariff authority and is a member of the LCR Business Rates Pool. Effectively, the Council currently keep c.27% of growth after shares have been paid to central Government and the LCR business rates pool under the current scheme.

### 100% pilot scheme

10. These new pilots will run alongside the current 100% pilots which have been in operation since April 2017 and are intended to test more technical aspects of 100% retention, to test authorities' strategic

decision-making over wider geographical areas and also to test the administrative aspects of 100% retention.

11. This Invitation is the clearest indication since the Queens Speech that Government continue to intend to implement some form of 100% business rates retention.
12. The technical consultation paper from DCLG is available at the following link: <https://www.gov.uk/government/publications/100-business-rates-retention-pilots-2018-to-2019-prospectus>
13. The table below sets out the approximate percentage of growth retained under the current and pilot scheme. Under the pilot scheme the council would retain 50% of growth compared to 27% under the current scheme.
14. In addition, the LCR pool would also receive twice as much growth. The LCR pool would allocate 50% of the monies back to the individual authorities based on population and amounts paid in. The other 50% will remain in the pool, which would be distributed on the same principles which are currently in place.

	CYC	LCR	Central Government
Current Scheme	27%	23%	50%
Pilot Scheme	50%	50%	0%

Allocation of retained growth

15. The governance agreement for the LCR pool sets out how the pool proposes to share and use additional business rates income, how member authorities will work together to manage risk and the provisions for dealing with residual benefits or liabilities.
16. Participation in the pilot scheme will have additional benefits for the region and for the member authorities, including:
  - As we move towards greater reliance on locally and regionally generated funding, the opportunity to consider how the related risks might be addressed both as individual authorities and on a wider geography;
  - Greater potential to explore 'invest to save' approaches, resourcing investment to promote economic growth and deliver improvements and efficiencies both locally and regionally;

- Greater opportunities for regional collaboration, including opportunity for greater involvement with the Leeds City Region's ambitious plans for an inclusive industrial strategy, as set out in the city region's responses to consultations on industrial strategy and the Shared Prosperity Fund;
  - Exploration of greater opportunities associated with regional devolution;
  - The opportunity to work with Government to explore options for the reform of local government finance.
17. This opportunity builds on many years of successful regional collaboration, not least through the existing pool, providing members and partners with the opportunity to further develop existing relationships and processes to help in the move towards powers, resources and decision-making being undertaken at the optimum level to deliver a growing, inclusive economy.

## **Consultation**

18. Not applicable.

## **Options**

19. Option One – To approve the Council's inclusion in the 100% business rates retention pilot in 2018/19, should the submission be successful.
20. Option Two – To reject the Council's inclusion in the 100% business rates retention pilot in 2018/19, should the submission be successful.
21. If the pilot bid is successful and option two is agreed, the current LCR pool arrangements will be revoked. There will be no opportunity to reinstate the pool arrangements for 2018/19.
22. If the application to become a pilot is unsuccessful, the government will assume that the current pool arrangements will continue. All current members of the LCR business rates pool have indicated that they would like the existing pool arrangements to continue if this is the case.

## Analysis

### Key differences between pooling under the current 50% arrangements and the proposed 2018/19 100% pilot scheme

#### Levy Payment

23. Under the current 50% scheme the main advantage of pooling is that the tariff authority members will pay lower, or no, levy payments to Government. These levy payments are instead paid into the LCR pool and are thus retained to be spent locally.
24. Under the proposed scheme, pilots would operate with a 'zero levy', i.e. they would not make levy payments to central Government, and, in the case of existing pool authorities, there would be no levy paid to the pool. Authorities would retain 100% of growth in business rates income instead of 50% of that growth (from which levies are currently paid). This, however, carries the risk that a 2018/19 pilot pool would also have to carry 100% of any fall in retained income instead of only 50%.

#### Safety Net Threshold

25. Under the current 50% scheme an authority would receive safety net payments where their retained rates income is less than their safety net threshold for the year. An authority's safety net threshold is set at 92.5% of the authority's baseline funding level for the year.
26. In a pooling arrangement the entire pool is treated as a single entity and has to experience a collective fall in retained income of 7.5% before a safety net payment would be received by the pool from Government: losses by individual members exceeding 7.5% of retained income but not triggering this collective threshold will not be met by Government. Current LCR pool arrangements are that 'safety net losses' by member authorities will be met from within the pool.
27. In recognition of this risk, under the proposed scheme, safety net thresholds will be set at 97% for these 2018/19 pilots (in line with existing pilots).

### Loss of Revenue Support Grant and New Responsibilities

28. The Government has stated that authorities selected as pilots for 2018/19 will be expected to forego Revenue Support Grant (RSG) and Rural Services Grant, grants largely funded by the Government's current 50% share of business rates. At an individual authority level this may be a significant transfer of risk from Government to local authorities as income becomes subject to the volatility of business rates.
29. Under the current scheme the Council would receive RSG of £4.6m in 2018/19. In 2017/18 the council's local share of business rates income was £49.2m from which a tariff of £20.4m was paid.
30. The Government has assured authorities that the transfer of this funding will be cost neutral (excluding retained growth). Individual authorities and individual pools, will be exposed to different levels of risk because of gearing: authorities with higher tariffs or lower top ups relative to their business rates baseline are at greater risk of experiencing larger losses in retained income. If RSG and Rural Services Grant are the only 'new responsibilities' transferred top-ups will reduce and tariffs will increase, increasing the risk that individual authorities will lose safety net payments because they are in a pool. This risk will be partially off-set by the higher safety net threshold proposed, as discussed in paragraph 27 above.

### No detriment clause

31. For the 2017 pilots Government agreed a 'no detriment' clause, guaranteeing that authorities would not be worse off as a result of participating in these pilots, and all 2018 pilots will also be subject to this clause. The LCR governance agreement has established an internal 'no detriment' arrangement to ensure as far as possible that no member would be worse off as a result of participation in this pilot. An additional 'no detriment' clause from Government provides further assurance should the Pool as a whole fail to realise the level of income it would have achieved under the current 50% retention scheme.

### Valuation Appeals

32. The most significant risk associated with Business Rates retention remains the impact of successful appeals on the income. Under the pilot scheme the potential loss of income due to successful appeals will be

borne 100% by the authority. This would be managed by increasing the provision for appeals by the proportionate amount.

## **Council Plan**

33. The proposals link and support the key priorities within the Council Plan, as follows;

- **a prosperous city for all** - where local businesses can thrive and residents have good quality jobs, housing and opportunities
- **a focus on frontline services** - to ensure all residents, particularly the least advantaged, can access reliable services and community facilities
- **a council that listens to residents** - to ensure it delivers the services they want and works in partnership with local communities.

## **Implications**

### **Financial**

34. The financial implications are contained within the body of the report.

### **Human Resources (HR)**

35. There are no HR implications to this report

### **One Planet Council/ Equalities**

36. There are no specific equality implications in this report, however equality issues are accounted for at all stages of the financial planning process.

### **Legal**

37. As part of the application a governance agreement has been submitted. This describes the relationship between the pooling authorities including setting out how the pooling arrangements will work in terms of financial distribution and service provision and evidencing how business rates income growth will be shared. The governance agreement also sets out how balances and liabilities will be treated if the pool were to be dissolved. As with the existing pool arrangements the proposal envisages that the pool will be managed by a Joint Committee consisting of the Leaders of the pooling authorities or their substitutes.

## **Crime and Disorder**

38. There are no crime and disorder implications to this report.

## **Information Technology (IT)**

39. There are no information technology implications to this report.

## **Property**

40. There are no property implications to this report.

## **Other**

41. There are no other implications to this report.

## **Risk Management**

42. The provisions in the LCR Governance Agreement aim to minimise the direct financial risk to member authorities of participating in this pilot. However, they also represent a shared approach to managing the risk inherent in the business rate retention scheme, risks which will increase for local authorities as they are given more control over, and hence have a greater reliance on, locally raised funds.
43. The pool's ability to bring different authorities together with a diverse range of taxbases offers a level of protection against losses of income. The diverse taxbase offers a source of financial resilience of what can be, at the individual authority level, a highly volatile income stream.
44. The additional retention of regionally raised income will enable member authorities to manage internal risk through improved financial stability and greater capacity to invest in improvement and transformation for the longer term.



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Report  
Approved



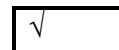
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### Specialist Implications Officer(s)

Legal – Andy Docherty

**Wards Affected:** List wards or tick box to indicate all

All



**For further information please contact the authors of the report**

### Background Papers:

Council Papers 23 February 2017 - Financial Strategy 2017/18 to 2021/22

### Annexes:

None

### List of abbreviations used in this report

DCLG – Department of Communities and Local Government  
LCR – Leeds City Region  
RSG – Revenue Support Grant