

REPORT TO: CABINET

DATE: 13 SEPTEMBER 2018

TITLE: MHCLG PILOT PROGRAMME FOR 75 PERCENT BUSINESS RATES RETENTION – 2019/20

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS, PORTFOLIO HOLDER FOR RESOURCES

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This is a Key Decision

It is not on the Forward Plan. The following exemption applies:

It is being considered under the urgency procedure due to the late release of information from the Government.

The decision is not subject to Call-in procedures for the following reasons:

The need for further information to be released by the Government means that a final decision is required before call-in procedures can be applied.

This decision will affect no ward specifically.

RECOMMENDED that:

- A** Notes the content of the report and its potential implications for the forthcoming budget setting for 2019/20.
- B** Grants delegated authority to the Head of Finance, in consultation with the Leader of the Council and the Portfolio Holder for Resources, to give notice formally of the Council's intention to accept or to decline to opt into the 75 percent BRR Pilot Programme with the other constituent Essex local councils as deemed most favourable to the Council.

REASON FOR DECISION

- A** To enable an informed decision, subsequent to the outcomes of an independent financial review and formulation of agreed terms, to be made in determining whether the Council should participate with Essex billing and precepting authorities in the Ministry of Housing, Community and Local Government's (MCHLG) Pilot Programme for 75 percent Business Rates Retention (BRR) in 2019/20.

BACKGROUND

1. The current Medium Term Financial Strategy (MTFS) was approved by Full Council on 2 February 2018. The MTFS incorporated the agreed funding under

the Government's four year deal through to 2019/20. It also highlighted a number of areas which will impact upon the Council's future resources, one of which included the longer-term implications of the Government's intentions for local retention of Business Rates and associated conditions that may be applied and the transfer of additional responsibilities to councils.

2. The Business Rate Retention Scheme (BRR) commenced in 2013/14 and has increasingly been regarded as the core source of direct Government funding within its Settlement Funding Assessment (SFA). Within the Autumn Statement made on 23 November 2016, the Chancellor set out the Government's intention to remove Revenue Support Grant (RSG) altogether and to focus council funding solely on BRR. The BRR system was intended to see a simplification of council funding arrangements and to incentivise councils to encourage economic growth in their areas. In return, this would improve the business rates collectable and therefore the funding retained locally through the funding arrangements.
3. The current funding mechanism system retains the RSG system within the SFA which in itself is extremely complex and assesses a council's funding need on four key formula driven elements. It is very much a mechanism which can be used by the Government to influence council funding at a national level. It is important to recognise the forward forecast of funding received through the RSG element of SFA has been projected to reduce to almost nil during the period of the MTF5.
4. BRR, in its current format, has in reality been more complex than had been envisaged whilst it transfers significant risks to councils. It also introduced the redistribution of significant proportions (50 percent) of locally collected business rates directly back to Central Government.
5. The Government continues with consultation and research on further significant changes to the existing BRR system, which is linked to the phasing out of RSG and the eventual design of new proposals for local government funding which, it is hoped, will simplify and make the whole distribution mechanism for local government funding more transparent. It is anticipated that the redesign of the BRR and SFA arrangements will not impact until 2020/21.
6. A business rates pool has operated within Essex since 2016, but due to uncertainties regarding the Council's position in relation to business rates collection and its potential claims against the Government Safety Net, the Council did not join the pool until the current financial year (2018/19).

ISSUES/PROPOSALS

MHCLG Invitation to Local Councils in England to Pilot 75 Percent Business Rates Retention in 2019/20

7. The Government has already initiated one pilot scheme for 100 percent BRR operating in five specifically urban council areas with effect from 1 April 2017. In addition the 2017 Autumn Budget included confirmation that London would

become a 100 percent business rates retention pilot area for the duration of the 2018/19 financial year and the provisional Local Government Finance Settlement in December 2017 announced a further ten 100 percent business rates retention pilots for the duration of the 2018/19 financial year in local council areas across England. These pilots retain 100 percent of business rates income and forego some existing grants. Over the pilot period, which will be continuing on into 2018/19, they will retain all of their growth in business rates income. Harlow was part of an Essex pilot bid as reported to Cabinet in October 2017 but unfortunately the bid was not successful for the 2018/19 financial year.

8. In an announcement made by MHCLG on 24 July 2018 the Government is interested in exploring how 75 percent rates retention (not the previously announced 100 percent) can operate across more than one council to promote financial sustainability and to support coherent strategic decision-making across functional economic areas. Accordingly, the Government would like to see councils form pools (either on existing or revised boundaries) and, with agreement in place from all participating councils, 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 councils; or a two-tier area and adjoining unitary councils, but it should extend across a functional economic area. Proposals will need to set out tier split arrangements of all precepting councils, including Fire and Rescue authorities
9. In addition, the pilots will test council's administration. For example, how they tackle collection avoidance, technical planning for implementation, and will look at system maintenance, including how the accounting, data collection and IT systems will work.
10. The new pilots will run for the financial year 2019/20 only. As in previous bidding processes, councils selected as pilots for will be expected to forego the Revenue Support Grant (RSG) and the Rural Services Grant (the Council only receives the former of these two grants). The value of the grant foregone will be taken into account in setting revised tariffs and top-ups, which will be used to ensure that the changes are cost neutral, except for the value of any growth retained.
11. Each pool will have a single safety net threshold determined on the basis of the Pool's overall Baseline Funding Level and Business Rates Baseline. However, the Pool's safety net threshold will be set at 95 percent of its recalculated baseline funding level, instead of the existing 92.5 percent. This represents a favourable adjustment to reflect the additional risk stemming from greater retention. Pilots will operate with a 'zero levy', as is the case for the current 2018/19 pilot areas. Therefore, it is retention from potential growth of Business Rates over and above a council's Business Rates Baseline that presents a notable attraction for participating councils.
12. To be accepted as a pilot for 2019/20, the MHCLG has indicated that an agreement must be secured locally from all relevant councils to be designated as a pool for 2019/20. Therefore, if one of the councils within a functional economic area declines the invitation, the likelihood is that the remaining councils will not be accepted into the pilot scheme.

13. Pooled areas should propose a split for sharing additional growth. Pooled areas will be required to demonstrate how additional growth will be used to promote the financial stability and sustainability of the pooled area. In addition, it is expected that some retained income from growth to be invested to encourage further growth across the area.
14. The pilot that commenced in 2017/18 is protected by a 'no detriment' clause, guaranteeing that these areas will not be worse off as a result of participating in the pilot and the invitation to bid published by the Government has indicated that this will also apply to any pilots approved for 2019/20.
15. Any proposals for new pilots must be received by the MHCLG on or before midnight Tuesday 25 September 2018.
16. It is expected that successful applications will be announced before or alongside the publication of the draft local government finance settlement, which usually occurs in mid-December each year.

Proposal for an Essex Wide Pilot

17. The County Council has initiated a series of discussions and communications to explore the merits of forming an Essex pilot. Not only are there potential benefits from annual retaining Business Rates surpluses, the Council recognises that participating in the pilot provides a key opportunity to help shape the fair distribution of local government funding in to the future.
18. After preliminary consultation with and general support from the county's district councils, it is recognised there is potential scope to benefit from participating in the Pilot.
19. Given the Government's requirement for all councils within a pilot area to subscribe to a pilot bid, the County Council continues to engage with all relevant councils, which comprises the twelve Essex district councils, unitary councils and fire authority (police authorities do not participate in Business Rates funding).
20. With Business Rates growth opportunities extending across various Essex councils from new business development, there is potential for county wide gains. However, these gains must be weighed against the risks that exist both within the local economy and business sector and the inherent operational funding formulae agreed for the pilot scheme.
21. Ahead of the outcomes from these enquiries, the consensus view of the Essex councils about submitting a bid is that, if there are clear financial benefits to be derived from a new Essex pool that significantly exceed the potential risks, it will be beneficial for a collaborative bid to be made. The findings from the lines of enquiry will clearly influence each council's position.
22. There will need to be one lead council to submit the bid to MHCLG, although meeting the deadline of 27 September will require a swift and intense process of negotiations between the relevant Essex councils for the purpose of defining the

pilot group's operational funding formulae, setting strategies to manage risks and defining how new local business growth will be supported within the geographical catchment area.

Conclusions

23. With limited information available at the time of writing this report it is not possible at this time to determine the overall impact on the Council and whether, on balance, that would be beneficial or detrimental. Therefore, Cabinet is requested to provide delegated authority to the Head of Finance, as the Council's statutory officer under Section 151 of the Local Government Act 1972, in consultation with the Leader of the Council, and the Portfolio Holder for Resources, to give notice formally of the Council's intention to accept or to decline to opt into the 75 percent BRR Pilot Programme with the other constituent Essex councils as deemed most favourable to the Council.

IMPLICATIONS

Place (Includes Sustainability)

None specific.

Author: Jane Greer, Head of Community Wellbeing on behalf of Graeme Bloomer, Head of Place

Finance (Includes ICT)

Outline financial implications are contained within the report. Outcomes of a financial modelling exercise, dialogue with MHCLG and negotiations with authorities comprising the proposed Essex pilot should provide an insight into the benefits, or otherwise, of participating in the 75 percent BRR pilot scheme.

Author: Simon Freeman, Head of Finance

Housing

None specific.

Author: Andrew Murray, Head of Housing

Community Wellbeing (Includes Equalities and Social Inclusion)

None specific.

Author: Jane Greer, Head of Community Wellbeing

Governance (Includes HR)

None specific.

Author: Colleen O'Boyle, Interim Head of Governance

Appendices

None.

Background Papers

MHCLG – Business rates retention pilots 2019 to 2020 invitation to apply

Glossary of terms/abbreviations used

Baseline Funding Level – The baseline funding level can be thought of as the relative amount of funding that the government considered an authority needed from business rates at the time the BRR scheme was set up in 2013-14, indexed thereafter by the change in the small business rates multiplier.

Business Rates Baseline – An authority's business rates baseline represents the amount of business rates that in 2013-14 government expected an authority to receive from its share of business rates. Thereafter, it has been effectively indexed by the change in the small business rates multiplier.

BRR – Business Rates Retention

MHCLG – Ministry of Housing, Communities and Local Government

MTFS – Medium Term Financial Strategy

RSG – Revenue Support Grant

SFA – Settlement Funding Assessment