

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 17 OCTOBER 2017

Title of report	BUSINESS RATES RETENTION PILOT BID
Key Decision	a) Financial No b) Community No
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Purpose of report	To seek approval to seek to become a business rates pilot for 2018-19 as part of a Leicestershire-wide business rates pilot bid. To have the necessary delegations in place to submit and enter into the pilot.
Reason for Decision	Requirement of Financial Procedure Rules
Council Priorities	Business and Jobs Value for Money
Implications:	
Financial/Staff	Financial issues are contained within the report.
Link to relevant CAT	None.
Risk Management	The pilot provides opportunities for retaining more of the increased income from business growth within Leicestershire. In the unlikely event that business rates income is significantly below the level predicted, there is a risk that the pilot arrangements will be less robust than the current pool arrangements in place if there is a need to call upon safety net payments and there are insufficient resources in the Pool.
Equalities Impact Screening	Not required.
Human Rights	No implications.
Transformational Government	No implications.

Comments of Deputy Head of Paid Service	Report is satisfactory
Comments of Deputy Section 151 Officer	Report is satisfactory
Comments of Monitoring Officer	Report is satisfactory
Consultees	Corporate Leadership Team
Background papers	Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models.
Recommendations	<p>THAT CABINET</p> <ol style="list-style-type: none"> 1. SUPPORTS THE APPLICATION TO BECOME A BUSINESS RATES PILOT FOR 2018-19 AS PART OF A LEICESTERSHIRE-WIDE BUSINESS RATES PILOT BID TO PIONEER NEW POOLING AND TIER-SPLIT MODELS. 2. DELEGATES AUTHORITY TO THE DIRECTOR OF RESOURCES IN CONSULTATION WITH THE PORTFOLIO HOLDER (CORPORATE) TO AGREE THE DETAIL OF THE BUSINESS RATES PILOT BID (IN CONJUNCTION WITH OTHER LEICESTERSHIRE LOCAL AUTHORITIES) WITH RESPECT TO THE FINANCIAL ASPECTS AND OVERALL GOVERNANCE OF THE PILOT BID. 3. DELEGATES AUTHORITY TO THE DIRECTOR OF RESOURCES IN CONSULTATION WITH THE PORTFOLIO HOLDER (CORPORATE) TO SUBMIT A JOINT BID (IN CONJUNCTION WITH OTHER LEICESTERSHIRE LOCAL AUTHORITIES) AND ENTER INTO A PILOT AGREEMENT WITH DCLG IF THAT BID OUTCOME IS SUCCESSFUL.

1.0 BACKGROUND

- 1.1 On 1 September 2017 DCLG published an invitation to Local Authorities in England to submit a bid to pilot 100% Business Rates Retention in 2018/19. The invitation was specifically aimed at new pooling arrangements and tier-split models of authorities.
- 1.2 On 1 April 2017, the Government launched five pilots of 100% business rates retention within areas with ratified devolution deals. The Government are now seeking to extend the pilots to test more technical aspects of the proposed new system.
- 1.3 The deadline for bids is Friday 27 October 2017.
- 1.4 The approval of the Chairman of the Council has been given for exemption to the Council's Scrutiny Procedure Rules in relation to Call-In, since any call-in would prevent

the ability to submit the bid by the 27 October deadline and, given that the application will be on a combined Leicestershire basis, would remove the opportunity for all Leicestershire Authorities to participate.

2.0 EXISTING LEICESTERSHIRE BUSINESS RATE POOL

- 2.1 Since 2013-14, local authorities have retained 50% of locally collected rates, and any associated growth, with the balance returned to central government. This central share is then largely returned to local authorities through grants.
- 2.2 For authorities operating within a locally agreed pool there is no requirement to pay a levy to the Government allowing these funds to be retained in the sub region.
- 2.3 The Leicester and Leicestershire Pool (the Pool) was established in 2013/14 and consisted of the seven districts, Leicester City Council, the County Council and the Combined Fire Authority.
- 2.4 In accordance with the legal agreement entered into, any surpluses generated by the Pool are transferred to the Leicester and Leicester Enterprise Partnership (LLEP) for investment back into schemes and projects in the LLEP area.
- 2.5 Currently there is a safety net threshold of 92.5% of the baseline funding which limits losses for authorities who, in any year, see significant reductions in their income from the rates retention scheme. For authorities within a pool, this safety net is on a pooled basis.

3.0 PILOT STATUS INVITATION

- 3.1 DCLG have clearly stated in their pilot invitation document that they would like to see authorities apply jointly for pilot status.
- 3.2 To be accepted as a pilot, agreement must be secured locally from all relevant authorities to be designated as a pool for 2018/19 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988) and to put in place local arrangements to pool their additional business rates income. This is already in place for Leicester and Leicestershire via the existing Pool.
- 3.3 100% pilots retain all locally-collected business rates. The creation of the pilots will be “fiscally neutral” at baseline, but authorities will gain from retaining 100% of growth in their business rates income, above baseline growth. The safety net threshold for the pilots will be set at 97% of the baseline funding (instead of 92.5% as now), however it is likely that the ‘no detriment’ clause included in the first wave of pilots will no longer be available. As a result, authorities must propose methods for managing risk within their bids and make it clear whether or not they are willing to become a pilot if the 2018/19 pilots operate without the benefit of the ‘no detriment’ clause.
- 3.4 As part of a joint bid, a split for sharing additional growth must be proposed and DCLG have indicated that they expect some retained income from growth to be invested to encourage further growth across the area.
- 3.5 It is highly unlikely that all applications for pilot status will be successful because of Government affordability constraints. There is likely to be a competitive process, with applications measured against the following criteria:

- a) **Applications should cover a functional economic area.** The invitation talks about covering a “functional economic geography”. This might be a current pool area or county, but could also extend further than this.
- b) **Preference for applications from two-tier areas.** Pilots will not be limited to two-tier areas, although the split between counties and districts is something DCLG clearly wants to explore. The 2017-18 pilots only included single-tier authorities. For applicants in two-tier areas such as Leicestershire, deciding on the tier split for counties and districts will be a very important and potentially difficult decision.
- c) **Proposals would promote financial sustainability.** DCLG wants pilots to show how they can be more self-reliant and require less support from the national safety net. There is some concern that 2017- 18 100% pilots are too financially beneficial for authorities, with large potential upsides and no downsides. The next round of pilot applications will need to say whether they will need the “no detriment” provision to continue. Furthermore, DCLG is proposing that the safety net (whilst increasing from 92.5% to 97% of Baseline funding level) will apply at the pilot level rather than individual authority level (as it does for the first round of pilots). This increases the risk for 2018-19 pilots, but the level of gains predicted for a Leicestershire pilot should give a sufficient safety blanket against this.
- d) **Evidence of how pooled income from growth will be used across the pilot area.** DCLG wants to see how (potentially considerable) financial gains will be used. Of principal concern, is that gains are used within the pilot to mitigate risk, and to reduce the reliance of individual authorities on the national safety net. Applications for pilot status will need to demonstrate that there would be arrangements in place to share risk and reward. Additionally DCLG wants to see how pilots would invest “some retained income from growth ... to encourage further growth across the area”. This was not something that the first round of pilots were asked to demonstrate.

3.6 DCLG is looking for a wide spread of different types of pilot. There will be particular focus on applications from rural areas (given that the majority of 2017-18 pilots are in urban areas) and from two-tier areas. A Leicestershire Pilot bid would meet both these criteria. This is a real opportunity for Leicestershire authorities whom it is felt meet many of the criteria being asked for from pilot bids.

3.7 The financial gain from being a business rates pilot is one-off additional revenue money for the year of the pilot only. The invitation to be a pilot states that the 2018-19 pilot programme will last for one year only. However, even though the additional funding is only short-term additional funding, it would allow the Council the opportunity to progress longer term options for achieving financial stability.

4.0 LEICESTER AND LEICESTERSHIRE PILOT BID

4.1 Work is currently underway to determine the anticipated financial benefit to Leicester and Leicestershire as a sub region, and, the most appropriate growth sharing split between Pool members with a view to ensuring that each authority is no worse off under the pilot than it is currently, and there is an attractive and sustainable offer to DCLG in respect of supporting economic growth and financial sustainability within Leicestershire.

4.2 The detailed financial modelling is considering how pooled income from growth can be invested to generate additional growth, including the role of the LLEP.

- 4.3 Pixel Financial Management are specialists in local government finance and have been appointed to provide advice to the Leicestershire authorities. They are supporting Leicestershire authorities on modelling the impact of becoming a pilot and to ensure no Leicestershire authority is detrimentally affected by becoming a pilot.

5.0 FINANCIAL IMPLICATIONS

- 5.1 Based upon historic and forecast levels of business rates income it is suggested that the Leicestershire Pool could benefit by circa £18.9m by becoming a pilot in 2018-19

- 5.2 The Leicestershire Treasurers' Association (LTA) (the authorities' S151 Officers) is looking to determine and propose how the surplus could be shared. The latest modelling indicates:

- a) **Infrastructure and Housing growth** - £7m of the surplus is used to develop a range of local highway and other infrastructure projects aimed at supporting growth, the local economy and housing in Leicester and Leicestershire.
- b) **Town Centre Enhancements** – £6m (£3m to the city council and £3m to the district councils) is used to deliver major capital improvements to town centres within Leicestershire. An example for North West Leicestershire is the works currently being costed for Marlborough and Memorial Square.
- c) **Financial Sustainability** - To assist in the financial sustainability of all organisations £5m is allocated to address some of the budgetary and service pressures on a spend to save basis (i.e. to enable services to invest in order to achieve longer term savings).
- d) The balancing amount (approximately £1m) would be shared amongst pilot participants to support revenue budgets.

- 5.3 In the event of the surplus available for distribution being below expectations, the order of priority will be a) to d).

6.0 RISK MANAGEMENT

- 6.1 NWL would forego the Revenue Support Grant (RSG) that it was due to receive in 2018-19 (which is £240,000) if it was part of a pilot, but would gain by receiving a share of the predicted gains. NWL would be entitled to a minimum share to the effect that it would be no worse off than it would have been in receipt of RSG.

- 6.2 Whilst removal of the 'no detriment' clause increases the risk for 2018-19 pilots, the level of gains predicted for a Leicestershire pilot should give a sufficient safety blanket against this.

- 6.3 However it must be recognised that the emphasis on financial sustainability and risk management is a new criteria for this round of pilots. Proposed changes to "no detriment" and the safety net are important to note because they place more risk on authorities.

- 6.4 As a result, decisions to proceed are being supported by robust financial modelling.

Risk identified	Risk mitigation
Business rates 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.	<ul style="list-style-type: none"> • Pre-decision modelling by Pixel and the LTA 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 rates pool.

7.0 NEXT STEPS

- 7.1 As part of any application to become a pilot the Leicestershire authorities will need to prepare a proposal to DCLG setting out why Leicestershire should be considered as a pilot. As an existing Pool, Leicestershire should have a strong case as it has proven governance arrangements and has made pooling gains for each year it has operated.
- 7.2 There are expected to be around 15 bids for pilot status around the country and the likelihood is that only around 5 to 6 areas will have pilot status approved by DCLG. Therefore there will be a lot of competition for being a pilot and Leicestershire will need to set out in its bid why the Leicestershire region should be approved by DCLG.
- 7.3 Further work will be required by the Leicestershire authorities with respect to the Governance arrangements. It is suggested this work is delegated to LTA who will include governance staff in their deliberations. This work will include making proposals and reaching an agreement as to how the financial benefits from being a pilot are shared amongst all Leicestershire authorities.
- 7.4 Given the timescales Cabinet are recommended to authorise the Director of Resources following consultation with the Corporate Portfolio Holder, to submit an application and, if successful, to enter into a pilot for 100% business rates retention in 2018/19.