

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL**

**CABINET – TUESDAY, 18 SEPTEMBER 2018**

Title of report	<b>BUSINESS RATES RETENTION PILOT BID</b>
Key Decision	a) Financial No b) Community No
Contacts	Councillor Nicholas Rushton 01530 412059 <a href="mailto:nicholas.rushton@nwleicestershire.gov.uk">nicholas.rushton@nwleicestershire.gov.uk</a>  Director of Housing and Customer Services 01530 454819 <a href="mailto:glyn.jones@nwleicestershire.gov.uk">glyn.jones@nwleicestershire.gov.uk</a>  Head of Finance and Section 151 Officer 01530 454707 <a href="mailto:tracy.bingham@nwleicestershire.gov.uk">tracy.bingham@nwleicestershire.gov.uk</a>
Purpose of report	To seek approval to seek to become a business rates pilot for 2019/20 as part of a Leicestershire-wide business rates pilot bid, subject to agreement across the county.  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. There is a risk that undertaking the pilot 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 Head of Paid Service	Report is satisfactory.
Comments of Section 151 Officer	Report is satisfactory.
Comments of Deputy Monitoring Officer	Report is satisfactory.
Consultees	Corporate Leadership Team
Background papers	Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20 and to pioneer new pooling and tier-split models.
Recommendations	<p><b>THAT CABINET:</b></p> <ol style="list-style-type: none"> <li><b>1. SUBJECT TO AGREEMENT WITH PARTNER AUTHORITIES, APPLIES TO BECOME A BUSINESS RATES PILOT FOR 2019/20 AS PART OF A LEICESTERSHIRE-WIDE BUSINESS RATES PILOT BID;</b></li> <li><b>2. DELEGATES AUTHORITY TO HEAD OF FINANCE 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;</b></li> <li><b>3. DELEGATES AUTHORITY TO THE HEAD OF FINANCE 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 MHCLG IF THAT BID OUTCOME IS SUCCESSFUL.</b></li> </ol>

## **1.0 BACKGROUND**

- 1.1 The current 50% Business Rates Retention system has been in place since April 2013. The level of business rates yield has a direct impact on the council's funding, with both the risks and rewards of business rate growth and contraction currently being shared between central Government, the County Council and Leicestershire Fire and Rescue, with 40% being retained by NWLDC.
- 1.2 To manage downside risk and maximise the potential amount of business rates that are retained within Leicestershire, all of its councils have entered into a business rates pooling arrangement where a percentage of business rates collected by each council goes into a pool. The financial surplus or deficit is shared between the councils and a

proportion of the surplus is distributed to the Leicester and Leicestershire Enterprise Partnership (LLEP).

- 1.3 The Government has previously announced its former intentions surrounding the implementation of 100% business rates retention and launched five initial 100% pilots in devolution deal areas from April 2017. From April 2018, a further 10, 100% pilots were launched following an invitation from the Ministry of Housing, Communities and Local Government (MHCLG). The pilot authorities forego Revenue Support Grant and (if applicable) Rural Services Delivery Grant and have their business rates “top-ups” or “tariffs” adjusted to ensure that the value of the additional retained business rates is matched by the value of the grants foregone, plus the change in tariffs and top-ups.
- 1.4 North West Leicestershire District Council submitted a bid to become a pilot in 2018/19 in conjunction with all other Leicestershire Local Authorities, but were unsuccessful. The bid had estimated that the Leicestershire Pool could benefit by up to £18.9m by becoming a pilot in 2018/19.
- 1.5 In December 2017 the Government announced a new commitment to increase the level of business rates retained by local government to 75% (instead of 100%) in April 2020.
- 1.6 In order to test the proposed 75% business rates retention system and to aid understanding of the transition to this new system from April 2020, the Government is now inviting local authorities to apply to become 75% business rates retention pilot in 2019/20.
- 1.7 The deadline for bids is 25 September 2018.
- 1.8 The approval of the Deputy 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 25 September 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 THE INVITATION TO BECOME A PILOT**

- 2.1 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. As a result, the government is seeking bids from authorities within a pool or proposed pool. Proposals are expected to set out tier split arrangements of all precepting authorities, including Fire and Rescue authorities.
- 2.2 Agreement must be secured locally from all relevant authorities to be designated as a pool for 2019/20 (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.
- 2.3 Bids are required to explain how a pilot will manage risk and reward at a strategic level whilst also paying regard to the financial sustainability of all local authorities involved and how any potential growth in business rates may be spent. The bid will also need to outline the governance arrangements for strategic decision making.
- 2.4 The proposal will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The

Section 151 officer of each authority will need to sign off the proposal before its submission.

### 3.0 LEICESTERSHIRE PILOT BID

3.1 The Leicestershire Treasurers' Association (LTA) (Section 151 Officers of all Leicestershire authorities) have identified that the additional amounts retained under a 75% pilot could be up to £13.8m.

3.2 Consideration has been given to the appropriateness of the previous gain allocation submitted as part of the 100% pilot bid and whether these principles can be applied to the 75% bid. This approach has now been agreed with District Chief Executives and Leaders.

3.3 The proposed share of the £13.8m gain of the 75% Leicestershire bid is therefore on the same principles as the 100% pilot bid, as follows:

3.3.1 After paying to each authority sums they would have received had 50% rates retention continued, and compensating the pool for any safety net payment it would have received, any balance of aggregate business rates income will be shared as follows:-

(a) 1% to the Combined Fire Authority (£138k);

(b) 99% as described below:

- i. **Infrastructure and Housing growth** - £5m of any remaining balance will be allocated to fund investment in infrastructure to unlock housing growth. Should the balance be less than £5m, the whole of the balance will be allocated for this purpose.
- ii. **Town Centre Enhancements** - After allocating £5m to fund investment in infrastructure to unlock housing growth, up to £4.4m of any remaining balance will be allocated to fund public realm improvements in town centres and the city. This sum will be split between the City Council (50%) and the district councils (50%). The district allocation will be shared between the districts, in proportion to mid-2017 population (or such basis as the districts agree). Should the balance be less than £4.4m, the whole of the balance will be allocated for this purpose.
- iii. **Financial Sustainability** - After allocating £4.4m to fund public realm improvements in town centres and the city centre, up to £3.6m of any remaining balance will be allocated to support the financial sustainability of the sub-region, with particular emphasis on invest to save expenditure. This sum will be split between the City Council (40%), County Council (40%) and the district councils (20%). In the upper tier authorities, the key focus of this spending will be investment in interventions that reduce the future costs of looked after children. In the districts, the key focus will be to fund upfront investment in schemes that will generate future savings. The district allocation will be shared between the districts, in proportion to mid-2017 population (or such basis as the districts agree). Should the balance be less than £3.6m, the whole of the balance will be allocated for this purpose.

- iv. **Balancing Amount** - The final tranche of funding, which based on current projections is around £0.6m, will be available to authorities to address financial pressures more generally, and will be split as follows:-

- (a) City Council – 30%;
- (b) County area – 70%.

As this will address financial pressures, the county area share will be split based on 2018/19 budget requirements:

- (a) 82.8% to the County Council;
- (b) 17.2% will be shared between the districts, in proportion to mid-2017 population (or such basis as the districts agree).

- 3.4 The effect of the above allocation methodology in totality is (approximately) as follows:

- (a) City Council – 30%;
- (b) County area – 70%.

Within the county area, the split is approximately:

- (a) County Council – two thirds;
- (b) District councils – one third.

- 3.5 At the time of writing this report, work to finalise the bid continues with the LTA and Chief Executives. Discussions are still ongoing as to whether the information can be presented differently to the 2018/19 bid to place more emphasis on Financial Sustainability.

#### **4.0 NEXT STEPS**

- 4.1 As part of any application to become a pilot the Leicestershire authorities will need to prepare a proposal to MHCLG 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.
- 4.2 Further work is required by the Leicestershire authorities to finalise the bid and governance arrangements. 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.