

**Agenda Item No 7(c)**

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**20 September 2018**

**Report of the Director of Finance & ICT**

**BUSINESS RATES POOLING**

(STRATEGIC LEADERSHIP, CULTURE AND TOURISM)

**1 Purpose of the Report**

To provide Cabinet with an update in respect of the Council's participation in the 100% Business Rates Retention pilot in 2018-19 and to provide details of the Government's invitation to local authorities to pilot 75% Business Rates Retention in 2019-20.

**2 Information and Analysis**

Under the Business Rates Retention Scheme, local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional business rates growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area.

In September 2017, the Government invited local authorities to submit proposals to become a 100% Business Rates Retention pilot in 2018-19. The Council, together with the eight district/borough councils in the county, Derby City Council and Derbyshire Fire and Rescue Authority, submitted a bid to become a pilot. The Finance Settlement announced the Derbyshire pilot as one of the ten successful bids. The pilot is generating additional one-off income in 2018-19 to the county of Derbyshire, over and above the business rates income ordinarily expected through the local government finance settlement.

The County Council's share of the gain is currently forecast to be approximately £17.8m (including the Minimum Funding Level of £5.7m), excluding the estimated £2.2m S31 Business Rates Relief Grant which would have been received had the Council not participated in the pilot. However, this will not be confirmed until the end of the financial year and is dependent upon the level of business rates income collected locally, which can be volatile. Business rates assessed can also be subject to appeals, which could

mean that some rates income receivable could become repayable in the future.

In accordance with the Pooling Agreement, 70% of the County Council's total gain in excess of the Minimum Funding Level will support Council services and the remaining 30%, along with a similar proportion from each of the other pilot members, will be used to support economic regeneration across the county and in Derby City. The Derby and Derbyshire Authorities Joint Committee for Economic Prosperity will be the decision making board for allocation of funding to individual projects. Details of the initial allocation of the forecast gain are included in the Reserves Position Report to this Cabinet Meeting.

The 100% Business Rates Retention pilot is for 2018-19 only. Thereafter, the funding allocations will revert back to those previously announced in the multi-year settlement for 2019-20, unless a successful application is made to become a 75% Business Rates Retention pilot for 2019-20, before a national 75% regime comes into force in 2020-21. The aim of the pilots is to learn lessons to ensure that the transition to the new scheme in 2020-21 is as smooth as possible. It is worth noting that indications are that the pilot scheme will be smaller for 2019-20 than it was for 2018-19.

The invitation to become a pilot states that applications from current pilot authorities will not be influenced by the success of those authorities in last year's application process. Authorities may reference their previous experiences of piloting when writing their applications but all applications will be assessed on their merits and on an equal footing.

As part of the move towards reformed Business Rates Retention, Government intends to devolve Revenue Support Grant, Rural Services, Delivery Grant and the Public Health Grant (PHG) when the new system commences. The intervening period will be used to develop measures to ensure a smooth transition. There is no assumption that PHG will be rolled in to the 2019-20 pilot and any requests to do so will be considered on a case by case basis. If prospective applicants are interested then they should open early dialogue with Public Health England. The success of any pilot application will not be contingent on the result of any request to roll in PHG.

Total grant rolled in will be added to the 2019-20 existing baseline funding level. The value of grants devolved as part of business rates pilots will be taken into account when setting tariff and top-up levels for the piloting authorities. This is to ensure that pilots are fiscally neutral against business rates baselines and will only benefit financially if actual revenues exceed baselines.

In a change from the 2018-19 100% Business Rates Retention pilot, to test the 2019-20 pilots' approach to risk, a "no detriment" clause will not be

applied. Instead, the pilots will test a 95% safety net, instead of 92.5%, to reflect increased risk in the proposed increased Business Rates Retention system for 2020-21.

The expectation is that a pool should extend across a functional economic area and will comprise a county council and all of the associated district councils, a group of unitary authorities, or a two-tier area and adjoining unitaries.

Bids are required to explain how the pilot will manage risk and reward at a strategic level, paying regard to the financial sustainability of all local authorities involved, as well as laying out how any potential growth in business rates may be spent. The bid will also need to outline the governance arrangements for strategic decision making.

Pool applicants must submit an application form. The form requires the following information:

- **Membership details** – including an explanation of relevance to the economic geography of the area, that each member fully supports the application and confirmation of the lead authority;
- **Bid details** – details of governance arrangements, how the additional business rates income will be utilised, how risk is managed, how residual benefits/liabilities would be dealt with once the pilot ends, proposals for sharing additional growth and how the pool will work together in the longer term, confirmation that all members are willing to work with the Ministry of Housing, Communities and Local Government (MHCLG) on the system design of the new business rates retention system and to share data;
- **Additional supporting evidence** – proposals for the tier-split;
- **Membership** – details of applicants;
- **Lead Authority** – the pool must nominate a lead authority who will be responsible for receiving payments from and to Government on behalf of the entire pool;
- **Pooling arrangements if pilot bid unsuccessful** – with agreement from all participating authorities; and
- **Other information** – further materials authorities see fit to support their proposal, included as an Annex to the main pilot application form.

To be accepted as a pilot for 2019-20, agreement must be secured locally from all relevant authorities to be designated as a pool and local arrangements should be put in place to pool the pool's additional business rates income. All proposals will need to be submitted to MHCLG by midnight on 25 September 2018 and must be signed off by the S.151 Officer of each authority in the pool.

Once it has been established that applications conform to the terms of the invitation, applications may be assessed against the following criteria, for reasons of affordability:

- Whether proposed pooling arrangements operate across a functional economic area;
- How the proposal demonstrates that pooled income from growth will be used across the pilot area to either boost future growth, promote financial sustainability or a combination of these; and
- Whether the proposal sets out robust governance arrangements for strategic decision making around the management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements.

If further assessment criteria are required, MHCLG may select pilots in order to:

- Achieve a wide geographical spread across England;
- Achieve a pilot programme with a range of arrangements to be tested, such as selecting programmes with different kinds of business rate bases, different pooling or governance arrangements for the pilot; and
- Achieve variation in the types of tier split arrangements for two-tier areas.

Successful pilots will be announced before, or alongside, the Local Government Finance Settlement and launched in April 2019. Given the timetable for pilot applications and the proximity to the finalisation of the Local Government Finance Settlement, all applications must outline, with agreement from all participating authorities, what pooling arrangements they would like to see if their application to become a pilot were unsuccessful. After the announcement, MHCLG will support successful authorities in preparing for implementation.

The Council has held preliminary discussions with the current members of the Derbyshire pool, who have, expressed an interest in forming a 75% pool for 2019-20.

As with the Derbyshire bid for the 100% Business Rates Retention pilot, given the technical and complex nature of submitting a proposal in a short timeframe, the local authorities in the proposed pool have sought specialist support, the costs of which will be shared between the pool members, with the Council's share being met from the Business Rates Retention reserve.

It is proposed that the Director of Finance & ICT, in consultation with the Cabinet Member for Strategic Leadership, Culture and Tourism, be authorised to submit an expression of interest on behalf of the Council.

### **3 Financial Considerations**

As set out above.

### **4 Other Considerations**

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

### **5 Background Papers**

Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019-20 – Ministry of Housing, Communities and Local Government.

### **6 Key Decision**

No.

### **7 Is it necessary to waive the call-in period?**

No.

### **8 Officer's Recommendations**

That Cabinet:

- (i) Notes the updated forecast gain in respect of the Council's participation in the 100% Business Rates Retention pilot in 2018-19;
- (ii) Notes the contents and requirements of the invitation to pilot 75% Business Rates Retention in 2020-21; and
- (iii) Grants approval for the Director of Finance & ICT, in his capacity as the Council's S.151 Officer and in consultation with the Cabinet Member for Strategic Leadership, Culture and Tourism, to submit an expression of interest to proceed with a 75% Business Rates Pool pilot application for 2019-20.

PETER HANDFORD  
Director of Finance & ICT