

## URGENT BUSINESS

18<sup>th</sup> October 2017

Ordinary Council

**Department for Communities and Local Government  
(DCLG) Pilot Programme for 100% Business Rates  
Retention - 2018/19**

**Report of:** *Jacqueline Van Mellaerts*

**Wards Affected:** *No wards specifically*

**This report is:** *Public*

### **1. Executive Summary**

- 1.1 The Council currently participates in an Essex wide pool for Business Rate Retention (BRR). DCLG have invited Local Authorities in England to pilot 100% Business Rate Retention in 2018/19.
- 1.2 Essex County Council have expressed an interest to submit a bid proposal to DCLG to take part in the pilot program whilst engaging with all Essex Local authorities.
- 1.3 Financial Review is still ongoing for the bid proposal. Due to the tight timescale set upon by DCLG to submit a bid by 27<sup>th</sup> October 2017, and to allow for the appropriate governance arrangements, delegated authority is therefore required to make sure the bid if upheld is successful.

### **2. Recommendation(s)**

- 2.1 Notes the content of the report and its potential implications for the forthcoming budget setting for 2018/19.**
- 2.2 That delegated authority be granted to the Chief Executive, in consultation with the Chair of Policy, Projects & Resources Committee, to give notice formally of the Council's intention to accept or decline to opt into the 100% Business Rate Retention (BRR) Pilot Programme with the other constituent Essex local authorities.**

### **3. Introduction and Background**

- 3.1 The current Medium Term Financial Plan (MTFP) was approved by Ordinary Council on 1 March 2017. The MTFP 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 100% retention of Business Rates and associated conditions that may be applied and the transfer of additional responsibilities to councils.
- 3.2 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.
- 3.3 The Council is part of the Essex wide Pool for Business Rates, the pool consists of eleven Essex local authorities including Essex County Council, Essex Fire Authority and nine Borough and District Councils, including Brentwood. By pooling, any levy payments that would have been made to Central Government in relation to Business Rates, growth can be saved and distributed to the members of the pool. The Pool is functioning well with a projected surplus to Brentwood of £180k for 2017/18

### **4. DCLG Invitation to Local Authorities in England to Pilot 100% Business Rates Retention in 2018/19**

- 4.1 The Government has already initiated one pilot scheme for 100% BRR operating in five specifically urban council areas with effect from 1 April 2017. These pilots will retain 100% 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.
- 4.2 In response to its consultation exercise in 2016 on Self Sufficient Local Government, the government made a commitment to launch a further pilot

scheme in 2018/19. The intention is to provide an opportunity for the DCLG to test more technical aspects of the 100% BRR system, such as tier-splits, and to evaluate how collaboration between local authorities may work in practice.

- 4.3 There has remained uncertainty as to whether the 2018/19 pilots would go ahead following the general election in June and the lack of information flowing from DCLG in relation to this initiative. However, in early September 2017, the Government issued an invitation to local authorities to form pools, expecting agreements to be in place from all authorities in a functional economic area (such as a county), to apply jointly for pilot status for 100% retention of Business Rates. The Government considers this to be an opportunity that will allow authorities to make coherent strategic decisions about the wider area and to jointly manage risk and reward.
- 4.4 This second phase of pilots will operate for the 2018/19 financial year only and are aimed towards more-rural based catchments. Authorities selected as pilots for 2018/19 will be expected to forego Revenue Support Grant (RSG) and Rural Services Grant (Brentwood 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.
- 4.5 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 97% of its recalculated baseline funding level, instead of the existing 92.5%; 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 2017/18 pilot areas. Thus, it is retention from potential growth of Business Rates over and above an authority’s Business Rates Baseline that presents a notable attraction for participating authorities.
- 4.6 To be accepted as a pilot for 2018/19, DCLG has indicated that agreement must be secured locally from all relevant authorities to be designated as a pool for 2018/19. Therefore, if one of the authorities within a functional economic area declines the invitation, the likelihood is that the remaining authorities will not be accepted into the pilot scheme.
- 4.7 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.

- 4.8 Any proposals for new pilots must be received by the Department for Communities and Local Government on or before Friday 27 October 2017.
- 4.9 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 for BRR**

- 4.10 Essex 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 shaping the fair distribution of local government funding.
- 4.11 After preliminary consultation with and general support from the county's district councils, and recognising there is potential scope to benefit from participating in the pilot, Essex County Council has written to DCLG expressing an interest on behalf of the county's authorities.
- 4.12 Given the government's requirement for all authorities within a pilot area to subscribe to a pilot bid, the County Council continues to engage with all other fifteen relevant Essex authorities, which comprises the twelve Borough and District Councils, two Unitary Councils and Fire authority (police authorities do not participate in Business Rates funding). This is a real achievement for all authorities, showing increased collaboration and partnership for local needs.
- 4.13 The timescale by which bids must be submitted to DCLG is extremely tight and the information supplied by DCLG about the pilot scheme is also limited. Therefore, the Essex authorities are pursuing two primary lines of enquiry to facilitate the decision-making process:
  - a) Councils are, as a group, to participate in dialogue with a representative of the DCLG, and
  - b) A modelling exercise to be commissioned to project the likely financial benefits or penalties of participating in such a pilot scheme.

- 4.14 The outcomes of these enquires are still ongoing, however Chief Finance Officers met on 13<sup>th</sup> October 2017, to review and discuss the modelling exercise which was undertaken. There is another meeting schedule to discuss this further and compilation of the bid proposal to DCLG.
- 4.15 It was agreed amongst all Essex Authorities that entering into the pooled arrangement, councils should be in a “No worse off position”, then prior to the pilot.
- 4.16 Initially the pilot programme appears favourable for Brentwood, by pooling together all the Essex Local Authorities the gains could be between £33.6m and £45.7m depending on the arrangements. The levy paid to central Government will be saved through pooling and **all growth** in business rates compared to the 50% of growth that is currently retained, will be retained locally.

### **Conclusion**

- 4.17 With limited information available at the time of this report to enable to put the appropriate governance arrangements in place by the 27<sup>th</sup> October 2017, it has not been possible to determine the overall financial impact. Officers therefore request members to provide delegated authority to the Chief Executive in consultation with officers and the Chair of Policy, Projects and Resources committee to accept or decline to opt in for the pilot programme.

## **5. Reasons for Recommendation**

- 5.1 To enable an informed decision by delegated authority, subsequent to the outcomes of an independent financial review and formulation of agreed terms, to be made in determining whether Brentwood Council should participate with Essex billing precepting authorities in the DCLG’s Pilot Programme for 100% Business Rates Retention (BRR) in 2018/19.

## **6. Consultation**

- 6.1 None

## **7. Implications**

### **Financial Implications**

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- 7.1 Main Financial Implications are set out in this report. Outcomes of the financial modelling exercise and negotiations with authorities comprising the proposed Essex pilot should provide officers an insight into the benefits, or otherwise participating in the 100% BRR pilot scheme.

**Legal Implications**

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- 7.2 There are no direct legal implications set out in this report.

**Other Implications** (where significant) – i.e. Health and Safety, Asset Management, Equality and Diversity, Risk Management, Section 17 – Crime & Disorder, Sustainability, ICT.

- 7.3 Upon assessment of the bid proposals, Risks to the authority will be considered and could help potentially reduce the council's strategic risk – financial pressures.

**8. Background Papers**

- 8.1 DCLG Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models.

**9. Appendices to this report**

- None

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