

18th September 2018

Policy, Performance & Resources

**Department for Communities and Local Government
(MHCLG) Pilot Programme for 75% Business Rates
Retention – 2019/20**

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). MHCLG have invited Local Authorities in England to pilot 75% Business Rate Retention in 2019/20.
- 1.2 The Council is invited to participate, in conjunction with other Essex authorities, in a bid for pilot area status. The purpose is to assist MHCLG in testing future scheme for retention of 75% business rates in economic area with mix tier authorities
- 1.3 The benefits to the Council would include significant increase to the share of the growth in its rates income.
- 1.4 Discussions are taking place with other Essex authorities; financial Review is still ongoing for the bid proposal. Due to the tight timescale set upon by MHCLG to submit interest by 25th September 2018, and to allow for the appropriate governance arrangements, delegated authority is therefore required to make sure the bid if upheld is successful.
- 1.5 In conjunction with a bid, authorities are asked to declare fall-back arrangements in the event of an unsuccessful bid. Currently Brentwood participates in the Greater-Essex pool and a revised pooling arrangement may be proposed.

2. Recommendation(s)

- 2.1 Notes the content of the report and its potential implications for the forthcoming budget setting for 2019/20.**
- 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 75% Business Rate Retention (BRR) Pilot Programme with the other constituent Essex local authorities.**
- 2.3 That delegated authority be granted to the Chief Executive, in consultation with the Chair of Policy, Projects & Resources Committee, to agree on behalf of the Council in principle to join with other authorities if a new Essex pool is required in the event of either no pilot bid being agreed with other authorities or the pilot bid being unsuccessful.**

3. Introduction and Background

- 3.1 At Ordinary Council 18th October 2018 a report was presented to Members asking for delegated authority to be granted to the Chief Executive, to give notice for the Council's intention to accept or decline regarding the 100% Business Rate Pilot Programme with the other Essex local authorities as well as Essex County Council.
- 3.2 Brentwood accepted to be part of the Essex wide pilot bid, and Essex County Council submitted a bid to Government to take part in the pilot program. Following a competitive process, 10 authorities were awarded the pilot scheme. The Essex scheme bid was not successful.
- 3.3 On 24th July 2018, the government published an Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20. Those who were previously part of the Essex wide bid, have expressed an interest to apply to government again for this pilot scheme.
- 3.4 The current Medium-Term Financial Plan (MTFP) was approved by Ordinary Council on 6th March 2018. 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 a business rates baseline reset in 2020/21

and 75% retention of Business Rates and associated conditions that may be applied and the transfer of additional responsibilities to councils.

- 3.5 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). The BRR system is 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.
- 3.6 Essex is a two-tier area regarding business rates. The billing authority's share is 40%, the central government takes 50% and 10% goes to the upper tier authorities. An adjustment is made to equate business rates income with need, with district authorities paying a "tariff" and upper tier authorities receiving a "top-up". After these adjustments, any growth above the 2013 business rate baseline is distributed based on these percentages.
- 3.7 A "safety net" deals with any shortfalls in income below the baseline. This means central government will meet any losses beyond a threshold that is lined to the funding baseline. To fund this safety net nationally, tariff authorities pay a levy up to 50% of growth.
- 3.8 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 £138k for 2018/19.
- 3.9 Government is currently proposing to move from the present 50% BRR (Business Rate Retention), in which only 50% of income is retained by local government, to one which is 100% retained. In the 2018/19 Finance Settlement, it was announced a change to 75% from April 2020, with the 100% being a longer-term objective.
- 3.10 Alongside this, the funding baseline for each authority will be reset to reflect the outcome of the fair funding assessment. One point of this assessment is addressing the negative RSG Council's are currently facing.

4. MHCLG Invitation to Local Authorities in England to Pilot 75% Business Rates Retention in 2019/20

- 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 retained 100% of business rates income and will continue through to 2019/20.
- 4.2 From 1 April 2018 a further 10 areas and an expanded London pilot are operating a 100% pilot scheme. These 10 pilots cover 89 authorities in two-tier areas and will cease on 31 March 2019.
- 4.3 For 2019/20, applications are invited based on 75% retention for one year only. This is the last pilot scheme before the go live date for all authorities. MHCLG have issued a guidance regarding the invitation to bid by 25th September 2018. This guidance sets out the following selection criteria
- The mix of authorities in the bid operate across a functional economic area
 - The bid demonstrates how pooled income from growth will be used across the area to boost growth to provide financial sustainability
 - That the bid has robust governance arrangements for strategic decision making around the risk and reward of the pilot.
- 4.4 In securing a pilot there is significant financial rewards to all those who operate within it. Government will receive half the share of growth and so the pilot will retain that half of growth the Government would have received if not in a pilot scheme. No levy will be payable if an Essex bid was successful. Overall the share of growth in pilots will significantly increase.
- 4.5 A degree of risk is attached to Business rates around volatility, ratepayers appeals as well as each local authority safety net. However, within Essex business rate growth has been strong and pooling has worked in a favourable manner.
- 4.6 MHCLG expect authorities within the pilot to work together and to detail and meet central objectives. Bids need to pay 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. MHCLG want clear information in how additional growth may be used to promote growth through investment as well as financial sustainability in the whole

economic area and how authorities have come to agree on specific projects for the economic area.

- 4.7 To be accepted as a pilot for 2019/20, MHCLG has indicated that agreement must be secured locally from all relevant authorities to be designated as a pool for 2019/20. Government have also advised that the number of pilots available for 2019/20 will most likely be smaller than in 2018/19.
- 4.8 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

- 4.9 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.
- 4.10 Currently, at the time of writing this report the Chief executives and leaders' groups within Essex have met to consider a joint all – Essex bid as in lines with last year.
- 4.11 There is a small working group lead by Chelmsford CEO who are working on an all-Essex bid. It is possible one or more other combinations of authorities could put their own bid in. No authority may participate in more than one bid and split bids are unlikely to meet MHCLG criteria proposed.
- 4.12 MHCLG expect a proposed pool to compose of a county council and all of the associated district councils; a group of unitary authorities; or a two-tier area and adjoining unitaries, but it should extend across a functional economic area
- 4.13 Given the government's requirement for all authorities within a pilot area to subscribe to a pilot bid, the working group 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.

- 4.14 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.
- 4.15 Initially the pilot programme appears favourable for Brentwood, by pooling together all the Essex Local Authorities the gains could be around £19m depending on the arrangements. The levy paid to central Government will be saved through pooling and 75% growth in business rates compared to the 50% of growth that is currently retained, will be retained locally.
- 4.16 The current Essex pool will cease on 1st April 2019 if an Essex pilot bid is successful. If the bid is not successful, then current existing 50% pool may continue, or a new pool formed. MHCLG require that with the submission of the pilot bid, authorities declare what their intended fall-back arrangement will be.
- 4.17 Therefore, as having no pool to fall back on would be costly for any authority it is proposed that either the current pool stays in place or a new pool is formed, if the county council are part of the pool in order to administer an Essex wide pool.

Conclusion

- 4.18 With limited information available at the time of this report to enable to put the appropriate governance arrangements in place by the 25th September 2018, it has not been possible to determine the overall financial impact for Brentwood. 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.
- 4.19 If Brentwood does opt into an Essex bid and this is unsuccessful, Officers request members to provide delegated authority to the Chief Executive in consultation with officers and the Chair of Policy, Projects and Resources committee to make a formal decision on the fall-back arrangements of a new Essex pool, if a new Essex pool is required.

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 MHCLG's Pilot Programme for 75% Business Rates Retention (BRR) in 2019/20.

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 75% 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 councils strategic risk – financial pressures.

8. Background Papers

8.1 MHCLG 75% Business Rates Retention Pilots 2019 to 2020 prospectus.

9. Appendices to this report

- None

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