

Eden District Council

Council

12 October 2017

100% Business Rates Retention Scheme Pilot Proposals

Portfolio:	Leader and Resources
Report from:	Director of Finance
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

- 1.1 To enable consideration to be given to the benefits of supporting a 100% Business Rates Retention Scheme pilot in 2018-2019.

2 Recommendations

1. Council agrees, in principle, to support the bid to the Department for Communities and Local Government (DCLG) for the 100% Business Rates pilot opportunity and that the Director of Finance be given delegated power to agree governance arrangements for this when finalised.
2. Any pilot to comprise this Council, the other District Councils in Cumbria and Cumbria County Council.
3. In the event of any significant detrimental impact to the Council resulting from the proposal, the Director of Finance be given delegated powers, in consultation with the Leader and the Resources Portfolio Holder, to withdraw the Council from further involvement in the bid.
4. A further report be presented to Council when the outcome of the bid is known.

3 Report Details

- 3.1 On 1 September 2017, the Government published an invitation to local authorities in England to pilot 100% Business Rates Retention Scheme ("BRRS Retention") in 2018-2019 and to pioneer new pooling and tier split models. The invitation followed on from the award of Business Rates pilot status for a number of authorities in 2017-2018, which will run for two years until the end of 2018-2019.
- 3.2 The DCLG issued the invitation because it wishes to:
- a. Expand its existing pilot programme;
 - b. Further inform options for the future design of local government finance, in particular, the technical aspects of the design of any national system of Business Rates Retention; and
 - c. Test issues relating to administration, technical planning accounting, data collection and IT systems.

3.3 The prospectus stated that:

- The invitation was aimed at all authorities, except those in London, and the existing pilot;
- Applications should cover functional economic areas, in particular, a County plus all relevant Districts, or a County plus relevant Districts and Unitaries or groups of authorities; and
- The invitation was also aimed at single authorities. The DLG thinks this will be useful within the breadth of options and it is noted that an individual authority can only be included in one pilot application.

3.4 Award of pilot status in 2018-2019 is likely to be via a competitive process and it is expected that more applications will be received than will be approved. It therefore follows that the criteria against which the DCLG will accept and compare bids to be a pilot are important. In particular, the DCLG is inviting two tier and rural areas to apply. This is considered to be positive encouragement for a bid from Cumbria.

3.5 One of the key objectives of becoming a pilot is to promote financial sustainability and coherent decision making across the functional economic area.

3.6 In order to apply, explicit approval from the constituent local authorities is required. Although this is not defined in the prospectus, the expectation is that the bid has a political agreement from all pilot members. This is the main reason why this report is coming before Council. There is also a specific requirement that S151 Officers approve any bid. Should Council accept the recommendations in this report, it follows that the Director of Finance will act on behalf of the Council and sign off any participation in the bid from this Council.

3.7 Pilots in 2018-2019 will receive 100% of Business Rates collected locally. Some of this additional income will replace Revenue Support Grant and Rural Services Delivery Grant and this will lead to changes in baseline funding. The levels of top-up and tariff applied to the Council's funding will be adjusted, ensuring the Council is not disadvantaged.

3.8 The main gain from being a pilot would be the retention locally of 100% of Business Rates growth that arises during 2018-2019. Under the current pooling arrangement approved in 2013 (report F69/13, Council, 10 October 2013), only 50% of that growth is retained locally. This would be less (20% or 30% including the County Council) had the current pool not been approved, which ensures the levy on growth that would have been paid to Government is kept locally across the five Districts currently in the pool.

3.9 One important point to note is that should the bid be accepted, the current BRRS pool would disappear and the pilot would replace it for the 2018-2019 financial year. The current Cumbria Business Rates Pool excludes Copeland Borough Council. This was agreed at the outset due to the risks of the appeal against the valuation of the Sellafield Nuclear Power Station. This ensures that no levy is paid currently on the current growth against the 50% share of the Business Rates for those authorities currently included in the pool. The gain, which since the introduction of the pool has been £356,000 for this Council between 2014-2015 and 2016-2017, has been a useful source of extra income.

3.10 The DCLG is specifically asking authorities making a bid to identify whether they would proceed with an application in the absence of a 'no detriment' clause. What this means is that, as well as benefitting from gains, the Councils involved would have to accept any risks arising from a bid. The Chief Finance Officers have been working across the County since the receipt of the invitation to model the financial risks associated with making a bid to inform any decision on making an application.

- 3.11 One additional change in respect of managing the risk associated with being a pilot is that the safety net for pilot authorities will be set at 97% of baseline funding, rather than the present 92.5% level.
- 3.12 Another key issue in two tier areas such as Cumbria is the proposed approach to splitting and sharing financial gains arising from keeping the additional growth. The DCLG has stated in its prospectus that it wishes to see the financial gains from being a pilot used to promote financial sustainability and, in part, used to promote further growth in Business Rates.
- 3.13 It is important that should it go ahead, Cumbria submits a bid which is seen as credible by the DCLG. In summary, any bid must:
- Meet the terms of the invitation;
 - Include Counties, with all their relevant Districts, within a functional economic area, that is, all of the District Councils,
 - Promote financial sustainability, that is, links to local funding pressures resulting from Government economic policy; and
 - Evidence how additional income can be used.
- All of these factors will be taken into account in any bid submitted.
- 3.14 It is expected that a Cumbria bid will need to combine all Districts and the County Council. It is noted that political approval is in place for this to happen. The bid will demonstrate how the additional funding will promote financial sustainability and will demonstrate that this is linking into the local service and financial pressures that are currently in place. One expectation is that this will refer to adult social care pressures, amongst others.
- 3.15 Chief Finance Officers across the County have requested a consultant (the one currently used by this Council) to undertake some financial modelling on this and this work is currently ongoing.
- 3.16 As with the current pool, the bid requires a lead authority and it has already been provisionally agreed that the County Council take on this role as at present.
- 3.17 Any bid must be received by the DCLG by Friday, 27 October 2017, and a timetable is in place to ensure that this happens.

4 Policy Framework

- 4.1 The Council has four corporate priorities which are:
- Decent Homes for All;
 - Strong Economy, Rich Environment;
 - Thriving Communities; and
 - Quality Council.
- 4.2 This proposal supports 'Economic Vitality' and 'Quality Council'.

5 Consultation

- 5.1 There has been some consultation with the Council's Leader, who has supported the principle of submitting a bid, since the prospectus was received by the Council.

6 Implications

6.1 Financial and Resources

- 6.1.1 Any decision to reduce or increase resources, or alternatively increase income, must be made within the context of the Council's stated priorities, as set out in its Council Plan 2015-2019, as agreed at Council on 17 September 2015.
- 6.1.2 The main financial implication from supporting a bid to be a BRRS pilot is that the Council is not financially disadvantaged from doing so. The first concern is that, in signing up to be a pilot, the Council would lose its Revenue Support Grant, confirmed as £87,000 for 2018-2019 and its Rural Services Delivery Grant, confirmed as £418,000 for 2018-2019. The Government has already confirmed that, in becoming a pilot, the baseline levels would be revised so that this funding would be replaced via Business Rates Retention in the year. Following on from this, the Council needs to be reassured that it will benefit overall from becoming a pilot.
- 6.1.3 The financial models indicate that the Council, and indeed the County, will benefit financially from all of the models which have been considered. The best possible scenario, using the latest information, shows that taking into account the current BRRS pool gains of £3.6m across the County as a whole, combined with that from becoming a pilot of £9.1m, the County, as a whole, could expect a £12.7m gain from becoming a pilot. This is in addition to the gains above baseline already realised of £5.5m; an overall gain of £18.2m.
- 6.1.4 In extending the pool to include all of the Cumbrian Districts, there is then an increased risk of large Business Rates appeals; the obvious appeal being that which could result from the Sellafield Nuclear Power Station. The modelling has shown that, in the worst scenario modelled for, the pilot would contribute gains of £1.1m, as compared to the £9.1m. Although this is a significant drop in the expected additional funding, it should be noted that this is still additional funding compared to the expected current levels of gain (including from the pool) and this is based on the worst possible scenario modelled.
- 6.1.5 The latest information for the financial year 2018-2019 shows that the Council could expect the total gain as part of the 100% BRRS pilot to be up to £970,000. This is made up of:

	£'000
The Council's own gains from its share under 50% BRRS	513
Plus pooling gains (that is, the current pool)	284
Plus gains from becoming a pilot	173
	<hr/> 970

- 6.1.6 As stated, this is based on the best possible outturn modelled for a pilot scheme and it is likely that the outturn will be somewhat lower than this, but it could be potentially higher, subject to in-year accounting treatment arising from appeals. It is argued that this is an outcome that the Council should seek to receive.
- 6.1.7 The Medium Term Financial Plan, approved by Council on 7 September 2017 (F67/17), included income from Revenue Support Grant, Rural Services Delivery Grant and BRRS under current arrangements. This will not be updated, as the DCLG prospectus indicated that the results of pilot applications will probably not be published until the funding settlement is released, probably in December 2017.

6.2 Legal

- 6.2.1 Any governance arrangements will be signed by the Councils' S151 Officers and will constitute a binding agreement between any pool members and the DCLG. Before signing any arrangements, the Director of Finance will ensure it is acceptable to the Deputy Chief Executive in his capacity as Monitoring Officer.
- 6.2.2 It is a DCLG requirement that any arrangements are signed off by the S151 Officers of the participating authorities.

6.3 Human Resources

- 6.3.1 There are no Human Resources implications.

6.4 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	None.
Health, Social Environmental and Economic Impact	The assessment within this report indicates that even on a worst case scenario there are clear projected financial benefits to Cumbria of proceeding with a bid.
Crime and Disorder	None.
Children and Safeguarding	None.

6.5 Risk Management

Risk	Consequence	Controls Required
Poor governance in place	The pool does not work as anticipated. The pilot in effect fails.	Strong governance arrangements will be put in place and this will ensure that the pilot succeeds.
The financial outcome is not as expected	Decreased income to the Council and financial difficulty.	The Councils have undertaken in depth modelling to ensure that the proposals will result in the Councils involved being in a financially advantageous position. This Council's strong revenue balances will protect the Council should this occur.
Rejection of the bid	The Councils need to decide collectively on what pooling arrangements will remain in place.	Again, in depth modelling will be undertaken and any decision to alter the current pool will be taken in conjunction with all authorities involved.

7 Other Options Considered

- 7.1 Members could resolve not to support a bid. This is not recommended, as it is considered that there would be clear financial benefits to the Council if a bid were made and did succeed.

8 Reasons for the Decision/Recommendation

- 8.1 Supporting the bid is recommended, as if it were to succeed, it should generate additional income for the Council.
- 8.2 There are some delegations recommended for the Director of Finance. This would facilitate the prompt completion of the bid by the DCLG's requested deadline.

Tracking Information

Governance Check	Date Considered
Chief Finance Officer (or Deputy)	2 October 2017
Monitoring Officer (or Deputy)	4 October 2017
Assistant Director	Not Applicable

Background Papers: Report F69/13, Council, 10 October 2013

DCLG website: 100% BRRS Pooling Prospectus

<https://www.gov.uk/government/publications/100-business-rates-retention-pilots-2018-to-2019-prospectus>

Appendices: None

Contact Officer: Clive Howey, Director of Finance, 01768 212213