



Policy, Finance and Development Committee	Tuesday, 18 September 2018	Matter for Information and Decision
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Report Title: **Prospective Participation in 75% Business Rate Retention Scheme**

Report Author(s): **Stephen Hinds (Director of Finance & Transformation)**

Purpose of Report:	To seek Members' approval of the Leicester/shire -wide application to be part of the 75% Business Rate Retention Scheme for 2019/20.
Report Summary:	This report asks that the Committee agrees the principles of the pilot scheme devised by the member local authorities and requests that delegated authority to be given to the Director of Finance & Transformation (as Section 151 Officer) to agree the application on behalf of the Council, and to carry out any of the required administrative arrangements to this end where necessary.
Recommendation(s):	<p>A. That the Council's application to participate in a pilot scheme allowing for 75% Business Rate Retention in 2019/20 in accordance with the principles set out in this report as part of the Leicester/shire -wide proposal be approved; and</p> <p>B. That delegated authority be given to the Director of Finance & Transformation, in consultation with the Chair of Policy, Finance and Development Committee and the Leader of the Council to agree on behalf of the Council, and the other authorities within Leicester and Leicestershire, the detail contained within the application to participate in the 75% Business Rate Retention pilot scheme.</p>
Responsible Strategic Director, Head of Service and Officer Contact(s):	Stephen Hinds (Director of Finance & Transformation) (0116) 257 2681 stephen.hinds@oadby-wigston.gov.uk
Corporate Priorities:	Balanced Economic Development (CP3)
Vision and Values:	"A Strong Borough Together" (Vision) Innovation (V4)
Report Implications:-	
Legal:	There are no implications arising from this report.
Financial:	The pilot scheme is anticipated to be financially beneficial, or with the minimum expectation that there will be no detriment. However, there is an incredibly small risk that should collections fall below minimum expected levels, there is a possibility that the Council could be worse off. However, this is considered extremely unlikely.
Corporate Risk Management:	Decreasing Financial Resources (CR1) Economy/Regeneration (CR9)

Equalities and Equalities Assessment (EA):	There are no implications arising from this report. EA not applicable.
Human Rights:	There are no implications arising from this report.
Health and Safety:	There are no implications arising from this report.
Statutory Officers' Comments:-	
Head of Paid Service:	The report is satisfactory.
Chief Finance Officer:	As the author, the report is satisfactory.
Deputy Monitoring Officer:	The report is satisfactory.
Consultees:	None.
Background Papers:	Report entitled 'Prospective Participation in 100% Business Rates Retention Scheme' to the Policy, Finance and Development Committee, 10 October 2017
Appendices:	None.

1. Introduction

- 1.1 This report sets out the approach for Oadby and Wigston Borough Council's participation in a business rates pilot scheme in which monies that would normally be passported to Central Government would be retained. This pilot scheme would operate on a Leicester/shire -wide basis, including all authorities within the Leicester and Leicestershire Economic Partnership.
- 1.2 This report asks that the Committee agrees the principles of the pilot scheme devised by the member local authorities and requests that delegated authority to be given to the Director of Finance & Transformation (as Section 151 Officer) to agree the application on behalf of the Council, and to carry out any of the required administrative arrangements to this end where necessary.

2. Background

- 2.1 The Department for Communities and Local Government (DCLG) issued an invitation to Local Authorities in England to 'Pilot 100% Business Rate Retention in 2018/19 and to pioneer new pooling and tier-split models.' The innovation was issued in September 2017 and Leicester/shire authorities applied, but were unsuccessful in this bid.
- 2.2 In July 2018, the Ministry for Housing, Communities and Local Government (MHCLG) issued a new invitation to Local Authorities in England to 'Pilot 75% Business Rate Retention in 2019/20'.
- 2.3 Once again, it is from the 2018/19 100% Pilot, and the 2019/20 75% Pilot, that the government anticipates learning that will aid the design and implementation of a national scheme, which has been earmarked for 2020/21. Whilst this is a "pilot" scheme for the 2020/21 roll-out of 75% Business rate retention, the MHCLG stated at a briefing on Monday 3 September, that the details of the 2020/21 scheme are due to be announced in March 2019 – before the 2019/20 pilot begins.

3. Existing Arrangements

- 3.1 The current scheme for local government calculations is somewhat complex in practice being based on a system of baselines, top-ups, tariffs, levies and safety nets. In Oadby and Wigston, the outcome of these calculations has been that whilst the Council collects around £12m of business rates annually, it can retain only about £1.45m (i.e. 12% of the total collected) for its own funding.
- 3.2 Additionally, the change in regime now means that the Council bears an element of business rate collection risk, stemming from both bad debts (where occupants refuse or are unable to settle their bills) and changes to the business rate 'listing' (the rateable values assigned to properties). The latter risk is particularly significant as the Council bears the risk of valuation appeals which may be substantial in value and backdated for several years.
- 3.3 The current Business Rate regime allowed for local authorities working together and creating a business rate pool. The local authorities in Leicester/shire formed such a pool which, although creating a slight increase in financial risk, offers the ability to retain levy payments within Leicester/shire that would otherwise have been payable over to central government. Latest forecasts suggest £6-7m will be retained in Leicester/shire as a result of these pooling arrangements, and this figure is expected to increase to possibly £9m in 2019/20.

4. 75% Business Rate Retention - Pilot Scheme Prospectus

- 4.1 Applications to pilot 75% business rate retention are required by Tuesday 25 September 2018. Key features of the application prospectus issued by the MHCLG are:
- The overall objective to focus on the learning necessary for transition into the proposed new scheme in 2020/21 (see paragraph 2.3);
 - As with the 2018/19, 100% Business Rate Retention Pilot participating authorities would agree to forego Revenue Support Grant (RSG) and Rural Services Grant , plus other grants that authorities may volunteer to forego as part of their pilot application;
 - Again, as with the 2018/19 pilots, authorities would still be expected to operate as part of the business rate pool;
 - MHCLG expects applicants to set out how the benefits of additional business rates growth would be shared; this should cover 'financial stability and sustainability' (possibly a reference to social care funding) and investment in future economic growth;
 - Pilot participants are expected to show how they would manage risk; therefore, in contrast to the first wave of pilots where authorities were offered a 'no detriment' assurance, the possibility of financial loss should be inherent within the application; and
 - Pilot participants from "two-tier" authorities need to show a tier split as part of the application process. This differs from the 2018/19 bidding process as this was only open to two-tier authorities; this process is open to all authorities.
- 4.2 With Leicestershire being a two-tier area with a pre-existing business rates pool linked to the Leicester and Leicestershire Enterprise Partnership (LLEP), there appears to be a good basis for a successful application from Leicester/shire local authorities.
- 4.3 The proposal around the allocation of the potential surplus is built upon the same principles and allocation methods from the 2018/19 pilot bid that Council approved in 2017. Based upon feedback at a LGA/MHCLG event on 03 September 2018, the bid submitted by Kent authorities was held up as an exemplar bid, and the primary function of this bid was sustainability. In light of this guidance from MHCLG, the Leicester/shire bid will promote financial sustainability to the top of our priority listing, followed by Transport and Infrastructure Growth, Public Realm Works and "Spend to Save" initiatives.
- 4.4 An implication of this re-prioritising of aims is that financial sustainability will have first call on additional funding should the expected surplus be lower than anticipated (in 2018/19,

this was the bottom priority).

4.5 Given the short timescales involved, it is unlikely that the full detail of the breakdown of schemes and financial contributions will be available by the date of this meeting. The decision as to whether to participate will be taken on the principles detailed above.

4.6 It should be noted that this pilot bid has the full and unequivocal support of each of the Leicester/shire's Borough and Districts' Chief Executives and Section 151 Officers.

5. Financial Implications

5.1 The basis of the scheme is that it is envisaged that it would prove to be financially beneficial to the Council, or at the very least will not result in any detriment to the Council's finances.

5.2 Financial modelling carried out by Leicester/shire Treasurers indicates that any financial risks of entering the pilot scheme are low based upon the comparisons between expected business rate collection baselines and latest forecasts of actual rates of collections.

5.3 The pilot scheme (as with the current pooling arrangements) includes a safety net function that would ensure that participating local authorities would receive at least 95% of their collective baseline funding. This risk is mitigated by unallocated surpluses built up by the current Leicester/shire Business Rates Pool, thereby significantly reducing the exposure of this risk to local authorities.

5.4 The main benefit of participation in the pilot scheme is that significant additional funding would remain in Leicester/shire , with latest estimates ascertaining this to be in the region of £13.8m (as at the beginning of September) - funding that would normally be passed back to central Government.