

**For publication**

**Business Rates Pilot 2018/19 (J000)**

---

Meeting:	Cabinet
Date:	5th June 2018
Cabinet portfolio:	Deputy Leader
Report by:	Director of Finance & Resources

---

**For publication**

---

**1.0 Purpose of report**

- 1.1 To consider the Derbyshire Pool arrangements for being a 100% Business Rates pilot for 2018/19.

**2.0 Recommendations**

- 2.1 That Cabinet approves the Derbyshire 100% Business Rates Pool Memorandum of Understanding (MoU) for 2018/19, as attached at Appendix A, and grants delegated authority to the section 151 officer to sign the MoU.
- 2.2 That Cabinet notes the 2018/19 100% Business Rates Pool estimated financial gains, as set out in Appendix A.

**3.0 Background**

- 3.1 The Government introduced a new 50% Business Rates Retention Scheme from 1 April 2013. The scheme provides an incentive to councils to grow their local economy, by allowing them to retain a proportion of any business rates growth. In return, councils also share the risk of losses of business rates income, subject to a safety net mechanism.
- 3.2 As part of the scheme, the Government set a baseline funding level for each authority. The first 50% of any additional business rate yield above this baseline goes to the Treasury with the balance being split, 40% to the Borough and 10% to the County and major preceptors. On the Borough's share, a 50% levy is then payable to the Government.
- 3.3 Local authorities are able to come together on a voluntary basis to pool their business rates, allowing them to retain a greater percentage of any growth within the local area. The Council is currently part of a Derbyshire pool, which includes Derbyshire County Council, Derby City Council (administrator), Derbyshire Fire and Rescue and all the districts.
- 3.4 The Government had planned to move to 100% Business Rates Retention in 2019/20. While this proposal is phased 75% then 100% retention the timetable is uncertain after relevant legislation was dropped from the Parliamentary calendar, the MHCLG has nevertheless invited further local authorities to participate in a pilot of 100% Business Rates Retention in 2018/19.
- 3.5 In September 2017 the MHCLG announced a bidding round for further Councils to become 100% Business Rate Pool pilots for 2018/19. There was an emphasis on selecting a number of two tier authorities to test how the pilot scheme would work. Agreement was reached between Derbyshire Pool Council's, Derbyshire Fire Authority and Derby City Council finance directors that a bid should be made. LG Futures were

appointed as advisors to the Derbyshire bid and modelled a number of scenarios. The government stated it was looking for:

- Proposed pooling arrangements that operate across a functional economic area (i.e. the county council(s) and all relevant district councils; groups of unitary authorities; or groups of county councils, all their districts and unitaries);
- The Government is particularly interested in piloting in two-tier areas;
- The proposals would promote the financial sustainability of the authorities involved; and,
- There is evidence of how pooled income from growth will be used across the pilot area.

Before the bid submission the Government agreed to issue a 'No Detriment' statement that no Council successful as a 2018/19 pilot would be financial worse off than under existing baseline arrangements. The Derbyshire short 8 page bid was submitted at end of October 2017.

### 3.6 The bid contained the following:

- All the authorities within the pilot agreed that the tier split be based on 50/50 (the revised local share being districts 50%, county 49%, fire and rescue 1% and derby city 99%).
- The participation in a pilot involves bearing the cost of any drop in income amongst pool members, subject to an overall pilot safety net of 97% of baseline business rates income. The current safety net is 92.5% so the potential loss under a pilot would be less than under the current pooling arrangement.
- Financial modelling undertaken by the pilot advisors LG Futures estimates the overall additional reward for the county in 2018-19 at approximately £21m.

- The tier split in 2017/18 was (50% MHCLG, County 9%, 1% Fire and Rescue, Districts 40% and Derby City (50% MHCLG, 1% fire and rescue and city 49%))
- Any pilot gain will be distributed on the following basis: 70% of the gain to be retained by each authority, 30% of the gain to be allocated and 'ring-fenced' to support economic growth in the county thereby creating a cycle of business rate growth in the region. The Derby and Derbyshire Authorities Joint Committee for Economic Prosperity would administer the 'ring-fenced' funds.

#### **4.0 Outcome of the Bid**

- 4.1 In December 2017 the MHCLG announced that the Derbyshire bid had been successful. 100% of business rates above baseline funding will therefore be retained in 2018/19. Under previous arrangements 50% of this growth was retained by Government. Therefore more funding should be retained at a local level.
- 4.2 The pool agreed to appoint Pixel Ltd as consultants to provide further analysis on the financial estimates, provided by LG Futures submitted in the bid. A number of meetings have been held by the Derbyshire pool senior accountants and finance directors to discuss the Pixel financial models.
- 4.3 The revised tier split (set out in Appendix A) shifts a significant proportion of the business rate retained growth to Derbyshire County Council so that its share is aligned to the districts 50/50 split. Derby City retains all their own direct growth as they move from 49% to 99% retention. In addition all remaining growth will be retained directly by each authority, subject to forfeiting 30% towards the 'ring fenced' economic growth fund. It is unclear how all organisations will spend the gains. We would expect that the largest gains to Derby City and County

will be spent to benefit the whole of Derbyshire and Derby and services within the districts.

## 5.0 Financial Gains and Risks

5.1 Chesterfield's share of Business Rate Pool gains is currently based on our Tier Split 40% and growth above our baseline funding. In 2017/18 the Chesterfield estimated gain from the pool was £516,000. Currently 50% of losses/gains are allocated to government and there is a 92.5% safety net for participants in the pool.

5.2 The Pixel model estimates that the total business rate growth in the new pool for 2018/19 will be £27m compared to 2017/18 arrangements. 30%, £8.1m will be set aside for economic regeneration to develop business rates. The remaining growth over and above what we would have expected in 2018/19 under current pooling arrangements will be split:

<b>2018/19 Gains from switch from pool to pilot</b>	<b>£000</b>
Derbyshire County Council	9,764
Derby City	6,648
<b>Chesterfield Borough Council</b>	<b>275</b>
Amber Valley	190
Bolsover	467
Derbyshire Dales	177
Erewash	331
High Peak	255
NE Derbyshire	348
S Derbyshire	475
Derbyshire Fire Authority	0
Strategic Growth Fund	8,113
<b>Total</b>	<b>27.043</b>

5.3 Whilst being part of a pilot would mean bearing the cost of any negative growth amongst pool members, this would be subject to a safety net of 97%, compared to the current pool safety net of 92.5%. There is therefore a lower risk of a financial loss under a pilot than the current pool. Based on business rates growth across Derbyshire and Derby over the last three years and projections of growth in 2018/19, it would take a significant setback in business rates income before the pool would fall into a safety net position. In future pool arrangements Councils will be based on Tier split and pooling carry 100% of business rate losses as opposed to 50% under the 2017/18 arrangements. The MHCLG has also give a 2018/19 'no detriment' assurance that the pilot will not be financially worse off than under the 2017/18 arrangements in terms of baseline funding (i.e. our RSG whilst lost in 2018/19 has been compensated for by adjusting the baseline funding so we 'retain RSG funding as additional business rates in the baseline). There remains a significant risk nationally from NHS Trust business rate charitable relief legal actions. The Derby Teaching Hospitals NHS Trust is currently subject to High Court action on charitable relief for business rates. Should the court action be successful the future financial impact would be very significant on the pool.

## **6.0 Recommendations**

6.1 That Cabinet approves the Derbyshire 100% Business Rates Pool Memorandum of Understanding (MoU) for 2018/19, as attached at Appendix A, and grants delegated authority to the section 151 officer to sign the MoU.

6.2 That Cabinet notes the 2018/19 100% Business Rates Pool estimated financial gains, as set out in Appendix A.

## **7.0 Reason for Recommendations**

- 7.1 In order to meet the statutory requirements relating to setting a Business Rates Pool.

**Decision information**

<b>Key decision number</b>	<b>821</b>
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	None

**Document information**

<b>Report author</b>	<b>Contact number/email</b>
Kevin Hanlon	Kevin.hanlon@chesterfield.gov.uk
<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
<b>Appendices to the report</b>	
Appendix A	Memorandum of Understanding