

**BUSINESS RATES PILOT POOL**

<b>Relevant Portfolio Holder</b>	Councillor Brian Cooper, Portfolio Holder for Finance and Enabling Services
<b>Relevant Head of Service</b>	Jayne Pickering, Executive Director Finance and Corporate Resources

**1. Purpose and Summary**

This report considers the Government's invitation to all English local authorities to pilot 75% business rates retention in 2019/20 and a proposed Worcestershire-wide submission to be a pilot. The deadline for submitting applications is 25 September 2018.

**2. Recommendations**

The COUNCIL is requested to approve

- 1. That Bromsgrove District Council be included in a joint Worcestershire application to be a 75% business rates retention pilot in 2019/20.**
- 2. That authority be delegated to the Executive Director Finance and Corporate Resources in consultation with the Portfolio Holder for Finance and Enabling Services and the Group Leaders to make necessary decisions on the Council's behalf.**

**3. Financial Implications**

- 3.1** It will be recalled that the Worcestershire councils submitted an application to become a pilot for 100% rates retention in 2018/19. This application was unsuccessful but feedback from the Government suggested that this should not deter the Worcestershire councils from submitting applications for subsequent pilots.
- 3.2** Following this, in December 2017, the Government announced the aim of increasing the level of business rates retained by local government from the current 50% to the equivalent of 75% from April 2020. In order to test increased business rates retention and to aid understanding of how to transition into a reformed business rates retention system from April 2020, the Government is inviting local authorities in England to apply to become 75% business rates retention pilots in 2019/20. Pilots will last for one year and councils included in the pilot programme will be expected to work closely with MHCLG officials during the year.
- 3.3** The Government is interested in exploring how 75% rates retention can operate across more than one authority to promote financial sustainability and to support coherent strategic decision making across functional economic areas. Accordingly the Government would like to see authorities form pools (either on existing or revised boundaries) and to apply jointly for pilot status. For Worcestershire, the Government would expect the proposed pool to comprise the County Council and all of the associated district councils.

- 3.4 Applications will need to explain how the pilot will manage risk and reward, paying regard to the financial sustainability of all councils involved, as well as laying out how any potential growth in business rates may be spent. The Government has decided that a “no detriment” clause which was applied to previous pilots will not be applied to 2019/20 pilots. Instead, the pool’s safety net threshold will be set at 95% of the baseline funding level, rather than 92.5% for non pilot areas. This reflects the additional risk of 75% retention. Whilst we would have preferred a “no detriment” clause, given the general buoyancy of business rates income in Worcestershire currently, then this represents a small risk to the councils.
- 3.5 It has been estimated that the additional business rates retained locally in 2019/20 if we were a pilot compared to current arrangements would be in the region of £4.5m. Current arrangements include Bromsgrove and Redditch councils being members of the Greater Birmingham and Solihull Business Rates Pool and a Worcestershire Pool for Worcester City, Wyre Forest and Wychavon district councils and Worcestershire County Council. Malvern Hills is not currently in a pool for business rates. Membership of these pools has minimised levy payable to the Government and the £4.5m estimated gain from being a pilot is in addition to that benefit, and largely represents the increase from 50% to 75% local retention, after the loss of Revenue Support Grant and Rural Services Delivery Grant.
- 3.6 The Leaders of all 7 councils have recently met and agreed in principle to proceed with a Worcestershire-wide bid to be a pilot for 2019/20. It was also agreed that no authority would gain from being a pilot unless all authorities were at least in the position they would have enjoyed if the 50% retention arrangements which is currently the position for Bromsgrove Council . Finally, it was agreed in principle that the collective gain from being a pilot should be invested in district and county services that prevent or reduce the cost of social care.
- 3.7 If the application to be a pilot in 2019/20 is unsuccessful then councils will be allowed to retain their existing pool arrangements or any alternative pooling arrangements they put forward. These need to be set out in the bid to be a pilot pool. Officers would propose that Bromsgrove retains membership of the current Greater Birmingham and Solihull Pool. It is understood that the Worcestershire Pool will continue and that Malvern Hills District Council may be considering re-joining the Worcestershire Pool.
- 3.8 It is important that all 7 councils are committed to the pilot application. If one of the councils does not want to proceed then the chances of success are diminished to the point that an application may not be worthwhile. Furthermore, if any council wants to withdraw from the pilot following a successful outcome, then it would not be possible for any of the councils to be in a pool next year and each would need to operate individually for business rates matters.
- 3.9 Whilst there are some additional risks, there are also very clear financial benefits of becoming a 75% business rates retention pilot for Worcestershire as a whole. In addition, this is a valuable opportunity to influence the new business rates retention system and work with Worcestershire councils to share risks and rewards and work even more closely on economic growth.
- 3.10 Officers have informed the Greater Birmingham and Solihull (GBS) Pool of the proposals that are due to be considered and the potential withdrawal from the Pool should this

proposal and subsequent bid be successful. In addition it has been confirmed that should the bid be unsuccessful then the current arrangement will stand.

**Legal Implications**

- 3.11 Applications for new pilots must be received by the Government by 25 September 2018 and successful applications will be announced before or alongside the draft local government finance settlement, expected in December 2018. Subject to all Worcestershire councils agreeing to participate, a significant amount of work will be required to produce a Worcestershire proposal. The section 151 officer for each council is required to sign off proposals before they are submitted.
- 3.12 The exit from the GBS Pool would not be subject to the current requirement of 12 months notice for withdrawal. There are no liabilities that are due to the GBS Pool although withdrawal would result in a reduction in the allocation of funds to the LEP. In addition, officers would need to review the current contingency reserve of £2m to identify if any of the retained funds are attributable to Bromsgrove.

**Service/Operational Implications**

- 3.13 Proposals will need to set out how the additional income from growth will be invested to promote financial sustainability. Being in a pool across a functional economic area encourages councils to work more closely on economic growth. As explained above it is proposed that the collective gain from being a pilot should be invested in district and county services that prevent or reduce the cost of social care.

**4. Risk Management**

- 4.1 There are some additional risks of 75% rates retention associated with volatility of business rates income but these risks would be shared with the other Worcestershire councils and the pool as a whole would be protected by an enhanced Government safety net. Given the buoyancy in the business rates base currently then this risk is minimal.

**AUTHOR OF REPORT**

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