

 Executive 1 November 2017		Agenda Item No. <h1 style="text-align: center;">13</h1>
Title	100% Business Rate Retention Pooling Pilot	
For further information about this report please contact	Mike Snow 01926 456800	
Wards of the District directly affected	N/A	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	N/A	
Background Papers		

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality Impact Assessment Undertaken	N/A

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	16/10/17	Andrew Jones
Head of Service	16/10/17	Chris Elliott
CMT	16/10/17	
Section 151 Officer	16/10/17	Mike Snow
Monitoring Officer	16/10/17	Andrew Jones
Finance	16/10/17	Mike Snow
Portfolio Holder(s)	16/10/17	Cllr Peter Whiting
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?	Yes/No	
Suggested next steps (if not final decision please set out below)		

1. **Summary**

- 1.1 The Government announced that it intends to proceed with the expansion of the pilot programme for 100% business rates retention in 2018/19.
- 1.2 This report considers a pilot for the 5 Warwickshire Districts and Warwickshire County Council.
2. **Recommendation**
 - 2.1 That the Executive notes and support the application from the six Warwickshire local authorities to become a 100% Business Rate Retention Pilot Pool for 2018/19.
 - 2.2 That the Executive agrees the governance principles for the pool and the Memorandum of Understanding are delegated to the Chief Executive and Head of Finance in consultation with the Leader, Deputy Leader and Finance Portfolio Holder.
 - 2.3 That the Executives agree that the Chief Executive and Head of Finance in consultation with the Leader, Deputy Leader and Finance Portfolio Holder will review and agree the Council's continued future membership in business rate retention pooling from 2018/19.
3. **Reasons for the Recommendation**
 - 3.1 As part of 50% Business Rates Retention scheme introduced in 2013, local authorities have been able to form "pools". By forming a pool it is possible that more business rates income is retained in the local area, with the intention that some of this income is utilised to support local economic development. Warwick has been part of the Coventry and Warwickshire Pool.
 - 3.2 On 1 September the Government announced that it intends to proceed with the expansion of the pilot programme for 100% business rates retention in 2018/19. Any new pilots approved will run alongside the five current 100% pilots (in the 'devo' areas) which have been running since 1 April 2017.
 - 3.3 The intention is that the current pilots, and the new 2018/19 pilots, will help explore options for the design of the future local government finance system. The learning from the 2018/19 pilots is intended to feed into the on-going work between the Government, local authorities and the Local Government Association in this area. Specifically the 2018/19 pilots are seen as an opportunity for the Government to test more technical aspects of the 100% business rates retention system, such as tier-splits and provide the opportunity to evaluate how collaboration between local authorities works in practice.
 - 3.4 Groups of authorities interested in becoming a pilot for 2018/19 were required to submit an application to DCLG by 27 October 2017. Detailed modelling has been carried out, as discussed in section 5. Based on this, a pooling submission was made to DCLG by that date. It is now necessary for the Executive to re-affirm the position.
 - 3.5 The outcomes of the applications to become pilots are expected to be known when the Provisional Local Government Finance Settlement is published in December. More details will then be available on the precise terms of the pilots. Authorities will then have the opportunity of withdrawing from pilots if they no longer wish to proceed.

- 3.6 Draft governance arrangements and Memorandum of Understanding had to be submitted with the pooling application. These may need to be changed, both to reflect the outcome of the Finance Settlement, and also over time, assuming the pool is continue beyond 2018/19. Consequently, it is proposed that the Chief Executive and Head of Finance in consultation with the Leader, Deputy Leader and Finance Portfolio Holder agree any future changes to these documents.
- 3.6 Whilst the pilot pools are initially to be for 2018/19, it is possible that they may operate beyond this. It will be necessary for all authorities to review their membership of the pool annually, based on past and expected performance annually, and any other relevant matters. Consequently, it is proposed that the Chief Executive and Head of Finance in consultation with the Leader, Deputy Leader and Finance Portfolio Holder will review and agree the Council's continued membership in Warwickshire Business Rate Retention pool (of other pool) from 2018/19.

4. Policy Framework

4.1 Fit for the Future (FFF)

The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects.

The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/productivity of local economy Increased employment and income levels
Impacts of Proposal		
No direct impact	No direct impact	Business rate pooling should enable more rate income to retained locally, so specifically increasing the funding for economic development within the District and County areas.
Internal		
Effective Staff	Maintain or Improve	Firm Financial Footing

	Services	over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
No direct impact	No direct impact	Business rate pooling should increase the proportion of business rate income retained locally and so support the Council's Medium Term Financial Strategy.

4.2 Supporting Strategies

By potentially increasing the amount of business rates income retained locally, pooling should help to support the Council's Medium Term Financial Strategy.

4.3 Changes to Existing Policies

If the pilot application is successful, the current Coventry and Warwickshire Pool will be dissolved from 1 April 2018, to be replaced with a new Warwickshire pool.

4.3 Impact Assessments – Not applicable.

5. Budgetary Framework

5.1 If Warwickshire was accepted as a business rate pilot the additional one-off benefit in 2018/19 is estimated to be £19 million county-wide. The table below shows the calculation of this figure compared to the current 50% retention.

	100% Retention £m	50% Retention £m	Difference £m
Total business rates generated	260	260	-
50% paid to central government	-	(130)	130
Net Tariff paid to central government	(142)	(39)	(103)
Levy paid to central government	-	(3)	3
RSG/Rural Services Delivery Grant no longer received	(11)	-	(11)
Net Retained Business Rates	107	88	19

- 5.2 Whilst the £19 million figure may vary if actual business rates and levels of appeals are different from current forecasts, it represents a 20% increase in the business rates to be retained within Warwickshire.
- 5.3 In return for this potential gain authorities are also being asked to take on additional financial risk from business rates declining or successful appeals. Key to the application, and the learning for Government, will be how the pool is intended to share both the potential gain and risk to ensure the sustainability of Warwickshire's local government over the economic cycle.
- 5.4 Under the current business rate retention 50% scheme, 80% of the growth is allocated to the district council, and 20% to the county council. Any increase is then subject to the 50% levy. Under the 100% pilots, the Government is keen to explore an alternative split to the 80/20. It is acknowledged that under the current split, that district councils would be over exposed to risk under the 100% scheme. Under a 20/80 scheme, there would be no or minimal financial incentives for the districts. Consequently, a 50/50 scheme is being proposed for the Warwickshire Pilot. Based on the figures above, the potential gain would be distributed more in line with each local authority's Baseline figures. For Warwick, this would amount to an additional gain of circa £900k.
- 5.5 The pool also needs to agree how each individual authority's gain is allocated. The proposals are for:-
- 1/3 to a pool volatility reserve
 - 1/3 to support revenue funding
 - 1/3 to economic development projects
 - Of which half within the district
 - And half for joint projects.

6. Risks

- 6.1 Under the current Business Rate Retention 50% scheme, there is a national safety net at 92.5%, whereby if an authority's share of business rate falls 7.5% below their Baseline position, the Government would guarantee the difference. The current Coventry and Warwickshire Pool operates with a 95% local safety net.
- 6.2 Under the proposed 100% Business Rate Retention, with authorities taking more of the risk, the proposed Government Safety Net threshold is 97%.
- 6.3 The Government is seeking for new pilot pools to operate with a "no detriment clause", whereby they would not be expecting the Government to guarantee local authorities would be any worse off in the new pool than had they chosen to remain out of the pool.
- 6.4 Now in the fourth year of Business Rate Retention, all the Warwickshire authorities are operating well above their Baselines. This is after some initial

years when as sizeable sums had to be set aside in respect of outstanding appeals. Consequently, from where authorities are currently operating, it is believed to be extremely unlikely that business rate revenues would decrease sufficiently to place local authorities in the safety net regime.

- 6.5 The Council does maintain a Business Rate Retention Volatility Reserve. The target level of this is £2m, although the actual balance has fluctuated dramatically year on year as sums have been used to smooth annual fluctuations in the amounts crediting the Council's revenue account. With the reset of the Business Rates Retention system expected in 2020/21, it is important that adequate reserves are held for the expected adverse impact. In addition, the current pool does hold volatility reserves. If the current pool ceases to operate from March 2018, the Council would be due to receive its share of this reserve, currently estimated to be £300,000. This would be proposed to be added to the Council's own volatility reserve.
- 6.6 Within the proposals for the new pool, it is currently proposed that 33.3% of any increased revenues from pooling will be allocated to the new pool volatility reserve.
- 6.7 Whilst there is invariably a risk from business rates pooling, and if the Warwickshire Authorities are prepared to accept a no detriment clause, it is believed that the current and proposed arrangements to deal with variances in business rate income will enable the authorities to manage this risk.

7. Alternative Option(s) considered

- 7.1 The Council could choose not to opt to become part of the pilot pool. By agreeing to apply to be part of a pilot pool now, there will still be the opportunity to withdraw (if the Government agrees to the Warwickshire Pool), one full details of the Local Government Finance Settlement are known in December.

8. Background

- 8.1 The Warwickshire Chief Finance Officers have met several times to consider the proposals. This has also been considered by the Chief Executives. The paper for the Chief Executives is attached as an Appendix.

Warwickshire District Leaders Officers Group

11 October 2017

100% Business Rates Retention – Invitation to Pilot

Recommendations

The Group are asked to:

- Agree that Warwickshire should actively pursue the opportunity to be a 100% business rates pool
- Consider how we should focus any application to make it innovative and therefore attractive to Government
- Identify any barriers to reaching a collective agreement by 27 October

1. Background and Purpose

- 1.1. On 1 September the Government announced that it intends to proceed with the expansion of the pilot programme for 100% business rates retention in 2018/19. Any new pilots approved will run alongside the five current 100% pilots (in the 'devo' areas) which have been running since 1 April 2017.
- 1.2. The intention is that the current pilots, and the new 2018/19 pilots, will help explore options for the design of the future local government finance system. The learning from the 2018/19 pilots is intended to feed into the on-going work between the Government, local authorities and the Local Government Association in this area. Specifically the 2018/19 pilots are seen as an opportunity for the Government to test more technical aspects of the 100% business rates retention system, such as tier-splits and provide the opportunity to evaluate how collaboration between local authorities works in practice.
- 1.3. Groups of authorities interested in becoming a pilot for 2018/19 are required to submit an application to DCLG by 27 October 2017. The purpose of this report is to seek the views of the District Leaders Officers Group (DLOG) on whether Warwickshire should submit an application and, if so, provide a steer on the form that the application should take. DLOG is also asked to consider both individually and collectively how sufficient approval to make the application can be achieved so that once an application has been accepted we do not then back out of the process at a later date.

2. Terms of the Invitation

- 2.1. To be accepted as a pilot for 2018/19, agreement must be secured locally from all member authorities about their local arrangements to pool their additional business rates income. This should include:
 - A way of sharing the additional growth funding that:
 - Promotes the financial stability and sustainability of the pooled area
 - Invests in encouraging further growth across the area
 - Details of how member authorities will work together to manage risk
- 2.2. From the Government's perspective the learning from the 2018/19 pilots will be used to deepen understanding of how different local arrangements work and improve the information that it holds on business rates retention. As such, participating authorities will not only be expected to share additional data and information but also there is more chance of a successful application if the structure and content provides scope for learning about the design of any national system of business rates retention.
- 2.3. Authorities selected as pilots for 2018/19 will be expected to forego all their Revenue Support Grant (RSG) and Rural Services Grant. The value of the grant foregone will be taken into account in agreeing the changed financial relationship between central and local government to ensure that the changes are cost neutral, except for the value of any growth retained. Local authorities will take on no new responsibilities as a result of being selected as a pilot.
- 2.4. Given the timetable for pilot applications and the proximity to the finalisation of the Local Government Finance Settlement for 2018/19, all applications must outline, with agreement from all participating authorities, what pooling arrangements they would like to see if their application to become a pilot were unsuccessful. In our case this means we would need to formally tell Coventry of our plans whilst seeking their support in keeping our current pool arrangements as the fall-back position. Initial discussions between finance colleagues suggest this will not be a problem as Coventry is already part of the WMCA business rate pilot.
- 2.5. Finally, the pilots will be expected to test authorities' administration (e.g. how they tackle avoidance), technical planning for implementation, and look at system maintenance; how the accounting, data collection and IT system will work.

3. Financial Implications

- 3.1. If Warwickshire was accepted as a business rate pilot the additional one-off benefit in 2018/19 is estimated to be £19 million. The table below shows the calculation of this figure compared to the current 50% retention.

	100% Retention £m	50% Retention £m	Difference £m
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Net Retained Business Rates	107	88	19

- 3.2. The £19 million figure will vary as actual business rates and levels of appeals will be different from current forecasts. At £19 million it represents a 20% increase in the business rates to be retained within Warwickshire, but it may be more appropriate to talk in terms of a range of £15 million to £20 million.
- 3.3. In return for this potential gain authorities are also being asked to take on additional financial risk from business rates declining or successful appeals. Key to our application, and the learning for Government, will be how we intend to share both the potential gain and risk to ensure the sustainability of Warwickshire's local government over the economic cycle.

4. Assessment Criteria

- 4.1. The approval of 100% Business Rates pilots will mean that the Government loses access to the 50% of business rates they currently receive from the pilot area. The cost of this (e.g. the estimated £19 million for Warwickshire alone) means the number of pilots accepted will be limited as a result of affordability constraints. Selection as a business rate pilot will be a competitive process and the published selection criteria are as follows:
- The extent to which the proposed pooling arrangements operate across a functional economic area
 - The pilot authorities include two-tier and rural areas because they are not part of the 2017/18 pilots
 - The promotion of the financial sustainability of the pilot area and individual authorities within it
 - A clear strategy of how pooled income from growth will be used across the pilot area, including how it will be used to generate future growth
 - The geographical coverage of pilots across England
 - The make-up of business rates taxbases within the pilot areas achieve a variation in the types of businesses represented (e.g. cover areas with a small number of large rate payers in the area and/or a large number of smaller ratepayers).

5. Content of the Pilot Application

5.1. The application must be in the form of a business case with supporting financial analysis, with the business case clearly setting out, as a minimum:

- Membership details/ Housekeeping
 - Membership of the proposed pool, explaining its relevance to the economic geography of the area
 - Evidence that each local authority fully supports the application and the proposed pooling arrangements
 - Our preferred back-up arrangements if the application is unsuccessful
 - If we would still like our application to be considered if we were expected to operate without a 'no detriment' clause (Our presumption, given the level of any potential benefit, is that we would still want to go ahead)
 - The lead authority that will receive payments from and make payments to the Department on behalf of the entire pool.
- Governance arrangements
 - A governance agreement, including how any additional business rates income is to be used; how risk is to be managed; and how residual benefits/liabilities would be dealt with once the pilot ends
 - An indication of how the pool will work together in the longer term;
 - Proposals for sharing additional growth that promote financial stability and sustainability but also invest some retained income in encouraging further growth across the area.
- Additional supporting evidence
 - The benefits to the area of participation in the 2018/19 pilots, including the financial case;
 - Our proposed tier split, explaining how this will promote sustainability; and
 - A brief explanation of the business rates taxbase in the area.

6. Progress to Date

6.1. Finance officers from all authorities have met three times to discuss options and proposals for a Warwickshire 100% pilot. Current thinking is to develop a proposal where the gain could be shared across up to four themes:

- Support for authorities' general budget
- A volatility fund to provide for risk over time
- Local economic growth and mitigating the impact of economic growth on local communities
- A county-wide investment fund allocated on a partnership basis

6.2. To support the business case and provide evidence to inform the final decision on the scope of the pool we have or have plans in train to:

- Collate information from the Local Economic Assessment that formed the basis for our bid to establish a Coventry & Warwickshire LEP to provide evidence that Warwickshire is a functional economic area
- Analyse the business rates taxbase across Warwickshire to identify risks areas and the different risk profiles of individual authorities
- Consider how the risks to business rates from HS2 in the short/medium term previously presented to Government can be used to strengthen our bid in terms of risk sharing
- Use evidence from the stability of our current pool and how risk and reward have been shared to demonstrate how we can work together
- Model scenarios for sharing the additional funding and sharing risk and the impact of different tier splits
- Identify the potential financial risk and/or evaluate the scenarios against the risk appetite of individual authorities
- Collate assessment criteria used elsewhere to determine how any shared Investment Fund allocations could be prioritised
- Document existing collaboration in economic growth and/or the collection/administration of local taxation
- Adapt our current business rate pool Memorandum of Understanding to meet the new/enhanced requirements
- Consider how/whether the partnership arrangements of the Local Economic Prosperity Board can be adapted to provide a business rates governance structure for the duration of the pilot.

6.3. The third of these meetings was held on Friday 6 October and an update/presentation will be given at the meeting of the latest progress.

7. Next Steps

- 7.1. Any proposals for new pilots must be received by the Department for Communities and Local Government on or before Friday 27 October 2017. Successful applications will be announced before or alongside the publication of the draft Local Government Finance Settlement in December. Discussions will be held with 'successful' applicants throughout November to confirm technical details and agree numbers, so any announcement will not be a surprise for the authorities involved, but will be embargoed until the official announcement.
- 7.2. Subject to the outcome of today's discussion a detailed plan of work to be delivered and decisions made through to a submission by 27 October will be finalised and circulated to all authorities with work continuing to be co-ordinated through Finance Officers.