

## **Report to Portfolio Holder Resources and Reputation**

**Subject:** Business Rates Retention Pilot Bid

**Date:** 19 September 2018

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### **Wards Affected**

All

### **Purpose**

To request approval to submit a bid to become a Business Rates Retention Pilot for 2019/20 in conjunction with all Nottinghamshire District/Borough Councils, Nottingham City Council, Nottinghamshire County Council, and the Nottinghamshire Fire and Rescue Authority.

### **Key Decision**

This is not a key decision.

### **Background**

- 1.1 On 24 July 2018 the government issued a prospectus inviting local authorities, particularly in two tier areas, to submit to be pilots for the 2019/20 Business Rates Retention Scheme by 25 September 2018.
- 1.2 This is the second year of the pilot programme. As was the case in 2018/19, the pilot will only last for one year – 2019/20 – with the aim of exploring the options for Local Government finance reforms, including promoting financial sustainability and promoting growth. It is anticipated that this will be the last year of such pilots. The financial year 2020/21 should see the introduction of the new 75% business rates retention scheme and a new funding basis being implemented across local government.

- 1.3 The 2018/19 prospectus was based on 100% business rates retention. In addition to the Pilot for London, 10 other authorities were successful in becoming Pilots. These were:
- Berkshire
  - Derbyshire
  - Devon
  - Gloucestershire
  - Kent and Medway
  - Leeds
  - Lincolnshire
  - Solent
  - Suffolk
  - Surrey
- 1.4 The prospectus for 2019/20 seeks applications for areas to form business rates pilots, either for a county area, or beyond. If the application is for a whole county area, then **all** local authorities must be supportive.
- 1.5 The County Council and the seven District and Borough Councils have been in a business rates pooling arrangement since April 2013 based on the existing 50% business rates retention. To date this has seen the retention of an additional £14.6 million of business rates growth retained within the County of Nottinghamshire.
- 1.6 Applications need to be submitted to the Ministry for Housing, Communities and Local Government by 25 September 2018, and there is an expectation that their decision will be known within the Provisional Local Government Financial Settlement, probably in December 2018.
- 1.7 For 2019/20 the pool of local authorities in the pilot will be based on 75% Business Rates Retention and will be entitled to keep all of the growth in business rates since the baseline was set in 2013. At present the government imposes a levy of 50%. Across the county area the potential gain could be £10 million, albeit only for 2019/20. In addition it will allow Nottinghamshire local authorities to influence the future development of local government funding.
- 1.8 The prospectus sets out several conditions and assessment criteria to be used by MHCLG. These are summarised in the table below:

Condition	Proposed Action/comment
All authorities must agree to be in the proposed business rates pilot pool for 2019/20. If any one authority in an area does not agree, then it will not succeed.	Nottinghamshire Authority Leaders/Chief Executives have agreed to progress the bid.
Arrangements must propose a split for sharing additional pooled business rates income.	Nottinghamshire Section 151 Officers to lead on modelling and agreement of the split prior to bid submission.
Proposals should show MHCLG how pilots will use additional growth to promote the financial stability and sustainability of the pilot area (and expects investment of some retained growth to encourage further growth in the area).	The existing Nottinghamshire Pool is able to demonstrate our continued joint approach to investment.
While the 2018/19 pilots have a 'no detriment' clause, the 2019/20 pilots will not benefit from such a clause. Applications should detail how authorities will work together to manage risk within their proposed arrangements.	<p>The risk of this is low for Nottinghamshire based upon business rates growth from 2013 to date.</p> <p>Participants to the Pilot Pool will need to understand how risk will be dealt with within the Pool.</p>
Pool applications must nominate the lead authority. MHCLG will treat pilot pools as one entity for business rates retention with one tariff or top up and safety net threshold.	Proposed that Nottinghamshire County Council act as the lead authority.
Clear outline of the proposed pooling arrangements and governance. Authorities cannot apply to be part of more than one pilot pool. Authorities in existing Business rates pools, such as the Nottinghamshire Pool, need to state their non-pilot pool proposals if the pilot application is unsuccessful.	<p>Nottinghamshire Section 151 Officers to develop pooling and governance arrangements based on the existing Nottinghamshire Pool and the existence of the Nottinghamshire Economic Prosperity Committee.</p> <p>The bid will indicate that failure to succeed to becoming a pilot will fall back to the existing Nottinghamshire Pool arrangement.</p>

- 1.9 The Nottinghamshire Section 151 Officers have developed modelling and an application outlining the monitoring arrangements for a Business Rates pilot in 2019/20. The outlines of this were considered and agreed at a meeting of Nottinghamshire Local Authority Chief Executives on 14 September 2018.

## **Proposal**

- 2.1 The Portfolio Holder for Resources and Reputation is asked to approve the submission of the bid for pilot status and indicate support for the following reasons:
- There are potential significant advantages in extending the pooling arrangement for business rates, in particular the retention of all of the growth in business rates in year.
  - There is considerable uncertainty about the Local Government Finance Settlement for 2019/20 and the outcome of the Fair Funding Review.
  - From an agreed split of 40% districts, 30% County, and 5% Fire, the modelling suggests that Gedling can expect a financial benefit of circa £350k.
- 2.2 The Portfolio Holder is asked to approve that delegated authority be given to the Deputy Chief Executive and Director of Finance, in consultation with the Portfolio Holder for Resources and Reputation, to confirm the Council's participation in the proposed pooling arrangement following the announcement of the Local Government Finance Settlement in December 2018, provided that it is considered in the best interests of the Council.
- 2.3 Subject to the proposed pool being confirmed as being in the best interests of the Council the Portfolio Holder is asked to approve that delegated authority be given to the Deputy Chief Executive and Director of Finance to agree the final governance arrangements for the pool.

## **Alternative Options**

- 3.1 No bid is submitted and the existing pooling arrangements continue.

## **Financial implications**

- 4.1 All local authorities in Nottinghamshire are experiencing severe financial pressures due to funding reductions and continued demand for services. A Nottinghamshire-wide pilot retaining the growth in business rates could expect to share in a significant gain.
- 4.2 The split of the gain between the tiers has been modelled to determine an optimum level for all authorities. The split of the growth in business rates up to 75% retention is based upon optimising the share of total retained business rates in line with tiers' need to spend and managing the risks in relation to the proposed business rates tariffs, top-ups and safety net.
- 4.3 If successful, the authorities within the pool will need to consider and agree on the use of any gain from being a pilot. The prospectus from the MHCLG has indicated that the applications should broadly state that the proceeds will be used for financial stability and sustainability, and also for investment in economic development.
- 4.4 The most significant risk of becoming a part of a 75% Business Rates Pilot is the removal of the 'no detriment' clause. This is a clause included in the agreement for the 2018/19 pilot authorities and ensured that those authorities would not be financially disadvantaged by being a member of the pool. This could occur if business rate had fallen since the baseline year of 2013.
- 4.5 For Nottinghamshire, this is a small risk as in most areas, and in total, business rates have grown in the period from 1 April 2013. Experience gained from the existing Nottinghamshire Pool is that being a member of a pool, where district or boroughs have experienced a decline in business rates, the total gain within the pool has been shared so those authorities have also benefited.

## **Recommendations**

### **It is recommended that:**

- 5.1 The Portfolio Holder approves the submission of a bid to become a Business Rates Retention Pilot for 2019/20 in conjunction with all Nottinghamshire District/ Borough Councils, Nottingham City Council, Nottinghamshire County Council, and the Nottinghamshire Fire and Rescue Authority;
- 5.2 Delegated authority be given to the Deputy Chief Executive and Director of Finance, in consultation with the Portfolio Holder for Resources and Reputation, to confirm the Council's participation in the proposed pooling arrangement following the announcement of the Local Government Finance Settlement in December 2018, provided that it is considered in the

best interests of the Council;

- 5.3 Subject to the proposed pool being confirmed as being in the best interests of the Council the Portfolio Holder is asked to approve that delegated authority be given to the Deputy Chief Executive and Director of Finance to agree the final governance arrangements for the pool.

### **Reasons for Recommendations**

- 6.1 The opportunity to become a pilot authority for the 75% Business Rates Retention Scheme aligns with the council's strategy of seeking to influence the development of the local government finance system. In addition, if successful, being a pilot will enable local retention of all business rate growth within the county for use to assist in ensuring financial stability and sustainability as well as to invest in economic prosperity.