

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
7 November 2017

Subject: BUSINESS RATES RETENTION PILOT IN 2018/19

All Wards

Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

- 1.1 To seek Member confirmation for Hambleton District Council to be part of an application to the Department for Communities and Local Government (DCLG) for a North Yorkshire and East Riding 100% Business Rates Retention Pilot in 2018/19.
- 1.2 The Government through the Department for Communities and Local Government has extended the opportunity to all local authorities to become 100% Business Rates Retention Pilots in 2018/19. An invitation was issued in early September with a deadline for submission of 27 October 2017. The pilot would be for one year only.
- 1.3 100% pilots will retain all locally-collected business rates and will receive additional responsibilities in return. As a minimum, authorities will forego Revenue Support Grant and Rural Services Delivery Grant (this will be adjusted for from the rates retained). Any difference between the increase in business rate retention and new responsibilities will be offset by an adjustment to top-ups or tariffs. The creation of the pilots will be “fiscally neutral” at baseline, but authorities will gain from retaining 100% of any above-baseline growth; the Council currently retains 50%.
- 1.4 The Department for Communities and Local Government is looking for a wide spread of different types of pilot. There will be a particular focus on applications from rural areas and from two-tier areas. This is a major opportunity for authorities in these areas.
- 1.5 It is very unlikely that all applications for pilot status will be successful because of affordability constraints. There is likely to be a competitive process, with applications measured against the following criteria:
 - **Applications should cover a functional economic area.** The invitation talks about covering a “functional economic geography”. This might be a current pool area or county, but could also extend further than this (for instance, to include counties and contiguous unitaries, or potentially even two or more counties).
 - **Preference for applications from two-tier areas.** Pilots will not be limited to two-tier areas, although the split between counties and districts is something the Department for Communities and Local Government wants to explore.
 - **Proposals would promote financial sustainability.** The Department for Communities and Local Government is proposing that the safety net will apply at the pilot level rather than individual authority level. Importantly, the Department for Communities and Local Government has confirmed that pilots will have a “no detriment” clause which will support financial sustainability.
 - **Evidence of how pooled income from growth will be used across the pilot area.** The Department for Communities and Local Government wants to see how financial gains will be used. Of principal concern, is that gains are used within the pilot to mitigate risk and to reduce the reliance of individual authorities on the national safety net.

Applications for pilot status will need to demonstrate that there would be arrangements in place to share risk and reward. Additionally, the Department for Communities and Local Government wants to see how pilots would invest some retained income from growth to encourage further growth across the area.

- 1.6 Pilots will have a safety net at 97% of Baseline Funding Level, we currently have 92.5% as an individual authority. No levy will be payable by the pilot or the individual authorities. The Department for Communities and Local Government has decided that the 100% business rate pilots in 2018/19 will have a “no detriment” clause whereby the pilot as a whole cannot be worse-off than under the existing 50% scheme. This ensures that pilots in in two-tier areas are treated with parity with other pilots that were approved previously in 2017/18 and are not exposed to undue risks.
- 1.7 All authorities covered by the proposed pilot will have to give their agreement. This has implications for how the pilot is developed by a group of authorities: every authority needs to have an incentive to join the pilot. Governance is also important to the Department for Communities and Local Government because they will want to ensure that prospective candidates will deliver.
- 1.8 Decisions about successful pilots will be announced in December, which is also when the Provisional Settlement information is expected. If our application is unsuccessful then we will continue with the North Yorkshire rates pool (under the current 50% system) and those arrangements will be made in parallel.

2.0 THE PROPOSED SUBMISSION

- 2.1 The North Yorkshire Chief Finance Officers decided at their meeting on 29 September 2017 that the opportunity and benefits of applying to be a Pilot should be investigated with a view that if it was beneficial then an application should be made.
- 2.2 The services of Pixel Financial Management were commissioned to provide advice and also to undertake the financial modelling required. Pixel already provides advice to the North Yorkshire Rates Pool and is well placed to understand the complexities that we have. They are also advisors to the Rural Services Network (SPARSE).
- 2.3 The proposed submission would cover the existing members of the North Yorkshire Business Rates Pool (North Yorkshire Count Council, Craven, Hambleton, Richmondshire, Ryedale, and Scarborough) plus Selby and East Riding but not Harrogate Borough Council. Harrogate and City of York are currently part of the Leeds City region pool and they will be submitting a separate proposal.
- 2.4 This proposed pilot offers the Government an opportunity to explore the risks associated in the business rate tax base; in particular the valuations for the large power stations in Selby, as well as the opportunities of a pilot including two-tier authorities and a unitary.
- 2.5 Participating pools will be treated as one entity for the purposes of business rates retention and one calculation will be made regarding top-up/ tariff and the safety net payment. Therefore, the pool must nominate a Lead Authority to receive payments from and make payments to the Department on behalf of the entire pool. Applications must state which authority will be acting as the Lead Authority for the duration of the pilot. For North Yorkshire this will be Scarborough Borough Council.

- 2.6 The financial appraisal calculations have taken a worst case scenario and a best case scenario. The figures are based on the 2017/18 Non Domestic Rates Returns (NNDR1) that each district billing authority completed in January 2017.
- 2.7 The best case scenario shows that the Council could be £190,000 better off with the 100% rates retention pilot in 2018/19.
- 2.8 At the time of writing the report the Department for Communities and Local Government has confirmed that 100% Pilots will have a “no detriment” clause whereby the pilot as a whole cannot be worse-off than under the existing 50% scheme which means that the worst case scenario for Hambleton is the current risk position the Council has accepted in previous years being in the North Yorkshire Rates Pool.
- 2.9 It is estimated that the 100% business rate pilot could generate additional resources for the region of £5m which would be invested in projects throughout North Yorkshire and the East Riding of Yorkshire.
- 2.10 There are two potential projects for this investment: funding improvements in internet coverage and connectivity by expanding access to superfast broadband and reliable mobile phone coverage; and to improve housing delivery by providing resources for a team to help unblock the delivery of strategic housing sites which may also attract Homes and Communities Agency funding. Both projects require further development.

3.0 LINK TO COUNCIL PRIORITIES:

- 3.1 Business rates income is an important contribution to support all the priorities of the Council. The outcome of the 100% Business Retention Rates Pilots will inform how this major income receipt for the Council is shaped in the future to help sustain our financial resilience

4.0 RISK ASSESSMENT:

- 4.1 There are no strategic risks associated with this report.

5.0 FINANCIAL IMPLICATIONS:

- 5.1 The financial implications are dealt with in the body of the report. However, the precise implications will not be available until the Non Domestic Rates Returns_ for 2018/19 are prepared in January 2018.

6.0 LEGAL IMPLICATIONS:

- 6.1 The offer for the pilots from the Department for Communities and Local Government for 2018/19 is made on the understanding that agreement has been secured locally from all relevant authorities to be designated as a pool (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988) and that local arrangements are put in place to pool the additional business rates income.
- 6.2 Pools are required to submit a governance agreement setting out how the pooling arrangements will work in terms of financial distribution and service provision and evidencing how business rates income growth will be shared. The governance agreement should also include how balances and liabilities will be treated if the pool were to be dissolved.

- 6.3 The Section 151 Officer of each authority has to sign off the proposal before it is submitted. The Department will work closely with all successful applicants to support the implementation and running of the pilot.
- 6.4 At Hambleton District Council, in accordance with the Constitution for a key decision of this nature it is necessary to obtain Cabinet approval, with the next available opportunity being 7 November 2017. The Section 151 Officer obtained agreement from the Chief Executive, Leader and Deputy Leader of the Council to progress the proposal on 27 October 2017 at the required deadline subject to Cabinet approval on 7 November 2017.

7.0 EQUALITY/DIVERSITY ISSUES:

- 7.1 There are no specific equality implications to this report.

8.0 RECOMMENDATION:

- 8.1 That Hambleton District Council is part of the North Yorkshire submission to the Department for Communities and Local Government to become a 100% Business Rates Pilot in 2018/19.

LOUISE BRANFORD-WHITE
DIRECTOR OF FINANCE (S151 OFFICER)

Background papers: Department for Communities and Local Government prospectus and supporting documents for 2018/19 pilots.
<https://www.gov.uk/government/publications/100-business-rates-retention-pilots-2018-to-2019-prospectus>

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