

Report of the Managing Director

Business Rates Retention – bid to be part of a pilot scheme

1 Purpose of report

- 1.1 To update members on the proposals by the current Northamptonshire business rates pool to bid for a 75% Business Rates Retention (BRR) pilot.
- 1.2 To note that the managing director has used delegated powers to agree that the Borough Council of Wellingborough will be part of the pilot scheme and the final details of the pooling arrangements will be made by the managing director, in consultation with the leader of the council.
- 1.3 The chairman has agreed to accept this report under the provisions of Section 100B 4(b) of the Local Government Act 1972, as the decision was made in accordance with the managing director's delegated powers (3.3.14 of the Constitution) in order to meet the application deadline of 25 September. The pilot application has not yet been completed and the timescales imposed did not allow sufficient time for the proposal to be submitted within the committee timetable.

2 Executive summary

- 2.1 The council is currently a member of the Northamptonshire business rates pool, from which it gains financial benefit based on the level of local business rates growth.
- 2.2 The Department of Communities and Local Government (DCLG) has recently announced a third round of pilot pools for councils to retain 75% of local growth, which would increase the total financial benefit of the current pool significantly.

3 Appendices

None

4 Proposed action: Members are invited to RESOLVE to note:

- 4.1 **the inclusion of the borough council in a bid for pilot status for 75% Business Rates Retention as part of a Northamptonshire Pool.**
- 4.2 **that the managing director, in consultation with the leader of the council, will agree the financial and governance aspects of the partnership arrangement with the other local authorities in Northamptonshire within the proposed pilot pool.**

5 Background

- 5.1 Historically non-domestic rates (or business rates) revenue collected by local authorities were pooled by central government for redistribution to local authorities in England via a Formula Grant.
- 5.2 With effect from April 2013, this system was changed to allow councils to retain a proportion of their local business rates growth above a specified baseline, instead of Formula Grant. The scheme was intended to give local authorities an incentive to promote growth over the longer term and reduce their dependency on central government funding.
- 5.3 As part of this process the Northamptonshire authorities agreed to create a county-wide pool. All of the Northamptonshire authorities were treated as a single entity within the scheme. This allowed some of the business rates growth to be retained, promoted shared growth objectives, and reduced the risk of volatility in business rates income for individual councils.
- 5.4 In October 2017 the council agreed that it would be part of a pilot scheme and delegated the final arrangements for the governance and financial aspects of the partnership to the managing director, in consultation with the leader of the council. The bid in 2017 was unsuccessful.

6 Discussion

- 6.1 The current Business Rates Retention Scheme allows authorities that experience a growth in business rates income (above treasury targets) to retain some of the money. The growth is subject to a levy payment to the Government.
- 6.2 The Northamptonshire pool has allowed the pool members to retain more funding from growth because the 'levy' that has to be paid to the Government is lower in an aggregate pool position. If the pool can become a pilot it will keep a larger proportion of the growth than the current pool allows.
- 6.3 The government published its invitation to apply for a 2019/20 pilot scheme in July 2018, along with the application form and supporting information. The deadline for submission is 25 September 2018.
- 6.4 Over recent weeks officers across the county have been compiling a joint bid submission to become a pilot in 2019/20 for 75% Business Rates Retention (BRR) which will enable more of the growth to be retained locally.
- 6.5 There are potential significant financial benefits from being a pilot authority as the additional growth in retained revenues under the pilot arrangement will now be retained locally.
- 6.6 The pilot bid requires authorities to:
 - (a) Accept a 'no detriment' clause – meaning if the pilot was financially worse off under 75% BRR compared to 50% BRR the Government would not fund the difference. Northamptonshire has, and continues to, experience significant growth; all authorities are in agreement to accepting the 'no

- detriment' clause as part of their bid submission.
 - (b) Propose a split for sharing additional growth
 - (c) Outline what pooling arrangements they wish to see if the pilot bid were unsuccessful.
- 6.7 Part of the bid requires having an agreed position on what happens to any 'additional business rate growth income' – ie, who gets what, and what can it be used for.
- 6.8 The distribution mechanism is likely to contain two distinct elements; firstly it is intended that current retained levels of growth will be divided 80% to districts and 20% to counties, as it would have been had the pilot not come into being (as per the current 50% local rate retention scheme).
- 6.9 Secondly, discussions are ongoing with the other authorities about how the dividend of the additional 25% growth will be shared.
- 6.10 Given the current financial sustainability issues faced in the county it is likely this will form the basis of the case for financial sustainability in the application form, with the emphasis on transformation and demand management for the future. However, this has yet to be finalised and agreed by all authorities.
- 6.11 A further requirement of the bid is that all applications must outline the pooling arrangements that would be in place in 2019/20 should the bid be unsuccessful: if the bid were unsuccessful it would be the intention that the current pooling arrangements in 2018/19 continue in 2019/20.
- 6.12 The managing director has used the previous delegations and those contained in the constitution to agree the council's participation in a Northamptonshire Pilot Bid for 75% Business Rates Retention for 2019/20. The bid application requires the sign off to be from the council's Section 151 officer and the managing director will sign the submission in this capacity.
- 6.13 It is very unlikely that all applications for pilot status will be successful because of the government's limited resources and their affordability constraints. There will be a competitive process, with applications measured against set criteria in relation to promoting future growth and financial sustainability.
- 6.14 All authorities covered by the proposed pilot will have to give their formal agreement to being included within the pool. Governance arrangements have also been indicated as a key feature for the DCLG, to ensure that prospective pools are managed well and will deliver the growth and financial sustainability outlined in their bids. Being part of an existing pool is an advantage as good governance arrangements can already be demonstrated.
- 6.15 The pilot pool governance arrangements will be similar to those already in place but will need to demonstrate how it will share risk and reward, as well as the sharing of benefits.

7 Legal implications

- 7.1 In designating a pool for 2019/20, the DCLG will attach conditions to the designation in accordance with paragraph 35(1) of Schedule 7B to the Local Government Finance Act 1988 by appointing a lead authority and requiring the authority to take the steps set out in its application in the event that the pool is dissolved.
- 7.2 Kettering Borough Council would be the lead authority for the pool, as is the case under the existing pooling arrangements

8 Financial and value for money implications

The additional benefit from the 75% BRR pilot is estimated to be up to an extra £17m for the whole county. The overarching benefit of the pilot is that additional money will be spent in the county and the objective of the pilot is to maximise the benefit for the citizens of the whole county. Members should note that this is a one-off benefit as the scheme is for one year only, and there are specific criteria for spending the additional funds (promotion of local growth and/or financial sustainability).

9 Risk analysis

- 9.1 The main risks of submitting a pilot bid are in relation to the uncertainty of business rates growth. If the rateable values of properties are reduced on appeal, or the new growth in business rates is not achieved, the risk that the pool will go into a safety net position is increased. However, at the current levels of growth this risk is minimal.

10 Implications for resources

Kettering Borough Council currently administers the pool, and will continue to do so if the pilot is successful. Thus the implications for resources are minimal.

11 Implications for equalities and communities

None at this time.

12 Author and contact officer

Liz Elliott Managing Director

13 Consultees

Bridget Gamble, Director
Julie Thomas, Director

14 Background papers

Department of Communities and Local Government Papers relating to the introduction of pilot schemes

<https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019-to-2020-prospectus>