Report to Cabinet

20 September 2018
By Brian Donnelly (Cabinet Member for Finance and Assets)
DECISION REQUIRED

Horsham District Council

Not Exempt

75% localisation of Business Rates 2019/20 Pilot Scheme

Executive Summary

In 2018/19, all councils in West Sussex agreed to submit a bid for 100% localisation of Business Rates, but the bid was not successful.

On 24 July 2018, the Ministry of Housing, Communities and Local Government (MHCLG) invited pilot bids for 75% localisation of Business Rates in 2019/20. All the councils in West Sussex have again modelled detailed financial scenarios and are considering whether to submit a bid before the submission deadline of 25 September 2018.

Recommendations

Cabinet is recommended to:

i) Approve the submission of a bid to the MHCLG for the Council to take part in the 2019/20 pilot for 75% Business Rate retention.

Reasons for Recommendations

i) If taxation receipts grow faster than spending on additional responsibilities, a successful bid should result in a greater share of local taxation being retained in the area, for the benefit of residents and service users.

Background papers

DCLG's invitation for pilots:
https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019-to-2020-prospectus

Wards affected: All

Contact: Jane Eaton, Director of Corporate Resources, 01403 215300

Background Information

1 Introduction and background

1.1 The current local government funding methodology includes 50% localisation of Business Rates. In two-tier areas, 40% is allocated to the Council and 10% to the County Council. In practice, however, a system of tariffs means that the Council actually retains much less, and most significantly we only retain 20% of any growth in business rates due to a 50% levy being applied to our 40% district share. West Sussex County Council retains 10% of growth.

1.2 In the current financial year the government is trialling 100% retention, as a precursor to fulfilling their intention to roll out some form of greater localisation of business rates in the 2020s. The councils of West Sussex submitted a bid in 2018/19 to be part of the pilot scheme, but were unsuccessful. On 24 July 2018, the Ministry of Housing, Communities and Local Government (MHCLG) invited further bids for pilot areas in 2019/20, this time using 75% retention.

1.3 With 75% localisation, potentially more rates collected could be retained, but pilot authorities would need to take on additional responsibilities, or lose other grant funding to offset the additional income. Should the value of additional responsibilities be less than the additional funding, a tariff would be applied to ensure the starting point would be fiscally neutral for the government. However, the levy applied to growth would be reduced from 50% to 25%, and so a larger proportion of the growth in business rates would be retained (split 25% for central government and 75% between the county and district councils).

1.4 Councils wishing to be considered for pilot status in 2019/20 have to submit their bids to MHCLG by 25 September 2018. It is likely that there will be a competitive process and not all bids will be successful. MHCLG intends to announce the outcome of the bidding process by December 2018, probably at the same time as the annual Local Government Finance Settlement.

1.5 The West Sussex Finance Officers, supported by financial management experts, have undertaken detailed and complex financial modelling work, which has been reviewed at the West Sussex Leaders / Chief Executives meeting on 10 September 2018, where it was agreed to take the pilot bid forward.

2 Relevant Council policy

2.1 Working with partner councils across West-Sussex to benefit residents and businesses helps to provide great value services, which is a Corporate Plan objective.

3 Details

3.1 A West Sussex pilot bid for the 100% retention scheme was submitted in 2018/19 that was not successful. The 2019/20 bid builds upon the experience gained from this process.

3.2 The key difference this year is the tier split i.e. how much growth will be retained by county and district councils. This has been modelled with two options:

- 35% county and 40% district; and
- 55% county and 20% district.

3.3 Both options assume that the increase in local share would all be allocated to the County Council. The expectation is for a 35% county share to be in line with other proposals in other counties, whereas a 55% county share would be significantly higher than most other bids. This is not necessarily a bad thing: MHCLG will want to explore how risk and reward operates in a pilot with a much higher county share.

3.4 For West Sussex, the tier splits do not have any impact on the financial gains for individual authorities because there is a 100% top-slice for investment.

3.5 Finance officers, supported by financial management experts, have modelled different scenarios. Based on the forecast business rate income for 2019/20, the estimate is that the West Sussex 75% pilot could generate an additional £14.6m in retained rates (compared to the £4.5m under the current 50% pool arrangements).

3.6 There are already some well-developed investment proposals to be funded from the current pooled arrangements pot, which could be expanded for any additional pilot pot, of which super-fast broadband alongside the county's railway lines is the most likely option.

3.7 Experience of having operated a business rate pool in the county means that much of the existing risk mitigation and governance arrangements has been built upon as part of this submission. The potential risks and mitigation in relation to this pilot bid are set out in the risk assessment section of this report.

3.8 The chief executives and leaders of the West Sussex councils considered the bid on 10 September 2018 and agreed to take the bid forward. The submission deadline to MHCLG is 25 September 2018. MHCLG are likely to announce successful submissions in December 2018. Depending on the deadline for acceptance it is intended that the final decision be reported back to Cabinet for final sign off. If, however, MHCLG deadlines means that it is not possible to take the matter back to Cabinet, urgency provisions may need to be exercised in accordance with the constitution.

4 Next steps

4.1 If the recommendation to submit the bid is approved, the bid will be submitted to MHCLG by the 25 September 2018.

5 Views of the Policy Development Advisory Group and outcome of consultations

5.1 Financial officers, supported by financial management experts, have prepared a West Sussex county-wide bid. It has not been practicable to take a draft through the Finance and Assets Policy Development Advisory Group in the normal way as the detailed and complex financial modelling has only just been completed. The draft report was circulated to all Members of the PDAG and a verbal update of any comments will be made at the Cabinet meeting by the Cabinet Member for Finance and Assets should any further information be available.

5.2 All district, borough and county councils in West Sussex will need to collaborate on a scheme for a bid to be successful. On 10 September 2018, the chief executives and leaders of the West Sussex councils met and agreed to take the pilot bid forward. Each council is also consulting with their Members according to their own constitutional requirements.

5.3 The views of the Monitoring Officer are incorporated into this report which helps to ensure legal probity.

6 Other Courses of Action Considered but rejected

6.1 The Council could continue to be involved in pooling arrangements for the West Sussex Business Rate pool for 2019/20. West Sussex benefits from the pooling arrangements as it enables more of the growth to be retained (50%) than would be the case without a pool (30%). This benefit is then shared between the councils. However a successful pilot bid would enable even more growth to be retained.

7 Resource and legal consequences

7.1 The submission of a bid does not require additional resources. A successful bid should generate additional revenue for the West Sussex councils, and help government shape the future roll out of more localised business rates. Equally, however, if income from Business Rates falls, the Council could be more exposed to the downside risk.

7.2 To be accepted as a pilot for 2019/20, agreement must be secured locally from all relevant authorities to be designated as a pool for 2019/20 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988) and to put in place local arrangements to pool their additional business rates income.

8 Risk assessment

8.1 A successful bid should result in a greater share of local taxation being retained in the area, for the benefit of residents and service users.

8.2 There is, however, a potential risk that taxation receipts do not grow as fast as spending on the additional responsibilities. For the 2019/20 pilots, MHCLG is proposing that there will not be any “no detriment” support. “No detriment” ensured that the members of the pilot would not be any worse-off in the pilot than they would have been in the 50% scheme.

8.3 The bid contains a recommendation that the first use of any additional resources within the pilot is to fund the Minimum Funding Guarantee within the scheme. i.e. that no authority will be worse-off than they would be in the main 50% scheme.

8.4 The model indicates that West Sussex authorities would collectively only be worse-off in the 75% pilot if aggregate income fell by around £40m. For this to occur, all the known risks would have to happen in 2019/20 (approximately £18m) plus a further £22m in losses. The considered view though is that even this “doomsday” scenario would still leave the West Sussex pilot better off than the member authorities would have been in the current 50% scheme pool.

9 Other considerations

9.1 There are no implications of any action proposed in respect of Crime & Disorder; Human Rights; Equality & Diversity and Sustainability at this stage.