

Report to Cabinet

12 October 2017

By the Cabinet Member for Finance and Assets

DECISION REQUIRED



**Horsham
District
Council**

Not Exempt

100% Localisation of Business Rates 2018-19 Pilot Scheme

Executive Summary

On 2 September 2017, the Department of Communities and Local Government (DCLG) invited pilot bids for 100% localisation of Business Rates in 2018/19. All the councils in West Sussex are currently modelling detailed financial scenarios and considering whether to submit a bid.

Recommendations

Cabinet is recommended to:

- i) Delegate authority to the Director of Corporate Services and the Cabinet Member for Finance and Assets to determine whether to submit a bid to the DCLG for the Council to take part in the 2018-19 pilot for 100% Business Rate retention.

Reasons for Recommendations

- i) To enable a bid to be prepared in line with the timescales set out by DCLG requires delegated authority to be granted. The deadline for submission is 27 October 2017.
- ii) 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/100-business-rates-retention-pilots-2018-to-2019-prospectus>

Wards affected: All

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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 retain 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 in unitary council areas, as a precursor to fulfilling their intention to fully localise business rates. On 2 September 2017, the Department of Communities and Local Government (DCLG) invited further bids for pilot areas, this time specifically encouraging bids from two tier and rural authorities.
- 1.3 With 100% localisation, potentially all 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, levies would no longer be applied to growth, and so all of the growth in business rates would be retained (split between the county and district councils).
- 1.4 Councils wishing to be considered for pilot status in 2018-2019 must have submitted their bid to DCLG by 27 October 2017. It is likely that there will be a competitive process and not all bids will be successful. DCLG intends to announce the outcome of the bidding process in December 2017, probably at the same time as the annual Settlement.
- 1.5 To enable a bid to be prepared in line with the timescales set out by DCLG requires delegated authority to be granted. The West Sussex Finance Officers have already commenced preparatory work, which will be reviewed by the chief executives at the West Sussex Chief Executives Forum on 6 October 2017.

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 Matters that will need to be worked up as part of a bid include:
 - Tier splits i.e. how much growth will be retained by county and district councils. Currently modelled as a 70:30 split
 - Which additional responsibilities, or loss of existing grants, would be rolled in to make the scheme fiscally neutral.

- How gains will be used. DCLG have indicated that they expect at least some of the gain to be used to generate economic growth.
- How risks will be mitigated.

- 3.2 Experience of having operated a business rate pool in the county means that much of the existing risk mitigation and governance arrangements can be built upon as part of this submission.
- 3.3 Finance officers are currently modelling different scenarios, with the aim to report these to the chief executives to consider on 6 October 2017. Following that meeting a bid submission can be refined in time for the 27 October 2017 deadline. The Cabinet Member for Finance and Assets will be consulted at each stage.
- 3.4 DCLG will announce successful submissions in December 2017. Depending on the deadline for acceptance it is intended that the final decision be reported back to Cabinet for final sign off. If, however, DCLG 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 Financial officers are preparing a West Sussex county-wide bid. Detailed financial modelling will be required to ensure pilot status will be financially beneficial to all authorities. If the initial modelling indicates that being a pilot is not financially advantageous, or is significantly risky a bid would not be submitted. The deadline for submission to DCLG is 27 October 2017.

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

- 5.1 The short notice period of the invitation for pilot bids means that it has not been practicable to take a draft through the Finance and Assets Policy Development Advisory Group in the normal way as the modelling has not yet 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. Finance officers and Chief Executives are therefore collaborating to enable a bid to be drafted. 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 2018/19. 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 all 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 fully localised business rates. Equally, however, if income from Business Rates falls, the Council could be more exposed to the downside risk. There are no legal implications identified at this stage.

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. It is therefore essential that financial modelling is undertaken to establish which additional responsibilities are requested, and the risk is mitigated as far as possible.

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.