

COUNCIL – 6TH NOVEMBER 2017

Report of the Chief Executive

ITEM 13 URGENT EXECUTIVE DECISION EXEMPTED FROM CALL-IN:
PROSPECTIVE PILOT SCHEME PARTICIPATION - 100% BUSINESS
RATES RETENTION

Purpose of Report

To note a decision taken by the Cabinet on 19th October 2017 which was exempted from call-in in accordance with Scrutiny Committee Procedure 11.9.

Action Requested

In accordance with Full Council Procedure 9.11(d) questions may be asked of the Leader in relation to the urgent decision that was taken. The Leader may ask the relevant Lead Member to respond.

Policy Justification and Previous Decisions

The call-in procedure provides for a period of five clear working days during which councillors can ask for decisions taken by the Cabinet and key decisions taken by officers to be reviewed. With the agreement of the Chair of the Scrutiny Management Board (or in his/her absence the Mayor or Deputy Mayor) a decision can be exempted from call-in if the decision to be taken is both urgent and reasonable and the delay caused by the call-in process would not be in the interests of the Council or the public. Scrutiny Committee Procedure 11.9 requires that decisions which are exempted from call-in are reported to Council.

One decision is being reported to this meeting of Council in respect of Prospective Pilot Scheme Participation - 100% Business Rates Retention. A report regarding this matter was considered by the Cabinet on 19th October 2017. The decision was exempted from call-in with the agreement of the Chair of the Scrutiny Management Board. The report of the Strategic Director Corporate Services that was submitted to the Cabinet can be found in the Annex to this report.

The Cabinet took the following decision on 19th October 2017:

RESOLVED

- 1. that the Council's application to participate in a pilot scheme allowing 100% Business Rate Retention in 2018/19 in accordance with the principles set out in Part B of the report of the Strategic Director of Corporate Services, as part of a Leicestershire-wide proposal, be approved;*
- 2. that delegated authority be given to the Strategic Director of Corporate Services, in conjunction with the Cabinet Lead Member for Finance and Revenues and Benefits and the Chief Executive, to agree on behalf of the*

Council and with other Leicester and Leicestershire local authorities, the detail contained within the Leicestershire-wide application to participate in a 100% business rate retention pilot scheme;

3. *that it be noted that, as the Chair of the Scrutiny Management Board agrees that the decision to be taken is both urgent and reasonable and delay caused by the Call-in process would not be in the interests of the Council or the public, the Call-in procedure was suspended in respect of this decision in accordance with Scrutiny Committee Procedure 11.9 of the Council's Constitution.*

Reasons

1. *To enable the Council to be part of a prospective wider Leicestershire pilot scheme with a view to increasing the funding available to the Council and across Leicestershire.*
2. *To enable the Council to provide its assent to the Leicester and Leicestershire application submission on a timely basis.*
3. *The Chair of the Scrutiny Management Board had agreed to the exemption from Call-in because the notice given of this opportunity and the timetable for applications was very tight, such that the effect of any call-in would be to prevent Charnwood participating in the scheme and, given that the application will be on a combined Leicestershire basis, could remove the opportunity for all Leicestershire Authorities to participate.*

Implementation Timetable including Future Decisions

As detailed within the report of the Strategic Director of Corporate Services, attached as an Annex.

Report Implications

As detailed within the report of the Strategic Director of Corporate Services, attached as an Annex.

Background Papers: None relating to this report to Council.

Officer to Contact: Karen Widdowson
Democratic Services Manager
(01509) 634785
karen.widdowson@charnwood.gov.uk

Annex

Report of the Strategic Director of Corporate Services in respect of Prospective Pilot Scheme Participation - 100% Business Rates Retention

CABINET - 19TH OCTOBER 2017**Report of the Director of Corporate Services****Lead Member: Councillor Barkley****Part A****ITEM 10 PROSPECTIVE PILOT SCHEME PARTICIPATION - 100% BUSINESS RATES RETENTION****Purpose of Report**

This report sets out the case for the Council's participation in a pilot scheme in which a substantial element of government funding would be received by retaining '100%' of business rates collected. The pilot scheme would operate on a sub-regional basis that would include all local authorities within the Leicester and Leicestershire Economic Partnership area. The report asks that Cabinet agree to the principles of the pilot scheme envisaged by member local authorities and requests that delegated authority be given to the Strategic Director of Corporate Services, in conjunction with the Lead Member, to agree the detailed elements of the Leicester and Leicestershire application on behalf of the Council, and to undertake any required administrative arrangements.

Recommendations

1. That Cabinet approve the Council's application to participate in a pilot scheme allowing 100% Business Rate Retention in 2018/19 in accordance with the principles set out in Part B of this report, as part of a Leicestershire-wide proposal.
2. That Cabinet give delegated authority to the Strategic Director of Corporate Services, in conjunction with the Cabinet Lead Member for Finance and Revenues and Benefits and the Chief Executive, to agree on behalf of the Council and with other Leicester and Leicestershire local authorities, the detail contained within the Leicestershire-wide application to participate in a 100% business rate retention pilot scheme.
3. That Cabinet note that, as the Chair of the Scrutiny Management Board agrees that the decision to be taken is both urgent and reasonable and delay caused by the Call-in process would not be in the interests of the Council or the public, the Call-in procedure is suspended in respect of this decision in accordance with Scrutiny Committee Procedure 11.9 of the Council's Constitution.

Reasons

1. To enable the Council to be part of a prospective wider Leicestershire pilot scheme with a view to increasing the funding available to the Council and across Leicestershire.

2. To enable the Council to provide its assent to the Leicester and Leicestershire application submission on a timely basis.
3. The Chair of the Scrutiny Management Board has agreed to the exemption from Call-in because the notice given of this opportunity and the timetable for applications is very tight, such that the effect of any call-in would be to prevent Charnwood participating in the scheme and, given that the application will be on a combined Leicestershire basis, could remove the opportunity for all Leicestershire Authorities to participate.

Policy Justification and Previous Decisions

Participation in the pilot offers the potential to increase the amount of funding available for the Council and/or other partners in Leicestershire (including Leicestershire County Council and the Leicestershire Local Enterprise Partnership). It would also help prepare the Council for the mooted change in local government funding envisaged for 2020. In terms of the Corporate Plan, participation in the pilot scheme can be justified under the objective of Delivering Excellent Services.

Implementation Timetable including Future Decisions and Scrutiny

The deadline for applications is 27 October 2017. Under this timetable it would not be possible to 'call-in' this report for additional scrutiny and given the circumstances, the Chair of the Scrutiny Management Board has accepted that this report be exempt from call-in.

The report will be available for scrutiny by the Overview Scrutiny Group should they so wish.

The pilot scheme has an initial duration of one year and would commence on 1 April 2018 to run contiguously with the financial year ending on 31 March 2019. There is also a possibility that the scheme may be extended for a further year, but this has yet to be clarified.

Report Implications

The following implications have been identified for this report.

Financial Implications

It is envisaged that participation in this scheme will be financially beneficial to the Council, or at least will not result in any detriment. There is however a risk (considered very low) that should business rate collections across Leicestershire fail to reach projected levels then the Council could be worse off than had it not participated in the pilot scheme.

More detail of the financial implications is provided in Part B of this report. The risk associated with this decision are summarised below.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Risk Management Actions Planned</i>
Business rate collections across Leicestershire fall to levels such that local authorities are worse off than they would have been if not part of the pilot scheme.	2 (Unlikely)	4 (Major – losses could exceed £100,000 in a very negative scenario)	<ul style="list-style-type: none"> • Pre-decision modelling by Leicestershire Treasurers group suggests risks are low • Ongoing monitoring arrangements at Leicestershire level are in place (existing pool arrangements) • An internal 'safety net' provision will be created from existing surpluses generated by the existing business rate pool

Key Decision: Yes

Background Papers: 'Business rates retention – how it works'
Cabinet report 15 February 2015 – 'Business rate pooling'

Officer to contact: Simon Jackson
Strategic Director of Corporate Services
01509 634699
simon.jackson@charnwood.gov.uk

Part B

Background

1. The Department for Communities and Local Government (DCLG) issued an invitation to Local Authorities in England to 'pilot 100% Business Rate Retention in 2018/19 and to pioneer new pooling and tier-split models'. The invitation was issued in September 2017 and requires completed applications to be submitted by Friday 27 October 2017. The pilot will initially run for one year from 1 April 2018, but with the possibility that the time period be extended.
2. The invitation from the DCLG states that the Government is committed to continuing to give local authorities greater control over the money they raise locally and wishes to expand the pilot programme for 100% business rate retention. The 2018/19 pilots are 'an opportunity to test more technical aspects of the 100% business rate retention system such as tier-splits'. They will also provide the opportunity to evaluate how collaboration between local authorities work in practice, and to test administration aspects, such as the underlying accounting, data collection and ICT arrangements required for the pilot scheme.
3. The Government 'expects to learn' from pilot schemes with a view to the design and implementation of a national scheme of rates retention. The introduction of such a scheme has been mooted for the 2020/21 financial year but the timetable for this remains fluid.

Current arrangements for Business Rate retention

4. Until 31 March 2013, local authorities acted as collectors of business rates for central government with cash simply passported to HM Treasury.
5. The business rate collection regime changed from 1 April 2013 initiated by the local government finance settlement covering that financial year. The changes did not affect businesses, who saw no changes in the way that rates were calculated or billed, but did introduce a significant new dimension to local government funding.
6. Although headlined as '50% retention' for local government the calculations are somewhat complex in practice being based on a system of baselines, top-ups, tariffs, levies and safety nets. In Charnwood, the outcome of these calculations has been that whilst the Council collects around £45m of business rates annually, it can retain only about £4m (9% of the total collected) for its own funding. Additionally, the change in regime now means that the Council bears an element of business rate collection risk, stemming from both bad debts (where occupants refuse or are unable to settle their bills) and changes to the business rate 'listing' (the rateable values assigned to properties). The latter risk is particularly significant as the Council bears the risk of valuation appeals which may be both substantial in value and backdated for several years.

7. One of the features of the current regime is the ability to create a ‘business rate pool’ amongst neighbouring local authorities. Leicestershire local authorities formed such a pool which although creating a slight increase in financial risk, offers the ability to retain levy payments within Leicestershire¹ which would otherwise have been payable over to central government. Latest forecasts for the current financial year suggest that around £5m will be retained in Leicestershire as a result of these pooling arrangements.

8. Further detail on the calculations for business rate retention and the Leicestershire business rates pool are provided as background papers to this report:

- ‘Business rates retention – how it works’
- Cabinet report of 15 February 2015 – ‘Business rate pooling’

100% business rate retention - pilot scheme prospectus

9. Applications to pilot 100% business rate retention are required by Friday 27 October 2017. Key features of the application prospectus issued by the Department for Communities and Local Government (DCLG) are:

- The government wish to look at how rates retention might operate for groups of local authorities across functional economic areas
- There is a particular interest in how arrangements might work in ‘two-tier’ areas
- Groups of local authorities applying to participate in the pilot would be expected to operate as a business rates pool
- DCLG expect applicants to set out how the benefits of additional business rates growth would be shared; this should cover ‘financial stability and sustainability’ (possibly a reference to social care funding) and investment in future economic growth
- Participating authorities would agree to forego Revenue Support Grant (RSG) and Rural Services Grant², plus other grants that authorities may volunteer to forego as part of their pilot application
- Although not an absolute prerequisite, pilot participants are expected to show how they would manage risk; therefore, in contrast to the first wave of pilots where authorities were offered a ‘no detriment’ assurance the possibility of financial loss should be inherent within the application

10. The principal criteria the DCLG will use to assess applications are whether they encompass business rate pooling and two tier areas, together with plans put

¹ Leicestershire pooling arrangements are that surpluses are transferred to the Leicester and Leicestershire Enterprise Partnership, subject to retention of a provision to mitigate against financial shortfalls within the Pool in future years.

² Not applicable to Charnwood

forward to promote financial sustainability and economic growth. If further assessment is required the DCLG say they will consider the spread of geographical areas (from applications received), rurality and variation in the business rate tax base.

11. As Leicestershire is a two-tier area with a pre-existing business rates pool linked to the Leicester and Leicestershire Enterprise Partnership (LLEP) there appears to be a good basis for a successful application from Leicestershire local authorities.

Principles of the envisaged Leicester and Leicestershire bid under the proposed 100% pilot scheme

12. The Council would be a participant in the pilot scheme as part of a wider Leicestershire pooled arrangement. In summary the arrangements would be:

- All business rates collected would flow into the Leicestershire pool
- In return (as noted above), the government would require participating authorities to forego certain grants
- Each local authority would be initially funded to a level equivalent to the retained business rates and grants receivable had they not been participants in the scheme (ie. this will include any grants foregone)
- It is also envisaged that funding for the Local Enterprise Partnership that would have been generated through the pre-existing business rate pool arrangements will be maintained
- Any surplus generated would allocated in accordance with an agreed protocol
- Should retained business rates not cover funding requirements then losses would be shared amongst participants in accordance with an agreed formula akin to that applied in respect of the existing business rate pool

13. Funding that the Council would forego in the event that the Leicestershire pilot application was accepted would be:

	2018/19 £000	<i>Comments</i>
Retained business rates (current formula)	4,616	<ul style="list-style-type: none"> • Estimate based on 2017/18 • Varies based on actual collection
Revenue Support Grant	745	<ul style="list-style-type: none"> • Settled figure
TOTAL	5,361	

14. As noted above, the Council is required to forego Revenue Support Grant. Modelling strongly suggests that this funding (along with that of other participating Leicestershire authorities) could be more than replaced under pilot scheme rules.

15. Latest modelling of the financial impact of the pilot scheme shows that a surplus in the order of £18.9m³ would be generated in 2018/19 with a similar amount available in the following year should the pilot scheme be extended. The emerging proposals for the allocation of such a surplus are that:

- £7m⁴ could be allocated for transport and energy infrastructure with a view to encouraging growth in the sub-region: A range of illustrative schemes have been identified including road junctions within Loughborough, and infrastructure required to deliver the Enterprise Zone in the Borough.
- £3m would be allocated to the City Council for public realm works
- A similar amount would be allocated amongst districts for public realm works within market towns: Illustrative schemes could include re-development of Bedford Square/ Wards End and Devonshire Square within Loughborough and improvements to the public realm in the Bull Ring at Shepshed
- Around £5m would be allocated for 'spend to save' initiatives: This allocation could be a source of funding for the Council's customer service and digitalisation initiatives
- The balancing amount - approximately £1m – would be shared amongst pilot participants to support revenue budgets
- In event of the surplus available for distribution being below expectations the first priority for funding will be for transport and energy infrastructure, followed by public realm works, then spend to save initiatives, and finally support for revenue budgets

16. Given the timescales involved in preparing the application it is unlikely that detailed assurances on the funding of specific projects in Charnwood could be obtained prior to the submission date. The decision as to whether to participate in the pilot will therefore need to be taken on the basis of the principles outlined above.

Assessment of financial risk

17. Financial modelling undertaken amongst Leicestershire treasurers indicate that the financial risks of entering into a pilot scheme would be low based on comparisons between expected business rate collection baselines and latest forecasts of actual business rate collections.

18. The pilot scheme mechanism within the prospectus includes a 'safety net' element that would ensure participating local authorities receive at least 97% of their collective baseline funding need. This would equate to an amount in the order of £5m. This would be mitigated by creating a provision within the pilot scheme from unallocated surpluses built up by the current Leicestershire business rates pool, thereby significantly reducing the exposure of individual authorities.

³ Estimated at 2 October 2017; verbal update to Cabinet will be offered at the meeting if any material variation

⁴ All allocations are indicative / estimated

19. In the event that financial losses did arise these would be shared amongst authorities on a similar basis to that agreed in respect of the existing Leicestershire business rates pool with losses being shared in proportion to relative funding baselines⁵.

Summary: Prospective benefits of being a pilot authority

20. The principal benefit of participation in the pilot scheme is the additional funding that would flow into the Leicestershire sub-region. Modelling the potential benefit to the sub-region based on these parameters suggests that additional funding in the order of £18.9m⁶ would be generated in 2018/19 with a similar amount available in the following year should the pilot be extended.

21. Timelines have not yet been clarified but if a national scheme of 100% business rates retention is implemented it is very possible that this will be from the 2020/21 financial year. Participation in the pilot would therefore provide useful experience in advance of national implementation.

Recommendation

22. Based on the information available, the potential benefits to both the Council and wider Leicestershire sub-region of participation in the pilot scheme outweigh the inherent risks. Cabinet are therefore asked to approve the Council's application to participate in a pilot scheme allowing 100% Business Rate Retention in 2018/19 in accordance with the principles set out above and provide delegations to the Strategic Director of Corporate Services, in conjunction with the Lead Member for Finance and the Chief Executive, to make the necessary arrangements.

⁵ The Charnwood share of any loss might be in the order of 3% of the total

⁶ As noted previously; amount estimated at 2 October 2017