ITEM 8

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

19 December 2017

100% BUSINESS RATES RETENTION PILOT

Report of Corporate Director, Strategic Resources

1. Purpose of Report

1.1 To inform Executive that an application has been submitted to the Department for Communities and Local Government (DCLG) for a North Yorkshire 100% Business Rates Retention Pilot in 2018/19 and to seek approval to formally sign up to the pilot should be application be successful.

2. Background Information

2.1 The Government through the DCLG 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.

2.2 100% 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 – we currently retain 50%.

2.3 The DCLG is looking for a wide spread of different types of pilot. There will be particular focus on applications from rural areas and from two-tier areas. This is a major opportunity for authorities in these areas, who are clearly going to be at the front of the queue.

2.4 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 DCLG wants to explore. The 2017-18 pilots only included single-tier authorities.

- **Proposals would promote financial sustainability.** The DCLG wants pilots to show how they can be more self-reliant and require less support from the national safety net. The next round of pilot applications will need to say whether they will need the "no detriment" provision to continue. Furthermore, the DCLG is proposing that the safety net will apply at the pilot level rather than individual authority level (as it does for the first round of pilots). After deliberation the DCLG confirmed that there will be a "no detriment" clause.
- **Evidence of how pooled income from growth will be used across the pilot area.** The DCLG 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 DCLG wants to see how pilots would invest "some retained income from growth to encourage further growth across the area". This was not something that the first round of pilots were asked to demonstrate, but clearly the DCLG wants the next round of pilots to deliver something more to justify their existence.

2.5 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 DCLG has decided there will be a "no detriment" clause, whereby the pilot as a whole cannot be worse-off than under the existing 50% scheme.

2.6 Very little is said in the invitation about transfers of funding streams or new responsibilities. Potentially, the DCLG has decided that it will take too long to negotiate anything new, with the deadlines being so short. Experts had thought that this would be an opportunity for authorities to show a "unique selling point" but the DCLG might now view a ground-breaking transfer as something that might cause a hold up.

2.7 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 DCLG because they will want to ensure that prospective candidates will deliver.

2.8 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.

3. The Report

3.1 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. The deadline for applications was 27 October 2017.

3.2 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).

3.3 The submission covers the existing members of the North Yorkshire Business Rates Pool (NYCC, Craven, Hambleton, Richmondshire, Ryedale, and Scarborough) plus Selby and East Riding of York Council. Harrogate and City of York are part of the Leeds City region pool and wish to continue with that. Pixel advice was that without Selby the area would not be attractive to the DCLG and we would be unlikely to be accepted as a pilot.

3.4 Participating pools will be treated as one entity by the Department 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. Any authority within the pool is eligible to fulfil this role. Applications must state which authority will be acting as the Lead Authority for the duration of the pilot. For North Yorkshire the proposal is that this will be Scarborough BC.

3.5 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.

3.6 The submission indicated that in total the proposed pool area would be circa £10m better off under the pilot arrangements although this is dependent on the tier split ultimately agreed with Harrogate BC (see legal implications below). Approximately half of this would be top-sliced for a shared investment fund. The submission proposes that Broadband connectivity is prioritised for this funding and looking ahead highlights the benefits of shared investment in housing delivery that such a pilot could bring.

4. <u>Implications</u>

4.1 <u>Financial and Value for Money Implications</u>

The broad financial implications are exemplified in the report. However, the precise implications will not be available until the NNDR1 returns for 2018/19 are prepared in January 2019.

4.2 <u>Legal implications</u>

The offer for the pilots from the DCLG 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.

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.

The s.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.

At this stage it should be noted that agreement has not been reached with Harrogate as to the tier spilt that would apply to the rates collected in their area – their submission as part of the LCR pool assumes NYCC would receive an 18% share with Harrogate taking 81% into the LCR pool but for the rest of the districts in the NY/ERYC pool a 49:50 split (County:District) has been put forward – the remaining 1% would be retained by the North Yorkshire Fire and Rescue Authority which remains outside of the proposed pool.

4.3 Risk Management

Applying to be a pilot is not without risk although the inclusion of the 'no detriment clause' ensures that no authority would be worse off than the current arrangements.

5. Recommendation

5.1 To note the action taken and subject to a successful outcome, support the proposal within individual authorities.

Access to Information : Background Documents

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

Appendices

None

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