Bath & North East Somerset Council		
DECISION MAKER:	**Cllr Charles Gerrish, Cabinet Member for Finance and Efficiency**	
DECISION DATE:	**On or after 15 October 2016**	EXECUTIVE FORWARD PLAN REFERENCE: E2907
TITLE:	**Decision to participate in a 100% Business Rates Retention Pilot commencing 1 April 2017**	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report: **None**		

1 THE ISSUE

1.1 The Government is introducing pilot schemes in 2017/18 in advance of full 100% business rate retention later in the parliament. Only authorities with signed devolution deals are eligible to be in a pilot: the pilot for the West of England would therefore include B&NES, Bristol and South Gloucestershire. The 100% pilot would give the West of England authorities the opportunity to retain 100% of any business rates growth over the next two to three years, with no downside financial risk. It also gives the West of England authorities the opportunity to help shape the national scheme.

2 RECOMMENDATION

The Cabinet Member for Finance and Efficiency is asked to;

2.1 Approve B&NES joining a 100% business rate retention pilot with Bristol and South Gloucestershire in 2017/18, subject to the final ratification of the Order for the West of England Devolution Deal.

2.2 Approve the principles of the 100% business rate retention pilot proposed by the Department for Communities and Local Government (DCLG) on the basis that the pilot will not leave any of the pilot authorities in the West of England any worse-off in financial terms.

2.3 Delegate the final decision on the terms of the pilot following DCLG issuing a detailed proposal later in October 2016 to the Council's Chief Financial Officer in consultation with the Cabinet Member for Finance & Efficiency.

2.4 Approve the funding streams that are proposed for the 100% business rate retention pilot.

2.5 Delegate the agreement on the terms of a Memorandum of Understanding governing the redistribution scheme to ensure that no individual Authority can receive less than it would have done under the existing 50% scheme to the Council's Chief Financial Officer.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

3.1 The 100% pilot would enable the West of England authorities (B&NES, Bristol and South Gloucestershire) to retain 100% of the growth in business in 2017/18, 2018/19 and (potentially) 2019/20. Based on the budgeted level of business rates income in 2016/17, it is estimated that an additional £18.9m would be retained by the West of England authorities in 2017/18 (and £19.0m in 2018/19 and £19.3m in 2019/20).

3.2 The "no detriment" provisions for the 100% pilot mean that, if business rate income is lower than expected, the West of England would be no worse off than had it been operating the existing 50% rate-retention scheme. It should be noted that the "no detriment" provisions operate at the pilot level, not at the individual authority level. It has been demonstrated through our modelling that no authorities in the West of England, either individually or collectively, will be worse-off as a result of the 100% pilot than it would have been in the existing 50% scheme. This has been robustly tested with a wide range of scenarios.

3.3 Allocation of the business rates income from the 100% pilot to individual authorities would be on the basis of (a) the amount of retained rates the authority achieves under the 100% scheme and (b) any adjustments that are required to ensure that no authority within the pilot is worse-off than it would have been under the 50% scheme.

3.4 If each of the three West of England authorities was <u>at its baseline</u>, then the following amounts would be available for distribution in 2017/18 from the relevant National Non Domestic Rates Collection Funds:

Table 1 – Distribution of business rates income from the 100% West of England Pilot

	(a) Estimated surplus from existing 50% scheme	**(b) Estimated <u>additional</u> surplus from 100% scheme**	**Total**
	£M	£M	£M
Bath and NE Somerset	0.209	0.150	0.369
Bristol	1.458	1.186	2.644
South Gloucestershire	0.482	0.344	0.826
Total*	**2.149**	**1.680**	**3.829**

** a further proportion of additional surplus would be retained by the Mayoral Combined Authority in relation to the anticipated 5% allocation for the single capital pot.*

3.5 If the amount collected from business rates is above the baseline, then there would be additional financial benefits because a levy would no longer be payable on growth.

3.6 A number of funding streams would no longer be paid as specific grants to the West of England authorities, but would instead be funded from the additional retained rates. These are shown in Table 3.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 Government's power to stipulate the Local Share and Levy Rate for individual Authorities is set out in the Local Government and Finance Act 2012. Each Authority's position will be published in the Local Government Finance Settlement for 2017/18 that is laid before Parliament in early 2017.

5 THE REPORT

Overview of the proposed Pilot

5.1 The Government is setting up a number of pilots in 2017/18 to help understand how 100% business rate retention would work in practice. 100% business rate retention will be brought-in across England by the end of this parliament, most likely in 2020/21, but possibly a year earlier in 2019/20.

5.2 Only areas with ratified devolution deals are eligible for the 100% pilot. It is understood that the other areas in negotiation for a pilot are: Greater Manchester, Liverpool City Region, Sheffield City Region and Cornwall.

5.3 For the pilot authorities themselves, the pilot offers the opportunity to increase the amount of business rate growth that is retained locally for at least two years (2017/18, 2018/19). For the West of England authorities, the expected growth in business rates during this period presents an opportunity to increase the business rates that are retained locally. If all three billing authorities were at their business rates baselines, it is estimated that this could be potentially an additional £1.68M in 2017/18 (Table 1).

5.4 In addition, the pilot offers the opportunity for a larger share of business rates growth to be retained locally and if each authority were to collect an additional £1m, the amount retained would be nearly three times greater in the pilot than in the existing 50% scheme.

5.5 Furthermore the opportunity to develop a pilot gives the West of England authorities the chance to help shape the full national scheme, which will go live later in the parliament. There is no guarantee that the services and funding streams that are in the pilots will continue into the full national scheme.

5.6 The main principles that have been applied in the development of the 100% pilot are:

(1) The local share will increase from 50% to 100%. The pilot will operate 100% rate-retention "for real" and will use the existing Business Rate Baselines increased to 100%.

(2) Additional services or existing funding streams will transfer to the pilot, and Funding Baseline Levels will be agreed based on these transfers.

(3) Top-ups and tariffs will be amended so that the changes are fiscally neutral.

(4) There is a "no detriment" provision to ensure that collectively the authorities in the pilot are no worse-off than if they had remained in the existing 50% scheme.

(5) The Pilot will not have to pay a levy on any business rates that are above its Retained Income target..

(6) Enterprise Zones and Enterprise Areas are not affected by the Pilot.

Specific arrangements for West of England Pilot

5.7 It is proposed that the local retention share in the West of England would increase from its current 50% to 100% in 2017/18. Proposed local shares for the relevant local authorities would be (Table 2):

Table 2 – Proposed local share for Pilot authorities

	Current local share (2016-17)	**Pilot local share (2017-18)**
Bath and North East Somerset	49%	94%
Bristol	49%	94%
South Gloucestershire	49%	94%
Mayoral Combined Authority	0%	5%
Avon Fire Authority	1%	1%
Local Share	**50%**	**100%**

5.8 The West of England is proposing the transfer of the following funding streams in 2017-18:

Table 3 – Proposed funding transfers to the Pilot in 2017-18

	BANES	**BCC**	**SGC**	**Amount (£m)**	**Department**
Revenue Support Grant	8.259	41.844	15.855	65.958	Department for Communities and Local Government (DCLG)
Public Health Grant	9.166	33.343	9.627	52.136	Department of Health (DH)
Highways Maintenance Formula Funding*	3.352	3.460	4.516	11.328	Department for Transport (DfT)
Integrated Transport Block*	1.163	2.743	1.277	5.183	Department for Transport (DfT)
Highways Maintenance Incentive Formula*	0.314	0.324	0.423	1.061	Department for Transport (DfT)
Total	**22.254**	**81.714**	**31.698**	**135.666**	

5.9 From our latest discussionsl with the DCLG (22 September 2016), it is looking very unlikely that the Department of Health will allow the funding of Public Health grant from business rates in 2017/18. However, it is more likely to approve its inclusion in the Pilot in 2018/19, when the ring-fence on the grant is removed nationally. We are awaiting final confirmation from the Department for Transport that the Highways Maintenance capital funding can be included in the Pilot.

5.10 It should be noted that the highways funding (marked with an *) would actually be retained by the Mayoral Combined Authority (MCA). The MCA would retain 5% of the business rates from the NNDR Collection Funds in the pilot to fund the transferring highways grants. The MCA would also receive a small proportion of any growth in business rates within the Pilot.

5.11 Further transfers are under consideration for 2018/19, and the Pilot authorities will engage the DCLG in negotiations in due course. Local Growth Fund and Skills Funding (from the EFA) are potential candidates. Both are included within the proposed devolution deal for the West of England. Table 4 shows the proposed Pilot arrangements. These are in summary:

(1) Increase in Business Rate Baseline (BRB) in 2017/18 from £204.520m to £413.215m (an increase from 49% local share to 99% local share). (Note that Avon Fire will continue to receive the normal 1% share as in the current scheme).

(2) Increase in Baseline Funding Level (BFL) in 2017/18 from £152.439m to £288.105m. The increase reflects the funding streams that are being transferred to the Pilot.

(3) The tariff increases in 2017/18 from £52.082m to £125.110m. The Pilot will continue to be in a tariff position for the entire period, and indeed the tariff will increase to £185.618m by 2019/20.

(4) The BRB, BFL and tariff estimates are based on currently available data and will be updated to reflect changes in the business rates multiplier. These updates will not have a material effect on the financial implications for the Pilot.

Table 4 – Proposed baseline and tariffs for the Pilot

	2016/17	**2017/18**	**2018/19**	**2019/20**
Business Rate Baseline (BRB)	200.575	204.520	210.554	217.284
Top Up/ (Tariff)	-51.077	-52.082	-53.618	-55.332
Baseline Funding Level (BFL)	149.498	152.439	156.936	161.952
Notional BRB		**413.215**	**425.405**	**439.001**
RSG		65.958	43.932	21.724
Public Health Grant (***note: see para 5.2***)		52.136	52.136	52.136
Highway Maintenance grant (funding formula)		11.328	10.254	10.254
Integrated Transport Block		5.183	5.183	5.183
Highway Maintenance grant (incentive formula)		1.061	2.135	2.135
Revised Baseline Funding Level (BFL)		**288.105**	**270.575**	**253.384**
Share of business rates per revised BFL		69.72%	63.60%	57.72%
Revised Top Up/ (Tariff)		-125.110	-154.830	-185.618
Local share	**49.0%**	**99.0%**	**99.0%**	**99.0%**

5.12 If Public Health grant does not transfer to the Pilot in 2017/18, then the BFL will be £52.136m lower (£235.969m) and the Tariff will be £52.136m higher (£177.246m). There is no effect on the amount retained by the Pilot or on the surplus generated by the Pilot.

5.13 DCLG has proposed a “no detriment” provision. The intention is to ensure that the local authorities in the Pilot are collectively no worse off than had they stayed in the existing 50% retention scheme. It is important to note that the “no detriment” provision would protect the Pilot, not individual authorities. However, a redistribution scheme is being proposed for the West of England pilot whereby, if any individual authority was worse-off than it would have been in the existing 50% scheme, then the other authorities would contribute to bring that authority back up to the same level of funding as in the 50% scheme. In this situation, at worst, each authority would receive the same level of funding as it would in the existing 50% scheme.

5.14 The terms being offered to the Pilot authorities are favourable to the authorities themselves: there is clearly a strong upside, whereby authorities can retain a much higher proportion of any business rates growth; but there are no additional risks because the “no detriment” payment from the Government will ensure that the authorities receive at least as much funding as they would have done if they had remained in the 50% scheme.

5.15 Other features of the 100% Pilot are:

(1) The Pilot will receive section 31 grants for the whole amount of the reliefs that are funded by the Government (e.g. Small Business Rate Relief).

(2) Funding for reliefs in enterprise zones will be funded from section 31 grants if there is no central share from which they can be deducted.

(3) Surpluses or deficits on the collection fund as at 31 March 2017 (i.e. at the outside of a 100% pilot) will be shared 50:50 with central government, and from 2018/19 will be shared according to the 100% scheme.

(4) The West of England authorities should continue to receive any new or increased funding that is announced nationally in respect of the funding streams that are devolved to it under the pilot arrangements.

6 RATIONALE

6.1 The rationale for this decision is as follows:

(1) It gives the three local authorities and the Combined Authority within the Pilot the ability to maximise their potential for additional business rates retention. The share of business rates growth retained by these authorities will increase from 49% to 99%. Growth in business rates is forecast for these authorities, giving the potential for a significant financial gain.

(2) There are no additional downside risks from choosing to participate in the Pilot because the Pilot has agreed a “no detriment” provision with the Government. This means that collectively the authorities can be no worse-off than if they had remained in the existing 50% business rate retention scheme.

(3) There is no additional risk from the funding transfers to which the Pilot is agreeing: they are funding streams the authorities already receive for services they already provide.

(4) There is scope to expand the Pilot in 2018/19 to include a wider range of services and funding streams.

7 OTHER OPTIONS CONSIDERED

7.1 None.

8 CONSULTATION

8.1 All relevant senior officers have been engaged and consulted with as part of the consideration of the pilot including Chief Financial Officers, Strategic Director of Resources, Monitoring Officer and Chief Executives.

9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 All of the local authorities in the Pilot are already exposed to risk from the business rate retention scheme. Income for each authority depends on the actual amount collected by the authorities themselves. This risk still exists whether the authorities are in the Pilot or not.

9.3 The move to 100% in the Pilot would potentially double the financial risk for the authorities. However, the Government's proposal to have a "no detriment" provision ensures that the authorities collectively will not be any worse-off than if they had remained in the existing 50% scheme.

9.4 On-going risks for 2017/18 include the continued volatility of appeals, which may be exacerbated by the national revaluation taking place in 2017/18, as well as risks of increased mandatory reliefs and transfers from Local to the Central Rating List.

9.5 The "no detriment" provision only operates at the Pilot level but a methodology has been developed to ensure that no individual authority would be "worse off" within the West of England Pilot.

9.6 There is no additional risk from the transfers of funding streams. These are existing funding streams for current responsibilities.

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Background papers	*None.*
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