

FAREHAM

BOROUGH COUNCIL

Report to the Executive for Decision

03 September 2018

Portfolio:	Policy and Resources
Subject:	Business Rate Retention Pilots 2019/20
Report of:	Director of Finance and Resources
Corporate Priorities:	A dynamic, prudent and progressive Council

Purpose:

To advise members on the proposal to participate in a 75% business rate retention pilot for 2019/20.

Executive summary:

On 24th July, the Government published an invitation to councils to apply to participate in a 75% business rate retention pilot scheme, with bids to be submitted to Government by 25th September. The scheme is designed to give local authorities greater control over money raised locally and increase the overall level of business rates retained by local government.

This report sets out the proposal for the Council to participate in the 75% business rates pilot collaboratively with other councils in Hampshire. The pilot is an opportunity for councils to retain a greater share of business rate growth in their area but they will also be exposed to a higher level of business rate risk in 2019/20.

The pilot will help inform the Government on how different local arrangements, including governance and information systems, work in relation to 75% business rates retention, in order to introduce the reforms across local government in 2020/21.

Discussions with other Hampshire councils have been positive to date and each council will consider if they wish to submit a joint bid to Government. It is likely that a joint county and all districts bid would be seen more positively from Government when assessing bids.

Recommendation:

It is recommended that the Executive:

- a) agrees in principle to participate in the submission bid for Fareham to be part of a Hampshire-wide 75% business rate retention pilot; and
- b) delegates the agreement of the final submission to the Leader and the Director of Finance and Resources.

Reason:

To participate in a Hampshire-wide 75% business rate retention pilot which would increase business rates retained by the Council. It has the potential to provide for additional one-off funds to the Council, other districts and the County Council, as well as a 'strategic share' across Hampshire.

Cost of proposals:

There are potential costs as the Government will provide no support for losses. All losses will be shared across the Hampshire-wide pilot authorities.

Appendices: **None**

Background papers:

Reference papers: Government prospectus for the 2019-20 pilots:
<https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019-to-2020-prospectus>

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Executive Briefing Paper

Date:	03 September 2018
Subject:	Business Rate Retention Pilots
Briefing by:	Director of Finance and Resources
Portfolio:	Policy and Resources

INTRODUCTION

1. Since 2013 the Government has changed local government finance so that there is less money coming directly from central government and more money coming directly to local authorities through business rates collected across the country.
2. At the moment, although this Council collects all the business rates due for the Borough, we only retain an initial 40% with 9% going to Hampshire County Council, 1% to the Hampshire Fire Authority and the other 50% paid over to Central Government.
3. Recently, the Government had been investigating increasing the level of business rates retained by local government from the current 50% to 100%. To test how this would work, pilot bids were invited for 2018/19 of which there were ten successful bidders, including a Solent bid (Portsmouth, Southampton and the Isle of Wight Councils).
4. However, in December 2017, the Government announced the aim of increasing the level of business rates retained by local government to 75% in April 2020.
5. To test increased business rates retention and to aid understanding of the transition into a reformed business rates retention system in April 2020, the Government published on 24th July, an invitation to local authorities to apply to become 75% business rates retention pilots in 2019/20. This will focus on the learning necessary for transition to the proposed new scheme in 2020/21 and resulting in a smoother transition to full implementation.
6. Pilot bids need to be submitted to Government by 25th September 2018.

THE INVITATION TO AUTHORITIES

7. The Government is interested in exploring how 75% rates retention can operate across more than one authority to promote financial sustainability and to support coherent strategic decision-making across functional economic areas.
8. The Government would like to see authorities form pools with agreement in place from

all participating authorities, to apply jointly for pilot status. They expect a proposed pool to comprise of a county council and all of the associated district councils; a group of unitary authorities; or a two-tier area and adjoining unitaries.

9. The Government will use the 2019/20 pilots to deepen its understanding of how different local arrangements, including governance and information systems, work in relation to 75% business rates retention. Participating authorities are expected to work with Government officials on the system design of the new business rates retention system and share additional data and information, as required.
10. The proposal will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 Officer of each authority will need to sign off the proposal before its submission.
11. Pilot areas will be expected to operate under the arrangements that currently determine safety net payments for pools. Each 'pool' will have a single safety net threshold determined on the basis of the pool's overall baseline funding level and business rates baseline. However, the pool's safety net threshold will be set at 95% of its baseline funding level, instead of the current 92.5%, to reflect the additional risk of 75% retention.
12. The Government has agreed that a 'no detriment' clause will not be applied to the 2019/20 pilots (this was applied to the pilots in 2018/19). 'No detriment' ensured that the members of the pilot would be no worse-off in the pilot than they would have been in the 50% scheme. Instead, selected areas will test a 95% safety net to reflect increased risk in the proposed increased business rates retention system. Applying a 'no detriment' clause to the pilots would not be reflective of the reformed business rates retention system that the Government aims to introduce in 2020/21.

THE PROPOSAL

13. Hampshire is proposing to make a bid to be one of the 2019/20 75% business rate pilots with Winchester City Council being the lead authority. The proposed Hampshire pilot would include Hampshire County Council, Hampshire Fire Authority, and all the district councils within the county: Basingstoke and Deane, East Hampshire, Eastleigh, Fareham, Gosport, Hart, Havant, New Forest, Rushmoor, Test Valley and Winchester.
14. Hampshire's pilot would exclude Solent (Portsmouth, Southampton and Isle of Wight), which are assumed to be re-bidding for 2019/20 separately.
15. There are two main reasons for submitting a bid to be included within the pilot:
 - 1) Firstly, the bid will demonstrate cross county working and sharing of the risks and rewards of business rates to enable a sharing of any financial benefit (or financial loss) through the pilot scheme. In a time of reducing financial resources across the county, the bid proposes to provide some funding for social care pressures across the county as well as supporting individual council's financial position and delivering a cross county strategic share to enable larger scale infrastructure projects.
 - 2) Secondly, as the Government will be rolling out a 75% retention scheme across the country, it is helpful to be part of a pilot to help shape the scheme when it is rolled out. Also, to understand how this will work locally, whether there is any benefit or downside of pooling with the other Hampshire councils, and what the key risks are as part of the scheme. Ultimately the Government is considering a move to a 100% retention scheme linked to reductions in a number of grants to joint working at this

point will help with future changes.

16. There are a number of different ways of sharing growth from the business rates pilot and the exact split is still being discussed across the Hampshire group. The agreed split will mitigate any potential losses to individual authorities and to provide an incentive for growth, no matter how large or small an individual authority's existing business rates payable is. The growth share split will be over the following areas:
 - a) An amount to be set aside for a strategic share across the county for major infrastructure projects to be enhanced or delivered more quickly.
 - b) An amount to be aside to provide specific project support to the County Council's social care function.
 - c) An amount be retained by the individual authorities.
17. The growth to individual authorities will be shared on the basis of 'percentage of above baseline growth' with a no individual authority loss clause. This gives equal incentive to all authorities and ensures that if overall growth is achieved then no authority will lose out from joining the pilot (i.e. they would receive the same as if they had continued under the existing 50% scheme).
18. Modelling of the financial benefits of a Hampshire pilot is currently being undertaken by Pixel, specialist consultants in local government finance and funding. The Council is also engaging its own specialist consultants to model the effects for Fareham.

RISKS

19. The participating Hampshire councils will be exposed to a higher level of business rate risk in 2019/20 only as there will be "no detriment" support from Government. The risks are:
 - a) There will be a higher share of any losses, 75% rather than 50%.
 - b) Greater cash loss on safety net than under the current system (under the existing 50% retention system each authority has its own safety net threshold, so losses are supported separately rather than collectively).
 - c) Based on 2018/19 business rate estimates and based on the proposed 95% safety net, the maximum loss shared amongst all authorities would be approximately £8.4m.
20. In order to minimise the risk to individual authorities it is proposed that:
 - a) If resources allow, each member will have a Minimum Funding Guarantee (MFG) that is equivalent to either their financial position in the pool or in the main 50% scheme.
 - b) Funding for the MFG will come from the other members of the pilot, with payments being made pro rata to the funds that each member has available.
 - c) If this is insufficient to make up to MFG, then losses will be distributed proportionately.

NEXT STEPS

21. Discussion with other Hampshire local authorities have been positive to date. It is for each local authority to consider if they wish to submit a joint bid to Government. However, it is likely that a joint county and all districts bid would be seen more positively from Government when assessing bids.
22. The Hampshire councils included within the bid will be seeking views on the modelled proposals and chief finance officers have authority to submit to be part of a bid to Government. Subject to the Hampshire authorities approving the bid, the submission will be made on 25th September with expected successful bidders announced before or alongside the provisional Local Government Finance Settlement in November.
23. If the bid is successful then the Council will need to factor this into the Medium Term Financial Strategy as well as consider with the other councils the strategic share top slice amounts as the year progresses.

CONCLUSION

24. This report outlines the Government's invitation to participate in a 75% business rate retention pilot for 2019/20. The pilot will give local authorities greater control over money raised locally and the overall level of business rates retained by local government.
25. The pilot will aid the Government's understanding for the transition to the proposed new scheme in 2020/21.
26. Hampshire is proposing to make a bid to be one of the 2019/20 75% business rate pilots. Participants include Hampshire County Council, Hampshire Fire Authority and all the Hampshire district councils, with Winchester City Council being the lead authority.
27. The participating Hampshire councils will be exposed to a higher level of business rate risk in 2019/20 and measures will be put in place to minimise the risk to individual authorities.
28. Discussions are still underway with the Hampshire pilot on the agreement of the growth share split between the strategic share, social care and individual authorities.
29. Subject to the Hampshire authorities approving the bid, the submission will be made on 25th September with expected successful bidders announced before or alongside the provisional Local Government Finance Settlement in November.

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4589)