

Cabinet

1st November 2016

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:

Executive Director Resources

Ward(s) affected: City Wide

Title:

Participation in 100% Business Rates Retention Pilot

Is this a key decision?

Yes. This report considers whether the Council should participate in a Business Rates Retention Pilot Scheme. This could result in the City Council receiving additional income in excess of £1m.

Executive Summary:

The Government has announced that it intends to introduce a national scheme for the full local retention of all business rates, probably from the 2020/21 financial year onwards.

Areas that have agreed a Devolution Deal have the opportunity to be involved in a 100% business rates retention pilot, which will begin from 1 April 2017. This provides the opportunity to shape national thinking about the eventual scheme, and to take forward further devolution. Conversations about the potential for a West Midlands pilot have taken place in parallel with discussions about a Devo 2 deal. Each pilot will incorporate some core design principles, but there is some flexibility around what else is included.

It has now been clarified by the Department for Communities and Local Government (DCLG) that this is open only to constituent member authorities of combined authorities. Subject to approval by each local authority and by Ministers, the West Midlands metropolitan authorities could be involved in a pilot should they wish. It should be recognised that each authority would need to agree to participate for the pilot to go ahead.

The Government has confirmed that pilots will operate on a no financial detriment principle. In other words, authorities cannot be worse off financially than they would otherwise have been had they not participated in a pilot. Following detailed scrutiny of the way in which a pilot will operate, it has become clear that there may be a windfall benefit to authorities as a result of being part of a pilot.

Some matters are still the subject of on-going dialogue with DCLG Officials and in addition, local arrangements will need to be put in place as referred to in this report. As part of the arrangements being established amongst West Midlands authorities it is being recommended for

Coventry that authority to finalise detailed terms and arrangements for the pilot be delegated to the Executive Director Resources following consultation with the Leader of the Council and the Cabinet Member for Strategic Finance and Resources.

Should the individual authorities and ministers wish to proceed, there is a need for the Government to commence the necessary legal process very shortly. Councils have been asked to approve their participation formally during October although in Coventry's case this decision is being considered at the soonest available meeting on 1st November.

Recommendations:

Cabinet is recommended to

1. Approve Coventry City Council's participation in a West Midlands business rates retention pilot from April 2017, on a no detriment basis and in accordance with the terms outlined in this report.
2. Approve delegation of the authority for final sign-up to the pilot to the Executive Director Resources following consultation with the Leader of the Council and Cabinet Member for Strategic Finance and Resources.

List of Appendices included:

None

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

Yes. The Scrutiny Co-ordination Committee have considered the implications of the report's content and endorse the recommended approach. The Committee will continue to receive updates on the Business Rates Pilot as it progresses.

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

No

Report title: Participation in 100% Business Rates Retention Pilot

1. Context (or background)

- 1.1 The Government has announced that it intends to introduce a national scheme for the full local retention of all business rates, probably from the 2020/21 financial year onwards.
- 1.2 Areas that have agreed a Devolution Deal have the opportunity to be involved in a 100% business rates retention pilot, which will begin from 1 April 2017. This provides the opportunity to shape national thinking about the eventual scheme, and to take forward further devolution. Conversations about the potential for a West Midlands pilot have taken place in parallel with discussions about a Devo 2 deal. Each pilot will incorporate some core design principles, but there is some flexibility around what else is included.
- 1.3 Whilst discussions have been held on several occasions about the potential for a pilot to include all Member Authorities of the Combined Authority, it has now been clarified by DCLG that the opportunity is only available to Constituent Member Authorities.
- 1.4 It will be necessary for one of the authorities to act as Lead Authority in order to co-ordinate arrangements, and to liaise with DCLG, and it is proposed that Birmingham City Council undertakes this role.
- 1.5 In terms of the Pilot's design, this will involve:
 - A way of understanding how 100% business rates retention will impact on local authorities by testing it out in practice,
 - An opportunity to shape national thinking about how 100% retention could work with no risk of financial detriment across the devolution deal area,
 - Each individual local authority deciding whether or not it wishes to participate, although it should be recognised that it will be necessary for all of the Metropolitan Authorities to agree for the pilot to go ahead,
 - Each local authority still receiving its own "settlement" from the Government, collecting and retaining its own business rates and setting its own budget.
- 1.6 There will be some core elements that will feature in each pilot from 1 April 2017:
 - a. Further local business rates retention (up to 100%),
 - b. Removal of Revenue Support Grant,
 - c. Appropriate adjustment to Top-ups/Tariffs, to reflect the net effect of the above two changes,
 - d. Participation will be on a "no detriment" basis. In other words, the area will be no worse off financially than it would otherwise have been had it not participated in the pilot.
- 1.7 References throughout this report to "business rates" also includes grants received as compensation for the impact of Government policy decisions in respect of business rates, such as small business rate relief. These grants will double under the pilot, when the current central share is retained locally.

Devolution

- 1.8 As part of developing the proposal for a pilot, there has been an opportunity to propose further devolution, whether that be the transfer of responsibilities or the incorporation of separate funding streams into the business rates funding mechanism. This would provide

an opportunity to test out such further devolution within the safe confines of a “no detriment” arrangement.

- 1.9 Proposals for such further devolution need to be both detailed and specific. DCLG has provided details of grants/responsibilities where some inter-Government Department dialogue has already taken place and, therefore, where implementation would be less contentious. The list is not extensive and may, in some instances (eg. Public Health), be restricted to issues which have already been incorporated into Devo Deals.
- 1.10 The implementation of further devolution in this way does not have to be effective from 1 April 2017; there is an option to continue dialogue with DCLG and other Government departments, with a view to inclusion in the pilot at a later stage.
- 1.11 In view of the need to take swift decisions on whether or not to participate in a pilot, it is proposed that, from 1 April 2017, it be restricted just to the core elements described in para 1.6 above. However, it is further proposed that there is on-going dialogue with Government in order to seek agreement on further devolution of responsibilities/grants in due course.
- 1.12 The West Midlands Devo Deal includes the Combined Authority receiving the real terms growth in the central share of business rates, from April 2016 onwards. When the full national system of 100% local retention of business rates is introduced in a few years’ time, this element of the Devo Deal will need to be re-visited as there will no longer be a “central share”. Therefore, officers have sought to negotiate the inclusion of a new arrangement in a pilot, in order to test out a different approach. These negotiations are still on-going, and so there isn’t a guarantee that it will be possible to incorporate something in time for April 2017. However, this element of funding will, as a minimum, still be protected under the “no detriment” arrangements for the duration of the pilot.

2. Options considered and recommended proposal

2.1 Option 1: To take part in the Business Rates Retention Pilot (Recommended)

The 7 West Midlands authorities are being offered the opportunity to take part in the Pilot on a no detriment basis. This represents a guarantee from Government that no negative financial impact will arise from participation in the Pilot. This would give the authority an opportunity to help shape national thinking on how the eventual scheme should work. Each local authority will still be receiving its own “settlement” from the Government, collecting and retaining its own business rates and setting its own budget. It is understood that the financial planning implications of the Pilot will be set out in the forthcoming Local Government Finance Settlement. It should be at this stage that the scale of any financial gain will become clear.

2.2 Option 2: reject the option to take part in the Business Rates Retention Pilot (Not Recommended)

A decision not to participate in the Pilot would mean that the Council will be subject to the 4 year funding settlement set out as part of the 2016/17 Local Government Finance Settlement. It would deny the Council an opportunity to gain some first-hand experience of the arrangements that are set to come into being in 2020/21 and would remove any chance of financial gain that might potentially arise within the Pilot scheme.

3. Results of consultation undertaken

No consultation has been undertaken.

4. Timetable for implementing this decision

- 4.1 Should the individual authorities and Ministers wish to proceed, there is a need for the Government to commence the necessary legal process very shortly. Councils have been asked to approve their participation formally during October although in Coventry's case this decision is being considered at the next available meeting on 1st November. A decision to participate will need to be taken by each authority individually in accordance with local governance arrangements. Figures calculated on the basis of participation in the pilot would then be incorporated into the Local Government Finance Settlement in December.

5. Comments from Executive Director, Resources

5.1 Financial implications

- 5.1.1 The Government will calculate what resources would have been available to the authorities had they not participated in the pilot, and will compare that with the actual resources retained in business rates. Should the latter be a lower amount, then the Government will pay an additional grant so that authorities are no worse off through participation in the pilot. There is, therefore, no financial risk arising from participation.
- 5.1.2 The "no detriment" provision would be implemented by the Government on a collective basis, for the pilot area as a whole. It is proposed that a local decision is taken to extend this protection to each individual participating authority. An appropriate internal mechanism will need to be agreed locally, to ensure that this is the case. However, it is only those resources which are a windfall might need to be redistributed in this way. On this basis no authority could be worse off through participation in the pilot.
- 5.1.3 Paragraph 1.12 above refers to the existing agreement with Government, as part of the Devo Deal, that the growth from 1 April 2016 onwards in the current "central share" of business rates is ringfenced to the Combined Authority to assist in the funding of the £8bn investment programme. Subject to the further dialogue referred to below, authorities will need to commit to contributing these resources to the Combined Authority. However, this requirement will be taken into account in the Government's "no detriment" calculation.
- 5.1.4 The current system of business rates retention has been in place since 2013/14. As part of discussions concerning a potential pilot, the Government has clarified that any real terms growth in the central share since then will be available to the West Midlands. Growth in the central share from 2016/17 onwards is covered by the Devo Deal and will accrue to the Combined Authority, but we anticipate that agreed growth up to that point will be available to the Councils solely as a result of participating in the pilot.
- 5.1.5 The level of these additional resources available to Councils will depend upon confirmation of figures for 2015/16 and agreement being reached with DCLG on how to measure the starting point for the calculations under the Devo Deal.
- 5.1.6 It will be necessary for one of the authorities to act as Lead Authority in order to co-ordinate arrangements, and to liaise with DCLG, and Leaders have agreed that Birmingham City Council undertakes this role.

5.2 Legal implications

On Friday 30 September the WMCA Board resolved that authority to conclude the negotiation of the detailed terms of the pilot and to establish the necessary local arrangements be delegated to the Chair of the WMCA board in consultation with the finance directors.

The delegations were made, and similar delegation therefore included in recommendation 2 of this report, to enable to the Government to commence the necessary legal process to enable the pilot to be incorporated into the Local Government Finance Settlement in December.

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

Part of the Council's local plan concerns making the most of our assets and maximising our income to enable the Council to continue delivering its priorities with fewer resources. Any financial gain from the Pilot will enable us to do this.

6.2 How is risk being managed?

- 6.2.1 At this point in time the precise financial details of the Pilot remain to be finalised and Council officers are not in a position to confirm the financial implications. Nevertheless, the no detriment guarantee from Government forms the principle means by which risk is being managed and provides the assurance that the Council will be no worse off than if it did not participate in the Pilot.
- 6.2.2 Participation in the pilot will not require any changes to existing business rates pools. Therefore, the Coventry & Warwickshire and Greater Birmingham Solihull LEP business rates pools will be able to continue with their existing arrangements, and with all existing commitments being honoured. These will be taken into account in the "no detriment" calculation. Existing and any new Enterprise Zones will also not be affected by the pilot.
- 6.2.3 In the existing business rates retention system, authorities are protected by a "Safety Net" in the event that their locally retained business rates fall more than 7.5% below the baseline figure in any year. An equivalent, but lower, figure will need to be agreed for a pilot; authorities would not want to bear the risk of exposure to a 7.5% reduction in the full amount of business rates. Discussions are on-going on this detail, although it should be noted that authorities will, in any case, be protected by the "no detriment" arrangement.
- 6.2.4 The Government is considering a new approach to the management of the risk of business rates appeals under the full national business rates system. It is proposed, as part of the pilot, that the West Midlands authorities agree to undertake a desktop analysis of how this approach might work in practice in order to shape the Government's thinking on this matter.

6.2 What is the impact on the organisation?

A positive financial impact could be achieved as a result of taking part in this pilot and as it will operate on a no detriment policy, there will be no negative impact.

6.3 Equalities / EIA

None

6.5 Implications for (or impact on) the environment

None

6.6 Implications for partner organisations?

If the Council decides not to go ahead with the Pilot than this will affect the other members of the West Midlands Combined Authority. If one member does not proceed then the others are prohibited from proceeding too.

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