

Notification of an Urgent Executive Decision – Somerset Business Rate Pool and 100% Business Rates Retention Pilot

Executive Portfolio Holder: Councillor Peter Seib, Finance and Legal Services
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Purpose of the Report

1. The purpose of this report is to advise the Committee of the urgent decision taken under Section 3 – 47 (4) of the Council's Constitution – whereby an Urgent Decision is one that is considered by the Chief Executive to be necessary to protect the interests of, or advancing the business of, the council. All such actions in all cases are reported to the next appropriate meeting of the District Executive. This decision was made by the Chief Executive, in consultation with the Leader of the Council and the Finance and Legal Services portfolio holder in relation to a submission to the Secretary of State for Communities and Local Government to become a pilot for the 100% Business Rates Retention in 2018/19.
2. Due to timing of the next District Executive the Leader has agreed that this report is presented directly to Full Council.

Public Interest

3. This report impacts on the Council's share of retained business rates retention funding, and the related opportunities and risks. There are two elements to the decision:
 - a) Joining a new Somerset Business Rates Pool for 2018/19 financial year which would apply, if approved by Government, under the 50% Business Rates Retention (BRR) system.
 - b) Applying for Somerset to be a new pilot area for 100% Business Rates Retention in 2018/19.
4. Both options are projected to provide an increase in the amount of funding retained locally, and under the 50% BRR Pool will broaden the risk and risk-sharing across Somerset's county and district authorities.

Recommendation

5. That Full Council:
 - a) Endorse the urgent decision, made by the Chief Executive in conjunction with the Leader of the Council and the Finance & Legal Services Portfolio Holder, that the Council participates in the pooling arrangement with other Somerset authorities (Somerset County Council, Mendip District Council, Sedgemoor District Council, Taunton Deane Borough Council, West Somerset Council) under the 50% Business Rates Retention scheme for 2018/19.

- b) Endorse the urgent decision to apply to Government for the Somerset Business Rates Pool comprising the county and five districts to become a pilot area for 100% Business Rates Retention in 2018/19 financial year.
- c) Approve delegated authority to the S151 Officer, in consultation with the Portfolio Holder for Finance and Legal Services, to decide whether to remain in the Pool, if approved by Government, the 100% BRR Pilot scheme when the Government's Provisional Settlement details are announced in December 2017.

Background

The Pooling System

6. The current 50% Business Rates Retention system was introduced in 2013/14 financial year as part of a wider suite of changes implemented following the Local Government Finance Review. This system has therefore formed a key part of the annual budget setting and reporting for several years.
7. This system includes the potential for groups of local authorities to apply to pool business rates resources. South Somerset District Council joined a business rates pool (comprising SSDC plus Bath and North East Somerset, North Somerset, Somerset County Council (SCC), Taunton Deane Borough Council (TDBC), Mendip District Council (MDC), and Sedgemoor District Council (SDC)) with effect from April 2015. This was considered by District Executive on 4 December 2014 and endorsed by Full Council on 14 December 2014.
8. The previous Pool demised pooling arrangement ended on 31 March 2017, having been in operation for two years, as one of the member authorities became a member of a new pilot for 100% BRR in 2017/18. A smaller pool was formed in 2017/18 comprising SCC, MDC and SDC.

A New BRR Pool for 2018/19 and 100% BRR Pilot Scheme

9. On 1 September issued an invitation to local authorities to pilot 100% business rates retention in 2018/19 – for one year only – and to pioneer new pooling and tier-split models. The prospectus and supporting information is available on the Government's website:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/654936/Pilots_1819_Prospectus.pdf

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/643595/Supplementary_information_pooling.pdf

10. The first set of pilots for 100% BRR were launched in 2017/18. The Government has indicated it would like to see other authorities form pools and apply for pilot status. In assessing applications the Government has set out criteria. This includes aspects that would suggest (but of course not guarantee) the potential for a successful Somerset bid, such as:
 - proposed pooling arrangements operate across a functional economic area i.e. the county council(s) and all relevant district councils
 - the Government is particularly interested in piloting in two-tier areas

- Government intends to focus on rural areas
 - there is a variation in the types of business rates base represented
11. The pilot areas will retain 100% of business rates growth above the baseline. Under the 50% system, half of this growth is paid over to Government. This provides an opportunity therefore to keep more funding locally, and the Government has indicated it is looking for authorities to show how the additional retained resources would be of benefit locally:
 - the proposals would promote the financial sustainability of the authorities involved
 - there is evidence of how pooled income from growth will be used across the pilot area
 12. Following the publication of the prospectus the S151 Officers within the six local authorities in Somerset sought to assess the potential gains from establishing a wider Pool and applying to be a pilot for 100% BRR. We engaged LG Futures, as specialist advisors, to undertake an initial assessment and having considered the analysis, advantages and disadvantages, the S151 Officers believe the case for a countywide pool and becoming a pilot is overwhelming. We therefore considered it was worth investing in further analysis and preparing an application to become a pilot for 100% BRR in 2018/19. We engaged LG Futures on a 'no win no fee' arrangement whereby we will only pay them if our application to become a pilot area is successful.
 13. Ongoing discussions have taken place between S151 Officers and internally at officer and member level within individual local authorities. The S151 Officers do not believe there are any wider impacts either on local businesses or partners requiring consultation.
 14. It is expected DCLG will announce successful applications for new pools and pilot areas through the provisional Local Government Finance Settlement in December 2017. This will set the starting point for the new business rates and will confirm the tariffs, top up and levy rates for each council, together with their spending baselines and should confirm the benefits arising through this pooling arrangement.
 15. Councils have the opportunity, during the 30-day financial settlement consultation period, to decide to withdraw from a pooling arrangement if they decide that it does not offer the benefits they had thought. Through the application to become a 100% BRR pilot we have had to indicate what, if any, pooling arrangement we prefer and at this stage we have indicated that we wish to establish a new Somerset-wide pool even if the pilot bid is unsuccessful.
 16. If following the provisional Local Government Finance Settlement the benefits and risks are no longer favourable the pool application could be withdrawn with no pool in place for 2018/19. In this scenario it is anticipated authorities would have the opportunity to apply to form a new pool in the following or later years if they wish. It is not known whether pilots for 100% BRR will be extended beyond 2018/19, or whether new applications to be a pilot will be invited in later years.

Reasons for an emergency decision

17. The Prospectus was released by Government in September, with a deadline for submissions of 27 October 2017. This provided limited time for the Councils to engage expert support, undertake initial analysis of the potential gain, assess the opportunities and risks, and outline plans for use of the additional resources. The timing of available

information meant an urgent decision was required in order to meet the Government's deadline.

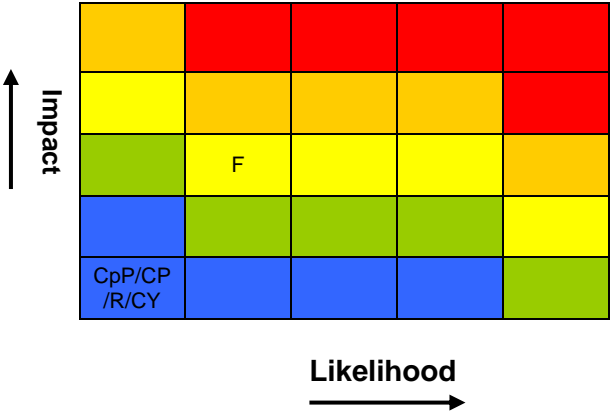
Financial Implications

18. It is important to highlight that the financial implications are based on indicative estimates of future business rates income, which can be affected by a variety of variable factors. The actual financial gains of pooling will not be confirmed until the end of the financial year in question. However the modelling suggests the potential financial benefits are considerable, albeit not without risk.
19. The principle put forward by the authorities within the pool is that each council should be no worse off than if it were to remain outside the pool. This means that the pool shares the risk of maintaining the safety net position for each individual council as a 'first call' on pooling gains. Each council is exposed to risk of volatility in its business rates income, most notably in respect of appeals. Each Council has made financial provisions in respect of any remaining outstanding appeals on the 2010 Valuation List in 2016/17, and will assess the appropriate level of provision required for outstanding appeals prior to the pool coming into existence.
20. The funding baseline, tariffs and top ups for individual authorities and the pool will be confirmed as part of the Provisional Settlement in December, and business rates budgets will be set in January 2017 using up to date information to support the estimates used. This will confirm the expected benefits of pooling and of being a pilot for 100% BRR. The prospectus indicated that the Safety Net for a 50% pool will remain at 92.5% of Baseline, and that under a 100% Pilot the Safety Net would rise to 97% of Baseline – reducing the risk of losses.
21. The Government have recently confirmed that any new 100% BRR pilots for 2018/19 will benefit from a 'no detriment' clause within the funding agreement (as with the five pilots agreed in 2017/18), which will remove the risk of volatility in respect of 100% BRR gains in 2018/19. The fine detail of the 'no detriment' clause will be clarified in practice if the application is successful.
22. The analysis undertaken to assess the potential financial benefits, and potential benefit sharing arrangements, has indicated that a Somerset Pool would benefit by an estimated £4.4m (compared to acting as individual authorities) and a further £10.3m if the bid to be a pilot area for 100% BRR is successful. This is summarised in the table below, with SSDC potentially gaining by approximately £1.0m if projected income estimates prove to be accurate.

	Projected Potential Gain in 50% BRR Pool £m	Projected Additional Gain under 100% BRR Pilot £m	Total Projected Gain if 100% BRR Pilot £m
Mendip	0.8	0.9	1.7
Sedgemoor	1.0	1.1	2.2
South Somerset	0.5	0.5	1.0
Taunton Deane	0.2	0.5	0.7
West Somerset	0.6	0.7	1.3
Somerset County	1.2	6.6	7.8
TOTALS	4.4	10.3	14.7

23. The proposed priority areas for allocating the additional resources are set out in the submission. It is anticipated that the Councils will have some flexibility on specific use, and will demonstrate the benefits to DCLG as part of the learning under the pilot scheme.

Risk Matrix



Key

Categories	Colours (for further detail please refer to Risk management strategy)
R = Reputation	Red = High impact and high probability
CpP = Corporate Plan Priorities	Orange = Major impact and major probability
CP = Community Priorities	Yellow = Moderate impact and moderate probability
CY = Capacity	Green = Minor impact and minor probability
F = Financial	Blue = Insignificant impact and insignificant probability

Corporate Priority Implications

- 24. The financial benefits of pooling for business rates and becoming a pilot for 100% BRR will align with the Financial Strategy approved by District Executive in September 2017, which set out to keep the potential benefits of pooling under review.
- 25. The proposals for investing will complement the corporate priorities of providing high quality and cost effective services and to promote a strong economy with thriving urban and rural businesses.

Carbon Emissions and Climate Change Implications

26. None.

Equality and Diversity Implications

27. None.

Background Papers

Pilot Prospectus – see links within the Background section above
Somerset Business Rates Pilot Proposal and Annex A & B