Report to:	**Cabinet**
Date:	**11th February 2019**
Title:	**East Sussex Business Rates Pilot 2019/20**
Report of:	**Homira Javidi, Chief Finance Officer**
Cabinet member:	**Councillor Bill Giles, Cabinet Member for Finance**
Ward(s):	**All**
Purpose of report:	**To update members on the East Sussex Business Rates Pilot bid for 2019/20.**
Decision type:	**Non Key**
Officer recommendation(s):	**1. The Cabinet agrees that Wealden District Council be nominated as the lead authority;** **2. Agree that Lewes District Council pilots 75% business rates retention resulting in an additional anticipated gain of £0.1m over current pooling arrangements;** **3. Agree that the basic principle that no authority will receive a lower level of funding than they would have received without the pool;** **4. Agree to split resources gained on the growth in business rates on the basis of the split being 26% to ESCC, 5% to the Fire authority and the remaining 44% split amongst the District/Borough Councils;** **5. Agree the financial stability and economic development split of funding; and** **6. Agree that the finalisation of the Memorandum of Understanding is delegated to the Chief Finance Officer.**
Reasons for recommendations:	**The Government has invited councils to apply to be pilots of 75% rates retention. Based on the independent assessment carried out by LG Futures, the Council is anticipated to benefit from the proposed arrangements. This report sets out the background to the pilot and informs Cabinet of the latest position.**
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1 Introduction

1.1 A new funding regime was introduced on 1 April 2013 whereby local authorities effectively retain a proportion of any additional business rate income collected (above inflation) or conversely will experience a reduction in resources if the business rates base declines.

1.2 Under the scheme 50% of business rates is localised through a system of top-ups and tariffs that fix an amount to be paid to high yield authorities and distributed to low yield authorities – the amount being increased annually by inflation (RPI). The proportion retained by individual collection authorities in East Sussex is 40%, 9% is payable to East Sussex County Council, and 1% to the Fire and Rescue authority.

1.3 The 50% central government share is distributed through the formula grant process (now termed Settlement Funding Assessment) – this enabling the government to control the overall amount received by local authorities. Where there is disproportionate growth this will be used to provide a safety net for those authorities experiencing little or negative growth and allows the treasury to top slice business rates income. A reset mechanism will be in the place with the first reset in 2020 and periods of 10 years thereafter.

2 Business Rates Retention Pilot

2.1 The Government continues to work towards transferring control to local authorities over the locally generation business rate income. In December 2017, the government announced the aim of increasing the level of business rates retained by local government from the current 50% to the equivalent of 75% in April 2020.

2.2 In order to test increased business rates retention and aid understanding of how to transition into a reformed business rates retention system in April 2020, the government invited local authorities in England to apply to become 75% business rates retention pilots in 2019/20.

2.3 To ensure that piloting in 2019/20 closely reflects the government's proposals to date for a reformed business rates retention system, authorities selected as pilots in 2019/20 will be expected to forego Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG).

2.4 To help East Sussex councils develop a greater understanding of the potential financial implications of the pilot, LG Futures was commissioned to collate and advise on the financial viability of the scheme, modelling the key risks and identifying appropriate governance arrangements.

2.5 Based on the data, a report on the potential for East Sussex being a 75% Business Rates Retention Pilot was considered by Chief Executives/Directors of respective Councils and the Fire Authority where is was agreed unanimously that an application should be submitted on the basis of the arrangement and recommendations in this report.

2.6 It was announced alongside the Local Government Finance Settlement on

6 December that the East Sussex bid was successful.

3 Outcome expected and performance management

3.1 For the 2018/19 financial year, the County Council, Districts and Boroughs and the Fire Authority are in a 50% Pool. This brings additional resources to the County area as it allows the pool to retain the levy otherwise charged on business rates. Under this arrangement, the retained levy (which is equal to 20% of the total growth) is split 40:50:10 across the County Council, Districts and Boroughs Councils and Fire authority respectively. The split of this gain within a pool area is agreed locally. Without a pool the 50% retained rates growth would be split 9:40:1 respectively, with Districts and Boroughs having to pay 50% of their growth back to central government.

3.2 Table 1 below shows an analysis, based on District and Boroughs (National Non Domestic Return) NNDR1 - January 2018 forecasts, of business rate income in 2018/19 across authorities. Table 2 then shows the potential pilot gain over and above the pool by using the proposed pilot arrangements

Table 1 Current Pooling Gains

Authority	Forecast income £m	Pooling Gain Redistributed £m
	NNDR1 18/19	18/19 Pool Calculation
Eastbourne BC	15.6	0.3
Hastings BC	9.4	0.1
Lewes DC	11.0	0.3
Rother DC	8.4	0.3
Wealden DC	14.7	0.6
East Sussex Fire	1.5	0.3
East Sussex CC	13.3	1.3
TOTAL	**73.9**	**3.2**

Table 2 Potential Pilot Gains

Authority	Current Pool Split with Levy	Split	Pilot income 2019/20 £m	Pilot Gain £m
Eastbourne BC	30%	44%	5.0	0.5
Hastings BC			5.1	0.1
Lewes DC			3.2	0.4
Rother DC			3.4	0.4
Wealden DC			4.7	0.8
East Sussex Fire	3%	5%	8.0	0.3
East Sussex CC	17%	26%	81.8	1.7
TOTAL	**50%**	**75%**	**111.2**	**4.2**

3.3 In brief the financial case for a pilot is compelling, the gain for Lewes from the above modelling results shows that there could be an additional £100,000 for 2019/20.

3.4 The pilot retention percentage related to growth only, not all rates. When agreeing to become a pilot, grant income relating to RSG and RSDG will be rolled in for East Sussex. Therefore the risk is that retained growth does not cover the guaranteed grant income and the area could be worse off than if it operated under 50% arrangements.

3.5 There will be a Safety Net set at 95%, to reflect the additional risk locally that 75% retention introduces, and this will apply pilot wide and not to individual authorities. The safety net under the 50% scheme is 92.5.%.

3.6 The business rate base in East Sussex is largely supermarkets and retail and there is no one single or few large hereditaments that make up this yield. This means for East Sussex there would have to be a national event for business rates to fall significantly.

4 Splitting the Gains/Losses form Pooling

4.1 The allocation of resources is based on the following principles and are set out in the Memorandum of Understanding agreed by all the participating authorities.

4.2 Each individual authority, if resources allow, will receive at least the same level of funding they would have received without the 75% Pool (i.e. Authorities acting as a 50% pool).

4.3 Any additional resource that is generated will be shared by pool members using the basis of allocation below. This allocation methodology looks to rewarding members of the pool for achieving business rate growth.

4.4 The underlying basis of allocation is as follows:

a) The running costs of the pool, if any, will be initially paid by the lead authority and will be paid to them on a pro rata basis (based on the increased resources from being in the pool)

b) If after (a), there are still resources to be distributed, then authorities will retain their own growth, based on the following local shares:

Tier	Proportion
County	26%
District	44%
Fire	5%
Total	**75%**

c) Where the pool makes a loss, the loss will be funded by each Pool Member proportional to the cash amount that would have been received from central government if the Pool arrangement was not in operation from the business rate retention scheme.

4.5 Wealden DC is currently the lead authority for the current pooling arrangement and are prepared to undertake that role for the 75% Pilot. It has already been agreed that LG Futures will be contracted to advise the pool in 2019/20, and this will provide a degree of objectivity and impartiality for all parties, the very limited costs being shared equally between the seven authorities.

4.6 The government have an expectation that pilot Councils will demonstrate how they will use the gains to benefit their local area. In relation to the Lewes District Council, the Chief Finance Officers recommend the following:

a) Financial Stability Element - equivalent to 50% gain under the current pooling arrangements – (£300,000)

b) The Economic Development Element – this will be the 25% additional gain from the pool – (£100,000)

5 Financial appraisal

5.1 There are some very significant additional resources available as identified in this report. A pan East Sussex pilot is seen as ideal given the potential use of some or all of the monies for economic development within the area.

5.2 The latest modelling indicated that Lewes District Council could receive an additional £100,000 from being a member of an East Sussex Business Rates Pilot.

6 Legal implications

6.1 Rates Pooling is permitted by virtue of Part 9, Schedule 7B, Local Government Finance Act 1988 as amended.

7 Risk management implications

7.1 The key risk revolves around the reduction in the business rate taxbase. This could arise as a result of recession, companies closing down, or the level of rating appeals that are still outstanding resulting in larger then estimated reductions in rateable values. The report by LG Futures considers that the risk of an overall loss from losing two of the highest ratepayers for a region, without warning, and for a whole year, is unlikely. Likewise in terms of the economic picture, this is currently improving with growth in the business rates base being forecast locally in 2019/20.

7.2 The level of risk is linked to the size of the forecast gain, with the higher forecast gain, the lower the risk.

7.3 The pool is treated as single authority and all risks and rewards are shared, therefore any loss by one member will reduce the income of the others.

8 Equality analysis

8.1 There are no equality implications to this report.

9 Appendices

Appendix 1 - East Sussex Business Rate Pool – Memorandum of Understanding

10 Background papers

None