

REPORT TO CABINET

Open		WOULD ANY DECISIONS PROPOSED :		
Any especially affected Wards None	Mandatory	(a) Be entirely within Cabinet's powers to decide	Yes	
		(b) Need to be recommendations to Council	No	
		(c) Be partly for recommendations to Council and partly within Cabinet's powers	No	
Lead Member: Councillor Brian Long E-mail: cllr.brian.long@west-norfolk.gov.uk		Other Cabinet Members consulted:		
		Other Members consulted:		
Lead Officer: Lorraine Gore E-mail: lorraine.gore@west-norfolk.gov.uk Direct Dial: 01553 616432		Other Officers consulted: Management Team		
Financial Implications YES	Policy/Personnel Implications NO	Statutory Implications (incl S.17) NO	Equal Opportunities Implications NO	Risk Management Implications YES

Date of meeting: 17 October 2017

Business Rates Pilot 2018-2019

Summary

The Department for Communities and Local Government (DCLG) published the business rates pilot prospectus on 1 September 2017. This included an invitation to Local Authorities to apply to pilot 100% business rates retention in 2018-19. The Government invitation sets out that it is particularly interested in piloting in two-tier areas and wishes to focus on rural areas. It is proposed that Norfolk County Council take forward an application for pilot status in conjunction with Norfolk districts.

RECOMMENDATION

- 1) That Cabinet approve that the Council participate in an application to DCLG for a Business Rates Pilot for Norfolk in 2018-2019.
- 2) That Cabinet delegate to the Leader, Chief Executive and Executive Director – Financial Services (S151 Officer) to agree the final details of a pilot bid in consultation with the other Norfolk Authorities.
- 3) That Cabinet note that the Norfolk Business Rates Pool will be discontinued in the event of a successful pilot application.

Reason for Decision

To submit an application to DCLG for a Business Rates Pilot for Norfolk in 2018-2019 by the deadline of 27 October 2017.

1. Introduction

- 1.1. The Department for Communities and Local Government (DCLG) published the business rates pilot prospectus on 1 September 2017. This included an invitation to Local Authorities to apply to pilot 100% business rates retention in 2018-19. The Government invitation sets out that it is particularly interested in piloting in two-tier areas and wishes to focus on rural areas. The full documents can be accessed here: [100% Business Rates Pilot 2018-2019](#).
- 1.2. Norfolk County Council proposes to take forward an application for pilot status in conjunction with Norfolk districts, subject to district support. In the event that any Norfolk district is not supportive of an application, it appears unlikely that DCLG would approve a pilot and so the County Council would only wish to proceed on the basis of all districts participating.

2. The Opportunity For Norfolk

- 2.1. Norfolk meets the Government criteria for new business rates pilots. The Government is particularly interested in piloting in two-tier areas and wishes to focus on rural areas.
- 2.2. All Norfolk districts are currently forecasting to receive business rates in excess of their Settlement business rates baselines for 2018-19. These forecast levels of business rates allow a Business Rates Pool to be beneficial, with Norfolk predicted to retain an additional £4m of business rates in saved levy payments.
- 2.3. Under the current 50% rates retention system, central Government receive half of the growth in Norfolk's business rates. By piloting 100% business rates retention, Norfolk local authorities would retain the central Government share of rates growth. This is the financial benefit of becoming a pilot for Norfolk. Current forecasts indicate that this could be around £10m in 2018-19. This would be a one-off benefit as the pilot prospectus indicates that pilots will be offered for one year only.
- 2.4. The pilot would not take into account any changes in the Council's baseline funding as part of the Fair Funding Review which is expected to be implemented alongside the full 100% Business Rates Retention Scheme in future years. The benefit would be a one-off for 2018-2019.
- 2.5. The pilot would also not take into account any future changes to responsibilities which may be devolved from central government to be funded through 100% Business Rates Retention.

- 2.6. The pilot prospectus states that “*authorities selected as pilots for 2018-19 will be expected to forego Revenue Support Grant (RSG) and Rural Services Grant*”. This means that the Norfolk Pilot would provide “core” funding for £246m of services before the benefit of any retained growth. The pilots still operate within the system of tariffs and top-ups to adjust for differences between funding levels and business rates collected. Government baselines expect Norfolk to collect £262m business rates in 2018-19 so the Norfolk pilot would be in a tariff position of around £16m.

Table 1: 2018-2019 Multi-year settlement figures for Norfolk local authorities

Local Authority	Baseline Funding Level	Revenue Support Grant	Rural Services Grant	Total funded through Pilot
	£m	£m	£m	£m
Norfolk County Council	149.424	58.035	2.458	209.917
Breckland	3.817	1.071	0.292	5.179
Broadland	2.772	0.438	0.000	3.210
Great Yarmouth	3.702	2.545	0.000	6.247
Kings Lynn and West Norfolk	5.293	1.270	0.286	6.849
North Norfolk	3.109	0.536	0.299	3.943
Norwich	5.771	0.982	0.000	6.753
South Norfolk	3.009	0.417	0.176	3.602
NORFOLK	176.896	65.294	3.510	245.700

Table 2: Forecast tariff position 2018-2019

Local Authority	Business Rates Baseline	Expected Rates Take	Total funded through Pilot	Pilot Tariff
	£m	£m	£m	£m
Norfolk County Council	26.233	0.000	209.917	
Breckland	12.048	30.120	5.179	
Broadland	11.516	28.789	3.210	
Great Yarmouth	11.901	29.752	6.247	
Kings Lynn and West Norfolk	16.082	40.204	6.849	
North Norfolk	10.776	26.940	3.943	
Norwich	31.609	79.022	6.753	
South Norfolk	10.920	27.301	3.602	
NORFOLK	131.084	262.128	245.700	-16.428

- 2.7. If an application for a Norfolk pilot for 2018-2019 is approved, the existing Norfolk Business Rates Pool will be superseded and dissolved. The forecast £4m saved levy benefit would go to the pilot and not the pool. The governance arrangements of the pilot will need to set out how the gain and loss of all business rates growth and decline, including this £4m, is split between Norfolk's local authorities.

Table 3: Forecast Business Rates

Local Authority	Expected Rates Take	2018-19 Forecast Rates	2018-19 Forecast Rates over Baseline
	£m	£m	£m
Norfolk County Council	0.000	0.000	0.000
Breckland	30.120	33.898	3.778
Broadland	28.789	31.067	2.278
Great Yarmouth	29.752	31.752	2.000
Kings Lynn and West Norfolk	40.204	43.944	3.740
North Norfolk	26.940	29.924	2.983
Norwich	79.022	79.259	0.237
South Norfolk	27.301	32.867	5.566
NORFOLK	262.128	282.711	20.582

Table 4: Value of growth forecast 2018-2019

Local Authority	Forecast Growth Currently retained by Districts (20%)	Forecast Growth Currently retained by County (10%)	Forecast Saved Levy Currently retained via Business Rates Pool (20%)	Forecast "Gain" to Pilot (50%)
	£m	£m	£m	£m
Norfolk County Council	0.000	2.058	0.000	0.000
Breckland	0.756	0.000	0.756	1.889
Broadland	0.456	0.000	0.456	1.139
Great Yarmouth	0.400	0.000	0.400	1.000
Kings Lynn and West Norfolk	0.748	0.000	0.748	1.870
North Norfolk	0.597	0.000	0.597	1.492
Norwich	0.047	0.000	0.047	0.118
South Norfolk	1.113	0.000	1.113	2.783
NORFOLK	4.117	2.058	4.117	10.291

Table 4: Summary of proposed impact on all business rates growth forecast for 2018-19

Element of Growth	Forecast 2018-19 Value £m	Under current arrangements	Under Pilot proposed arrangements
Saved Levy	4.117	Spent on economic development projects	Retained in Norfolk – distribution to be agreed by Norfolk authorities
District share of growth	4.117	Retained by relevant district	Retained in Norfolk – distribution to be agreed by Norfolk authorities
County share of growth	2.058	Retained by county	Retained in Norfolk – distribution to be agreed by Norfolk authorities
Central share of growth	10.291	Retained by Government	Retained in Norfolk – distribution to be agreed by Norfolk authorities
Total	20.584		

2.8. The pilot prospectus states that Government “particularly want to see additional growth being used to promote the financial stability and sustainability of the pooled area. In addition, we would expect some retained income from growth to be invested to encourage further growth across the area”.

2.9. It is proposed **that additional funding retained through the pilot should be targeted at promoting financial stability and sustainability, while the value of what would have been the saved levy continues to be spent on economic development projects.** This would align with the Government’s stated pilot criteria and mean that pool spend on economic development does not disappear following the establishment of a pilot. The pilot governance arrangements will need to set out how the remainder of the business rate growth, and indeed any deficit in times of business rate decline, is distributed. **This would mean district councils continue to have the opportunity to bid for a significant proportion of rates growth** retained in Norfolk to support further economic development in the region.

3. Key issues

3.1. **Timescales:** The deadline for pilot applications is Friday 27th October 2017. This is a very short window for Norfolk authorities to all agree on a pilot proposal.

- 3.2. **Scope:** The pilot prospectus sets out an expectation for pilots to cover “functional economic areas”. It is unclear what Government would consider the Norfolk functional economic area to be. If the Government considers it to be Norfolk and Suffolk there will be a need to consider Suffolk local authorities’ thoughts on piloting and potentially the New Anglia LEP view.
- 3.3. **Tier split:** All authorities will need to come to an agreement on how to share the rewards and risks of Norfolk business rates growth and decline.
- 3.4. **Risk:** For the 2017-18 pilots, the Government agreed a ‘no detriment’ clause, guaranteeing that these areas will not be worse off as a result of participating in the pilot. However, the Government has not guaranteed the inclusion of a ‘no detriment’ clause for the 2018-19 pilots. Any pilot application will need to make clear whether or not we would be willing to proceed without the benefit of ‘no detriment’. Presumably bids will be more likely to be successful without the benefit of ‘no detriment’. Should a Norfolk bid proceed without a ‘no detriment’ clause, Norfolk local authorities would have to agree how to fund any reduction in rates up to the level of the pilot safety net. The pilot safety net is 97% of baseline funding level across Norfolk, meaning the unfunded risk to the pilot is a potential £7.371m below baseline funding levels.
- 3.5. **Governance:** The Government is looking to test authorities’ governance and administration arrangements to learn from the pilots’ experiences. Predicting business rates income is difficult and local authorities are dependent on third party software. The move to 100% rates retention will mean local authority budget setting is further dependent on business rates forecasting and impacted more by the volatility of the business rates system. There will also be complications and areas to clarify around the workings of the new system, such as the continuation of Section 31 grant payments. Norfolk authorities share forecasts for the current business rates pool and continued collaboration will be required between local authority officers. A decision will need to be made on the lead authority for the pilot. The County carries out this function for the pool and is willing to do so for any pilot bid, but district officers have more knowledge of detailed business rates workings and forecasting, so close collaboration will be required whatever model is adopted.
- 3.6. **Competition:** There will be competition to become a pilot from other areas looking to gain financially and central Government will only be able to fund a limited number of pilots. Thought will need to be given to what our ‘offer’ is to Government.

4. Financial Implications and Risks

- 4.1 There are a number of financial risks which need to be considered, although it should be noted that there are similar risks in respect of the current pooling arrangements
- 4.2 There is a potential risk from a decline in business rates. The pilot collectively would need to fund any reduction in rates up to the safety net level. Funding would fall by £7.371m below baseline funding before DCLG would pay the pilot a safety-net. This (plus any growth already built in as part of 2018-19 budget planning) is the financial risk exposure the pilot would face. The business rates pool has a £1m volatility fund which, if still available, could be carried into the pilot to cover part of this risk. The 2017-18 business rates pool is also forecasting a saved levy of around £4m. If a pilot were to proceed and rates forecasts significantly reduced in early 2018-19, the pilot would need to look to set aside some of this £4m to further mitigate this risk.
- 4.3 However it should be noted that the current forecasts for business rates income are significantly above the 97% safety net position. The minimum funding level under a pilot is higher than under the 50% system where the safety net position is 92.5%. There are similar risks around the current pooling arrangements.
- 4.4 While a risk sharing approach has not yet been agreed early discussions have proposed that this would be met on the basis of the share distribution. BCKLWN hold a Business Rates Reserve based on the current safety net position of 92.5%. Distribution of the 'gain' from the pilot in 2018-2019 would not be made until 2019-2020 when the actual figures were confirmed and after any safety net adjustments.

Table 5: Safety net estimate of financial risk

Expected Rates Take (a)	£262.128m
Pilot Tariff (b)	-£16.428m
Baseline funding through pilot (c) = (a+b)	£245.700m
Pilot Safety-net (d) = (c x 97%)	£238.329m
Amount below baseline funding before safety-net (d-c)	-£7.371m

- 4.5 Business rates income is difficult to estimate a year in advance and decisions on whether to bid for pilot status will be based on uncertain forecasts. There remains continued uncertainty around business rate income and local authorities have little control around appeals and applications for relief. An adverse decision on NHS Trust relief applications alone would put Norfolk business rates below baseline levels. It is proposed that a Norfolk pilot application could be progressed on the basis that a 'no detriment' clause would not be required. This approach would be on the basis that the Government separately guarantees/underwrites the pilot against the potential impact of a negative outcome to the NHS appeals process.
- 4.5 There is a potential for the Norfolk Fire Service to leave the remit of Norfolk County Council and become part of the Police and Crime Commissioner's office. This would present further complications for distribution of funding in any Norfolk business rates system.
- 4.6 A Business rates pilot in 2018-2019 would generate a one-off net gain of £10m for Norfolk and an application to DCLG is supported.
- 4.7 An agreement on the basis of distribution of the net gain has not yet been confirmed. The table at Appendix 1 sets out the preferred option for BCKLWN. The distribution is based on:

Current distribution of growth to continue as under the 50% scheme

£4m	To districts based on current distribution of growth
£2m	To county based on current distribution of growth
£4m	Economic Development projects as existing pool arrangements

Distribution of the net £10m gain to be on the following basis

£5m	To county	50%
£2.5m	To districts in equal shares	25%
£2.5m	To districts on the basis of % of growth achieved	25%

- 4.8 It is recommended that Cabinet delegate to the Leader, Chief Executive and Executive Director – Financial Services (S151 Officer) to agree the final details of a pilot bid, including the distribution basis in consultation with the other Norfolk Authorities.

5 Proposed Timetable

Detailed pilot design circulated for review for Chief Executive meeting on 19 October	w/c 9 October 2017
Leader / Member sign-off of bids	October
Pilot bid submitted to DCLG	27 October 2017
Successful pilots announced in Local Government Finance Settlement	December 2017
Pilots launched	April 2018

Appendix 1

As current arrangements

	County retained growth (a)	District retained growth (b)	Economic Dev Projects (c)	District retained share of growth (d)	District equal share of growth (e)	County share of growth (f)	Total 100% BRR Share of Growth		Forecast 'gain' from piloting
	£m	£m	£m	£m	£m	£m	£m	%	£m
Breckland		0.756		0.473	0.368		1.596	7.75%	0.840
Broadland		0.456		0.285	0.368		1.109	5.39%	0.653
Great Yarmouth		0.4		0.250	0.368		1.018	4.94%	0.618
Kings Lynn and West Norfolk		0.748		0.468	0.368		1.583	7.69%	0.835
North Norfolk		0.597		0.373	0.368		1.338	6.50%	0.741
Norwich		0.047		0.029	0.368		0.444	2.16%	0.397
South Norfolk		1.113		0.696	0.368		2.176	10.57%	1.063
Norfolk County Council	2.058					5.146	7.204	35.00%	5.146
Economic Development			4.116				4.116	20.00%	0
	2.058	4.117	4.116	2.574	2.573	5.146	20.584		10.291