

Executive Decision Report

Bid to become a Business Rates Pilot

Decision to be taken by: **City Mayor**

Decision to be taken on: 14 September 2018

Lead director: **Director of Finance**



City Mayor

Useful Information

- Ward(s) affected: All
- Report author: Mark Noble
- Author contact details: mark.noble@leicester.gov.uk
- Report version number:

1. **Summary**

- 1.1 The Government has invited local authorities to bid to pilot 75% business rates retention. This report seeks authority to decide whether or not to take part in a county wide bid.

2. **Recommendations**

- 2.1 The City Mayor is asked to authorise the submission of a bid for pilot status for the planned 75% Business Rates Retention Scheme as outlined in the report.

3. **Business Rates Retention**

- 3.1 Since 2013/14, local authorities have retained 50% of business rates raised in their areas. This is now an integral part of the local government finance system, and less Government grant is received as a consequence. Retained business rates are shared between the different tiers of local government: in the city area, we receive 49%.
- 3.2 In 2020/21, the system of local government finance will change. The Government was, for some time, planning to introduce 100% business rates retention, but this would have required primary legislation. Plans to achieve it were included in the Local Government Finance Bill, but this was dropped from the legislative programme after the 2017 General Election.
- 3.3 The Government now plans to increase the rate of business rates retention to 75% in 2020/21, which can be achieved without primary legislation.
- 3.4 The Government is seeking bids from authorities to pilot 75% business rates retention, during 2019/20. A number of pilots are already operating, although these are piloting 100% business rates retention. The Government now wishes to explore, with pilot authorities, how 75% retention can operate across more than one authority to promote financial sustainability and to support coherence and strategic decision making across functional economic areas.

3.5 In order to bid for pilot status, authorities must form “business rate pools”, and bid jointly to become a pilot. The City and the county authorities already have a rates pool.

3.6 The business rates pool has been working successfully. Rates growth retained which would not otherwise have been available is paid to the LEP (after setting aside a contingency). £6m has so far been transferred.

4. **A possible Leicester and Leicestershire Bid**

4.1 At the time of writing, the authorities in the pool are considering a bid for pilot status. A bid was submitted for pilot status in 2018/19, which was unsuccessful. We are advised that this will not disadvantage us in the current round.

4.2 The benefits of a bid are likely to be an opportunity to influence the Government’s thinking, creation of more opportunities for joint working, and an expectation of financial benefit through retaining more rates growth. On present estimates, the pilot would secure some £14m for the sub-region.

4.3 However, a bid will not be without risk. In earlier waves of pilots, the Government guaranteed that pilot authorities would suffer “no detriment” – i.e. would be no worse off than they would have been had they not participated. This time, a “no detriment” clause will not be available. However, there would need to be a substantial decline in rates income across Leicester/Leicestershire before the authorities would lose money.

4.4 The Government did not issue a request for bids until 24th July, and require completed bids by 25th September: there is little time for discussion between the authorities.

5. **Financial Implications**

5.1 If Leicester and Leicestershire succeed in becoming a pilot, it is expected that:-

- (a) There will be an increased level of income for Leicester and Leicestershire as a whole – the split of this extra income is yet to be determined;
- (b) There will be increased risk, but modelling to date suggests significant reductions in current levels of rates will be required before the authorities would be worse off through participating;
- (c) The composition of our income will change: because 50% of rates will no longer be paid to central government, it is expected that Revenue Support Grant will cease to be paid, and the level of our top-up grant will be affected;
- (d) The pilot will last for one year only.

5.2 **Legal Implications (Emma Horton)**

There will be a need for a collaboration agreement to be agreed with the County and districts with regards to this process if the bid is successful. This document will be crucial in terms of underpinning the basis upon which we work together. It should be noted that, at least logistically, agreement with the other authorities as to terms of an agreement will be difficult and therefore this should be brought forward as early as possible.

The current pooling arrangements are subject to an agreement between the local authorities. Arrangements should mirror that as far as possible to ensure consistency of arrangements.

6. **Background Information and other papers**

MHCLG: "Invitation to Local Authorities in England" published July 2018.

7. **Summary of Appendices**

None.

8. **Is this a private report?**

No.

9. **Is this a "key decision"?**

Yes.

10. **If a key decision please explain reason**

May result in significant one off savings of more than £500k for the Revenue Budget.

11. **Details of Scrutiny**

None.