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Cabinet

Agenda item 14

Date: Tuesday, 4 October 2016

Time: 4.00 pm

Venue: Conference Hall - City Hall, College Green, Bristol, BS1 5TR

Distribution:

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Date: Friday 30 September 2016

Agenda Item 14

14. 100% Business Rates Retention Pilot (urgent item)

Report attached **(Pages 3 - 15)**

Executive Summary of Agenda Item No. 14

Report title: 100% Business Rates Retention - Pilot
Wards affected: City Wide
Strategic Director: Anna Klonowski – Interim Strategic Director – Business Change
Report Author: Annabel Scholes – Interim Service Director Finance & S151 Officer

Recommendation for the Mayor's approval:

1. Subject to the West of England devolution arrangements being implemented, approve in principle Bristol joining a 100% business rate retention pilot with B&NES and South Gloucestershire in 2017-18, subject to the Cabinet Member for Finance Governance and Performance and the Interim Service Director Finance (S151 Officer) being satisfied as to the terms relating to the pilot.

2. Delegate the final decision on the terms of the pilot to the Interim Service Director Finance & S151 Officer in consultation with the Cabinet Member for Finance, Governance and Performance, following DCLG issuing a detailed proposal later in September 2016.

3. Approve the funding streams that are proposed for the 100% business rate retention pilot.

Key background / detail:

a. Purpose of report:

The Government is introducing pilot schemes in 2017-18 in advance of full 100% business rate retention later in the parliament. Only authorities with signed devolution deals are eligible to be in a pilot: the pilot for the West of England would therefore include Bath and North East Somerset (B&NES), Bristol and South Gloucestershire. The 100% pilot would give the West of England the opportunity to retain 100% of any business rates growth over the next 2-3 years, with no downside financial risk. It also gives the West of England the opportunity to help shape the national scheme. This report sets out the benefits of Bristol joining the Pilot.

b. Key details:

1. The Government is introducing pilot schemes in 2017-18 in advance of full 100% business rate retention later in the parliament. Only authorities with signed devolution deals are eligible to be in a pilot: the pilot for the West of England would therefore include Bath and North East Somerset, Bristol City Council and South Gloucestershire Council. The 100% pilot would give the West of England the opportunity to retain 100% of any business rates growth until the 100% business rate retention is introduced nationally in 2-3 years, with no downside financial risk. It also gives the West of England the opportunity to help shape the national scheme.

2. In the existing business rates scheme, 50% of business rates is retained locally, and the other 50% is paid over to the Government. In the proposed 100% pilot, all of the business rates collected locally would be kept locally. Bristol City Council's share would increase from 49%

to 94%, giving it the bulk of locally collected business rates. New funding streams will be devolved to BCC in return for the higher retention rate, and there will be an adjustment to the Council's tariff so that the pilot is fiscally neutral. Under the proposed pilot, the newly-formed combined authority will have a 5% share of business rates (to pay for the funding streams that will be devolved to it). Avon Fire Authority will continue with its 1% share.

3. The 100% pilot would give Bristol City Council the opportunity to retain more of the growth in business rates that is generates. Firstly, Bristol City Council would retain 94% of any growth in business rates compared to the current 49%. Secondly, there would be no levy on any above-baseline growth in business rates (currently the Government deducts a levy – 9% - from any growth generated in Bristol).

4. It is expected that 100% business rate retention will be introduced nationally in 2020-21, and possibly as early as 2019-20. At that point, the pilot will end and Bristol City Council, along with the other councils in the pilot, will join the full national scheme. The terms of the pilot will cease at that point and might be changed to conform with the full national scheme. Enterprise zones will be unaffected by both the pilot and the introduction of 100% retention nationally.

5. The Government has proposed a "no detriment" provision for the 100% pilot to ensure that, if business rate income is lower than expected, Bristol City Council and the West of England pilot would be no worse off than had it been operating the existing 50% rate-retention scheme.

6. Current estimates suggest a potential net gain in retained business rates for Bristol of between £1.2m and £6.0m prior to any adjustments for losses.

Cabinet

4 October 2016

Report Title: *100% Business Rates Retention – Pilot*

Ward: *City Wide*

Strategic Director: *Anna Klonowski – **Interim Strategic Director – Business Change***

Report Author: *Annabel Scholes – Interim Service Director Finance & S151 Officer*

Contact telephone no. & email address *0117 3521289*
Annabel.scholes@bristol.gov.uk

Purpose of the report:

The Government is introducing pilot schemes in 2017-18 in advance of full 100% business rate retention later in the parliament. Only authorities with signed devolution deals are eligible to be in a pilot: the pilot for the West of England would therefore include Bath and North East Somerset (B&NES), Bristol and South Gloucestershire (SC). The 100% pilot would give the West of England the opportunity to retain 100% of any business rates growth over the next 2-3 years, with no downside financial risk. It also gives the West of England the opportunity to help shape the national scheme. This report sets out the benefits of Bristol joining the Pilot.

Recommendation for the Mayor's approval:

1. *Subject to the West of England devolution arrangements being implemented, approve in principle Bristol joining a 100% business rate retention pilot with B&NES and South Gloucestershire in 2017-18, subject to the Cabinet Member for Finance Governance and Performance and the Interim Service Director Finance (S151 Officer) being satisfied as to the terms relating to the pilot.*

2. *Delegate the final decision on the terms of the pilot to the Interim Service Director Finance & S151 Officer in consultation with the Cabinet Member for Finance, Governance and Performance, following DCLG issuing a detailed proposal later in September 2016.*

3. *Approve the funding streams that are proposed as detailed in Table 4 for the 100% business rate retention pilot.*

The proposal:

Overview

The Government is setting up a number of pilots in 2017-18 to help understand how 100% business rate retention would work in practice. 100% business rate retention will be brought-in across England by the end of this parliament, most likely in 2020-21, but possibly a year earlier in 2019-20. Only areas with ratified devolution deals are eligible for the 100% pilot.

It is understood that the other areas in negotiation for a pilot are: Greater Manchester, Liverpool City Region, Sheffield City Region and Cornwall. For the pilot authorities themselves, the pilot offers the opportunity to increase the amount of business rate growth that is retained locally for at least two years.

Existing business rate arrangements

Currently, Bristol City Council retains 49% of business rates collected with 1% going to the Fire Authority. The other 50% is returned to government alongside the same from all other collecting authorities. Government then use that money in its entirety to fund local government through Revenue Support Grant or other specific grants.

Each year the Government makes three calculations in respect of business rates.

Firstly, government sets a baseline for business rate collection for each local authority. This was last set in 2013/14 and is based on a percentage of the overall national business rates expected to be collected nationally. It is increased annually by RPI (at present).

The percentage for any one authority is based on that authority's historic business rates collection averaged over a number of years.

Secondly, the government will then calculate the baseline funding level based on information about each local authority and their requirement for funding for services.

Thirdly, tariffs and top-ups are then calculated**.** A local authority must pay a tariff if its individual authority business rate baseline is greater than its baseline funding level. Conversely, a local authority will receive a top-up if its baseline funding level is greater than its individual authority business rate baseline.

Currently Bristol City Council pays a tariff of £450k.

Tariffs and top-ups will be fixed until the business rates retention system is reset and are increased by RPI each year.

Proposed pilot scheme

The government is intending that from 2020 local authorities will keep the contribution from business rates that previous was paid to government and from which government funded local authorities. This will mean that local authorities would no longer receive RSG and a number of other grants. Instead, the cost of running a local authority will be paid for from the business rates generated in that authority area.
Such a scheme will require some checks and balances going forwards and the government has recently closed a consultation on a number of matters such as:

- Growth – and how to incentivise growth;
- Baselines - how they are set;
- Appeals – how the system is set up;
- Recession indicators and safety nets;
- New responsibilities and funding;
- Taxation flexibilities;
- Area-based settlements and combined authorities;

Bristol City Council has been provided with an opportunity to participate in a pilot with SGC and BANES so that for at least the period of 2017/18 to 2018/19, the three authorities will keep 100% of business rates collected across their areas. This money will be retained in a local pool to be redistributed less any payments that are required to fire authorities and the Mayoral Combined Authority.

This arrangement will mean that the authorities will not receive RSG or a number of grants for transport, which instead will be funded from the additional business rates collected for the pilot.

Distribution of business rate income

Allocation of the business rates income from the 100% pilot to individual authorities would be on the basis of (a) the amount of retained rates the authority would have achieved under the existing 50% scheme, and (b) distribution of any remaining surplus based on the contribution from each authority.

Table 1 shows the projected income to each authority arising from these two allocations described above.

This assumes that business rate income is maintained at the current baseline which was set in 2013/14. In the table below the £1.458m attributed to Bristol City Council is the amount that the authority would have received under the existing scheme (column a) and the £1.186m is the additional funding arising from being in the pilot assuming that no growth has occurred since the setting of the baseline in 2013/14 (column b).

Table 1 – Distribution of business rates income from 100% West of England Pilot at baseline

	a) Estimated surplus from existing 50% scheme	**b) Distribution of estimated additional surplus from 100% scheme**	**Total**
	£m	**£m**	**£m**
Bath and North East Somerset	0.209	0.150	0.359
Bristol City Council	1.458	1.186	2.644
South Gloucestershire	0.482	0.344	0.826
Mayoral Combined Authority	0.000	0.250	0.250
Total	**2.149**	**1.930**	**4.079**

Benefits from the 100% pilot

There are two key benefits from the 100% business rate retention proposal. Firstly and growth in business rate income above the baseline will all be kept by the authorities rather than being shared with government and secondly because a levy would no longer be payable on the additional business rates received as would have happened under the existing scheme.

The table below provides an example where each authority collects £1m more than their baseline and the effect upon the funding for each authority compared to current arrangements. In this example, total, retention would be approximately three times higher across the three authorities (£2.970m compared to £1.036m) because (a) 100% of local growth is retained rather than 50% and (b) there is no levy on growth.

Table 2 Additional amounts retained locally in 100% pilot

	Additional business rates income generated	Existing 50% retention scheme	100% Pilot	Additional retention
	£m	£m	£m	£m
Bath and North East Somerset	1.000	0.336	0.940	0.604
Bristol City Council	1.000	0.442	0.940	0.498
South Gloucestershire	1.000	0.258	0.940	0.682
Mayoral Combined Authority			0.150	0.150
TOTAL	**3.000**	**1.036**	**2.970**	**1.934**

Bristol has estimated growth from the baseline in 2013/14 to the end of 2016/17 of £9.6m. Using the calculation from table 2, i.e. a gain of £0.5m per £1m growth, this would indicate an estimated increase in income from business rates of £4.8m. This coupled with the additional surplus from table 1 of £1.2m would suggest a total gain of £6.0m (prior to adjustments for losses).

It should be noted that from the start of the pilot, provision would need to be made for losses arising from the whole of the collected business rates, therefore a full review will be undertaken before any potential gain could be incorporated into the MTFP. These would be losses such as appeals, write offs and provision for bad debt.

“No detriment” arrangements

DCLG has proposed a “no detriment” provision. The intention is to ensure that the local authorities in the Pilot are collectively no worse off than had they stayed in the existing 50% retention scheme.

The pilot arrangements mean that the three authorities’ financial position and any potential gains from this pilot arrangement are shared on a collective risk and reward basis. This means that if any individual authority requires safety net funding under table 1 (column a), then this would have to be deducted from the surplus before any distribution in table 1 (column b).

It is important to note that the “no detriment” provision would protect the pilot as a whole. This works by ensuring that, if any individual authority was worse-off than it would have been in the existing 50%

scheme, then the other authorities would contribute to bring that authority back up to the same level of funding as in the 50% scheme using the increased receipt of business rates under 100% as the resource.

If the total income received under 100% retention was not enough to ensure that each authority would receive the same level of funding as under the existing 50% scheme, Government would provide funds to top up. The funding covered by this guarantee is the base level business rate income plus previously received grant funding detailed in table 4.

Specific arrangements for West of England Pilot

It is proposed that the local retention share in the West of England would increase from its current 50% to 100% in 2017-18. Proposed local shares for the relevant local authorities would be:

Table 3 – Proposed local share for Pilot authorities

	Current local share (2016-17) %	Pilot local share (2017-18) %
Bath and North East Somerset	49	94
Bristol	49	94
South Gloucestershire	49	94
Combined Authority	0	5*
Avon Fire Authority	1	1
Local Share	**50**	**100**

*estimate – to be confirmed once terms of devolution are finalised

The West of England is proposing the transfer of the following funding streams in 2017-18:

Table 4 – Proposed funding transfers to the Pilot in 2017-18

	Amount (£m)	Department
Revenue Support Grant	65.958	Department for Communities and Local Government (DCLG)
Public Health Grant	52.136	Department of Health (DH)
Highways Maintenance Formula Funding	11.328	Department for Transport (DfT)
Integrated Transport Block*	5.183	Department for Transport (DfT)
Highways Maintenance Incentive Formula*	1.061	Department for Transport (DfT)
Total (all three authorities)	**135.666**	

From recent information from DCLG (22 September 2016), it is looking very unlikely that the Department of Health will allow the funding of Public Health grant from business rates in 2017-18. However, it is likely to approve its inclusion in the Pilot in 2018-19, when the ring-fence on the grant is removed nationally. We are awaiting final confirmation from the Department for Transport that the highways maintenance capital funding can be included in the Pilot (22 September 2016).

It should be noted that the highways funding (marked with an *) would actually be retained by the Mayoral Combined Authority (MCA). The MCA would retain 5% of the business rates in the pilot to fund the

transferring highways grants. The MCA would also benefit from any growth in business rates within the Pilot.

Further transfers are under consideration for 2018-19, and the Pilot authorities will engage the DCLG in negotiations in due course. Local Growth Fund and Skills Funding (from the EFA) are potential candidates. Both are included within the proposed devolution deal for the West of England. It is possible that the transfer of Public Health grant is delayed until 2018-19.

The funding received from these grants are covered by the no detriment agreement with Government over the pilot

Table 5 shows the proposed Pilot arrangements. These are in summary:

(1) Increase in Business Rate Baseline (BRB) in 2017-18 from £204.520m to £413.215m (an increase from 49% local share to 99% local share). (Note that Avon Fire Authority's share (1%) is excluded from the Pilot.)
(2) Increase in Baseline Funding Level (BFL) in 2017-18 from £152.439m to £288.105m. The increase reflects the funding streams that are being transferred to the Pilot.
(3) The tariff increases in 2017-18 from £52.082m to £125.110m. The Pilot will continue to be in a tariff position for the entire period, and indeed the tariff will increase to £185.618m by 2019-20 (as shown in table 5 below).
(4) The BRB, BFL and tariff estimates are based on currently available data and will be updated to reflect changes in the business rates multiplier. These updates will not have a material effect on the financial implications for the Pilot.

Table 5 – Proposed baseline and tariffs for the Pilot

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Business Rate Baseline (BRB)	200.575	204.520	210.554	217.284
Top Up/ (Tariff)	-51.077	-52.082	-53.618	-55.332
Baseline Funding Level (BFL)	149.498	152.439	156.936	161.952
Notional BRB		**413.215**	**425.405**	**439.001**
RSG		65.958	43.932	21.724
Public Health Grant		52.136	52.136	52.136
Highway Maintenance grant (funding formula)		11.328	10.254	10.254
Integrated Transport Block		5.183	5.183	5.183
Highway Maintenance grant (incentive formula)		1.061	2.135	2.135
Revised Baseline Funding Level (BFL)		**288.105**	**270.575**	**253.384**
Share of business rates per revised BFL		69.72%	63.60%	57.72%
Revised Top Up/ (Tariff)		-125.110	-154.830	-185.618
Local Share	49.0%	99.0%	99.0%	99.0%

If Public Health grant does not transfer to the Pilot in 2017-18, then the BFL will be £52.136m lower (£235.969m) and the Tariff will be £52.136m higher (£177.246m). There is no effect on the amount retained by the Pilot or on the surplus generated by the Pilot.

Other features of the pilot

Other features of the 100% Pilot are:

(1) The Pilot will receive section 31 grants for the whole amount of the reliefs that are funded by the Government (e.g. Small Business Rate Relief).

(2) Funding for reliefs in enterprise zones will be funded from section 31 grants if there is no central share from which they can be deducted.

(3) Surpluses or deficits on the collection fund as at 31 March 2017 (i.e. at the outside of a 100% pilot) will be shared 50:50 with central government, and from 2018-19 will be shared according to the 100% scheme.

(4) The West of England pilot authorities should continue to receive any new or increased funding that is announced nationally in respect of the funding streams that are devolved to it under the pilot arrangements.

Consultation and scrutiny input:

a. Internal consultation:

Corporate Finance

b. External consultation:

Pixel Financial Management

Other options considered:
None

Risk management / assessment:

FIGURE 1 **The risks associated with the implementation of the *decision* :**							
No.	RISK Threat to achievement of the key objectives of the report	CURRENT RISK (Controls now in place) Green/amber/red/purple		RISK CONTROL MEASURES Existing mitigations (ie controls) and proposed actions with evaluation (ie effectiveness of mitigation/ actions).	TARGET RISK (After new mitigations/actions) Green/amber/red/purple		RISK OWNER
		Impact	Probability		Impact	Probability	
1	The move to 100% business rates retention in the pilot could double the financial risk associated with business rate income for the Council.	**2**	**2**	The Government have confirmed a "no-detriment" provision to ensure the local authorities in the Pilot collectively will not be any worse off than if they had remained in the existing 50% scheme.	**1**	**1**	
2	An individual local authority in the Pilot could find themselves worse off.	**2**	**2**	Although the 'no-detriment only operates at the Pilot level a methodology has been developed to ensure that the first call on any surpluses generated by the Pilot are used to ensure no individual authority is worse off.	**2**	**1**	
3	Funding transfers could represent high risk to the Council.	**2**	**2**	The funding streams proposed to be transferred are low risk as they are funding streams the authority already receives for current responsibilities.	**1**	**1**	

FIGURE 1
The risks associated with the implementation of the *decision* :

No.	RISK Threat to achievement of the key objectives of the report	CURRENT RISK (Controls now in place) Green/amber/red/purple		RISK CONTROL MEASURES Existing mitigations (ie controls) and proposed actions with evaluation (ie effectiveness of mitigation/ actions).	TARGET RISK (After new mitigations/actions) Green/amber/red/purple		RISK OWNER
		Impact	Probability		Impact	Probability	
4	Business rates appeals might reduce the additional income generated through growth as after 100% BRR the council will be required to fund all appeals.	**2**	**2**	Government have said we can retain their 50% of provision for appeals and Bristol City Council will carry out a review at end of 2016/17 to assess actual impact and appropriateness of provision.	**1**	**1**	

FIGURE 2
The risks associated with <u>not</u> implementing the *(subject) decision*:

No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (ie controls) and Evaluation (ie	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	Bristol City Council will not benefit from any potential gains associated with the Pilot.	**Medium**	**High**	Only mitigation is to join pilot scheme	**Low**	**Low**	

Public sector equality duties:
None as a result of this report

Eco impact assessment
None as a result of this report

Resource and legal implications:

Finance

a. Financial (revenue) implications:

There is no pilot wide downside risk arising from the proposal as the pilot will have a "no detriment" provision from the government. This guarantee is limited to each authority being "no worse off" than if the pilot had not gone ahead and the authority retained its current 50% business retention scheme.

It is important to note that the mitigation arrangements are paid for from the pool of business rates collected across the pilot. This means that if one authority does not achieve a position which is no worse than the current scheme, their top up would be paid for from the increases in business rates collected from the other two authorities. This potentially increases the volatility associated with predicting income to Bristol City Council.

It is important to note that the potential financial advantage will be only guaranteed for 2 years of the pilot. A third year may be available if the national roll-out is delayed but this is not guaranteed.

The amount that the council would gain from the pilot is dependent upon the business rate growth achieved and collected across all three councils in the pilot. Therefore a full review will be undertaken before any potential gain is incorporated into the MTFP.

Advice given by **Mike Allen / Finance Business Partner**
Date **27 Sep. 16**

b. Financial (capital) implications:

None as a result of this report

Advice given by **Mike Allen / Finance Business Partner**
Date **27 Sep. 16**

Comments from the Corporate Capital Programme Board:
N/A

c. Legal implications:

It is a precondition of eligibility to join the Scheme that the WoE devolution deal has been ratified, and it is self-evident that all three authorities must also approve the proposed pilot. We have had notice that the draft Order should be available mid-November. Any approval will have to be conditional on approval of the Order and the agreement of the other two authorities. (The other two authorities will be receiving similar reports).

As is evident from the report, at this stage the general principles of the scheme only are available, but not yet the detail, including the "no detriment" arrangements. In addition there remain some outstanding issues over the transfer of certain grants and other funding. Accordingly it is proposed that the Strategic

Director Business Change in consultation with the cabinet member for Finance, Governance and Performance, be given authority to review and approve the finalised terms of the pilot to ensure that the Councils position is adequately protected and to refer back to cabinet in the event that they believe this not to be the case.

Advice given by **Eric Andrews / Senior Solicitor, Legal (Place)**
Date **29 Sept 16**

d. Land / property implications:
None as a result of this report

e. Human resources implications:
None as a result of this report

Access to information (background papers):
Financial information provided by Pixel Financial Management.