100% Retention Business Rates Pilots 2018/19 - Summary

Key points of pilot proposal:

Pilots will retain all locally collected rates and 2018-19 pilots will be for one year.

As a minimum authorities will forego Revenue Support Grant and Rural Services Delivery Grant (only RSG applicable to NBC)

Any increase in retained rates will be offset by an adjustment to top-ups and tariffs.

The pilot will be 'fiscally neutral at baseline' (i.e. business rates baseline +/- top-up or tariff equals funding baseline) but authorities will gain from retaining 100% above-baseline growth. Pilots will have a safety net of 97% of Baseline Funding Level (for whole pilot area) instead of the current 92.5% level. No levy will be paid by the pilot or individual authorities.

Aim is to promote financial sustainability and to support "coherent decision making across functional economic areas".

DCLG are particularly encouraging two tier pilot areas to apply.

Pilots will need to propose a tier split for sharing additional growth (i.e. the central share element). They want to see additional growth being used to promote the financial stability and sustainability of the pooled area. There is an expectation that some retained income from growth is invested to encourage further growth across the area.

A "no detriment" clause was agreed for the 2017-18 pilots whereby the pilot area as a whole cannot be worse-off than under the existing 50% scheme. The position for the 2018-19 pilots is unclear. The DCLG say that pilot areas should include how authorities will work together to manage risk in line with proposed pooling arrangements in case the 2018-19 pilots do not include this clause.

Pilot areas will need to share additional information with central government so that they can learn from the pilot.

Applications will be measured against the following criteria:

- Applications should cover a functional economic area
- Preference for applications from two-tier areas
- Proposals should promote the financial sustainability of the authorities involved
- Evidence of how pooled income from growth will be used across the pilot area

Pilots will need to submit a business case that must show:

- How authorities will collaborate to use pooled retained income to promote further growth across the area.
- A proposed tier split and explain how this will promote sustainability.
- How the area will work together in the longer term.

Governance arrangements should state how pooling arrangements will work in terms of financial distribution and service provision and evidencing how business rate income growth will be shared.

All authorities covered by the proposed pilot will have to give their agreement. Every authority needs to have an incentive to join the pilot. Section 151 officers from each authority must sign off the business case and governance arrangements before submission.

The emphasis on financial sustainability and risk is new for this round of 100% pilots. Proposed changes in “no detriment” and the safety net are really important because they place more risk on authorities. As a result, decisions by authorities will need to be supported by sound modelling. Authorities will need to have some confidence about growth in the proposed area, and about the potential risk to that growth. Crucially, it is possible that an authority or the whole pilot could be worse-off as a result of the changes in “no detriment” and the safety net.

The deadline for applications is the 27th October. Decisions about successful pilots will not be made until potentially the provisional settlement itself in December. For any authorities who would wish to continue with their pool (under the current 50% system), if their pilot application is unsuccessful, will need to make arrangements in parallel.

Source: https://www.gov.uk/government/publications/100-business-rates-retention-pilots-2018-to-2019-prospectus)

Key considerations for pilot applicants:

1. What will the tier split be?

2. What assessments have been made to protect against the possibility of financial loss?

3. What do business rates forecasts show for future predicted business rates? What is the risk that one authority will trigger the safety net? What if there is not a ‘no detriment clause’, or if applies to the pilot area as a whole?

4. How will pilot authorities share risk and reward?

5. What is the impact of bringing NBC into the pool / pilot for both the pool and NBC?

6. Will NBC be in the pool next year if no pilot?

7. What will happen if there is no “no detriment” clause?

8. What is the plan if there is a “no detriment” clause but there is growth in some authorities and not in others?

9. How does the pilot area intend to show that is it promoting “the financial stability and sustainability” of the pool / pilot area?

10. What arrangements are in place to invest some income from growth to encourage further growth across the area? How will this be demonstrated?

11. What are the costs of setting up and administering the pool and how will they be shared?

12. Will the pilot be looking to bring in additional responsibilities other than RSG and RSDG?