

SURREY COUNTY COUNCIL

CABINET

DATE: 26 SEPTEMBER 2017



REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: SURREY BUSINESS RATES RETENTION PILOT 2018/19

SUMMARY OF ISSUE:

On 1 September 2017 the government issued a prospectus inviting local authorities, particularly in two tier areas, to submit applications to be pilots for the 2018/19 Business Rates Retention Scheme by 27 October 2017. In order to meet this deadline, it is proposed that the Leader, in consultation with the Chief Executive and the Director of Finance, will take the final decision to submit an application for a Surrey wide pilot involving the county council and eleven borough and districts councils.

RECOMMENDATIONS:

Cabinet is asked to agree the following.

- i. To develop a joint application with the eleven boroughs and districts for Surrey to be a pilot for the 2018/19 100% Business Rates retention Scheme
- ii. That the council understand and agree that the pilot may not include a 'no detriment' clause
- iii. To note that the Leader, in consultation with the Chief Executive and Director of Finance, will take the final decision to submit an application for a Surrey wide pilot involving the county council and eleven borough and districts councils
- iv. That Surrey County Council is the lead authority for this pilot.

REASON FOR RECOMMENDATIONS:

The opportunity to become a pilot authority for the 100% Business Rates Retention Scheme aligns with the council's strategy of seeking to influence the development of the local government finance system and to nurture partnership working. In addition, if successful, being a pilot will enable local retention of all business rate growth within the county for use to assist in ensuring financial stability and sustainability as well as to invest in economic prosperity.

DETAILS:

1. On 1 September 2017, the government issued its prospectus inviting local authorities to make applications to become pilots for 100% Business Rates Retention in 2018/19.
2. This pilot programme will only last for one year - 2018/19 - with the aim of exploring the options for Local Government finance reforms, including promoting sustainability and promoting growth. It is not clear at present what is intended for 2019/20 and beyond except that the pilots will help inform this.
3. The prospectus seeks applications for areas to form business rates pools, either for a county area, or beyond. If the application is for a whole county area, then all local authorities must be supportive.
4. Applications are to be received by the Department for Communities and Local Government by 27 October 2017, and there is an expectation that the decision will be known within the Provisional Local Government Financial Settlement, probably in December 2017.
5. A pool of local authorities in the pilot for 100% Business Rates Retention would be entitled to keep all of the growth in business rates since the baseline was set in 2013. At present the government imposes a levy of 50%. For the Surrey area the potential gain could be significant, albeit only for 2018/19. In addition it will allow Surrey local authorities to influence the future development of local government funding.
6. The prospectus, attached as Annex A, sets out several conditions and assessment criteria to be used by DCLG. These are summarised in the table below.

Condition	Proposed action(s) / comment
All authorities must agree to be in the proposed business rates pilot pool for 2018/19. If any one authority in an area does not agree, then it will not succeed.	Surrey Authority Leaders to jointly review an early draft application for a Surrey-wide Pilot at their meeting on 27 September 2017
Arrangements must propose a split for sharing additional pooled BR income	Surrey Authority Treasurers to lead on modelling for consideration at Surrey Leaders' meeting on 27 September 2017
Proposals should show DCLG how pilots will use additional growth to promote the financial stability and sustainability of the pilot area (and expects investment of some retained growth to encourage further growth in the area)	Surrey Authority Treasurers to develop options of growth to re-invest and the broad areas for investment for consideration at Surrey Leaders' meeting on 27 September 2017

While the 2017/18 pilots have a 'no detriment' clause, if the 2018/19 pilots do not benefit from such a clause, applications should detail how authorities will work together to manage risk within their proposed arrangements	The risk of this is low for Surrey based upon business rates growth from 2013 to date. Further modelling is being undertaken to confirm this
Applications should make clear whether they would be willing to be a 100% BRR pilot if the 2018/19 pilots did not benefit from a 'no detriment' clause	Recommendation at Surrey County Cabinet meeting on 26 September 2017
Pool applications must nominate the lead authority. DCLG will treat pilot pools as one entity for BRR with one tariff or top up and safety net threshold.	Proposal that Surrey County Council act as the lead authority
Clear outline of the proposed pooling arrangements and governance. Authorities cannot apply to be part of more than one pilot pool. Authorities in existing Business Rates pools, such as SCC, need to state their non-pilot pool proposals if the pilot application is unsuccessful	Surrey Authority Treasurers to develop pooling and governance arrangements for consideration by Surrey Leaders The modelling led by Surrey Authority Treasurers to include the most appropriate members of a new, non-pilot pool if the application is unsuccessful

7. A group of Surrey Authority Treasurers are developing modelling and a draft application and monitoring arrangements for a Business Rates pilot in 2018/19. The outlines of this have been considered and agreed at a meeting of Surrey Local Authority Chief Executives on 15 September 2017.

CONSULTATION:

8. All Cabinet Members have been briefed and consulted upon the details of this application. In addition, council members of the Overview and Budget Select Committee have been consulted at their meeting on 14 September 2017.
9. Outside of the county council, the Chief Executives of the local authorities in Surrey have considered the strategic issues in such an application, and their Section 151 officers have been developing the modelling and details of the application. The Leaders of the twelve Surrey local authorities are meeting on 27 September and will review the draft principles of the application

RISK MANAGEMENT AND IMPLICATIONS:

10. The most significant risk of becoming a part of a 100% Business Rates Pilot is the removal of the no detriment clause. This is a clause included in the

agreement for the 2017/18 pilot authorities and ensured that those authorities would not be financially disadvantaged by being a member of the pool. This could occur if business rates had fallen since the baseline year of 2013.

11. For Surrey, this is a small risk as in most areas, and in total, business rates have grown in the period from 1 April 2013. By being a member of a pool, where district or boroughs have experienced a decline in business rates, the total gain within the pool will be shared so those authorities would also benefit.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

12. All local authorities in Surrey, and in particular the county council, are experiencing severe financial pressures due to funding reductions and increases in demand for services, especially for social care. A Surrey-wide pilot retaining the growth in business rates since 2013 could expect to share in a significant gain.
13. The split of the gain between the tiers will be modelled to determine an optimum level for all authorities. The current split, for the first 50% retained, is 80% to the districts and boroughs and 20% for the county council. The split of the remaining 50% will be based upon optimising the share of total retained business rates in line with tiers' need to spend and managing the risks in relation to the proposed business rates tariffs, top-ups and safety net.
14. The authorities within the pool will need to consider and agree on the use of any gain from being a pilot. The prospectus from the DCLG has indicated that the applications should broadly state that the proceeds will be used for financial stability and sustainability, and also for investment in economic development.

SECTION 151 OFFICER COMMENTARY

15. The council's current MTFP (2017-20) and current budget monitoring position, reported separately to this Cabinet meeting, clearly show that the council will require further actions to finalise a balanced budget proposal for 2018/19. Although for one year only, the gain from a 100% business rate pilot would be expected to assist considerably in enabling the council to prepare a balanced budget for 2018/19.
16. The Government have indicated the outcome of the application will be announced as part of the Provisional Local Government Financial Settlement for 2018/19, expected in December 2017. In view of this being late in the budget planning process, the council will need to develop credible alternative proposals to produce a balanced budget in the event of the application not being successful.

LEGAL IMPLICATIONS – MONITORING OFFICER

17. The Local Government Finance Act requires the Council to take steps to ensure that its expenditure does not exceed the resources available. The s151 Officer commentary, above, confirms that participation in the business rate

retention pilot would assist the Council in meeting this duty in 2018-19. In view of the approaching deadline, this report also recommends suitable arrangements for making the final decision to submit an application for a Surrey wide pilot.

EQUALITIES AND DIVERSITY

18. There are no direct implications for equalities and diversity in developing and submitting an application to become a pilot for 100% Business Rates Retention.

WHAT HAPPENS NEXT:

19. Following delegation of approval to the Leader in consultation with the Chief Executive and the Director of Finance, the twelve authorities in the proposed pilot will develop an application based upon detailed modelling. A draft application will be considered at a meeting of the Surrey Authority Leaders on 27 September 2017.
20. Following the submission of an application, this cabinet will receive a further report on the details of the final application in October 2017.

Contact Officer:

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Consulted:

Cabinet members, members of Overview and Budget Scrutiny Committee,

Sources/background papers:

The Prospectus from the DCLG – Annex A

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