

Title: Surrey Business Rates Pilot

Summary:

To inform Executive of the implications of joining a Surrey Business Rates Pilot for 2018/19

Portfolio and Date Consulted

Leader – Cllr M Gibson 29/09/17

Wards Affected

All

Recommendation

The Executive is advised to:

- (i) NOTE the implications of joining a Surrey Business Rates Pilot for 2018/19;
- (ii) COMMENT as appropriate
- (iii) DELEGATE to the Executive Head of Finance in consultation with the Leader and Chief Executive the final terms of the pilot and the submission of the application.

1. Resource Implications

1.1 Surrey Heath collects £35m a year in business rates of which only a small proportion (4%) actually remains in the borough. Under the current system 50% of the Business Rates collected goes straight to Government, 10% to the County and 40% is retained by Surrey Heath. However against this 40% a fixed tariff is charged leaving the Council with only 3%.

1.2 This 3% equivalent to £1.465m is a guaranteed baseline. The Council gets to keep 40%, less a 50% levy, of any gains over this baseline and losses are capped at £90k after which they are covered by a safety net. This is shown in the table below which shows not only the baseline position but also what happens if say £40m or £30m of rates are collected.

Baseline - assumed minimum collected	
Less: 50% to Government	
Less: 10% to SCC	
Share for SHBC	
Less Fixed Tariff	
Business Rates for SHBC	
Less Levy - 50% of gain over baseline	
Add Safety net	
Remining share of Business Rates	
Safety Net	

1.3 Being a Pilot means that 100% of *growth* is retained within Surrey not 100% of all rates collected. However from work done Surrey as an area could still benefit by up to £28m by becoming a pilot. The Government has stated that applicants for a Pilot must show how being in a pilot will help with 2 particular aims which are firstly increasing financial stability of Councils and secondly supporting economic development.

1.4 In order to satisfy these requirements modelling has been done which allocates this additional funding as follows:

- First call on funds is to recompense those Councils which fall below the safety net. This is because there is likely to be no “no detriment” clause in that previously Councils joining a rates pilot were guaranteed not to receive less than they would have got had they not been in a pilot. What this means is that losses in one Council have to be covered by gains in others – although this is thought to be very unlikely in Surrey
- The second call on any surplus will be pay growth to Councils based on their business rates performance which would normally be lost through a levy. At the moment Districts get to keep 40% of any growth they generate but 50% of this goes towards national levy. In a pilot there would be no levy to pay and so this growth would be passed on to Councils. Surrey Heath could receive around £1m from this.
- The third call would be to ensure that every Council has some gain - £500k has been suggested – to ensure they all want to participate in the pilot. Only 2 Councils will have a gain of less than £500k from the step above.
- The final stage is to create a “Surrey Investment Pot”, which could have £20m in it. This would be used on a collaborative basis to support the Government’s key aims of financial stability and economic

development. For the County financial stability is a key priority and the money would be used to enable changes to be implemented in Social care. For boroughs economic growth is a priority and the money would be used to pay for infrastructure and one off project costs. Working jointly across Surrey would be really attractive to Government and hopefully make it more likely that Surrey will be selected as a pilot area.

2. Key Issues

- 2.1 The Government introduced “Localisation of Business Rates” some years ago. The object was to encourage Councils to promote economic growth within their areas and thus to share in any additional business rates this generated. Due to the fact the Government retained 50% of all business rates and the level of growth Councils kept was very restricted this did not prove to be such an incentive to Councils as was originally thought.
- 2.2 The Government has said for a while that it was its intention to give Local Government 100% of business rates rather than the 50% under the current scheme so as to make the incentive for growth that much better. In return Local Government would lose a number of central Government grants. During 2017/18 a number of pilot areas were allowed to retain 100% of their business rates as a trial for the full system. These included Manchester and Cornwall amongst others. The Government guaranteed that any Council participating in this first wave of pilots would not be any worse off – a “no detriment” clause – although in reality they were all significantly better off.
- 2.3 As a result of the election plans to roll out this arrangement to all Councils were delayed however on the 1st September this year the Government invited applications for a further round of one year pilots with a closing date of 27th October 2017. Successful pilots would pool all their business rates within an area and retain 100% of rates collected. In exchange the Government would effectively not give any Rate Support Grant or Rural Services Grants – these would have to come out of the business rates retained
- 2.4 Pilots can cover any economic area and two tier pilots are especially welcome. Councils will need to make a bid jointly and show how by retaining 100% of business rates this will contribute to promote financial sustainability and economic growth. There is unlikely to be a “no detriment” clause again and Councils will need to illustrate how they will manage this. It is unlikely that all applications will be successful.
- 2.5 Surrey is in a particularly good position to benefit from 100% localisation. This is because there has been significant growth in business rates across the county over the last few years and in addition the level of grant paid by Government is very low – in fact in 2018/19 only Surrey CC will receive any Rate Support Grant. With this in mind a team of consultants – LG Futures – who had advised on business rates pooling have been appointed to draw up a bid. A fee is being negotiated based on the level of gains realised.
- 2.6 If Surrey is unsuccessful in its bid to become a pilot then there is still the option of pooling. With pooling it is possible for Councils to retain more of gains in their area as a levy does not apply. This levy would normally take

half of the 40% of any gains over the baseline made by Surrey Heath. LG futures have been engaged over a number of years to work out the optimum pooling arrangement using a combination of Councils to maximise the gains available. Surrey Heath is currently in a pool and their modelling shows benefit from being in a pool with 3 other districts and Surrey CC for 2018/19 if the pilot is unsuccessful.

- 2.7 The Pilot is original only for one year 2018/19 but there is a chance it could be extended for a further year to 2019/20 however this will depend on the timing of the Fair funding analysis work being done currently by Government.

3. Options

- 3.1 Members can decide not to join the pilot but this is likely to invalidate the bid and lose a significant amount of extra funding for Surrey taxpayers. At the moment all Districts have signified their willingness to be in the Pilot.

4. Proposals

It is proposed that Executive:

- (i) NOTE the implications of joining a Surrey Business Rates Pilot;
- (ii) COMMENT as appropriate
- (iii) DELEGATES to the Executive Head of Finance in consultation with the Leader and Chief Executive the final terms of the pilot and the submission of the application. AGREE to be a member of a Surrey Business Rates Pilot

5. Supporting Information

- 5.1 A copy of the Governments proposals is included a background paper

6. Corporate Objectives And Key Priorities

- 6.1 A pilot promotes prosperity by retaining a larger proportion of business rates generated within the borough

7. Legal Issues

- 7.1 Any pilot would need the agreement of all Councils together with the Government. It would only last for 1 year

8. Governance Issues

- 8.1 Surrey County Council has agreed to be the lead authority and would be responsible for the management of the pilot at no cost to the other boroughs and districts

9. Sustainability

- 9.1 The ability to be in a pilot promotes financial sustainability

10. Risk Management

- 10.1 Under the current system if an individual borough suffers a significant loss in business rates they are able to call on a safety net provided by the Government. In a pilot the safety net level will only apply if the whole pilot area suffers a loss. This could mean that an individual

Council could suffer losses and have no safety net to call on. In order to mitigate this it will be a principle that the first call on any gains will be to ensure that each Borough has a “minimum funding guarantee” to deal with these situations. That said it is highly unlikely to be called upon in an area such as Surrey which has significant growth.

11. Officer Comments

- 11.1 It is important for Surrey to try to become a pilot area not only because of the amount of money that could be retained within Surrey rather than going across the country but also because the pilots are likely to inform the shape of the final national 100% localisation scheme when it is eventually implemented by Government. Although there will be some discussions between boroughs and districts as to the final shape of the scheme it must be remembered that if no unanimous agreement is reached then there will be no gains for anyone and the additional £28m will be lost to Surrey residents.

Annexes	None
Background Papers	DCLG Business rates Pilots
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Consultations, Implications And Issues Addressed

Resources	Required	Consulted
Revenue	✓	
Capital		
Human Resources		
Asset Management		
IT		

Other Issues	Required	Consulted
Corporate Objectives & Key Priorities	✓	
Policy Framework		
Legal		
Governance		
Sustainability		
Risk Management		
Equalities Impact Assessment		
Community Safety		
Human Rights		

Other Issues	Required	Consulted
Consultation		
P R & Marketing		

Review Date:

Version: