LOCAL GOVERNMENT NORTH YORKSHIRE AND YORK

1 December 2017

100% BUSINESS RATES RETENTION PILOT

Report of Chair of North Yorkshire Finance Officers

1. Purpose of Report

1.1 To confirm to the group that an application has been submitted to the Department for Communities and Local Government (DCLG) for a North Yorkshire 100% Business Rates Retention Pilot in 2018/19.

2. Recommendation

2.1 To note the action taken and subject to a successful outcome, support the proposal within individual authorities.

3. Background Information

3.1 The Government through the DCLG has extended the opportunity to all local authorities to become 100% Business Rates Retention Pilots in 2018/19. An invitation was issued in early September with a deadline for submission of 27 October 2017. The pilot would be for one year only.

3.2 100% pilots will retain all locally-collected business rates and will receive additional responsibilities in return. As a minimum, authorities will forego Revenue Support Grant and Rural Services Delivery Grant (this will be adjusted for from the rates retained). Any difference between the increase in business rate retention and new responsibilities will be offset by an adjustment to top-ups or tariffs. The creation of the pilots will be "fiscally neutral" at baseline, but authorities will gain from retaining 100% of any above-baseline growth – we currently retain 50%.

3.3 The DCLG is looking for a wide spread of different types of pilot. There will be particular focus on applications from rural areas and from two-tier areas. This is a major opportunity for authorities in these areas, who are clearly going to be at the front of the queue.

3.4 It is very unlikely that all applications for pilot status will be successful because of affordability constraints. There is likely to be a competitive process, with applications measured against the following criteria:

- **Applications should cover a functional economic area**. The invitation talks about covering a "functional economic geography". This might be a current pool area or county, but could also extend further than this (for instance, to include counties and contiguous unitaries, or potentially even two or more counties).
- **Preference for applications from two-tier areas.** Pilots will not be

limited to two-tier areas, although the split between counties and districts is something the DCLG wants to explore. The 2017-18 pilots only included single-tier authorities.

- **Proposals would promote financial sustainability.** The DCLG wants pilots to show how they can be more self-reliant and require less support from the national safety net. The next round of pilot applications will need to say whether they will need the "no detriment" provision to continue. Furthermore, the DCLG is proposing that the safety net will apply at the pilot level rather than individual authority level (as it does for the first round of pilots). After deliberation the DCLG confirmed that there will be a "no detriment" clause.
- **Evidence of how pooled income from growth will be used across the pilot area.** The DCLG wants to see how financial gains will be used. Of principal concern, is that gains are used within the pilot to mitigate risk, and to reduce the reliance of individual authorities on the national safety net. Applications for pilot status will need to demonstrate that there would be arrangements in place to share risk and reward. Additionally, the DCLG wants to see how pilots would invest "some retained income from growth to encourage further growth across the area". This was not something that the first round of pilots were asked to demonstrate, but clearly the DCLG wants the next round of pilots to deliver something more to justify their existence.

3.5 Pilots will have a safety net at 97% of Baseline Funding Level we currently have 92.5% as an individual authority. No levy will be payable by the pilot or the individual authorities. The DCLG has decided there will be a "no detriment" clause, whereby the pilot as a whole cannot be worse-off than under the existing 50% scheme.

3.6 Very little is said in the invitation about transfers of funding streams or new responsibilities. Potentially, the DCLG has decided that it will take too long to negotiate anything new, with the deadlines being so short. Experts had thought that this would be an opportunity for authorities to show a "unique selling point" but the DCLG might now view a ground-breaking transfer as something that might cause a hold up.

3.7 All authorities covered by the proposed pilot will have to give their agreement. This has implications for how the pilot is developed by a group of authorities: every authority needs to have an incentive to join the pilot. Governance is also important to the DCLG because they will want to ensure that prospective candidates will deliver.

3.8 Decisions about successful pilots will be announced in December, which is also when the Provisional Settlement information is expected. If our application is unsuccessful then we will continue with the North Yorkshire rates pool (under the current 50% system), and those arrangements will be made in parallel.

4. <u>The Report</u>

4.1 The North Yorkshire Chief Finance Officers decided at their meeting on 29 September 2017 that the opportunity and benefits of applying to be a Pilot should be investigated with a view that if it was beneficial then an application should be made. The deadline for applications was 27 October 2017.

4.2 The services of Pixel Financial Management were commissioned to provide advice and also to undertake the financial modelling required. Pixel already provides advice to the North Yorkshire Rates Pool, and is well placed to understand the complexities that we have. They are also advisors to the Rural Services Network (SPARSE).

4.3 The submission covers the existing members of the North Yorkshire Business Rates Pool (NYCC, Craven, Hambleton, Richmondshire, Ryedale, and Scarborough) plus Selby and East Riding of York Council. Harrogate and City of York are part of the Leeds City region pool and wish to continue with that. Pixel advice was that without Selby the area would not be attractive to the DCLG and we would be unlikely to be accepted as a pilot.

4.4 Participating pools will be treated as one entity by the Department for the purposes of business rates retention and one calculation will be made regarding top-up/ tariff and the safety net payment. Therefore, the pool must nominate a Lead Authority to receive payments from and make payments to the Department on behalf of the entire pool. Any authority within the pool is eligible to fulfil this role. Applications must state which authority will be acting as the Lead Authority for the duration of the pilot. For North Yorkshire the proposal is that this will be Scarborough BC.

4.5 The financial appraisal calculations have taken a worst case scenario and a best case scenario. The figures are based on the 2017/18 Non Domestic Rates Returns (NNDR1) that each district billing authority completed in January 2017.

4.6 The submission indicated that in total the proposed pool area would be circa £10m better off under the pilot arrangements. Approximately half of this would be top-sliced for a shared investment fund. The submission proposes that Broadband connectivity is prioritised for this funding and looking ahead highlights the benefits of shared investment in housing delivery that such a pilot could bring.

4.7 The submission is attached for information.

5. Implications

5.1 Financial and Value for Money Implications

The broad financial implications are exemplified in the report. However, the precise implications will not be available until the NNDR1 returns for 2018/19 are prepared in January 2019.

5.2 Legal implications

The offer for the pilots from the DCLG for 2018/19 is made on the understanding that agreement has been secured locally from all relevant authorities to be designated as a pool (in accordance with Part 9 of Schedule

7B to the Local Government Finance Act 1988) and that local arrangements are put in place to pool the additional business rates income.

Pools are required to submit a governance agreement setting out how the pooling arrangements will work in terms of financial distribution and service provision and evidencing how business rates income growth will be shared. The governance agreement should also include how balances and liabilities will be treated if the pool were to be dissolved.

The s.151 officer of each authority has to sign off the proposal before it is submitted. The Department will work closely with all successful applicants to support the implementation and running of the pilot.

At this stage it should be noted that agreement has not been reached with Harrogate as to the tier spilt that would apply to the rates collected in their area – their submission as part of the LCR pool assumes NYCC would receive an 18% share with Harrogate taking 81% into the LCR pool but for the rest of the districts in the NY/ERYC pool a 49:50 split (District:County) has been put forward – the remaining 1% would be retained by the North Yorkshire Fire and Rescue Authority which remains outside of the proposed pool.

5.4 **Risk Management**

Applying to be a pilot is not without risk although the inclusion of the 'no detriment clause' ensures that no authority would be worse off than the current arrangements.

6. Access to Information : Background Documents

Department for Communities and Local Government (DCLG) prospectus and supporting documents for 2018/19 pilots.
https://www.gov.uk/government/publications/100-business-rates-retention-pilots-2018-to-2019-prospectus

7. Appendices

BR Pilot Submission

North Yorkshire and East Riding of Yorkshire

Application for 100% Business Rate Pilots 2018-19

Introduction

This is a proposal from North Yorkshire and the East Riding of Yorkshire for a 100% business rate pilot in 2018-19. Our proposal brings together diverse authorities from across these two areas, and builds on the economic geography in the region.

The area is predominantly rural with 100 miles of coastline to the east and spans over 100 miles east to west. Parts, especially the uplands and National Parks, are very sparsely populated. Our proposals have important strategic investment objectives that will help rural areas and rural businesses. Our priority is to invest in improving connectivity in rural areas, particularly through rural broadband and 3G/4G coverage.

The area covers the majority of the York, North Yorkshire and East Riding Local Enterprise Partnership (LEP) area. It is not one functional economic area, but an interconnected hinterland to Yorkshire's largest conurbation, the Leeds City Region and largest stand-alone city, Hull. It consists of a County Council with 6 of its constituent districts and the unitary authority of the East Riding. The LEP has shown how economic and administrative boundaries can work successfully with each other; whilst not simple, our pilot demonstrates how it can be done.

There have been major changes in business rate income in the region, particularly in Selby, where there have been significant reductions in the rateable values in two of the largest power stations in England: Eggborough and Drax. Our pilot shows how financial arrangements can be created within the business rates pool to manage these significant financial risks.

Proposed membership

The proposal for a 100% pilot includes six of the seven district councils in the county, the County Council and the East Riding of Yorkshire unitary authority. There has been a business rate pool in operation in North Yorkshire since 2013-14, consisting of the following local authorities:

- Craven District Council
- Hambleton District Council
- Richmondshire District Council
- Ryedale District Council
- Scarborough Borough Council
- North Yorkshire County Council

For the purposes of the 2018-19 pilot programme, East Riding of Yorkshire Council and Selby District Council have opted to join the existing North Yorkshire Pool. Scarborough Borough Council is the lead authority for the existing North Yorkshire pool and will continue to act as lead authority for the 100% pilot.

There are three overlapping LEPs within the county of North Yorkshire and the East Riding as indicated in the following map. Collaboration between YNYER and Humber LEPs in respect of European Funding and key sectors has forged strong relationships and formal arrangements exist for YNYER Leaders and Chief Executives. A number of partnership arrangements already exist between Scarborough Borough Council and East Riding to deal with coastal issues – physical, social and economic.

Harrogate and York will be submitting proposals separately as part of the Leeds City Region (LCR) pilot. Both authorities are in the Leeds City Region LEP and are currently in the 50% business rates pool with LCR. It has been agreed that the continuation of this arrangement is consistent with and is led by the economic geography of the region.

Should the pilot bid be unsuccessful, East Riding of Yorkshire Council and Selby District Council will continue as single authorities and the existing North Yorkshire Business Rate Pool will continue as it currently operates.

Nature of the Pilot Area

The YNYER LEP area has a population of 1.15m (an increase of 46,000 in the past 10 years), of which the pilot area is 786,250. The pilot area covers a range of coastal and market towns and villages, with the largest being Scarborough (52,820), Bridlington, Selby and Beverley. The area is predominantly rural; all of the councils in the pilot receive Rural Services Delivery Grant, with North Yorkshire County Council receiving over 10% of the national share, more than any other council in England. Its labour force characteristics mirror many rural areas with a working age population below the national average, but an economic activity rate of 80.1%. Skills levels are higher than the national average, but average earnings are below, reflecting high levels of out-commuting, especially for higher paid work.

Employment within the area is focused along the M62/A63 and A1(M) corridors and around York, where Enterprise Zone and Food Enterprise Zone status is fuelling growth in business rates. Expansion of agri-food, renewable energy, logistics and advanced manufacturing to create high quality jobs is being supported by the LEP. Connectivity and housing affordability are common challenges throughout the area and could undermine this potential.

There are large risks in the business rates tax base concentrated in parts of the area, particularly in the valuations for the large power stations in Selby. The valuations for the two largest power stations – Eggborough and Drax – have reduced by £1.5m (75%) and £4.5m (20%) respectively since 2013-14, whilst the conversion of part of their operations has led to a £15.6m growth in rateable values for renewable energy.

Other parts of the area have a more stable and growing tax base, particularly in the East Riding of Yorkshire which has seen consistent annual growth since the inception of business rates retention. This provides an opportunity, through this proposal, for the benefits of this growth to be invested across the pilot area whilst mitigating the risks that councils face in their local tax base.

Economic case for the North Yorkshire Pilot

The 100% business rate pilot will generate additional resources for the region to assist the rural economy and further reduce digital isolation. Funding will address the needs of rural areas, particularly internet coverage and connectivity by expanding access to superfast broadband and reliable mobile phone speeds. Investment from this programme will be used throughout North Yorkshire and the East Riding of Yorkshire.

Improving connectivity across the region is vitally important for both residents and the rural economy and, despite the extensive work undertaken by local authorities, rural broadband coverage and speeds still needs to be improved. Whilst there are programmes in place to do this through NYnet and Broadband East Riding, the 100% pilot will widen them further.

NYnet Limited was established by North Yorkshire County Council in 2007 to improve connectivity and broadband services across the region for both the public and private sectors. In order to achieve this, NYnet built and now operates a high capacity fibre network covering North Yorkshire and surrounding areas. Broadband East Riding signed its first contract with BT in 2013, with its most recent deployment ending in September 2018. Both programmes aim to contribute to Governments target of 95% superfast coverage by the end of 2017.

The funding can be used in the Superfast NY contract for Phase 3 (expected to be awarded in December 2017) and new procurement exercise within the East Riding of Yorkshire to increase superfast broadband coverage up beyond 95%.

This funding will help to ensure that access to high-speed broadband reaches some of the most rural communities and businesses in our region, and assist them to boost economic growth via this new infrastructure.

Discussions with mobile-phone providers will also be undertaken to discuss how the funding could be used to improve mobile-phone infrastructure to provide improved voice, 3G and 4G coverage and accelerate mobile connectivity across North and East Yorkshire.

Our investment will also support tourism, a key part of the Yorkshire economy, and wider rural diversification. Our ongoing support will include financial contributions towards two important cycling events held across the pilot area, the annual Tour de Yorkshire and the world cycling championships in 2019.

Looking ahead, the York, North Yorkshire and East Riding LEP have a firm commitment in their Strategic Economic Plan to doubling the rate of house-building across the sub-region. We see business rates pooling as a real opportunity to leverage HCA funding to match investment through the Strategic Investment Fund, to achieve a step-Change in housing delivery. This closely aligns to the government's push to accelerate housing delivery, as set out in the recent White Paper, Fixing our Broken Housing Market. Following a very positive meeting with the Chief Executive of the Homes and Communities Agency, the LEP and local authority Directors of Development we are preparing an innovative and ambitious proposal to put to government which will deliver a significant step up in house building.

Financial arrangements

Following discussion between relevant parties it has been agreed that there should be a common tier split in all parts of North Yorkshire, regardless of whether the billing authority is in the North Yorkshire or LCR pilot. The tier splits proposed for this 100% pilot are:

District councils	50% (increase from current 40% share)
North Yorkshire County Council	49% (increase from current 9% share)
East Riding of Yorkshire	99% (increase from current 49% share)

This tier split reflects that upper and lower tier authorities are equally responsible for running services across the two tier area. The tier split aims to maintain strong incentives for billing authorities to maximize business rates growth and income in their area, whilst also recognizing the County Council's role in business rates growth and the fact that a significant proportion of business rates funding should be directed to support upper tier functions. All of the authorities participating in this proposed pool are in agreement with the above tier split. We are still in discussions with Harrogate to agree their tier split.

The North Yorkshire Fire & Rescue Service and Humberside Fire & Rescue Service will continue with the current 1% share and will be outside the 100% pilot.

The proposed tier splits are considered to be ground-breaking; they demonstrate how a pilot can be used as a vehicle to address issues of financial stability and financial sustainability. It shows the flexibility of the system and the ability to match the boundaries of the retained rates system to economic geography, rather than being bounded by existing administrative boundaries.

There are significant financial pressures across the region including adult and children's social care demand, anticipated pay awards and the impact of the national living wage. These pressures combined with reductions in Government funding, result in a projected budget gap exceeding £20m in medium term financial plans across the pilot authorities. If successful, the pilot arrangement will help to alleviate the financial pressures forecast in 2018-19 and support the medium term financial position for each authority.

Collectively, the pilot authorities have reviewed the financial arrangements and risk associated with the 100% pilot programme. Sensitivity analysis has taken place and resultant financial arrangements have been developed to accommodate both the most-likely and worst-case scenarios. Common assumptions have been made for appeals and risk, and have incorporated each authority's growth assumptions. The financial case for the pilot is strong, with a gain of at least £10m expected across the area.

Government has confirmed that the 2018-19 business rate pilots will operate with "no detriment". This news is very much welcomed; whilst rigorous financial modeling has been undertaken, a no detriment clause provides assurance that the local authorities within the pilot will not be financially worse-off, providing much needed stability for financial planning purposes. The no detriment clause is particularly relevant to this specific pilot application given the inclusion of the aforementioned power stations within the pool's overall tax base.

The proposed pilot offers the Government an opportunity to explore the risks and opportunities identified in this business case further and can help to ensure that the future design of business rate retention system accommodates these risks appropriately.

Recognising that such an approach is only possible with clear arrangements for sharing risk and reward, all authorities involved in the pilot have agreed the following rules for the use of the additional resources generated by the pilot, subject to sufficient resources being available overall:

- *No authority can gain from being a pilot until all authorities have at least the level of resources that would have been received under the 50% scheme including the current business rate pool;*
- *Of the additional gains from the business rate pilot, 50% would be allocated to a strategic investment fund (estimated to be at least £5m per year), with contributions pro rata to each authority's gains; and*
- *Any remaining surplus/deficit at NNDR 3 would be distributed pro rata to individual authority gains, with every authority funded to at least its funding baseline subject to there being sufficient gain overall.*

Pilot members are particularly keen to ensure that there is still an incentive for individual authorities to grow their own business rate tax base, either through their own local initiatives or through collaborative working.

Governance arrangements

This proposal has the support of the Leaders, Chief Executives, and Chief Financial Officers of each council with agreement to the principles for the strategic investment fund.

It is expected that each authority will obtain formal political approval for the distribution of gains across the pilot area, including the establishment of the strategic investment fund, its policy aims, and ultimately the investment programme. It is envisaged that a working group of Section 151 Officers will meet on a regular basis to monitor the pooling arrangement and the delivery of the strategic investment fund programme.

Governance arrangements will remain in place until the pilot is fully dissolved.

The pilot will be formed for a single financial year (2018-19) and the arrangements will be renewed if the pilot is allowed to continue to operate into 2019-20. However, each pilot member will have the ability to leave the pilot at that point.