

## DECISION TAKEN UNDER DELEGATION TO THE CHIEF EXECUTIVE

### **Subject:**

Business Rates Pooling and Pilot for Non-Domestic Rates in 2020/21

### **Date of Decision:**

23 October 2020

### **Decision Number:**

8/2020

### **Background:**

#### *Business Retention scheme*

In April 2013 the Government introduced a business rates retention scheme that was intended to create incentives for local authorities to promote business growth over the long term. Under the scheme local authorities are allowed to retain some of the benefit from any growth in non-domestic rates, however, are also exposed to the risk of reduced income from any reduction in the amounts of Rates collected.

If an authority collects more business rates than the Government has determined they need to fund their services (business rates baseline funding) then these authorities are required to pay over the excess to Central Government in the form of a tariff. Conversely, if an authority's funding requirement is higher than income collected, then they will receive a "top-up" from central government.

There is a levy mechanism built into the Business Rates Retention regime, so that authorities will pay a proportion of their growth to Central Government. The levy rate is set at 50% for Chelmsford City Council, which means the Council will only retain half of the increase in business rates growth over and above a Government set business rates baseline.

The Government has put in place a safety net to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall beyond 7.5% of its spending baseline. The maximum loss for Chelmsford in this instance would be £0.3m.

#### *Business Rates Pooling*

As part of the rates retention scheme, authorities can formally seek designation as a pool. The pool will be formed of two or more authorities and enables those authorities to retain a higher percentage of business rate growth by reducing or removing the levy that needs to be paid on any income growth. If an authority experiences negative growth that falls below the Government set 7.5% safety net, the loss needs to be funded by the pool and therefore has an adverse impact on the other authorities in the pool. The Government treat Pool and its members as one authority and the safety net limit is calculated on overall Baseline funding level of the Pool.

### *Pool arrangements for 2020/21*

Chelmsford entered into an Essex Business rates pool with other Local Authorities in 2018/19 and remained member of the Essex pool in 2019/20 and 2020/21. In 2018/19 the Council received additional income of £1m from the pool as a proportioned benefit of levy saved that would have otherwise been paid to the Government, the forecasted income from the Pool for 2019/20, subject to changes following external audit of member authorities, is £0.6m. The latest monitoring by the lead authority is estimating £0.6m additional income from the Pool in 2020/21 for Chelmsford.

### *Chelmsford's options for 2021/22*

The lead authority is required to notify the Government of its intentions for the next financial year by 23rd October 2020. Essex County Council are therefore seeking a formal confirmation of our intention to remain in the Essex Business rates pool. Depending on the response from other Essex authorities, the options for the pool are to either continue as it is with the current members, to dissolve completely or to dissolve and seek designation as a new pool for 2021/22 should the pool's membership change. The timescales from the Government's request to lead authorities to confirm membership and the deadline date did not allow sufficient time for the lead authority to gather information from all member authorities and prepare detailed modelling for the 2021/22 pool as has been done in earlier years, to provide assurances before entering the pool. Historic experience has shown pool membership to be beneficial for the authority. Basic modelling completed by the lead authority, building in a potential % reduction in the business rates for next year, has indicated that in the unlikely event that all authorities' income would reduce by more than 11%, the pool would no longer be viable and would result in an overall loss for the pool that would need to be funded by the authorities within the Pool. Due to current situation following the Covid19 outbreak there are increased risks that the restrictions imposed by the Government will negatively affect some businesses, resulting in a reduction to the business rates the Local Authorities are able to collect. However, majority of the current pool members have express confidence in being able to maintain their business rates income at the required level for the pool to remain successful.

#### *Option 1*

Notify the lead authority of the intention to leave the Essex Business rates pool and continue as a standalone authority

- Potential increase from Business Rates growth £0.3m
- Maximum loss £0.3m (7.5% of Government set Baseline need)

#### *Option 2*

Join the Essex business rates pool for another year, with the intention to maximise the business rates income retained by the authority. The total estimated business rates income would be £0.6m.

The basic modelling by the lead authority to estimate the potential levy that would be saved by the pool during 2021/22 estimated potential additional income of £0.3m for the council. This is in addition to the £0.3m estimated potential increase from business rates growth as a standalone authority.

The risk, in the unlikely situation where income for the whole pool falls below its business rates baseline is that Chelmsford will lose its additional income and will have to proportionately suffer the loss of pool income. In detailed modelling prepared by the lead authority for the 2019/20 pool considerations, the maximum baseline loss for the pool was £20m, to be shared amongst member authorities, before triggering the Government's safety net payment.

**Decision and Reasons for Urgency:**

As stated above, a decision on whether or not to enter the Business Rates Pool needed to be made by 23 October. It was therefore necessary in this case for the Chief Executive to exercise his delegated authority to take urgent decisions. Having considered the options, the Chief Executive decided that it would be in the City Council's best interests to authorise the Director of Financial Services to negotiate for the Council the terms of the agreement and then enter into the Essex Business Rates Pool.

**Supporting Information:**

The Leader of the Council was consulted before taking the decision and had no objection to it.