

DECISION TAKEN UNDER DELEGATION TO THE CHIEF EXECUTIVE

Subject:

Business Rates Pooling and Pilot for Non-Domestic Rates in 2026-27

Date of Decision:

24th November 2025

Decision Number:

5/2025

Background:

Business Retention scheme

In April 2013 the Government introduced a business rates retention scheme 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, they are 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 it needs to fund their services (business rates baseline funding) then these authorities are required to pay 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 are changes due to start in 2026/27 which are discussed below. The main impact is that growth will be measured against a new April 2026 baseline resulting in lower income to the Council.

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 has been lowered from the 50% in previous years, so the Council will lose a lower proportion of any growth, as shown on the next page.

Stage	Business rates retention income as a % of a local authorities' Baseline Funding Level	Levy rate charged on business rates retention income over Baseline Funding Level
1. Initial growth	100% - 110%	10%
2. Further growth	110% - 200%	30%
3. High growth	200%+	45%

The Government has put in place a new protection for local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall below the safety net. The new safety net will be set 100% for 2026/27 (there will be no losses), 2027/28 it will move to 97% and to a final rate of 92.5% in 2028/29.

There is insufficient information on new business rates to make any robust estimates at a local level.

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. Under the previous rules those authorities would retain a higher percentage of business rate growth by reducing or removing the levy that needs to be paid on any income growth. However, from 2026/27 the marginal levy structure identified above will be applied to pools. Under the levy structure local authorities that pool could still be better off collectively. This is because the pool would group their retained rates income and their collective BFL to be treated as one local authority. This is a change to the current system where local authorities who pool together have a specific levy rate allocated for the pool as a whole.

With a 100% safety net for pools there would seem to be no risk, however, safety net payments for pooling authorities would first need to be paid from the growth of others in the pool (if the pool was above baseline) thereby likely reducing the resources retained locally in overall terms, particularly when growth is unlikely to be more than 10% above baseline funding, due to the reset.

The deadline for local authorities to request pooling arrangements for 2026-27 is Monday 24 November 2025. After the notification of designation of the pool is provided at the provisional Local Government Finance Settlement, a request can be made to revoke the pool in its entirety within 28 days. The membership of a pool cannot be amended i.e. a single authority cannot leave the pool; it can only be revoked in its entirety.

Chelmsford's options for 2026/27

There is insufficient information to estimate monetary gains or losses, so options are not costed. It should be noted that there is no evidence to expect any significant growth in business rate taxbase in 2026/27 in Essex region. In such circumstances it is not possible to fully assess risk and reward from pool membership.

Option 1

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

- This would provide certainty that there will be no loss
- Gains are unlikely to be of significant value in the Essex Pool due to reset baseline (inclusion of only 1 year of possible growth)

Option 2

Join the Essex business rates pool for another year.

- This could provide an unknown quantity of additional income if the pool grows faster than Chelmsford own rates income
- There is a risk of loss if the Council belongs to pool.

Decision and Reasons for Urgency:

The government provided guidance on the new pool rules in the week of the 17th November. The Chief Executive was of the view that option 1 would be of most benefit to the Council. As a decision on whether to join the Pool needed to be made by 24th November 2025, they agreed to exercise their delegated authority to take urgent decisions and authorised the Accountancy Services Manager to notify the Lead Authority of the intention to leave the Essex Business Pool and continue as a standalone authority.

Supporting Information:

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