



Ministry of Housing,
Communities &
Local Government

Invitation to Local Authorities in England

to pilot 75% Business Rates Retention in 2019/20



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Section 1 – The purpose of these invitations

- 1.1 The government is committed to continuing to give local authorities greater control over the money they raise locally. In December 2017, the government announced the aim of increasing the level of business rates retained by local government from the current 50% to the equivalent of 75% in April 2020.
- 1.2 In order to test increased business rates retention and to aid understanding of how we transition into a reformed business rates retention system in April 2020, the government is inviting local authorities in England to apply to become 75% business rates retention pilots in 2019/20. This will be focussed on the learning necessary for transition to the proposed new scheme in 2020/21, allowing the Government to test business rates retention at 75% in line with proposed level of retention for 2020/21 and resulting in a smoother transition to full implementation. Given the limited time before 2020/21, there are fewer issues we can usefully test in pilots. It is therefore likely that this pilot programme may be smaller than in 2018/19.
- 1.3 As part of the move towards a reformed business rates retention system in 2020/21, the government intends to devolve Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG), the Greater London Authority (GLA) Transport Grant and the Public Health Grant (PHG) to local government when the new system commences. The government also intends to use the intervening period to develop a set of measures that support a smooth transition of funding for public health services from grant funding to retained business rates.
- 1.4 To ensure that piloting in 2019/20 closely reflects the government's proposals to date for a reformed business rates retention system, authorities selected as pilots in 2019/20 will be expected to forego Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG).
- 1.5 New 75% retention pilots in 2019/20 will provide the opportunity to test and gather information on the design of the new business rates retention system in preparation for 2020/21. The pilots will test authorities' administration, technical planning for implementation, and look at system maintenance; how the accounting, data collection and IT systems will work. They will also aid our understanding of how we transition into and operationalise the proposed 75% business rates retention system from 2020 onwards.
- 1.6 Collaboration between the government and local government has been central to the ongoing development of the business rates retention system and the reform of the local government finance system more widely. Piloting increased business rates retention will continue to form a key part of this collaboration and help design a system that truly delivers for the sector.

- 1.7 MHCLG are evaluating pilots during their operation and will continue to develop and share 'lessons learnt' from the implementation of increased business rates retention.

Background to current business rates pilots

- 1.8 On 1 April 2017 the government launched five initial 100% business rates retention pilots¹ in devolution deal areas. These pilots were continued into 2018/19. The government will continue to have separate discussions with the devolution deal areas about their pilot programme.
- 1.9 On 1 April 2017 we also transferred the responsibility for funding TfL investment grant to the Greater London Authority (GLA), increasing their share of business rates to 37%.
- 1.10 At the 2017 Autumn Budget it was confirmed that London would become a 100% business rates retention pilot for the duration of the 2018/19 financial year. The pilot comprises of the thirty-two London Boroughs, the City of London and the Greater London Authority. The government will continue to have separate discussions with London about their pilot programme.
- 1.11 At the provisional Local Government Finance Settlement in December 2017, the government announced a further ten 100% business rates retention pilots for the duration of the 2018/19 financial year in local authority areas across England². Whilst these pilots are set to end on 31 March 2019, we are inviting the areas involved to apply to become 75% business rates retention pilots in 2019/20.

¹ These pilots are in Greater Manchester, Liverpool City Region, the West Midlands, Cornwall and the West of England.

² These pilots are in Berkshire, Derbyshire, Devon, Gloucestershire, Kent, Leeds, Lincolnshire, Solent, Suffolk and Surrey.

Section 2 – The invitation to authorities to pilot

- 2.1 This invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution deal areas and London, which are expected to have separate discussions with the department.
- 2.2 Other ongoing business rates retention pilots, set to operate for the duration of the 2018/19, will end on 31 March 2019. We are inviting these authorities, alongside other authorities in England, to make a proposal to pilot 75% business rates retention in 2019/20, should they wish to do so.
- 2.3 Applications from current pilot authorities will not be influenced by the success of those authorities in last year's application process. Authorities may reference their previous experiences of piloting increased business rates retention when writing their applications. However, all applications for the 2019/20 pilots, whether from piloting or non-piloting authorities, will be assessed on their merits and on an equal footing.

Terms of the invitation

- 2.4 The government is interested in exploring how 75% rates retention can operate across more than one authority to promote financial sustainability and to support coherent strategic decision-making across functional economic areas. Accordingly, the government would like to see authorities form pools (either on existing or revised boundaries) and, with agreement in place from all participating authorities, to apply jointly for pilot status. We would expect a proposed pool to comprise a county council and all of the associated district councils; a group of unitary authorities; or a two-tier area and adjoining unitaries, but it should extend across a functional economic area. Proposals will need to set out tier split arrangements of all precepting authorities, including Fire and Rescue authorities.
- 2.5 To be accepted as a pilot for 2019/20, agreement must be secured locally from all relevant authorities to be designated as a pool for 2019/20 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988) and to put in place local arrangements to pool their additional business rates income.
- 2.6 We require bids to explain how the pilot will manage risk and reward at a strategic level. Bids should pay regard to the financial sustainability of all local authorities involved, as well as laying out how any potential growth in business

rates may be spent. The bid will also need to outline the governance arrangements for strategic decision making.

- 2.7 The government will use the 2019/20 pilots to deepen its understanding of how different local arrangements, including governance and information systems, work in relation to 75% business rates retention. As such, the government will seek to gather evidence from the pilots by conducting interviews with a sample of piloting authorities once the pilots are operational.
- 2.8 Participating authorities will be expected to work with MHCLG officials on the system design of the new business rates retention system and share additional data and information, as required. Pilot bids should clearly confirm the participating authorities' willingness to aid MHCLG officials in this work.
- 2.9 Authorities may propose new pooling arrangements should they wish to apply to become 75% business rates retention pilots in 2019/20. In two-tier areas, applications should propose a tier split.
- 2.10 The proposal will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The s.151 officer of each authority will need to sign off the proposal before its submission.
- 2.11 The value of grants devolved as part of business rates pilots will be taken into account when revised tariffs and top-ups for the piloting authorities are set up. This is to ensure that pilots are fiscally neutral against business rates baselines, and only benefit financially if actual revenues exceed baselines.
- 2.12 Pilot areas will be expected to operate under the arrangements that currently determine safety net payments for pools. In other words, each 'pool' will have a single safety net threshold determined on the basis of the pool's overall baseline funding level and business rates baseline. However, the pool's safety net threshold will be set at 95% of its baseline funding level, instead of 92.5%, to reflect the additional risk of 75% retention. Pilots will operate with a 'zero levy', as is the case for the current 2018/19 pilot areas.
- 2.13 As the pilots are testing the pooled authorities' approach to risk, the government has agreed that a 'no detriment' clause will not be applied to the 2019/20 pilots. Instead, selected areas will test a 95% safety net to reflect increased risk in the proposed increased business rates retention system. Applying a 'no detriment' clause to the pilots would not be reflective of the reformed business rates retention system that the government aims to introduce in 2020/21.

- 2.14 Given the timetable for pilot applications and the proximity to the finalisation of the local government finance settlement, all applications must outline, with agreement from all participating authorities, what pooling arrangements they would like to see if their application to become a pilot were unsuccessful. In addition, any authority which is part of a current pool but wishes to apply to become a pilot as part of a different pool, must inform the current pool of its intention prior to submitting its application to the department.
- 2.15 Alongside this prospectus we are publishing supplementary information on how pooling arrangements will be managed in line with applications to become pilots. Please consult this document for further information.
- 2.16 The government reserves the right to pilot a full range of options and so to create a single authority pilot if it is deemed useful as a result of our discussions with applicants. The government will not compel any authority to become a pilot that does not wish to, and we cannot designate a pool without explicit agreement from all participating local authorities.
- 2.17 We recognise that in some cases functional economic areas can extend beyond traditional administrative areas. Unless locally agreed otherwise, the government will assume that in the exceptional event that a district council successfully applies to become a business rates retention pilot as part of a pool to which its county council, or other major precepting authority does not belong, its major precepting authorities will continue to receive the same share of business rates from the district as they would have done under the current 50% business rates retention system if they are not part of a separate successful pilot. The separate 75% business rates pool, of which the district is a member, will therefore need to account for this when determining the pool's internal split for sharing business rates income.
- 2.18 Where a county and one, or more, of its districts are successful in applications for separate 75% business rates retention pilots, we would expect them to reach agreement about the share of business rates that the districts are to pay to the county. In the absence of such local agreement, the Secretary of State will determine the shares, considering proposals made in applications to the department on a case by case basis.

Response to the invitation

- 2.19 It is wholly at the discretion of authorities whether or not they choose to apply to the pilot scheme outlined above.

- 2.20 Any proposals for new pilots must be received by the Ministry of Housing, Communities and Local Government by midnight on Tuesday 25 September 2018.
- 2.21 It is expected that successful applications will be announced before or alongside the publication of the provisional Local Government Finance Settlement.

Section 3 – The criteria for becoming a pilot

- 3.1 The department will consider all applications to pilot 75% business rates retention that are received by the deadline at midnight on 25 September 2018 and conform to the scheme as outlined in Section 2.
- 3.2 Because of affordability constraints, it may be necessary to assess applications against selection criteria. In these circumstances, the following criteria will be considered:
 - a. Proposed pooling arrangements operate across a functional economic area;
 - b. Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these;
 - c. Proposal sets out robust governance arrangements for strategic decision-making around the management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements.
- 3.3 If further assessment criteria are required, the government may select pilots in order to:
 - a. Achieve a wide geographical spread across England;
 - b. Achieve a pilot programme with a range of arrangements to be tested. This might include selecting pilots with different kinds of business rate bases, different pooling or governance arrangements as part of the pilot;
 - c. Achieve variation in the types of tier split arrangements that are being piloted in the case of two-tier areas.

Section 4 – The authorities’ proposal to become a pilot

- 4.1 Any proposal must be in accordance with the invitation and criteria outlined in Sections 2 and 3, and summarised in paragraph 5.2.
- 4.2 Proposals must address all questions in the 75% business rates retention pilot application form and clearly set out the following:

Membership details of proposed pilot

- a. Local authority membership of the proposed pool, explaining its business rates base and relevance to the economic geography of the area;
- b. Evidence (i.e. signature of each area’s s.151 officer) that each local authority in the proposed pool fully supports the application and the proposed pooling arrangements;
- c. The lead authority and contact details of the lead responsible official for matters relating to the application;
- d. The proposed position of all precepting authorities, including Fire and Rescue authorities.

Bid details

- e. Details of your bid should include a summary of governance arrangements, as well as agreement on how any additional business rates income is to be used across the pilot area; how risk is to be managed; and how residual benefits/liabilities would be dealt with once the pilot ends;
- f. An indication of how the pool will work together in the longer term;
- g. Proposals for sharing additional growth across the pilot area. We are interested in seeing how additional growth may be used to promote financial sustainability, as well as further growth through investment;
- h. Confirmation that all participating authorities are willing to work with MHCLG officials on the system design of the new business rates retention system and share additional data and information, as required.

Additional supporting evidence

- i. In relation to authorities in two-tier areas, applications should propose a tier split.

Membership

- 4.3 Authorities cannot apply to pilot 75% business rates retention as part of more than one application. Where authorities have two possible options, they must choose which pilot they wish to apply to participate in. We will reserve the right to refuse applications from authorities that have sent in multiple applications.
- 4.4 If existing pooling arrangements need to be reconfigured as a result of a pilot proposal, the department would expect to make the necessary determinations at the same time as confirming its agreement to the pilot arrangements. In the event that a pilot proposal is not accepted, the government will make 2019/20 pooling arrangements with the authorities concerned, taking into account their expressed preferences on their pilot application, as requested in paragraphs 2.14 and 5.6.

Lead authority

- 4.5 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.

Pooling arrangements if pilot bid is unsuccessful

- 4.6 The pilot bid will need to clearly outline, with agreement from all participating authorities, what pooling arrangements the authorities would like to see in case that the application to become a pilot was unsuccessful.

Other information

- 4.7 Authorities may include any further materials they see fit in support of their proposal. These should be included as an Annex to the main pilot application form.

Section 5 – The government’s handling of proposals

- 5.1 All proposals received on or before 25 September 2018 by the department will be carefully considered, and the results announced before or alongside the publication of the provisional Local Government Finance Settlement. After the announcement the department will support successful authorities in preparing for implementation.
- 5.2 The first assessment of proposals will ensure that all conform to the terms of the invitation (see Section 2).
- 5.3 If it is necessary for a selection to be made, for reasons of affordability, then the proposals will be subject to a further assessment against the criteria outlined in Section 3, 3.2.
- 5.4 If a third assessment is required, then proposals will be assessed against further criteria to ensure a variety of useful pilots are created, including those outlined in Section 3, 3.3.
- 5.5 The government may request further information in carrying out this assessment from the authorities submitting the proposal and from other persons and bodies that it deems appropriate.
- 5.6 Where information is not available the government reserves the right to make assumptions and estimates as it sees fit.

Section 6 – Submission of proposals

6.1 Any proposals for new pilots must be received by the Ministry of Housing, Communities and Local Government by the deadline at midnight on 25 September 2018. The Secretary of State may publish proposals in the Libraries of Parliament.

6.2 Proposals should be submitted to:

Local Government Finance Reform Team

Ministry of Housing, Communities and Local Government

Fry Building

2 Marsham Street

Westminster

London

SW1P 4DF

Email: Businessratespilots@communities.gsi.gov.uk

Section 7 – Conditions

- 7.1 In designating a pool for 2019/20, the department will attach conditions to the designation in accordance with paragraph 35(1) of Schedule 7B to the Local Government Finance Act 1988. The department will appoint a lead authority to exercise the functions specified in other conditions attached to the designation, taking into consideration the suggestion made in the pool's application as stated at 5.5. above, and will require the authorities to take the steps set out in its application in the event that the pool is dissolved, as suggested at 5.2(f) above.
- 7.2 It also reserves the right to attach such other conditions as it sees fit, in accordance with paragraph 35(2) of Schedule 7B. If the department attaches conditions these are likely to be around the publication of information by the lead authority in the interests of transparency.
- 7.3 The department also reserves the right to modify, add or remove conditions at any point in the future, as becomes necessary.
- 7.4 The 2019/20 pilot programme will last for one year only in preparation for the full implementation of a reformed business rates retention system that the government aims to introduce on 1 April 2020 and does not prejudice the discussion the department will be continuing to have with Local Government on the future of the business rates retention system as a whole.

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