

**CABINET
22 OCTOBER 2020**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: BUSINESS RATES POOLING 2021/22 (ADDENDUM)

REPORT OF THE SERVICE DIRECTOR: RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

- 1.1 *Analysis shows that there is likely to be a benefit from there being a Business Rate Pool in Hertfordshire for 2021/22, and that the Council would be included in an optimum pool. There will be the option for the Pool to be disbanded during the 28 days after the announcement of the provisional funding settlement. This period is likely to cover from late December to mid-January.*

2. RECOMMENDATIONS

- 2.1. That Cabinet approve that the Council is part of a Hertfordshire Business Rates pool in 2021/22
- 2.2. That Cabinet delegate to the Service Director: Resources (in consultation with the Executive Member for Finance and IT) authority to approve the detailed arrangements in relation to the Pool, such as a Memorandum of Understanding.

3. REASONS FOR RECOMMENDATIONS

- 3.1 So that the Council could benefit financially from being part of a Business Rates pool.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 NHDC could choose not to be part of a Business Rate Pool, even though it is an optimum member. A Hertfordshire pool could still be formed by the County Council and a selection of other Districts/ Boroughs that might still allow them to benefit from being part of a Pool. In some scenarios the Council would be better off not being part of a Pool. Whilst there will be the chance of a final review in January, it is impossible to know what will actually transpire during 2021/22.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Hertfordshire County Council (HCC) collected information from all the Districts and Boroughs on Business Rate forecasts. However given the current uncertainties it was considered that it was very difficult to come up with meaningful and consistent forecasts in this way. HCC have commissioned a specialist public sector finance consultant (LG Futures) to carry out some higher level analysis. LG Futures have supported all the previous Hertfordshire Pooling assessments. LG Futures will be paid by taking a 2% share of any pooling gain.

6. FORWARD PLAN

- 6.1 As substantive report.

7. BACKGROUND

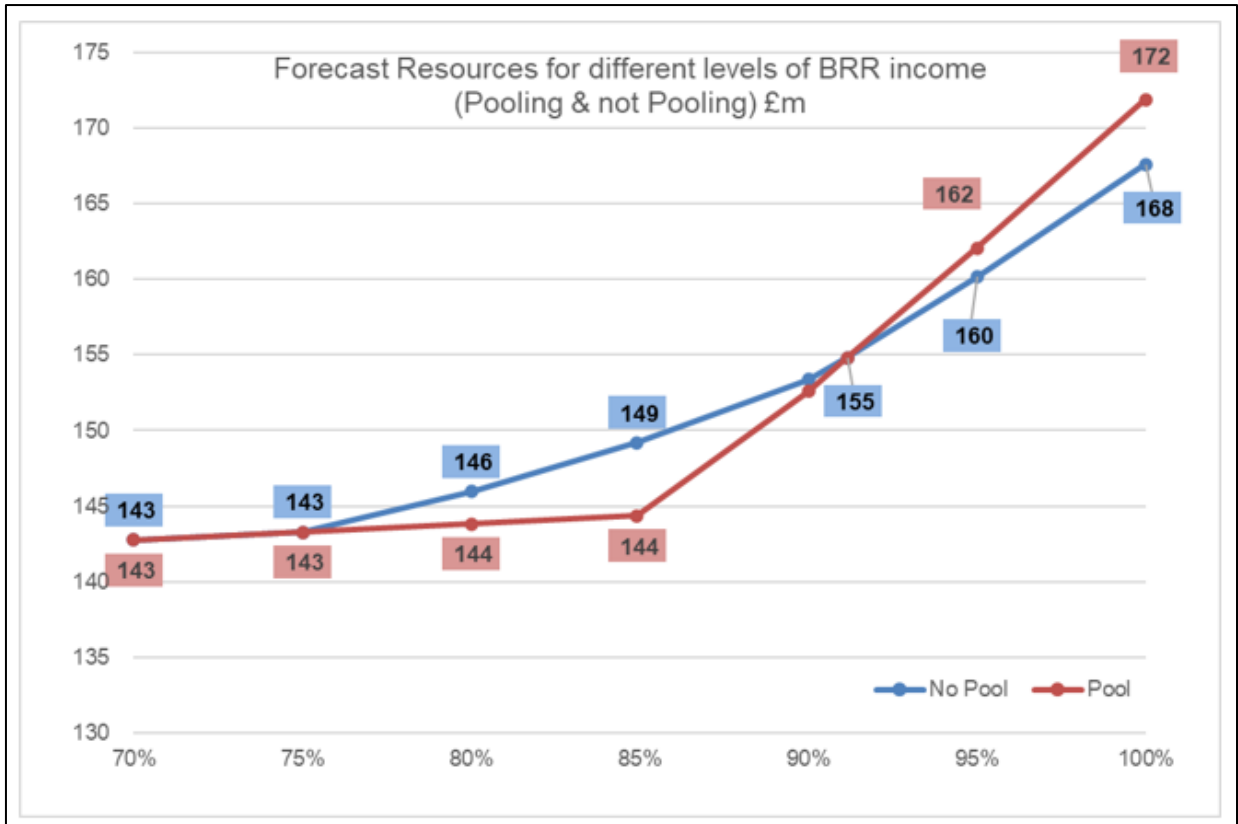
- 7.1. As substantive report.

8. RELEVANT CONSIDERATIONS

- 8.1. As substantive report.

- 8.2. The gains (or losses) from Pooling are based on the Rates that the Districts are due to receive during the relevant year. This would include amounts that have not actually been collected in the year, but these would be subject to making a provision for bad debt. Where a business closes down a property then they can claim a rates exemption for 3 months, before reverting to paying unoccupied rates. If a business has to close down completely and can not afford to pay their rates, then it is unlikely the Council would receive any of the rates owed. Any new owner of the property would become liable from the point of purchase, subject to any exemptions (e.g. empty property relief). The collectible rates would also be affected by things like ratings appeals and change of use of the building (both between business uses and from business to residential use). In a normal year, it is possible to make an estimate of the following years rates by estimating adjustments to the current year position. The impact of the Covid-19 pandemic on Business rates is uncertain for this year, next year and probably beyond. This is why LG Futures have carried out some higher level forecasts.

- 8.3. The graph below demonstrates the general risks and rewards in relation to a Pool. It is based on general declines in Business Rate income (rather than trying to assess specific risks to Hertfordshire authorities) and uses the members of the current (2020/21) Pool and their forecasts for 2020/21 (as at January 2020). The base position is that the benefit of Pooling to Hertfordshire is just over £4m, as shown by the 100% on the far right of the graph. Until rates drop by more than 8.8% (i.e. to 91.2% of the original total), there is still a benefit from being in the Pool. Moving further to the left, there is then a section where the individual Authorities, if outside the pool, would hit a safety net (i.e. have their Rates supported by Government) but the Pool would not hit safety net. This is the section where it is better not to Pool. The far left hand side shows where the Pool would also hit safety net and it makes no difference whether there is a Pool or not.



8.4. The effects of the Covid-19 pandemic will not impact all businesses equally. Therefore an assessment has been made of risk by business type. This considers that shops (excluding supermarkets), offices and restaurants are likely to be high risk. Lower risk premises are likely to include food shops (including supermarkets), factories and most Local Authority buildings (including schools and civic buildings). The result for North Hertfordshire is that (by value) 51% of premises are lower risk, 21% are medium risk and 28% are higher risk. The analysis then considers the following scenarios in relation to reductions in collectible rates.

Scenario	Higher Risk	Medium Risk	Lower Risk
1	-10%	-3%	0%
2	-15%	-6%	-1%
3	-25%	-15%	-4%

It is forecast that under scenarios 1 and 2 there would still be a pooling gain, and only under scenario 3 would there be a pooling loss. The overall gain under scenario 2 (using the optimum pool) is forecast to be £2.3m (NHDC gain estimated at c. £400k). The overall loss under scenario 3 is forecast to be £0.9m (NHDC loss estimated at c. £100k).

8.5. There are various ways of determining what the optimum pool should be. Under all the methods considered, NHDC is part of the optimum pool. The optimum pool has been determined as being made up of Broxbourne, Dacorum, Hertsmere, North Hertfordshire, Three Rivers and Hertfordshire County Council.

- 8.6. As well as the risk that there is a general decline in Business Rates resulting in Pooling being a worse option, there is also a risk at an individual Authority level that Pooling is a worse option. If, as an example, NHDC was able to maintain Business Rate levels, but there were declines in all the other Districts, then NHDC would lose some (or all) of the gains to support the other Districts. However, this scenario is considered unlikely. All Authorities have been asked to consider whether they have any high risk hereditaments and no significant ones have been identified.
- 8.7. The Pool will need governance arrangements in place. These will be based on the arrangements that have been established in previous years. In essence, the split of any gains would be 70% to the Districts (in proportion to Business Rate growth), 15% to HCC and 15% in to a growth fund. The growth fund would be split between all Districts (including those that are not part of the Pool) and HCC. Any losses would be split in a similar way, except that there would not then be a growth fund. Recommendation 2.2 seeks delegation to approve these detailed governance arrangements.
- 8.8. The application that needs to be submitted on the 23rd October will set the Pool membership for 2021/22. However, during the 28 days following the Local Government provisional settlement (usually around mid-December) the Chief Finance Officers of the proposed Pool members will assess the current situation (both nationally and any individual circumstances) and determine whether the Pool should be dissolved. During this time any provisional member of the Pool can request to withdraw from the pool and the pool would immediately be dissolved. In that event there would not be the opportunity to form a new Pool and there would simply not be a Pool for Hertfordshire for 2021/22.

9. LEGAL IMPLICATIONS

- 9.1. As substantive report.

10. FINANCIAL IMPLICATIONS

- 10.1 As substantive report.

11. RISK IMPLICATIONS

- 11.1. The financial risks and rewards that the Council faces are detailed in section 8 above.

12. EQUALITIES IMPLICATIONS

- 12.1. As substantive report.

13. SOCIAL VALUE IMPLICATIONS

- 13.1. As substantive report.

14. ENVIRONMENTAL IMPLICATIONS

- 14.1. As substantive report.

15. HUMAN RESOURCE IMPLICATIONS

- 15.1 As substantive report.

16. APPENDICES

16.1 None

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

18.1 None