

CABINET
10 SEPTEMBER 2018

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: BUSINESS RATES PILOT AND BUSINESS RATES POOLING

REPORT OF: SERVICE DIRECTOR- RESOURCES
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 The Ministry for Housing, Communities and Local Government (MHCLG) has issued an invitation for Authorities to bid to become 75% Business Rates retention pilots. The bid needs to come from all the Authorities within Hertfordshire. Indications are that there could be gains for Hertfordshire of **£5 million** compared to a pooling arrangement. Further work will be carried out to confirm the level of benefits. The bid needs to be submitted by 25th September 2018, and are expected to be subject to a selection process.
- 1.2 The option for applying to be part of a Business Rates pool is also still available. It is expected that North Hertfordshire District Council (NHDC) would still be part of an optimum pool. The best estimate of the forecast gain across the pool members is around **£2.4 million**, with up to around a **£0.4 million** gain for NHDC. It is not possible to be part of a pool and a pilot, but it is possible to apply for both.

2. RECOMMENDATIONS

- 2.1 That Cabinet delegates to the Service Director- Resources, in consultation with the Executive Member for Finance and IT, authority to decide whether NHDC should be part of the application for a Business Rates pilot and / or a Business Rates pool.

3. REASONS FOR RECOMMENDATIONS

- 3.1 It is recommended that the offers available are reviewed due to the potential financial benefits for NHDC and Hertfordshire as a whole. The delegation is recommended as a result of the timing of when bids need to be submitted.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 NHDC could choose not to be part of a Business Rates pilot or a Business Rates pool. This would mean that it would not be possible for Hertfordshire to apply to be a pilot. A pool could still be formed with other Authorities.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 There is ongoing consultation with the other Hertfordshire Authorities to determine what the financial benefits could be and the level of support for the proposals.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.
- 6.2 The final decision to be taken under delegated authority would amount to a key decision that was first notified to the public in the Forward Plan on the 30th August 2018. The decision will be taken under urgency procedures.

7. BACKGROUND

- 7.1 On the 24th July 2018, the MHCLG issued an invitation to Local Authorities to become Business Rates pilots. This document also referenced the opportunity to apply to become a Business Rates pool.
- 7.2 Business Rate pilots must be based on functional economic areas, and the expectation is that for two tier areas this is the County Council and all Districts. The Pilot areas would retain 75% of any growth in Business Rates income above a baseline, but does take on some risk of funding falls in Business Rates income.
- 7.3 A Business Rates pool allows the Authorities within the pool to reduce the amount of levy payable to the DCLG on any business rate growth achieved above the baseline. A pool can be made up of any Authorities, although it does need to include at least one top-up Authority (i.e. Hertfordshire County Council- HCC). To provide the optimum financial gains they usually also include the Districts with the highest forecast Business Rate growth. NHDC is part of a Hertfordshire Business Rates pool for 2018/19, and was also part of the pool in 2015/16 and 2016/17. There was not a pool in 2017/18 as one of the members was faced with a significant appeal risk so the pool was disbanded to avoid the other pool members being affected by it. The current estimate of the gain to NHDC of being part of the pool in 2018/19 is up to **£400k**.

7.4 Hertfordshire applied to be a pilot area for 2018/19 but was not successful in its application. There was no useful feedback from the MHCLG as to why the application was not successful.

8. RELEVANT CONSIDERATIONS

8.1 Under 100% Business Rate Retention it was estimated that the benefit of being a pilot to Hertfordshire (Hertfordshire County Council and the 10 Districts) as a whole would be over £9 million better than being part of a pool. The benefits under a 75% system would be lower than this and an early estimate of this is around **£5m** better than being part of a pool. The gains would be shared so that all Authorities would be better off than under a pooling arrangement i.e. those Authorities that would have been part of a pool would receive a greater share of the pilot gains.

8.2 The risk of the Pilot is in relation to safety net payments. If some of the Authorities have a drop in Business Rate income then this will need to be funded by those Authorities that have growth, rather than by the MHCLG. Overall the pilot area would have a safety net that was set at 5%. If the total Business Rates of the pilot area fell below 95% of the baseline level, then the drop below this level would be funded by the MHCLG. The first 5% would equate to around £3 million.

8.3 There is joint work that is in the progress of being carried out to verify what the potential gains from being a pilot would be. Any updates on this will be provided as a verbal update at the meeting. If this ultimately confirms the financial benefits, then work will progress towards the details of the bid to the MHCLG.

8.4 It is almost certain that the number of applicants will be greater than the number of pilots that can be afforded, so the MHCLG will need to go through a selection process based on the bids submitted. They have stated that this will look at the following criteria:

- Proposed pooling arrangements operate across a functional economic area
- 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
- 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.

8.5 If the above criteria are not sufficient to make a decision then the following will also be used:

- Achieve a wide geographical spread across England;
- 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;
- Achieve variation in the types of tier split arrangements that are being piloted in the case of two-tier areas.

8.6 The Hertfordshire application will focus on the first list as these are elements that we can control. As was the case last year, LG Futures will be commissioned by HCC to support our application. Whilst they were not successful with our bid last year, of the 7 that they supported they were successful with 4. LG Futures will only receive payment if the application is successful, and then it will be a small percentage (0.9%) of the gains (based on an estimated £5m gain this would be £45k). They will also be paid £7,500 if they do all the work to prepare a bid, but the Councils choose not to proceed.

8.7 A Business Rates pool application can still be submitted, either alongside or instead of a pilot application. The gains from a pool are that the Districts pay either zero (or a reduced) levy on growth. The risk is that the pool would have to fund any safety net payments if the Business Rates income of any of the Authorities in the pool reduced. Given that the Authorities selected to be in the pool are those that are forecast to have the highest Business Rates growth, the chance of a fall is reduced. As detailed in paragraph 7.3, NHDC gained from being part of the pool in 2015/16 and 2016/17.

8.8 It is expected that an application will be made for a Business Rates pool alongside a pilot application. This provides a back-up if the pilot application is not successful. It is expected that NHDC will still form part of the optimum pool. The best current forecast is the same as what was used last year, which is a gain across the pool members of around £2.4 million, with around a **£0.4 million** gain for NHDC.

8.9 Applications have to be made to the MHCLG by 25th September 2018

9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference in the Council's Constitution include at paragraph 5.6.1 "To prepare and agree to implement policies and strategies other than those reserved to Council."
- 9.2 Business Rate pools are established under paragraph 34 of Schedule 75 of the Local Government Finance Act 1988 (as inserted by schedule 1 to the Local Government Finance Act 2012).
- 9.3 To be accepted as a pilot for 2018/19, agreement must be secured locally from all relevant authorities to be designated as a pool for 2018/19 (in accordance with Part IX of Schedule 7B to the Local Government Finance Act 1988) and to put in place local arrangements to pool their additional business rates income.

10. FINANCIAL IMPLICATIONS

- 10.1 These are generally covered in section 8. The current system is 50% Business Rates Retention. However this does not mean that an Authority retains 50% of the Business Rates income that it collects, but instead means that 50% of total Business Rates income is retained within Local Government overall. The funding formula is based on the expectation that NHDC will collect around £38 million in Business Rates income. NHDCs share of this is 40%, which is just over £15m (10% goes to HCC and 50% goes to MHCLG). However it is assessed that NHDC only needs £2.6m of this income, so is required to pay a further £12.5m to MHCLG as a tariff. If NHDC has any growth in its business rate income above the baseline of £2.6m, then it has to pay 50% of this to the MHCLG and 10% to HCC. So that leaves 40%, but this is then further reduced by a levy. The levy is calculated so that the increase in the income received is proportionate to the growth in total Business Rates. For example, a 1% increase in Business Rate income would be around £380k and NHDC would retain 40% of this which is around £150k. However as a proportion of the baseline amount of £2.6m, £150k is almost 6%, so this needs to be reduced down to £26k (i.e. 1% of £2.6m) by applying a levy.
- 10.2 A business rates pool provides an opportunity for most of the levy to be avoided.
- 10.3 The 75% Pilot means avoiding the levy and getting to keep half of the growth that would have been paid to the MHCLG.

11. RISK IMPLICATIONS

- 11.1 Under either a pool or pilot arrangement, the Authority would be taking on a higher amount of risk. Under either scenario there is the potential for there to be a need to contribute towards funding that would otherwise have been provided by the MHCLG. The additional financial modelling work that will take place during September will further analyse the level of risk involved. Current indications are that the risk is worth taking as the potential benefits are both greater in value and more likely to happen.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no equalities issues in relation to this report.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and “go local” policy do not apply to this report. The contract with LG Futures is with HCC. Furthermore they are a company that specialises in public sector finance and there would not be any similar local providers of these services.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no HR implications in relation to this report.

15. APPENDICES

- 15.1 None.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1 75% business rates retention pilots 2019 to 2020: prospectus

<https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019-to-2020-prospectus>