

**CABINET
24 SEPTEMBER 2019**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: BUSINESS RATES POOLING 2020/21

REPORT OF THE SERVICE DIRECTOR- RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 The Ministry for Housing, Communities and Local Government (MHCLG) have issued an invitation for groups of Authorities to become Business Rate pools. The deadline for applications is 25 October 2019. Work needs to be carried out to determine the optimum members of a Hertfordshire Pool. Based on previous years it is likely that it would include North Hertfordshire District Council (NHDC). In previous years the gains for NHDC of being part of the pool have been around £400k.

2. RECOMMENDATIONS

- 2.1. That Cabinet approve in principle that the Council is part of a Hertfordshire Business Rates pool in 2020/21.
- 2.2. That, if the Council would be part of an optimum pool, that the authorisation for the final agreement be delegated to the Service Director- Resources in consultation with the Executive Member for Finance and IT.

3. REASONS FOR RECOMMENDATIONS

- 3.1. It is recommended that NHDC joins a Business Rates pool due to the expected financial benefits. The delegation is necessary due to the deadline imposed by the MHCLG.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. NHDC could choose not to be part of a Business Rate Pool, even if it would have been an optimum member. A Hertfordshire pool could still be formed by the County Council and a selection of other Districts/ Boroughs, and they would still benefit from being part of a Pool. This option was rejected as it would not allow the Council to take advantage of additional funding, that in previous years has been forecast to be around £400k.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Hertfordshire County Council (HCC) are collecting information from all the Districts and Boroughs, that will be used to determine the optimum pool. The results of this will be discussed in meetings between the Chief Finance Officers.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan. The final decision on whether to join the Business Rates Pool is a key Executive decision. This was first notified to the public in the Forward Plan on the 18th September 2019. The decision is expected to be made on the 16th October 2019.

7. BACKGROUND

- 7.1. A Business Rate Pool allows the Authorities within the pool to reduce the amount of levy payable to the MHCLG on any business rate growth agreed above a baseline. A pool can be made up of any Authorities, although it does need to include at least one top-up Authority (i.e. the County Council). To provide the optimum financial gains they usually include the Districts/ Boroughs with the highest forecast Business Rate growth. NHDC has been part of a pool in all 3 years that they have been in Hertfordshire (i.e. 2015/16, 2016/17 and 2018/19).
- 7.2. A Business Rate Pilot is based on a functional economic area (i.e. for Hertfordshire it is HCC and all 10 Districts/ Boroughs). They allow the Authorities to take advantage of the additional funding from retaining 75% of any growth in Business Rates above a baseline level. The gains from a Pilot will generally be much greater than being part of a Pool, and they were subject to a bidding process in both 2018/19 and 2019/20. For 2019/20, Hertfordshire was successful in its application to become a Business Rate Pilot.
- 7.3. Within this report, Pool and Pilot are used to mean two different things, as per the definitions above. However technically Pilots are also Pools i.e. they are Pools that have Pilot status. See paragraph 8.1 for the relevance of this.
- 7.4. It was expected 75% Business Rate Retention would be fully introduced in 2020/21 and that would mean that applications for Business Rate Pilots or Pools would either become irrelevant or fundamentally change.
- 7.5. As part of the Spending Review for 2020/21 it was announced that the full introduction of 75% Business Rate Retention would be delayed until 2021/22 (as well as delays to the Fairer Funding Formula and the Business Rates reset). It was also announced that current Pilots would be ended and that there would not be any funding for new Pilots.

8. RELEVANT CONSIDERATIONS

- 8.1. On 17th September 2019, the MHCLG wrote to Pool and Pilot Lead Authorities, and all Authorities who are not part of a Pool or Pilot. This e-mail was forwarded on to NHDC by HCC, as Lead Authority for the Hertfordshire Pilot. This e-mail invited Authorities to consider whether they want to be part of a Pool in 2020/21. The starting assumption is that the status quo (or as near to it as possible) would continue, and that any changes would need to be notified to the MHCLG by 25th October 2019. For Hertfordshire, it is not possible to be part of a Pilot as they will cease to exist. But the MHCLG assumption is that the Pool would continue without the Pilot status. As referenced in 7.1 a Pool with 11 members would not provide the optimum benefits. Therefore the current Pool will need to be replaced with a smaller Pool.
- 8.2. HCC have written to all the Districts and Boroughs for the information required to determine an optimum pool for 2020/21. This will be based on Business Rate forecasts and the level of risk in those forecasts. This work will determine if NHDC would be an optimum member of the Pool, and the forecast benefits. LG Futures (a specialist in Local Government Finance) will be commissioned by HCC to carry out the required analysis. If NHDC is not determined to be an optimum member then there will not be a decision to be made. If NHDC is part of an optimum Pool, then the final decision will need to balance the forecast benefits against any risks. Based on previous years forecasts the benefits could be up to £400k. 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 below a certain level. As the Authorities selected to be in the Pool are those that are forecast to have the highest Business Rate growth, the chance of a fall is reduced.

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 of the Local Government Finance Act 2012).*

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 Rate Pool provides the opportunity for most of the levy to be avoided.

11. RISK IMPLICATIONS

11.1. As detailed in paragraph 8.2, the Authority would be taking on greater risk. However it is felt, if NHDC is part of an optimal Pool, that the benefits would outweigh that risk.

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 implications in relation to this report.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and “go local” requirements do not apply to this report. The contract with LG Futures is with HCC. Furthermore they are a company that specialises in Local Government 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

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17. BACKGROUND PAPERS

- 17.1. None