

<b>CABINET</b> <b>26 SEPTEMBER 2017</b>
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<b>*PART 1 – PUBLIC DOCUMENT</b>	<b>AGENDA ITEM No.</b>  <b>13</b>
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**TITLE OF REPORT: BUSINESS RATES PILOT AND BUSINESS RATES POOLING**

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT  
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM  
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

**1. EXECUTIVE SUMMARY**

- 1.1 The Department for Communities and Local Government have issued an invitation for Authorities to bid to become 100% 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 **£6-£8 million**. Further work will be carried out to confirm the level of benefits. The bid needs to be submitted by 27th October 2017, and could be subject to a competitive process.
- 1.2 The option for applying to be part of a Business Rates pool is also still available. Indications are that North Hertfordshire District Council (NHDC) would still be part of an optimum pool. The forecast gain across the pool members is around **£2.4 million**, with 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 Head of Finance, Performance and Asset Management, 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 currently been referred to in the Forward Plan as the announcement about possible Business Rates pilot opportunities was made very recently.

- 6.2 The final decision to be taken under delegated authority could amount to a key decision and therefore will be entered on the Forward Plan in order to comply with constitutional requirements.

## 7. BACKGROUND

- 7.1 On the 1<sup>st</sup> September 2017, the Department for Communities and Local Government 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. It was previously unknown as to whether this option would continue to be available.

- 7.2 Business Rate pilots must be based on functional economic areas, which for two tier areas is the County Council and all Districts. The Pilot areas can retain all the growth in Business Rates income, but does take on some risk of funding falls in Business Rates income. The DCLG is looking for applications that demonstrate:

- Promoting financial stability and sustainability
- Investment in growth
- Consider tier splits

- 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). To provide the optimum financial gains they usually also include the Districts with the highest forecast Business Rate growth. NHDC was part of a Hertfordshire Business Rates pool in 2015/16 and 2016/17. The financial benefit from being part of the pool was £91k in the first year and £154k in the second year. One of the members of the pool was faced with the prospect of a significant appeal risk in 2017/18 so it was decided to disband the pool to avoid the other pool members being affected by it.

## 8. RELEVANT CONSIDERATIONS

- 8.1 Early indications are that the combined net benefits for the Hertfordshire Authorities (Hertfordshire County Council and the 10 Districts) of being a Business Rates pilot could be **£6-8 million**. This is based on a forecast of:
- 50% of growth that would have been paid to the DCLG that would now be retained
  - Not having to pay a levy on the retained growth to the DCLG
  - Less having to top-up the Business Rates for any Authority where it drops below a certain level (known as a safety net) that would previously have been funded by the DCLG

- 8.2 As well as the financial benefits, there is also an opportunity for Pilot areas to influence the design of the future 100% Business Rates retention system. For example, this could result in a system that is simpler to operate or possibly improved financial benefits.
- 8.3 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 DCLG. Overall the pilot area would have a safety net that was set at 3%. If the total Business Rates of the pilot area fell below 97% of the baseline level, then the drop below this level would be funded by the DCLG. The first 3% would equate to around £1.8 million.
- 8.4 There will be some joint work carried out to verify what the potential gains from being a pilot would be. If this confirms the financial benefits, then work will progress towards the details of the bid to the DCLG. It is likely that the number of applicants will be greater than the number of pilots required, so the DCLG may need to go through a selection process based on the bids submitted. The bid therefore needs to address the points referenced in 7.2. The implications of this are likely to be:
- Some of the growth could be retained by Authorities to support their General Fund.
  - The remainder of the growth would need to fund further growth across the County. An early idea is that this could be via One Public Estate, an initiative which aims to unlock the value of public sector owned land.
  - Proposals in relation to tier splits. The current split is that Districts get 80% of any growth (or decline), although this is then subject to a levy. HCC only get 20% of any growth, but this does give them a much more stable budget.
- 8.5 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.
- 8.6 It is expected that an application will be made for a Business Rates pool. If this is alongside a pilot application, then it provides a back-up. It is expected that NHDC will still form part of the optimum pool. The current forecast gain across the pool members is around **£2.4 million**, with around a **£0.4 million** gain for NHDC.

8.7 Applications have to be made to the DCLG by 27<sup>th</sup> October 2017.

## **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 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.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 These are covered in section 8. The benefits from a Business Rates pilot are forecast to be around **£6-8 million**. NHDC should expect to get some of this benefit directly as additional income. There would also be the indirect benefits from any money that is invested in promoting further Business Rate growth. The overall benefits of a Business Rates pool are forecast to be lower i.e. around **£2.4 million** in total, with a NHDC share of around **£0.4 million**. Under a pooling arrangement there would not be any specific investment in growth.

## **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 DCLG. 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.

## **14. HUMAN RESOURCE IMPLICATIONS**

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

## **15. APPENDICES**

- 15.1 Appendix A - Business Rates systems and terminology.

## **16. CONTACT OFFICERS**

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**17. BACKGROUND PAPERS**

17.1 None.

## Appendix A - Business Rates systems and terminology

### Current System

Local Authorities retain 50% of Business Rates, with the remaining 50% going to the Department for Communities and Local Government (DCLG). In two tier areas the Local Authority share is split 80% (40% of the total) to the District Council and 20% (10% of the total) to the County Council. However this is combined with an assessment of need, known as a **baseline**. Where the assessed need is greater than the share of Business Rates, then a **top-up** is received. Where the assessed need is less than the share of Business Rates, then a **tariff** is applied (i.e. additional money paid to DCLG). In Hertfordshire, Districts are **tariff** authorities and the County Council is a **top-up** authority.

Growth in Business Rates is also restricted. Where a 1% growth in Business Rates would lead to a greater than 1% growth in funding, then the growth that is actually received is restricted by a **levy**. Across Local Government this **levy** is used to fund **safety nets**. **Safety nets** are payments received by Authorities that see their Business Rates income drop more than 7.5% below their **baseline**.

### Business Rates pooling

The pool is generally formed of one **top-up** authority (County) and a number of **tariff** authorities (Districts). Where the sum of the **tariffs** is less than the value of the **top-up**, then no **levy** on growth is paid by pool members. It is not possible to perfectly align the value of **tariffs** and **top-ups**, so if the value of **tariffs** is slightly more than the **top-up** value then a **levy** is still paid but it is significantly reduced. The disadvantage of a pool is that they have to fund a pool member that ends up in a **safety net** position, rather than this being funded by the DCLG.

### Future system

The proposed future system is known as 100% Business Rates retention. This means that 100% of Business Rates are retained within Local Authorities. There will still be **tariffs** and **top-ups** to provide redistribution according to assessed need. The Treasury have calculated that the net income that the DCLG receives from Business Rates to be around £12 billion. DCLG are therefore looking to transfer additional services to Local Authorities of this value. The LGA are petitioning that existing pressures should be funded first.

It is expected that there will be a change in tier splits i.e. the split of Business Rates income between Counties and Districts. Given that there will still be **tariffs** and **top-ups**, a higher share of Business Rates gives more opportunity to benefit from growth, but also gives greater exposure to variations in funding and therefore drops in income.

**Safety nets** are still expected to be applied although these will be funded from a top-slice of the total funding available. As highlighted by the pilot, the DCLG are looking at whether the risk of **safety nets** could be managed at a local level. Pilot areas would still have **safety nets**, but these are far less likely to be used as it would require a drop in Business Rate income across a number of areas, rather than one particular area.