DACORUM BOROUGH COUNCIL

AGENDA ITEM:

SUMMARY

Report for:	**Cabinet**
Date of meeting:	**17 October 2017**
PART:	**1**

Title of report:	**Business Rates Pooling Pilot**
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources James Deane, Corporate Director (Finance & Operations)
Purpose of report:	To update Cabinet on the opportunity for the Council to take part in a Business Rates Pooling Pilot, and to seek approval for DBC to progress with a county-wide application.
Recommendations	It is recommended that: 1. Cabinet support the principle of the Council being a part of a Hertfordshire wide bid to take part in the Government's proposed 100% Business Rates Pooling Pilot commencing 1 April 2018; and, 2. Cabinet delegate authority to the Chief Executive in consultation with the Leader of the Council, to approve the final application subject to final details being agreed between prospective pool members.
Corporate objectives:	This report supports all of the Council's Corporate Objectives.
Implications:	Contained within the body of the report.
Risk Implications	Contained within the body of the report
Equalities Implications	There are no equality implications.
Health And Safety Implications	There are no health and safety implications.

Monitoring Officer/S.151 Officer Comments	**Monitoring Officer:** This report is an urgent report that was not on the Council's forward plan. Accordingly, consent of the Chairman of the Finance and Resources Overview and Scrutiny Committee has been obtained as the key decision is urgent and cannot reasonably be deferred. This is due to the deadline of submission of the bid by 27th October 2017. **S.151 Officer** This is a Section 151 Officer report.
Consultees	The Leader of the Council The Portfolio Holder for Finance & Resources Hertfordshire Chief Executives Hertfordshire Chief Finance Officers
Background papers	None

Executive summary

1. The Department for Communities and Local Government (CLG), on 1 September 2017, issued an invitation for Authorities to bid to become a pilot area for 100% Business Rates Retention. The pilot period lasts for one year, from 1 April 2018, and the bid must be submitted jointly by all Authorities within the county by 27 October 2017.

2. The advantage of the pooling proposal for local authorities is that all growth in business rates across the county would be retained for local investment, as opposed to the current system which requires 50% of all growth to be surrendered to Central Government. The risk for Authorities within a pool is that the 'safety net' currently provided by Central Government would be removed. This means that those councils experiencing growth in business rates income could be required to underwrite some of the losses suffered by those councils that have seen their business rates income fall. More detail on the benefits and risks is contained within this report.

3. Based on modelling undertaken to date, indications are that if Hertfordshire were selected as a pilot area there could be a county-wide gain of c£9.4m over the period. There is broad, informal agreement between all Authorities that a bid should be made, and work continues to determine a formal mechanism for the sharing of gains, which must be submitted as part of the pilot bid.

4. The timing of the CLG submission deadline means that there will not be an opportunity to present the finalised gain-sharing model to Cabinet before a formal decision is required from the Council to take part in the pilot. On this basis, it is recommended that Cabinet support the decision to proceed with the pilot in principle, but delegate the final decision to the Chief Executive, in consultation with the Leader of the Council, subject to the satisfactory resolution of final details.

Background

5. Government's invitation for Authorities to apply to become part of the pilot pooling scheme represents the next step towards full implementation of its policy, first announced in 2015, to devolve 100% Business Rates to Local Authorities by 2020.

6. Since 1 April 2017, five 100% retention pilot areas have been underway within the devolution deal areas of Greater Manchester, Liverpool, West Midlands, Cornwall and the West of England.

7. For the pilots set to commence from April 2018, Government is particularly seeking applications from two-tier areas. Their stated aims are: to test more technical aspects of the retention system; and, to evaluate how the shared risks and rewards of a pool enable Authorities to collaborate on strategic decision-making across a wider area.

8. The pilot pooling offer to which this report refers should not be confused with the pooling scheme which is already supported by CLG, and which has been in place for some time. Unlike the proposed pilot scheme, the non-pilot scheme still requires some element of business rates growth to be paid over to CLG and does not require all councils within the county to be a member. In contrast, an application to form a pilot under the new pooling scheme will only be considered if *all* of the Authorities within the county formally support the bid.

Benefits of being in a pool

9. The financial benefit to pool members comes from the retention of income from business rates growth (above a government-determined baseline) that is currently paid over to CLG. Currently, growth across Hertfordshire is split as follows:

County Council:	**10%**
District Councils:	40% less half paid as levy to CLG = **20%**
CLG:	50% plus 20% from Districts' levy = **70%**

Within a pilot, CLG's 70% share of growth would all be retained locally.

10. Work has been commissioned jointly by Hertfordshire councils for LG Futures (Local Government funding analysts) to model the potential impact of a pilot pooling arrangement, based on current income forecasts for 2018/19. The potential gains for Hertfordshire compared with all authorities acting individually are summarised below:

50% Net Growth currently paid to DCLG	£8.7m
Current levy on District share of growth	£3.7m
Less Current safety net funded by DCLG	<u>(£0.2m)</u>
Total gain compared with operating individually	£12.2m
This compares with the forecast gain from a Pool*	<u>£2.8m</u>
Total Gain compared with Pool	**£9.4m**

*Although DBC would not be invited to join a non-pilot pool for the reasons given in paragraph 8, other Authorities within Hertfordshire would gain from that pool and so their decision as to whether to be part of a Pilot must be compared to the pooling position.

11. Based on current forecasts of business rates income for 2018/19, the modelling indicates that £9.4m of additional funding would be retained within Hertfordshire over and above what would be retained through a Business Rates Pool; or £12.2m above a "do nothing" option. If Hertfordshire does not submit a bid for pilot status, this income would be paid to CLG.

Risks of being in a pool

12. Under the current Business Rates system, every District Council has a baseline level of business rates receipts, set by Government, which it is expected to achieve. If the Council collects in excess of this baseline then it is deemed to have achieved growth and it will be rewarded by keeping some of this growth, as outlined in paragraph 10.

13. If, however, a Council falls below the baseline level (e.g. through business closures or through business' successfully appealing their business rates), then it must absorb some of this loss through reductions to its *Baseline Funding*, i.e. the annual grant funding provided by Government (for DBC c£2.9m). Baseline Funding is not linked to a Council's ability to collect business rates, but rather to Government's assessment of the Council's need. On this basis, Government provides some protection for Authorities by capping at 7.5% the level of loss that a Council can experience to its funding. This is called the 'safety net' arrangement.

14. Within a pilot arrangement, safety net is not paid by Government and must be paid by the other members of the pool, thereby offset against gains. Therefore, the main risk of being in a pilot comes from the potential for a fall in business rates income by one or more authorities eroding the gains detailed in paragraph 11, above.

15. The modelled gains of £9.4m comfortably offset the total safety net payments of £200k currently forecast for pool members (only St Albans). However, there is a risk that forecast levels of income will not be achieved, which raises the question of how much protection is offered by the current forecast gain of £9.4m against unforeseen losses.

16. In recent years actual business rates income across Hertfordshire has been 2-4% lower than budget estimates, due in part to the impact of appeals as well as growth/decline in economic activity. As yet the level of appeals against the 2017 revaluation is difficult to estimate, and there remain many appeals outstanding from the 2010 valuation list, so forecasting the impact of appeals remains a complicating factor.

17. However, modelling shows that a fall in receipts of 12% across all Districts (way in excess of previous years' 2-4%) would be required for the pilot to fall into a net loss position. It is considered low risk that a fall of this magnitude would occur within Hertfordshire over a 12-month period from 1 April 2018.

18. Whilst CLG have provided a "no detriment" guarantee for previous Pilots (that they will not be worse off than they would have been outside the pilot), they have asked whether authorities would be prepared to take part without this guarantee. Informal indications are that applications are likely to need to accept

this condition in order to proceed. Given the relative protection from the £9.4m forecast gains, it is proposed that we agree to continue with our application should the "no detriment" clause be withdrawn.

Sharing the gains of the pilot

19. It is proposed that the first call on the gains from the pilot be allocated to ensure that no authority is worse off than it would have been if acting individually, or in a Business Rates Pool, that is:

    a) Pay any safety net that would be met by CLG if outside the Pilot (c£200k)
    b) Pay growth districts the 75% of levy they would have retained had they been in a Pool. This would be given not only to Pool members, but to other growth districts (c£2.8m)
    c) At the same time, pay Hertfordshire the 17% of levy gain they would have received in the 5-district pool (c£500k)
    d) Bring any districts with negative growth up to baseline, to provide financial stability (c£200k)

20. The table below shows the expected pilot gains based on current estimated income, compared with acting individually and with the optimum Business Rates Pool. Column 3 shows the allocation of gains following the principals above. On current estimates, this would leave a balance of £8.5m.

	Individually (1)	5 District Pool (2)	Bringing all to optimum Pool (3)
	£m	£m	£m
Broxbourne	3.3	3.7	3.7
Dacorum	3.4	3.4	3.7
East Hertfordshire	2.6	2.6	2.6
Hertsmere	3.3	3.7	3.7
North Hertfordshire	3.2	3.6	3.6
St Albans	2.3	2.3	2.5
Stevenage	3.1	3.1	3.3
Three Rivers	2.3	2.7	2.7
Watford	3	3	3.1
Welwyn Hatfield	3.6	4.1	4.1
Hertfordshire	143.9	144.6	144.6
Central Gains	-	-	8.5
Total	**174**	**176.7**	**186.1**

21. The split of the remaining £8.5m balance is yet to be finalised, though current proposals under consideration include:

    - Two thirds to be allocated among Authorities based on a combination of growth and Baseline Funding levels;

- One third to be held centrally for the support of major projects against which all authorities can bid.

22. Work continues on the finalisation of the gain-sharing agreements, which will need to be complete by the 27 October deadline for submissions. This will be shared with the Chief Executive and the Leader in support of their decision to progress, should Cabinet approve the recommendation to delegate the decision.