



Report for:	Cabinet
Date of meeting:	18th September 2018
PART:	1

Title of report:	Business Rates Pooling Pilot
Contact:	Cllr Graeme Elliot, Portfolio Holder for Finance & Resources Sponsor: James Deane, Corporate Director (Finance & Operations) Author: Nigel Howcutt, Assistant Director (Finance and Resources)
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: <ol style="list-style-type: none"> 1. Cabinet support the principle of the Council being a part of a Hertfordshire wide bid to take part in the Government's proposed 75% Business Rates Pooling Pilot commencing 1 April 2019; 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 pilot 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	There are no equality implications.

Implications	
Health And Safety Implications	There are no health and safety implications.
Monitoring Officer/S.151 Officer Comments	<p>Monitoring Officer:</p> <p>If the bid is approved, an agreement or Memorandum of Understanding will need to be developed to document the governance and administrative framework for the Business Rates Pool.</p> <p>S.151 Officer This is a Section 151 Officer report.</p>
Consultees	<p>The Leader of the Council The Portfolio Holder for Finance & Resources Hertfordshire Chief Executives Hertfordshire Chief Finance Officers</p>
Background papers	None

Executive summary

1. The Ministry for Housing Communities and Local Government (MHCLG), issued an invitation for Authorities to bid to become a pilot area for 75% Business Rates Retention. The pilot period lasts for one year, from 1 April 2019, and the bid must be submitted jointly by all Authorities within the county by 25th September.
2. The advantage of the pooling proposal for local authorities is that 75% of 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£11m 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 MHCLG 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, fifteen 100% retention pilot areas have been launched 5 in 2017/18 in the devolution deal areas of Greater Manchester, Liverpool, West Midlands, Cornwall and the West of England, with a further 10 launched in 2018/19.
7. For the pilots set to commence from April 2019, the Government has not provided any specific details of the type of applications they are seeking. They want to see pilot submissions that;
 - Promote financial sustainability of local services,
 - Support economic growth,
 - Test more technical aspects of the retention system.
8. The pilot pooling offer to which this report refers should not be confused with the pooling scheme which is already supported by MHCLG, 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 MHCLG 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 MHCLG. 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 75% retention pilot, CLG's 70% share of growth would reduce to 25%.

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 2019/20. The potential gains for Hertfordshire compared with all authorities acting individually are summarised below:

	2019/20 Forecast
50% Net Growth currently paid to DCLG	£6.3m
Current levy on District share of growth	£5.0m
Total gain compared with operating individually	£11.3m
This compares with the forecast gain from a Pool*	<u>£2.9m</u>

Total Gain compared with Pool

£8.4m

*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 2019/20, the modelling indicates that £8.4m of additional funding would be retained within Hertfordshire over and above what would be retained through a Business Rates Pool; or £11.3m above a “do nothing” option. If Hertfordshire does not submit a bid for pilot status, this income would be paid to MHCLG.

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. Within the pilot proposal an internally funded safety net level of 5% is proposed that provides more security than the existing 7.5% capped level of funding loss, and this is in line with MHCLG pilot guidelines.
15. The modelled gains of £8.4m comfortably offset the total safety net payments of zero currently forecast for pool members. 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 £8.4m 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 8% 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 2019.

18. Current Pilots have a “no detriment” clause – a guarantee that authorities will not be in a worse position than if they were operating as a Pool, or individually. For this round of applications, this guarantee is not being offered. (Initially this was not offered last year, but the provision was re-introduced by MHCLG late in the process.) The absence of a ‘no detriment’ provision does increase the risk of a pilot in comparison to 2018/19, but as explained in para 15 this risk is deemed small given the relative protection of £8.4m projected forecast gains and the required level of reduction in net income across Hertfordshire.

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:
- Pay any safety net that would be met by CLG if outside the Pilot (Not applicable on current projections)
 - Pay all districts with business rates growth the levy that they would have retained had they been in a pool. (c£2.1m)
 - At the same time, pay Hertfordshire the levy gain they would have received in the 5-districts were pooled. (c£500k)
 - Bring any districts with negative growth up to baseline, to provide financial stability. (c£1.6m)
20. The table below shows the expected pilot gains, as outlined above compared to the pool position. On current estimates, this would leave a balance of £7m.

	Forecast Income no Pool or Pilot.	Retained Growth for 5 District Pool	Bringing all Authorities to optimum Pool (d)	Total Income with Pilot
	(a)	(b,c)		
	£m	£m	£m	
Broxbourne	2.9	0.4		3.3
Dacorum	3.6		0.5	4.1
East Hertfordshire	2.8		0.1	2.9
Hertsmere	3.5	0.6		4.1
North Hertfordshire	3.2	0.4		3.6
St Albans	2.5		0.0	2.5
Stevenage	3.1	0.4		3.5
Three Rivers	2.4	0.3		2.7
Watford	3.6		0.6	4.2
Welwyn Hatfield	3.4		0.4	3.8
Hertfordshire	126.4	0.5		126.9
Growth Fund	-	-		7.0

Total	157.4	2.6	1.6	168.7
--------------	--------------	------------	------------	--------------

21. The split of the remaining £7m balance is yet to be finalised, though current proposals under consideration include:

- A proportion of the central growth fund to be allocated to a central investment fund to be held centrally for the support of major projects such as the One Public Estate or similar purposes that authorities can bid for.
- The remaining balance to be allocated across all members based on a combination of baseline funding and growth, to retain an incentive to promote growth.

The table below shows the proposed apportionment of the growth fund as detailed in para 21 and shown in column 3 in the table. This apportionment is based on 30% baseline funding and 70% growth.

	Pilot Income Prior to Central Pot apportionment	Proposed Growth Fund Allocation	Total Income with Pilot
Broxbourne	3.3	0.4	3.7
Dacorum	4.1	0.5	4.5
East Hertfordshire	2.9	0.2	3.2
Hertsmere	4.1	0.5	4.6
North Hertfordshire	3.6	0.4	4.0
St Albans	2.5	0.1	2.6
Stevenage	3.5	0.4	3.9
Three Rivers	2.7	0.3	3.1
Watford	4.2	0.6	4.8
Welwyn Hatfield	3.8	0.4	4.3
Hertfordshire	126.9	0.8	127.7
Growth Fund	7.0	-4.7	2.3
Total	168.7		168.7

22. Work continues on the finalisation of the gain-sharing agreements, which will need to be complete by the 25th September 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.