



Ministry of Housing,  
Communities &  
Local Government

# Business Rates Pilot Scheme 2019/20

## Application Form

### 1. Application Contact Details

*Please include details of the lead pilot authority and lead official responsible for responding to any departmental queries relating to the pilot application.*

<b>a. Name of lead pilot authority</b>	Hertfordshire County Council
<b>b. Name of lead official</b>	Steven Pilsworth
<b>c. Lead official job title</b>	Assistant Director - Finance
<b>d. Lead official email address</b>	steven.pilsworth@hertfordshire.gov.uk
<b>e. Lead official contact phone number</b>	01992 555737

## 2. Membership of the Proposed Pool

*Please list all authorities belonging to the proposed pilot pool below. The application cannot be considered valid unless all of the listed members have endorsed all parts of the application (see Annex A). You can insert/delete lines as needed.*

*For the authority type box, please write down one of the following options for each participating authority: (1) Fire; (2) London Borough; (3) Metropolitan district; (4) County; (5) Shire District; (6) Greater London Authority; (7) Unitary Authority.*

Authority name	Authority Type
Hertfordshire County Council	County
Broxbourne Borough Council	Shire District
Dacorum Borough Council	Shire District
East Herts District Council	Shire District
Hertsmere Borough Council	Shire District
North Herts District Council	Shire District
St Albans City & District Council	Shire District
Stevenage Borough Council	Shire District
Three Rivers District Council	Shire District
Watford Borough Council	Shire District
Welwyn Hatfield Borough Council	Shire District

### 3. Membership details and pooling arrangements

Please answer all of the questions below using short and concise answers. Section 4 will allow you to outline your pilot proposal in more detail.

<p><b>a. Have all members included in the pilot area endorsed all parts of this application?</b></p> <p><i>(Please ensure that Annex A is signed by s.151 officer of each area and returned as part of the application to evidence this.)</i></p>	<p>Select one:</p> <p>(1) <u>Yes.</u></p> <p>(2) <del>No</del></p> <p><i>The County Council and all ten District Councils in Hertfordshire are pleased to apply to form a business rates pilot, and this bid has the support of elected members in all authorities.</i></p> <p><i>We were disappointed that our application to form a Pilot in 2018/19 was unsuccessful and are confident that this bid provides an opportunity for significant additional learning both locally and nationally (see section 4c.)</i></p> <p><i>Hertfordshire is unusual in that the County Council's top up grant is significantly lower than the Districts' total tariff: this means that a Business Rates Pool comprising more than five districts is subject to a tariff that offsets any pooling gains. This has limited the membership of the Hertfordshire Pool to just half of the local councils.</i></p> <p><i>We would welcome the opportunity to form a Pilot that can include all Hertfordshire authorities and so enhance the established collaboration across the county.</i></p>
<p><b>b. Do any members of the proposed pool belong to any other current pool?</b></p> <p><i>(If 'no', please move to question 3.d.)</i></p>	<p>Select one:</p> <p>(1) <u>Yes.</u></p> <p>(2) <del>No</del></p> <p><i>The County Council and 5 Districts belong to the 2018/19 Hertfordshire pool. This would be replaced by a successful pilot bid, which would benefit all authorities in the county.</i></p>

<p><b>c. If any members of the proposed pool belong to any other current pool, have other members of such pool been informed that the authority is applying to become a pilot as part of a different pool?</b></p>	<p>Select one:</p> <p>(1) <del>Yes</del>  (2) <del>No</del>  (3) <u>N/A</u></p> <p><i>As above, Hertfordshire Pool members are all part of the Pilot Pool application.</i></p>
<p><b>d. Are there any precepting authorities that are not part of the proposed pilot area?</b></p> <p><i>(If 'yes', please move to question 3.e.)</i></p>	<p>Select one:</p> <p>(1) <del>Yes</del>  (2) <u>No</u></p>
<p><b>e. If there are any precepting authorities that are not part of the proposed pilot area, are these precepting authorities aware of this proposal?</b></p>	<p>Select one:</p> <p>(1) <del>Yes</del>  (2) <del>No</del>  (3) <u>N/A</u></p>
<p><b>f. Are all members of the proposed pilot area willing to collaborate with MHCLG officials on system design of the new business rates retention system, sharing additional data and information, as required?</b></p>	<p>Select one:</p> <p>(1) <u>Yes</u>  (2) <del>No</del></p> <p><i>The Hertfordshire authorities are keen to share their experience in both the time prior to becoming a pilot and the period after pilot status is awarded.</i></p> <p><i>We have established collaboration structures and are already working together to gain a better understanding and forecasting of business rates. Given the timeframes of the 2019/20 pilot process, the Hertfordshire authorities believe it is this initial period that will be of greatest use to MHCLG in informing the design of the new system.</i></p>

<p><b>g. How does the pilot pool propose to split non-domestic rating income in two-tier areas?*</b></p>	<p><i>The tier split of rates income will be 35% to districts and 40% to the county council, with the remaining 25% income paid to central government.</i></p> <p><i>Resources above the overall baseline will be allocated to achieve a balance that promotes sustainability across the whole county and protects those areas experiencing adverse changes in income; whilst also providing countywide investment to promote further growth and sustainability, and retaining an incentive for growth.</i></p> <p><i>Further details of this mechanism are set out in 4b below Annex B.</i></p>
<p><b>h. Do you propose to retain any of the additional 25% of retained business rates in an investment pot or similar and distribute this after 2019/20?</b></p> <p><i>(If 'no', please move to question 3.j.)</i></p>	<p><i>Select one:</i></p> <p><i>(1) <u>Yes</u></i>  <i>(2) <u>No</u></i></p>
<p><b>i. If any of the additional 25% of retained business rates are kept in an investment pot or similar, how will this be distributed after 2019/20?</b></p>	<p><i>The Investment Fund will be used for projects that support self-sustainability, in particular where pump priming or investing in key sites and infrastructure can unlock further economic growth. Our Memorandum of Understanding (Annex B) sets out delegated powers for the Hertfordshire CFO's to manage the allocation of this fund, in consultation with the Hertfordshire Property Partnership (HPP), which comprises the county council and all ten districts working in partnership with the Local Enterprise Partnership and other Hertfordshire public service organisations.</i></p> <p><i>The delegation to HCFO's allows for agile responses to development opportunities. Given that the governance structures are already in place, and to ensure early benefit from this investment, <u>we plan to allocate some funding during 2019/20, based on forecast Pilot gains.</u></i></p> <p><i>Further detail is given in section 4b below.</i></p>
<p><b>j. What is the anticipated income above baseline funding level for the pilot pool over 2019/20 (in £)?</b></p>	<p><i>Based on 2018/19 forecast income levels and conservative estimates of growth, the forecast gain from becoming a pilot (i.e. levy retained above the Hertfordshire Pool and increased local share) is expected to be up to £8.4m for 2019/20.</i></p>

<p><b>k. What is the business rates base of the proposed pilot area like and what is its relevance to the economic geography of the area?</b></p> <p><i>(F.ex. you could describe the size and types of hereditaments in the area, business sectors relevant to the area, or the size of your business rates base in relation to baseline funding levels.)</i></p>	<p><i>Hertfordshire has a diverse tax base reflecting its mixed urban and rural areas, as shown in Annex D. It ranges from large scale development near the major motorway routes and the districts bordering London, to sparsely populated rural areas in the north and east.</i></p> <p><i>The county includes an Enterprise Zone covering parts of Dacorum Borough and St Albans District Councils, focussed on the environmental technology sector (envirotech).</i></p> <p><i>Most of the highest value hereditaments are retail sites although they also include research laboratories, distribution centres, a film studio and a power station. The county has four major hospital sites and would be significantly impacted by the NHS Trusts appeal for charitable relief. Other risks are more general and include the conversion of office accommodation to housing.</i></p>
<p><b>l. What pooling arrangements would the members of the pilot like to see if their application to become a pilot is unsuccessful?</b></p>	<p><i>If the pilot application is unsuccessful, we are submitting a request to form a new Hertfordshire Pool with a revised membership. The pool would be comprised of the County Council as lead authority; Broxbourne, Hertsmere and Watford Borough Councils, and North Herts and Three Rivers District Councils. As in previous years, a proportion of the gains will be allocated to a growth fund for investment across the county, including non- member districts.</i></p> <p><i>The fact that Hertfordshire is unable to have a financially viable 50% business rates pool with all districts has created significant frustration locally. We ask that this is taken into account when considering its pilot application, as only under pilot status can the whole county operate together as a true pool.</i></p> <p><b><i>The Memorandum of Understanding for this revised Hertfordshire 50% Pool at set out in Annex C.</i></b></p>
<p><b>m. How would the pilot area deal with residual benefits/liabilities once the pilot ends?</b></p>	<p><i>All benefits will be shared using the mechanism set out for allocating Pilot gains. Any liabilities will be shared using the same mechanism. Arrangements are set out in a Memorandum of Understanding (Annex B) based on that used for the current Hertfordshire Business Rates Pool, which includes arrangements for dispute resolution and delegation of decision making etc.</i></p>

## 4. Details of the pilot proposal

### a. How does the proposed pilot operate across a functional economic area?

Hertfordshire has a strong economy and already makes a significant contribution to UK plc. Hertfordshire has recovered well from the recession with the fifth highest rate of jobs growth of all 38 LEP areas in 2013/14. Our employment rate is 79%, and workplace earnings 6% higher than the national average. Our workforce is comparatively well skilled, the enterprise base is growing strongly and employers are creating jobs. However we are not complacent. We support the Government's National Industrial Strategy and recognise the need to strengthen our economic performance and address the major challenges we face in relation to labour supply, skill shortages, productivity, housing supply and affordability and infrastructure. We also recognise that even within an apparently affluent county, there are places in need of regeneration and people who do not yet share in the opportunity and benefits of economic prosperity.

Hertfordshire does not have a single economic centre, but rather a series of clusters with significant flows of economic activity between. The whole county is impacted by proximity to London and to major transport links (M1, M25, A1(M)), and faces common challenges of a high proportion of the workforce commuting into London, whilst sharing the opportunities of servicing the capital and the links to the rest of the UK. Its proximity to Cambridge (15 miles to the north east) also provides opportunities and competition, particularly in technology and biotech industries. This business geography is described in more detail below, and illustrated in Figures 1 and 2, showing the key clusters of activity around the Greater London borders and along the north-south M1 and A1 corridors. Away from these clusters of activity, the county has a significant rural element, in particular in East and North Hertfordshire and Dacorum district councils. The proposed pilot, supported by existing partnership arrangements, seeks to maximize growth and sustainability across this diverse area.

The County Council has strong collaborative working relations across the public and private sector in Hertfordshire evidenced by the recently agreed Public Sector Action Plan supported by all the District Councils, the NHS, Police and Crime Commissioner and the LEP. There is collective understanding of the importance of sustaining a strong and prosperous economy for Hertfordshire and the need to manage future growth well.

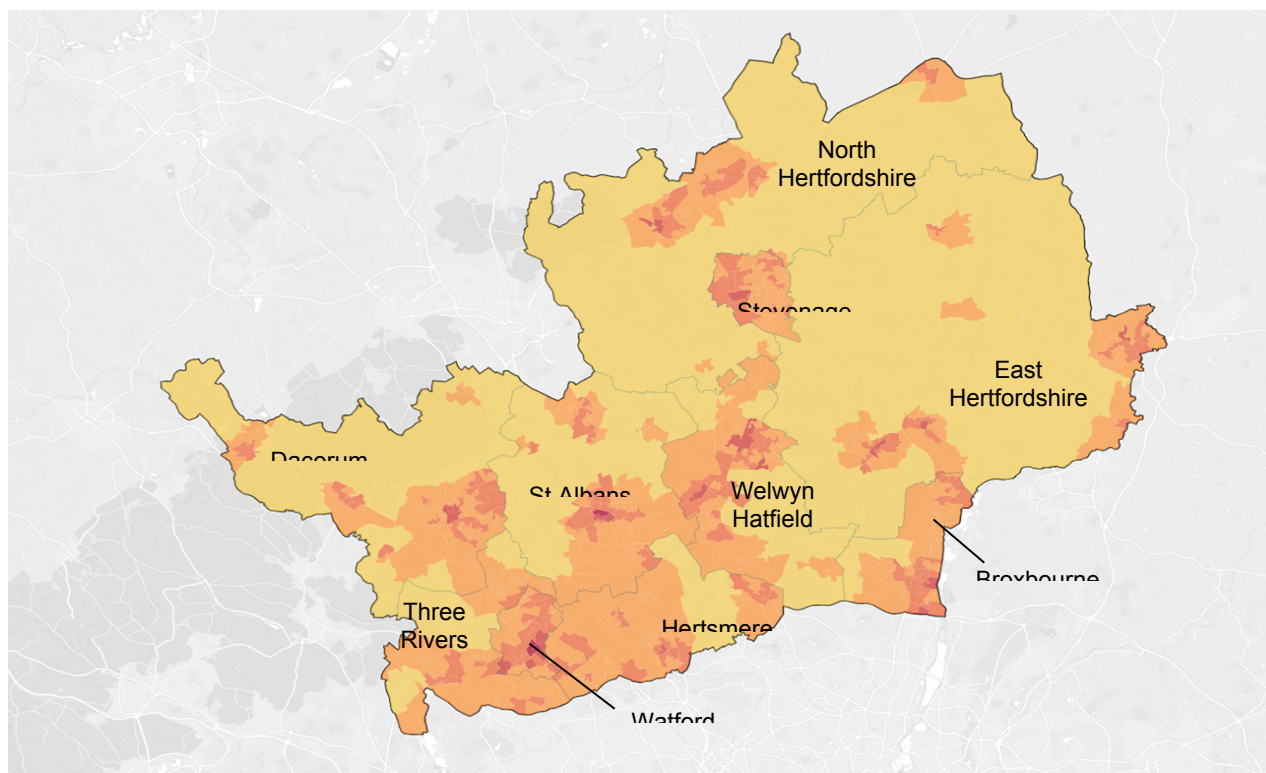
Hertfordshire is at a key stage in setting out its proposals for longer term growth of the County – the individual local plans of the borough and district councils are at a stage where there is now nearly complete updated Local Plan coverage. Cumulatively these plans provide for over 100,000 new homes and 100,000 new jobs up to 2031.

The costs of infrastructure for growth up to 2031 are estimated to amount to some £4-5bn – the equivalent of £50k for each new home. Funding for this will need to come from a range of different sources and we will need to look at innovative approaches.

Hertfordshire Leaders have recently established a Hertfordshire Growth Board to bring together long term housing, economic and infrastructure planning and establish a single voice to Government about our future investment needs. A Hertfordshire Infrastructure and Funding Prospectus and Hertfordshire narrative is being prepared to provide the evidence base for future discussion for a possible Growth Deal for Hertfordshire.

This illustration (below) uses the workplace population (from the 2011 census) as a proxy for business activity at a more granular geographic scale, as data on business rateable value is not published below the local authority level.

**Figure 1 - Map of workplace density (workers per hectare). Source: 2011 Census.**



As can be seen, there are relatively dense clusters of business activity (darker shaded areas), particularly in the south and southwest of the county. Rather than isolated pockets, there are large areas of activity that cross or abut the boundaries of neighbouring districts. This partly reflects clusters of towns that are in close proximity to one another, despite being located in different shire districts. For instance, the towns of Hemel Hempstead, Watford, St. Albans, Hatfield and Welwyn Garden City are located in four shire districts, but all within an approximately 7-mile radius of St. Albans (see **Figure 2**).

Given the geographic proximity of these business centres, it makes sense that these local authorities should pursue a coordinated approach to economic development. Establishing a business rate pool for Hertfordshire would provide additional financial incentives for such a joined-up approach. Rather than focusing on the return to investment within their own boundaries, the member authorities would be incentivised to carry out economic development activities which yielded the largest benefits for the pool as a whole, wherever these were physically located.

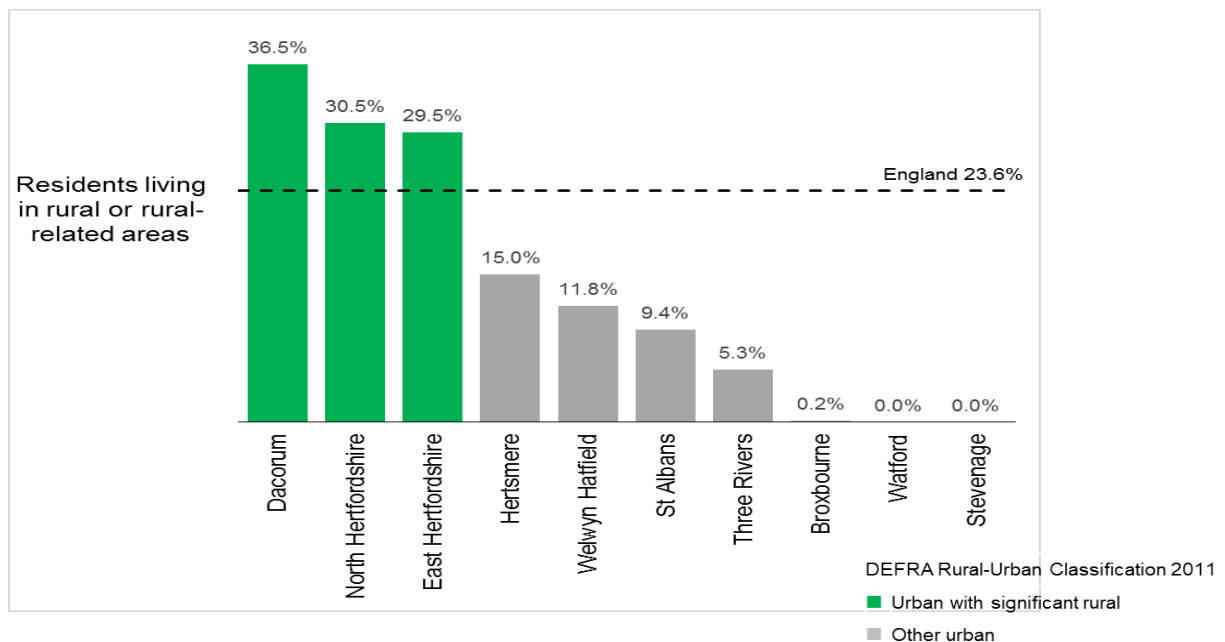
The proposed pilot includes a combination of both rural and urban authorities. Of the 10 districts in the proposed pilot, three are classified as having a 'significant rural' element of their population, including Dacorum, North Hertfordshire, and East Hertfordshire. As illustrated in Figure 3 below, over 30% of residents in these authorities live in rural or rural-related areas. These classifications are produced by the Department for Environment, Food and Rural Affairs (Defra). 'Rural-related' areas includes hub towns that can be centres of service provision for surrounding rural areas, but excludes larger market towns.



**Figure 2: Example of Hertfordshire towns close to district boundaries**



**Figure 3 – Hertfordshire authorities' Rural-Urban classification**



**b. How does the pilot area propose to distribute and use the additional 25% of retained business rates growth across the pilot area?**

In setting a mechanism for distributing the gains from a pilot – the additional 25% retained business rates plus the levy retained from operating as a pool – we have applied the following principals:

- No authority should be worse off than if it were operating individually or as a member of the proposed 5 district Business Rates Pool
- The allocation should provide for coordinated strategic investment alongside local initiatives to promote growth and improve financial sustainability
- The allocation should balance the desire for greater stability and sustainability for all member authorities alongside a clear incentive to support and enable further economic growth.

By including measures that balance financial stability with strong incentives to support further growth, our approach will complement other initiatives by Hertfordshire authorities and our LEP to boost economic performance, contributing to reduced worklessness (and benefit payments); increased tax revenues (personal and corporation); and increased business rates revenues.

In the proposed distribution, the first call on growth will be to meet any safety net that would have been due had authorities been acting individually. The gains from the Pilot levy that would have been payable on districts' share of growth, and the 50% current central share, will be allocated in the following order:

- i. Bring all authorities to baseline level, to ensure financial stability;
- ii. Allocate all ten districts, and the county council, the gains they would have received had they been in a Business Rates Pool based on the Hertfordshire model (i.e. retaining levy);
- iii. Of the remaining balance, one third to be allocated to a countywide Investment Fund, prioritized to initiatives that will leverage investment, and similar initiatives that promote growth; and
- iv. Two thirds to be allocated across districts using a hybrid mechanism, where 30% is allocated on baseline need (to promote financial sustainability) and 70% is allocated pro rata to growth (to retain some local incentive to promote growth).

The additional resources allocated in (iii) and (iv) will be used to promote economic growth and stability.

The Investment Fund will be managed by the Hertfordshire Chief Financial Officers (HCFO) group, in consultation with the Hertfordshire Property Partnership (HPP). Both these are established and mature partnerships. HCFO meets monthly and will be able to make prompt decisions in response to development opportunities. HPP includes local and other public authorities and the Hertfordshire LEP, and has worked effectively in prioritising bids for One Public Estate, demonstrating our strong track record and our commitment to working together to bring benefits across Hertfordshire. It has worked collaboratively on property solutions, delivering on our ambition to exploit public sector assets to deliver the homes, jobs, services and living environment expected by our communities. It has demonstrated a robust governance structure and is developing mechanisms to gain maximum benefit from available funds, including a repayable loan fund to recycle resources across a number of schemes.

We are allocating significant resources to support regeneration and growth initiatives taking place at a District level and through the Investment Fund, which should in turn contribute to financial sustainability through increased revenues. We recognize that the gains from a Pilot would have a limited impact on the broader pressures on our sustainability (notably social care), which require separate action at a local and national level.

The Investment Fund will build on these principals and will prioritise projects that promote self sustainability and deliver maximum return, for example where they unlock subsequent third party investment, or where funding can be recycled. It will take a countywide view of investment need, including cross boundary schemes. There is an opportunity to combine this fund with the resources in the Growth Fund to be generated from Hertfordshire's 2018/19 Business Rates Pool, We are keen that these funds should be used promptly and responsively to local opportunities: using the existing proven structures will allow efficient decision making. We also plan to allocate some resources from the Pilot during 2019/20, as we will be monitoring and validating forecast gains to give sufficient confidence on the resources available.

Individual authorities propose to use their additional resources for 'Invest to Save' projects that will generate future savings or income streams, thus promoting self – sustainability; for projects that promote economic growth; or for projects that address new or growing pressures. Examples include town centre regeneration; investing in affordable housing and temporary provision to prevent homelessness; and pilots for transforming aspects of social care to help reduce demand. These initiatives will form part of our strategy to build resilience and sustainability in advance of the changes to business rates retention and the Fair Funding formula, from 2020/21.

The expected allocation of gains is shown in the table below.

	Forecast Resources - no Pool £m	Gains - 5 District Pool £m	Bring all to pool gains level £m	Allocate Balance £m	Total Income with Pilot £m	Total Pilot Gain £m
Broxbourne	2.9	0.4		0.4	3.7	0.8
Dacorum	3.6	-	0.5	0.5	4.5	0.9
East Hertfordshire	2.8	-	0.1	0.2	3.1	0.3
Hertsmere	3.5	0.6		0.5	4.6	1.1
North Hertfordshire	3.2	0.4		0.4	4.0	0.8
St Albans	2.5	-	0.0	0.1	2.6	0.1
Stevenage	3.1	-	0.4	0.4	3.9	0.8
Three Rivers	2.4	0.3		0.3	3.1	0.7
Watford	3.6	0.6		0.6	4.8	1.2
Welwyn Hatfield	3.4	-	0.4	0.4	4.3	0.9
Hertfordshire	126.4	0.5		0.8	127.7	1.3
Growth Fund				2.3		2.3
<b>Total</b>	<b>157.4</b>	<b>2.9</b>	<b>1.4</b>	<b>7.0</b>	<b>166.4</b>	<b>11.3</b>

**c. How does the pilot area propose to arrange its governance for strategic decision-making around the management of risk and reward? How do the governance arrangements support proposed pooling arrangements?**

A key aim of a county wide pool would be to share risks and rewards more equally (and arguably in a fairer way), thereby making the level of business rates income between individual billing authorities and their preceptor of lesser importance. The pilot will be used as an opportunity for gains and losses to be apportioned based upon the pool's governance arrangements (including Baseline Need), rather than by existing boundaries and variance to NNDR Baseline.

The subjective nature of the NNDR Baseline coupled with the variable nature of appeals can leave authorities with significant variances to baseline need and volatility between years. The Pilot will move on from the current boundary-driven approach that typifies pooling arrangements nationally, which can lead to sub-optimal investment decisions and significant differences to the risks and rewards faced by neighbouring authorities within a region.

The proposed allocation allows authorities to retain resources up to current budget commitments, provide further retained resources locally (to be used to promote future growth and financial sustainability) and provide additional resources for county wide investment. The Hertfordshire authorities are under no illusion that under future business rate resets, the balance of winners and losers under business rates retention will change. In this context, moving toward a county wide approach is the only sensible way to manage risk and reward.

We have prepared a Memorandum of Understanding for the Pilot (Annex B), based on the existing MoU for the Hertfordshire Business Rates Pool, which sets out in detail how the allocation mechanism operates in a transparent way and balances risk and reward. The MoU sets out roles and responsibilities for monitoring, decision making, and dispute resolution should this arise. It includes a commitment from all members to use gains to promote economic growth and financial sustainability, and sets out a process for the allocation of funding from the Investment Fund.

An important objective of the Pilot is to provide learning for both MHCLG and the Hertfordshire authorities on the impact, risks and opportunities of a 75% retention mechanism. We are committing resources to improve our current understanding of movements in business rates income and the factors that influence this, alongside an evaluation of the information available from current systems. The Hertfordshire Chief Finance Officers group will oversee this learning. We have identified and will work to develop the following specific learning points from the business rates pilot.

#### **Learning points for the business rates retention scheme**

- Trial of a radically different 35% district, 40% county, 25% MHCLG split of business rates revenues, providing valuable feedback for consideration in the future;
- Providing a geographically large two tier pilot area with a significant number of districts and a track record of working collaboratively;
- Identifying the potential to manage appeals risk at a county-wide level, including determining appeals provision and apportioning losses transparently;
- Analysing the effects of any volatility of funds at a county-level, to promote greater certainty/earlier use of resources;
- Learning from the adoption of mechanisms that seek to balance financial stability objectives across all authorities whilst retaining a powerful incentive to generate growth;
- Understanding the impact of a pilot in an area including an Enterprise Zone; and
- Evaluating information provided from current business rates systems, and identifying areas of potential development.

Our mature existing collaboration arrangements means we are able to commit to regular contact/meetings with MHCLG to provide feedback and learning points and how the pool is dealing with emerging issues relating to both the pilot and any national issues e.g. policy changes/appeal trends. In addition to the CFO's group, Hertfordshire Property Partnership and Public Sector Action Plan for growth, referred to above, county and districts have together established shared Internal

Audit and anti Fraud services; and a Housing Improvement Agency to administer and manage the use of Disabled Facilities Grant. District Councils have worked together to form shared building control, revenue and benefits and waste collection services. With this track record, we have established relationships at all levels and will be able to put in place quickly the necessary arrangements to administer and learn from a pilot.