

## PART A

**Report to: Mayor**

**Date of meeting: 2 October 2017**

**Title: 100% Business Rates Retention Pilot**

### 1 Summary

- 1.1 The Government has issued an invitation to apply to become a pilot for 100% Business Rates Retention in 2018-19 and to pioneer new pooling and tier split models. The deadline for applications is 27 October 2017. If successful, the pilot would begin 1st April 2018. Discussions at Chief Executive and Chief Finance Officer level have identified that is something worth exploring in more detail for Hertfordshire.
- 1.2 The pilot would need to include all Councils within Hertfordshire and current forecasts suggest that the County as a whole may gain £11M by becoming a pilot. Agreement will need to be reached as to how to spend this additional money within the County as part of the pilot.
- 1.3 The option for applying to be part of a Business Rates pool is also still available. Indications are that Watford would probably not be part of the pool if the previous criteria are applied. However, there are discussions about widening the pool membership and if this was agreed the forecast gain across the pool members is around £1.1 million, with around a £0.042 million gain for Watford. It is not possible to be part of a pool and a pilot, but it is possible to apply for both.
- 1.4 Watford would have to forego the RSG grant in 2018-19 of £114,300, if it was part of a pilot. Precise details of how this would impact on its business rate income will be dependent on the details of the pilot agreement. It is recommended that Watford Borough Council agrees to become a business rates pilot for 2018-19, as part of a Hertfordshire business rates pilot bid.

### 2 Risks

Nature of Risk	Consequence	Suggested Control Measures	Response <i>(Treat, tolerate, terminate, transfer)</i>	Risk Rating (the combination of severity and likelihood)
Business Rates growth	Income may not be as forecast	Regular monitoring, although many of the	Tolerate	6

is lower than forecast	and could result in lower gains or the pool being in a safety net position.	factor which influence the risk are outside of the Council's control.		
Safety Net payments maybe higher than the business rates growth	Income may not be as forecast and could result in lower gains or the pool being in a safety net position.	Regular monitoring, although many of the factor which influence the risk are outside of the Council's control.	Tolerate	6
Appeals may be higher than the provisions	Income may not be as forecast and could result in lower gains or the pool being in a safety net position.	Regular monitoring, although many of the factor which influence the risk are outside of the Council's control.	Tolerate	6
The 'No Detriment Clause' may not be guaranteed	This could result in lower gains or the pool being in a safety net position.	Regular monitoring, although many of the factor which influence the risk are outside of the Council's control.	Tolerate	6

2.1 The risks associated with the proposal are identified below. Further information can be found in Section 8.

### 3 Recommendation

3.1 The Mayor recommends to Council that the Council agrees to sign up to the Hertfordshire Business Rates Pool pilot or a business rates pool for 2018/19.

**Contact Officer:** Joanne Wagstaffe, Director of Finance

#### **4. 100% Business Rates Retention**

- 4.1 On 1st April 2017 the Government launched five pilots to look at the 100% retention of business rates. These pilots will retain 100% of the business rate income and forego some existing grants. Existing 100% Retention pilots have focussed on mayoral areas with devolution agreements. In early September, DCLG issued an invitation for other authorities to apply for 100% Business Rates Retention Pilots for 2018/19.
- 4.2 The Government are now interested in exploring:
- How 100% retention could work in two tier areas, including rates collection and administration;
  - How the tier split of retained growth can promote financial sustainability of local services, and in addition support economic growth;
  - How 100% retention works in areas of different types of business; and
  - How local authorities might handle risk under 100% retention.
- 4.3 The pilot is initially for 2018/19 only. DCLG have indicated that pilots could then be extended (with participants' agreement), and it is not certain that there will be further invitations to pilot.
- 4.4 All applications must be agreed by all authorities in the relevant county area and must set out the pooling arrangements they would like to see if the application is successful. Applications must be submitted by the 27 October 2017.
- 4.5 The Government expect the pools will preserve the existing split of the 'local share' and will only be determining how the Government (50%) share is split.
- 4.6 The bid will also need to include details on the following:
- Appropriate tier split to replace 50% DCLG / 40% district / 10% county
  - Allocation of growth between authorities
  - How to compensate districts whose income is below baseline
  - How to deal with the risk of increased safety net payments, if not covered by "no detriment" clause (see 8.2)
- 4.7 Experience of having operated a business rate pool in the county means that much of the existing risk mitigation and governance arrangements can be built upon as part of this submission. Finance officers are currently modelling different scenarios, with the aim to report these to the chief executives to consider on 6 October 2017. Following that

meeting a bid submission can be refined in time for the 27 October 2017 deadline.

4.8 DCLG will announce successful submissions in December 2017.

## 5 Proposed Pilot Mechanism

- 5.1 Authorities will retain the 50% income currently transferred to central government. They will no longer receive RSG and Rural Services grant: instead, this funding will be provided through the additional retained income. Tariffs and top ups will be recalculated to ensure the overall impact is cost neutral. For Watford the RSG for 2018/19 is £114,300, and the Council does not receive any Rural Services grant.
- 5.2 The benefit comes from the retention of income from growth above baseline – the 50% of growth paid directly to DCLG, and the 50% levy currently paid on districts' share of growth. This growth will all be retained locally.
- 5.3 Pilot areas will be expected to operate under the arrangements which are currently in place for safety net payments for pools. However, the safety net threshold will be set at 97% of the baseline funding level instead of the current 92.5%. This is to reflect the additional risk of the proposal.

## 6 Hertfordshire Pilot Proposal

- 6.1 Some initial analysis of the benefits of the Hertfordshire authorities (Hertfordshire County Council and the ten districts) being a business rates pilot has been undertaken and this has indicated that the net additional income for the area could be in the region of £11 million (Appendix A). This is based on a forecast of 50% of growth that would have been paid to DCLG being retained, plus not having to pay a levy on growth, less the amounts due as a result of having to top up the business rates for any authority where it drops below a certain level that would previously have been funded by the DCLG.
- 6.2 As well as financial benefits, being an early pilot will potentially allow the County, as a whole, to have some influence over the design of any permanent 100% retention scheme.
- 6.3 Detailed financial modelling is currently being undertaken to identify whether the pilot will be financially beneficial to all pool members. A bid will only be submitted if the modelling indicates that the pilot is financially advantageous.

## 7 Benefits

- 7.1 Initial modelling from our early estimates of 2018/19 income show the potential gains for Hertfordshire compared with all authorities acting individually are:

50% Net Growth currently paid to DCLG	£8.197m
Current levy on District share of growth	£3.548m

Less Current safety net funded by DCLG	(£0.171m)
<b>Total gain compared with operating individually</b>	<b>£11.574m</b>
This compares with the forecast gain from a Pool	£2.681m
Total Gain compared with Pool	£8.893m

These figures are estimates based on January 17 data.

## 7.2 Other benefits of a Pilot include:

- Gains can be spread across all Districts.
- Opportunity to use retained growth to protect Districts with income below baseline, promoting stability.
- Encourages cross- partnership working, in particular to promote economic growth.
- Opportunity to influence design of any permanent changes to NNDR allocation.

## 8 Risks

- 8.1 The main risk is from a significant drop in income for one or more authorities. The government provides some protection via “safety net” – paid where an authority’s income falls more than 7.5% below baseline need. With a Pilot or Pool, safety net has to paid by the other members, offsetting any gains, and up to the point where the total Pilot/Pool reaches safety net. A Pool is able to exclude the highest risk authorities but for a Pilot all authorities are included.
- 8.2 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, we have to decide whether we would proceed without this guarantee. To be worse off, safety net payments would have to exceed the total projected gain of £8.9m.
- 8.3 Income forecasts are subject to change and will be impacted by appeals as well as growth/ decline in economic activity, with consequent exposure to loss of income. There are specific risks following revaluation, and with increasing academisation and the possible granting of mandatory reliefs to the NHS.
- 8.4 Given the greater risk arising from full retention, the safety net threshold will be raised from 92.5% to 97% ie DCLG will top up where total income falls more than 3% below baseline need. This gives a greater overall level of protection.

## 9 Business Rates Pool

- 9.1 If the bid to become a pilot scheme is unsuccessful, there is the option for a business rates pool to be created by HCC and the districts which are forecast to have the highest business rates growth. Watford has not previously been in the pool due to its business rates growth performance.
- 9.2 Potential pool membership for 2018/19 has been modelled, and Watford is not one of the proposed members of the pool (i.e. the pool which has the potential for the most growth). The current forecast gain of the pool is around £2.4 million. However, there are discussions about widening the pool membership and if this was agreed the forecast gain across the pool members is around £1.1 million, with around a £0.042 million gain for Watford
- 9.3 It is not possible to be both a pilot area and a member of a pool, but by submitting a bid for a pool at the same time as the pilot application, the pool would be a back-up option to help maximise business rates income should the pilot bid fail.

## **10 Options/Reasons for Recommendation**

- 10.1 To request approval for the Council to enter into a bid, with the other Hertfordshire authorities, to become a pilot for 100% business rates retention for 2018/19. The report also seeks agreement to the establishment of a business rates pool should the bid for pilot status not be successful.
- 10.2 Watford could choose not to be part of a Business Rates pilot but this would mean that Hertfordshire would be unable to apply to be a pilot. A pool could still be entered into.

## **11 Implications**

### **11.1 Financial**

- 11.1.1 The financial implications are contained within the report.

### **11.2 Legal Issues (Monitoring Officer)**

- 11.2.1 The Head of Democracy and Governance comments that this is a decision that must be taken by Council

### **Background Papers**

Invitation to Local Authorities in England to pilot 100% Business rates Retention in 2018/19 and to pioneer new pooling and tier-split models – Department for Communities and Local Government. September 2017

### **APPENDICES / ATTACHMENTS**

Appendix A – Estimated Business Rate Income against Baseline.

## Appendix A

### Appendix A – Estimated Business Rate Income against Baseline.

	from DCLG calculator		District/ County share of Income above baseline	DCLG 50% share of income above baseline	Levy if not pooled	Safety Net to be covered
	£m	£m	£m	£m	£m	£m
Broxbourne	2.198	(12.403)	1.185	1.481	0.592	
Dacorum	2.818	(21.495)	0.909	1.136	0.455	0.000
East Herts	2.541	(14.861)	(0.195)	(0.244)	0.000	(0.005)
Hertsmere	2.543	(14.600)	0.935	1.169	0.468	
North Herts	2.546	(12.133)	1.087	1.358	0.543	
St Albans	2.358	(21.595)	(0.343)	(0.429)	0.000	(0.166)
Stevenage	2.402	(14.307)	0.540	0.675	0.270	
Three Rivers	1.863	(8.052)	0.803	1.004	0.402	
Watford	2.651	(22.121)	0.284	0.355	0.142	0.000
Welwyn Hatfield	2.718	(19.157)	1.353	1.691	0.676	
Herts CC	115.858	69.531	1.557	0.000		
<b>TOTAL</b>	<b>140.496</b>	<b>(91.194)</b>	<b>8.114</b>	<b>8.197</b>	<b>3.548</b>	<b>(0.171)</b>