

EAST HERTS COUNCIL

EXECUTIVE– 16 OCTOBER 2017

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

BUSINESS RATES PILOT

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- The Department for Communities and Local Government has 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.

RECOMMENDATION FOR EXECUTIVE: That:

(A)	the Executive Member for Finance and Support Services be given delegated authority to decide whether East Herts Council should be part of the application for a Business Rates pilot.
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1.0 Background

1.1 On the 1st September 2017, the Department for Communities and Local Government (DCLG) issued an invitation to Local Authorities to become Business Rates pilots.

1.2 Business Rate pilots must be based on functional economic areas, which for two tier areas are 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

1.3 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 for the Business Rates pool they usually also include the Districts with the highest forecast Business Rate growth.

1.4 EHC has not previously been part of a Business Rates pool that has occurred in Hertfordshire.

2.0 Report

2.1 Alternative Options Considered

EHC could choose not to be part of a Business Rates pilot. This would mean that it would not be possible for Hertfordshire to apply to be a pilot as all authorities must participate.

3. Consultation With Relevant Members And External Organisations

3.1 There is currently ongoing consultation with other authorities within Hertfordshire to determine the financial benefits and level of support of the proposals for the Business Rates pilot.

3.2 A working group has been set up with Hertfordshire County Council (HCC), EHC, Hertsmere and Welwyn Hatfield to prepare a proposal for consultation with HCFOs and Chief Executives in Early October about the Business Rates pilot.

4. Relevant Considerations

4.1 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

4.2 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.

4.3 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.

4.4 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 1.2. 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. This would need a unanimous agreement from all other parties of the pilot. Hertfordshire authorities are likely to want a share of the growth they have generated rather than channelling it into One Public Estate.
- 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.

4.5 It is expected that EHC will make an application for the Business Rates Pilot. All 10 District Authorities in Hertfordshire, alongside HCC, must agree to be part of the pilot in order for it to proceed. This offers the best financial gains for EHC, and a better chance of acceptance.

4.6 Applications have to be made to the DCLG by 27th October 2017.

5. Legal Implications

5.1 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.

6. Financial Implications

6.1 These are covered in section 4. The benefits from a Business Rates pilot are forecast to be around **£6-8 million**. EHC could 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. It is likely that EHC would only achieve/receive baseline funding, however this would give budget stability over the short term.

7. Risk Implications

7.1 Under a pilot arrangement, the Authority would be taking on a higher amount of risk. The additional financial modelling work that will take place during October 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.

8.0 Implications/Consultations

8.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

None

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