

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 4 SEPTEMBER 2018
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND
CULTURAL SERVICES)

BUSINESS RATES RETENTION PILOT

1 Executive Summary

- 1.1 On 24 July 2018, the government published a prospectus to invite local authorities to submit proposals to pilot 75% business rates retention in 2019/2020.
- 1.2 The purpose of the pilot scheme is to enable the government to test increased business rates retention from 50% to 75%, which is due to be implemented from April 2020.
- 1.3 All authorities in Hertfordshire submitted a business rates pilot application for 2018/19, unfortunately it was not accepted by the government. It is stated in the prospectus that applications from current pilot authorities will not be influenced by the success of those authorities in last year's application process. All applications for the 2019/20 pilots, whether from piloting or non-piloting authorities, will be assessed on their merits and on an equal footing.
- 1.4 The business rates pilot application is currently being worked through the Hertfordshire Chief Finance Officer group and as the deadline for submission is due to close on 25 September, the purpose of this report is to seek delegated authority to enter into a business rates pilot/pooling arrangement with other authorities in Hertfordshire, if there is a financial case for doing so.

2 Recommendation(s)

- 2.1 That Cabinet agrees to give delegated authority to the Corporate Director (Resources, Environment and Cultural Services), in consultation with the Executive Member for Resources, to submit an application for the 2019/20 Business Rates Pilot/Pooling arrangement for Hertfordshire, if after full consideration, there is a financial case for doing so.

3 Explanation

- 3.1 Under the current Business Rates Retention scheme, income is shared between:

Central Government (50%),

County Council (10%) and

District Councils (40%).
- 3.2 All Shire District authorities such as Welwyn Hatfield are classified as "tariff", where business rates income is higher than our assessed need, the difference being paid to Central Government.

- 3.3 Growth in business rates income above a baseline figure is shared in the same proportion as 3.1, but tariff authorities also pay a levy on their share of growth, currently 50%, to central government. Therefore under the current system, the council only retains 20% of growth above the business rates baseline.
- 3.4 Business rates pilot first went live on 1 April 2017, where five areas (namely, Greater Manchester, Liverpool City Region, the West Midlands, Cornwall and the West of England) were selected as part of the 100% business rates retention pilots. It should be noted that they are all devolution deal areas and these pilots were continued into 2018/19.
- 3.5 London (including 32 London Boroughs, City of London and the Greater London Authority) also became a pilot area in 2018/19. Along with the 5 pilot areas in paragraph 3.5, it is believed that the government will have separate discussion with these areas for 2019/20.
- 3.6 There were a further ten 100% business rates retention pilots for the duration of 2018/19 only. They include Berkshire, Derbyshire, Devon, Gloucestershire, Kent, Leeds, Lincolnshire, Solent, Suffolk and Surrey. These pilot areas will need to apply to the 75% pilot scheme for 2019/20.
- 3.7 One of the key objectives of a Pilot is to promote financial sustainability and coherent strategic decision making across functional economic areas and use some of the additional retained income invested to encourage further growth.
- 3.8 The main advantage of a business rates pilot scheme for 2019/20 is that it would allow authorities to retain 75% of the growth in business rates within the pilot area.
- 3.9 For 2019/20, the Government would like to utilise the business rates pilot scheme to test the expansion of business rates retention (BRR) from 50% to 75%, in line with government proposals to move to 75% BRR from April 2020.
- 3.10 Successful Pilots will be required to share additional data and information and work with the Government on the design of the new system including potentially being interviewed.
- 3.11 It is important to note that the 2019/20 business rates pilot scheme differs from the current pilots in a number of ways:
- The amount of Business rates growth retained above the business rates baseline will be set at 75% not 100%
 - The 'no detriment' clause applied to 2017/18 and 2018/19 Pilots, which guaranteed that no authority taking part in the pilot scheme would be left worse off, will not apply to Pilots set up for 2019/20 through this application process.
 - To compensate for the loss of the no detriment clause and the risk associated with the 75% retention, there will be a Safety Net set at 95%. This means the Government will guarantee, that funding levels will not fall below 95% of the baseline funding amount for the pilot area as a whole.
- 3.12 To be accepted as a pilot for 2019/20, agreement must be secured from all Hertfordshire authorities and must be signed off by all the S151 officers as set

out in the application form. Local arrangements would need to be put into place to pool business rates income, and as part of the application process, authorities will be expected to evidence how pooled income growth will be used in the pilot area, how the proposals will promote financial sustainability, and how additional growth will be shared locally.

- 3.13 Officers from all the Hertfordshire authorities are currently carrying out detailed analysis along with advice from LG Futures, which is a consultancy firm that supported a number of successful pilot submissions last year. It is expected that the proposal will be developed into draft stage to be discussed at the next Hertfordshire Chief Finance Officer meeting in early September.
- 3.14 Similar to last year, the government would allow the forming of Business Rates pool in the event if the pilot application is not successful. The Business Rates pooling arrangement is effectively a smaller version of the Pilot scheme, except it is only allowed to retain 50% of the growth generated in the pooling area. It should be noted that Welwyn Hatfield, along with 5 other authorities in Hertfordshire are currently in a pooling arrangement for 2018/19. The Chief Finance Officer Group will also agree the Business Rates Pooling arrangement, based on the combination of authorities that gives the greatest potential pooling gain.
- 3.15 If agreement is achieved from all Hertfordshire Authorities, an application for the Business Rates pilot will be drafted and submitted by 25 September 2018. Given the short timescale, it is therefore necessary to seek delegated authority and agreed for the Council to enter into a Business Rates pilot scheme for 2019/20, if there is a financial case for doing so.

Implications

4 Legal Implication(s)

- 4.1 Formal agreements for sharing of business rates income will need to be in place should Hertfordshire authorities agree to proceed with a pool and pilot scheme. These will need to be submitted to the Government as part of the application process.

5 Financial Implication(s)

- 5.1 Application to enter into a business rates pool and the pilot scheme for 2019/20, will only be made if the Council's Section 151 Officer, in consultation with the Executive Member for Resources is satisfied the Councils funding levels are protected under the pooling arrangements.
- 5.2 Should the pilot scheme be successful, it will enable a higher level of business rates income to be retained locally both at Borough and County level and will feed into the budget setting process for 2019/20.

6 Risk Management Implications

- 6.1 Risks around business rates volatility will be modelled through sensitivity analysis prior to the application stage. Should the application proceed, risk will be shared with the other Hertfordshire authorities.

7 Security & Terrorism Implication(s)

7.1 There are no security or terrorism implications

8 Procurement Implication(s)

8.1 There are no procurement implications arising from this report.

9 Climate Change Implication(s)

9.1 There are no direct climate change implications to consider.

10 Health and Wellbeing Implication(s)

10.1 There are no direct health and wellbeing implications to consider.

11 Link to Corporate Priorities

11.1 The subject of this report is linked to the following Council's Corporate Priorities:

- "Our Economy – Promoting Investment and Regeneration"
- "Our Economy – Supporting Sustainable Economic Growth"
- "Our Council – Achieving Value for Money"

12 Communications Plan

12.1 Officers will be working with the Communications team if the business rates pilot application is successful.

13 Equality and Diversity

13.1 An Equality Impact Assessment (EIA) has not been carried out in connection with the proposals as there are no equalities or diversities issues arising from the report.

Name of author Ka Ng
Title Corporate Director (Resources, Environment and Cultural Services)
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