

<b>Meeting:</b>	<b>Cabinet</b>
<b>Meeting date:</b>	<b>Thursday 26 October 2017</b>
<b>Title of report:</b>	<b>Herefordshire's application to be a business rate pool pilot for 2018/19</b>
<b>Report by:</b>	<b>Cabinet member finance, housing and ICT</b>

## **Classification**

Open

## **Decision type**

Non-key

## **Wards affected**

(All Wards);

## **Purpose and summary**

To approve Herefordshire Council's application to be a pilot area for 100% business rate retention in 2018/19 in a pooling arrangement with Shropshire Council and Telford and Wrekin Council.

The application deadline is 27 October and if successful would see additional funding becoming available for pilot areas.

## **Recommendation(s)**

**That:**

- (a) the chief financial officer be delegated authority to submit an application for Herefordshire Council, together with Shropshire and Telford and Wrekin councils, to be a 100% business rate pool pilot area for 2018/19; and**
- (b) general scrutiny committee be requested, should the application be accepted, to consider the implications for Herefordshire of operating such a pool and to make any such recommendations as it feels appropriate to inform a further decision on participation.**

## Alternative options

1. To not submit an application, this is not recommended because it would not lead to the financial benefit expected from a successful application.
2. Herefordshire could submit an application to be a pilot pool with different councils, this is not recommended as there are existing arrangements with the Marches Local Enterprise Partners supporting the objective of the pool to promote financial stability.
3. The application could be submitted without a request for a no detriment clause, this is not recommended as it increases the risk of reduced funding if the application is successful.

## Key considerations

4. Currently Herefordshire council retains 49% of the business rate income generated in the county, 50% is paid to central government and 1% is paid to Hereford and Worcester Fire and Rescue Service. Full rate retention by councils is intended to be in place from 2020/21, during the intervening period pilot councils are starting to retain their business rate income.
5. Central government has decided to proceed with the expansion of the full business rate retention pilot programme for 2018/19. These will run alongside the five current 100% pilots which have been in operation since 1 April 2017. The Department for Communities and Local Government is currently seeking applications from councils to pilot 100% business rate retention in 2018/19 and to pilot new pooling models.
6. The current pilots are in Greater Manchester, Liverpool City Region, The West Midlands, Cornwall and The West of England. The 2018/19 pilots are an opportunity for the Department to test more technical aspects of the 100% business rates retention system, such as tier-splits. Herefordshire council's rural top up business rate position would be a new pooling model.
7. Pilot areas will retain 100% of business rates income and forego their revenue support grant and rural delivery service grants. In addition, over the pilot period they will retain all of their growth in business rates income.
8. The government would like to see councils form pools and apply jointly for pilot status, Herefordshire Council will be submitting an application with Shropshire Council and Telford and Wrekin Council being the Marches Local Enterprise Partnership (LEP) councils. The opportunity to work together as a pool across a functional economic area will allow authorities to make coherent strategic decisions about the wider area and to jointly manage risk and reward.
9. Following a review of the business rate income forecasts for the three areas a pilot pool arrangement is expected to be financially beneficial to the area as described in the resource implications section of this report.
10. The invitation is expected to be welcomed by most councils and a high number of applications is expected, therefore, due to affordability constraints, it may be necessary for the government to assess applications against selection criteria. In these circumstances, the following criteria will apply:
  - Proposed pooling arrangements operate across a functional economic area;

- Because they were not included in the 2017/18 pilot scheme, the government is particularly interested in piloting in areas which have retained county and district councils;
  - The proposals would promote the financial sustainability of the authorities, being councils and fire authorities, involved; and,
  - There is evidence of how pooled income from growth will be used across the pilot area.
11. The application will be in the form of a four pages long business case approved by each councils S151 officer with supporting financial analysis including details on how participation in the pilot scheme will benefit the area and should cover the potential pilot's approach to pooling and the sharing of growth, including how authorities will collaborate to use pooled retained income to promote further growth across the area. Herefordshire Council's application will include reference to how the additional resources will contribute to the aims of the Marches LEP. The detailed mechanism of how this would work in practice is being reviewed under the overarching premise that each council would retain responsibility for their own gains and losses.
  12. The deadline for submission of applications is Friday 27 October. Successful pilots will be announced in December 2017 and launched in April 2018. Between these dates the department will support councils in preparing for implementation and the councils will continue to assess the potential financial implications and develop the associated governance arrangements.
  13. If selected as a pool Cabinet will be asked to approve the arrangements required before the pooling arrangement commences.
  14. If the application is unsuccessful then the current business rate arrangements will continue.

## **Community impact**

15. A successful application would support the corporate plan objectives of supporting the growth of the economy with additional resources intended to be directed to support the aims and objectives of the LEP.

## **Equality duty**

16. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

17. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying ‘due regard’ in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

## Resource implications

18. If the application is successful no additional staffing or IT resourcing is expected to be required from Herefordshire Council. Shropshire Council are expected to be nominated as the lead authority for the pool due to that council currently hosting the Marches LEP arrangement, if this is agreed then a top slice of up to £30k will be taken from the pool to fund Shropshire councils increased costs incurred.
19. A successful application would mean that instead of Herefordshire council retaining 49% of its business rate income generated in 2018/19 it will retain 99%, 1% will remain due to the Hereford and Worcester Fire and Rescue Service.
20. Councils selected as pilots for 2018/19 will forego Revenue Support Grant and Rural Services Grant. The value of the grants foregone will be taken into account in setting revised business rate tariffs and top-ups, which will be used to ensure that the changes are cost neutral, except for the value of any growth retained.
21. Pilot areas will be expected to operate under the arrangements that currently determine safety net payments for pools. However, the pool’s safety net threshold will be set at 97% of its baseline funding level, instead of 92.5%, to reflect the additional risk of greater retention. Looking at current business rate income forecasts the risk of requiring a safety net is considered to be a low for the pool area.
22. Pilots will operate with a “zero levy” on business rate income growth, as is the case for the current 2017/18 pilot areas.
23. Pilot status has the potential to increase resources received from the business rates retention scheme. Gains will arise if the amount collected exceeds the business rate baseline for the pilot area. Current forecasts show forecast business rate income for all three councils above baseline with the total gain being £11.6m.
24. The overall forecast financial impact for Herefordshire is shown below:-

	£m	% Share	£m
Baseline business rate income for Herefordshire	45.3	49%	22.2
Existing top up grant			9.3
<b>Total existing business rate baseline need</b>			<b>31.5</b>
Plus revenue support grant			5.4
Plus rural services delivery grant			3.1

<b>Revised baseline post 100% retention</b>			<b>40.0</b>
Forecast business rates receivable gain over baseline			2.7
Forecast income total if not a pilot			42.6
Forecast business rate income if a pilot	45.2	99%	44.8
<b>Forecast gain from full rate retention pilot</b>			<b>2.7</b>

## Legal implications

25. Establishing a business rates pool for the Marches LEP council's will require each authority participating in the pool to agree to do so; and to also agree the terms upon which they will participate jointly with other members, including to appoint a lead authority as accountable body for the pool and to decide how the pool should operate.
26. In view of the approaching deadline, this report recommends suitable arrangements for an officer to submit an application. In order to meet the government application deadline an application would need to be submitted before the expiry of the usual call in period. In accordance with the requirements of the constitution the chairman of general scrutiny committee has confirmed his consent for the decision to be taken under the special urgency provisions which have the effect that the decision will not be subject to call in.

## Risk management

27. A draft memorandum of understanding is being prepared to ensure that all councils within the pool are in agreement to the risks and reward sharing position on the basis that any gains and losses will remain with the originating council.
28. The potential level of risk has been reviewed and is considered restricted however the application is to be submitted seeking a guarantee from government that being a pilot cannot result in financial detriment. Such a clause has been accepted on previous pilots, however, it may be that government will look more favourably on areas that are prepared to take a greater degree of risk

## Consultees

29. Shropshire Council and Telford and Wrekin Council have been consulted and both councils support a joint pool pilot application being submitted.

## Appendices

None

## Background papers

None