

CABINET

18th SEPTEMBER 2018

KEY DECISION? YES/NO

**COUNCILLOR GARETH LYON
CORPORATE AND DEMOCRATIC SERVICES
PORTFOLIO HOLDER
REPORT NO. FIN1830**

75% BUSINESS RATES PILOT IN HAMPSHIRE BID 2019/20

SUMMARY AND RECOMMENDATIONS:

The Government has invited local authorities to bid to pilot a 75% Business Rates Retention pool.

Hampshire is proposing to make a bid to be one of the 2019/20 business rates pilots. The pilot will include Hampshire Council, Hampshire Fire Authority and all the district councils within the county (except the Solent who have their own pilot).

RECOMMENDATIONS:

That Cabinet agrees to:

- (1) Approve in principle to support a joint bid to Central Government with other Hampshire local authorities and the County Council; and
- (2) Delegate the agreement of the final submission to the Executive Director, in consultation with the Corporate and Democratic Services Portfolio Holder and the Executive Head of Finance.

1. INTRODUCTION

- 1.1 The Government has invited local authorities to bid to pilot a 75% Business Rates Retention Scheme.
- 1.2 Hampshire is proposing to make a bid to be one of the 2019/20 business rates pilots.
- 1.3 Winchester City Council will be the lead authority with expert advice from Pixel Financial Management (PFM) who have a specialist knowledge of Local Government Finance and in particular Business Rates at a strategic level.
- 1.4 The pilot will include Hampshire County Council, Hampshire Fire Authority and all the district council's with the county; Basingstoke and Deane, East Hampshire, Eastleigh, Fareham, Gosport, Hart, Havant, New Forest, Rushmoor and Winchester City Council.

- 1.5 The pilot would exclude The Solent (Portsmouth, Southampton and the Isle of Wight) who have their own pilot.
- 1.6 This is a key decision as the business rates pilot is an opportunity for the council to retain a greater amount of business rates growth in their area.
- 1.7 The participating councils will also be exposed to a higher level of risk in 2019/20; as if the wider pool of business rates across Hampshire falls from its current position then the council could be liable to pick up a proportion of this cost.

2 BACKGROUND – BUSINESS RATES RETENTION

- 2.1 Since 2013/14, local authorities have retained 50% of business rates raised in their areas. This is now an integral part of the local government finance system, and less government grant is received as a consequence. Retained business rates are shared between different tiers of local government: In Rushmoor, Central Government retains 50% of the Business Rates, Rushmoor Borough Council 40%, Hampshire County Council 9% and Hampshire Fire Authority 1%.
- 2.2 The total business rates income is ultimately determined by a range of factors, such as the Council's total rate receipts measured against its estimated threshold for growth, taking into account any payment levies or safety net contributions payable or receivable.
- 2.3 The Government has, for some time, been planning to introduce 100% business rates retention from 2020. Plans to achieve this were included in the Local Government Finance Bill, but this was dropped from the Government's legislative programme after the general election. The Government has been piloting 100% business rates retention since 2017/18 (these being areas with agreed devolution deals).
- 2.4 In July 2018, the Government invited local authorities to apply for powers to retain growth in their business rates under new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.
- 2.5 These new pilots will be for 75% rates retention as opposed to the previous 100% retention.

3 DETAILS OF THE 75% PILOT SCHEME AND HOW THE POOL WORKS

- 3.1 The proposed Business Rates pilot is based upon a 75% business rates retention scheme, and for this to be across the eleven Hampshire district councils, the fire authority and the county council.
- 3.2 As part of the bid, the following share of any growth is proposed:
 - Billing Authorities tier split would increase from 40% to 60%

- The county split would increase from 9% to 14%
 - The fire share would remain at 1%
- 3.3 All monies collected from Business Rates from all the local authorities in the Hampshire pool, are pooled together.
- 3.4 All councils within the pool are then distributed growth from the pool, on a percentage basis, based on their contribution towards the pool.
- 3.5 Rushmoor Borough Council's percentage of growth from the pool is likely to be 7%.
- 3.6 Therefore, if Hampshire was to benefit from growth as a whole, then Rushmoor would benefit from this growth as well. Albeit, sharing our growth with the pool at the same time.
- 3.7 All applications need to be submitted by 25th September 2018.

Financial Matters

- 3.8 PFM are carrying out a financial model so billing authorities can see how they will benefit under the 75% retention pilot for 2019-20.
- 3.9 They have used the 2018/19 NNDR1 form and uplifted this figure by inflation, currently using 3.2%.
- 3.10 PFM are predicting best and worst case scenarios.
- 3.11 **Best case scenario** – under the current retention scheme, Pixel predict RBC would receive income of £1,376M. However, under the 75% pilot, PFM predict income of £2,973m. This would leave an increase of £1,596m.
- 3.12 **Worst case scenario** – these figures are yet to be concluded as PFM are awaiting billing authorities to provide growth and losses figures alongside areas of risk such as large refunds that do not form part of the appeals provision and Rateable Values above £500,000. The predicted loss of rates yield going into 2019-20 stands at £1,394,110, for Rushmoor alone.
- 3.13 History shows that over time, rateable values reduce by way of appeals and buildings being demolished. However, we do try to mitigate these losses by creating a provision for appeals against rateable values. At present, we are carrying an appeals provision for 2018-19 rates income at £5.2m. This figure will have been carried forward for the 2019-20 75% Hampshire pool and uplifted by 3.2%.
- 3.14 At the start of the 2017 Rating List (1 April 2017) the aggregate Rateable Value was £117,743,830. As at 1 April 2018, the aggregate Rateable Value was £120,919,875.

- 3.15 This represents an increase of 3.1m. However, this was due to significant growth in the Borough such as Horizon Retail Park, Smyth's Toys/Decathlon Sports Shop and Pinehurst 1.
- 3.16 We are still expecting significant growth following the completion of the new exhibition centre. However, these figures will have already been forecasted in our NNDR1 return for 2018-19 and therefore included in the pilot model produced by Pixel.
- 3.17 It is recommended that the first use of any additional resources within the pilot is to fund the Minimum Funding Guarantee (i.e. that no authority will be worse-off than they would be then in the current retention scheme).
- 3.18 If Rushmoor were not to join the pool, they will still be responsible any loss of rates income.
- 3.19 There is also a discussion of an amount to be set aside from the pool for a strategic share across the county for major infrastructure projects to be enhanced or delivered more quickly and to provide support to the County Councils social care function. This is known in the pool as top slicing.
- 3.20 The Hampshire councils included within the bid are seeking views on the modelled proposals and Chief Financial Officers across Hampshire will consider the level of the strategic top slice and what this can fund, as the year progresses.

Alternative Options

- 3.21 The alternative option is to not take part in the pilot. This would save the Council time and resource spent providing information to help develop the bid, which could be unsuccessful.
- 3.22 However, if we did not take part in the bid there would be no potential financial reward, nor an opportunity to understand how the new business rates retention system will work.

4 Consultation

- 4.1 There is no requirement to consult with local residents before submitting a bid and becoming part of a business rates pool.
- 4.2 Chief Financial Officers of Local Authorities have been consulting on whether to form a pool and the requirements within the pool.

5. IMPLICATIONS

Risks

- 5.1 It is important to consider that the risks under the pilot will be higher than under the existing business rates system now that the "no detriment" support has been removed.

- 5.2 There will be a higher share of any losses – 60% rather than 40%
- 5.3 The pools safety net threshold will be set at 95% of its baseline funding level, instead of the current threshold of 92.5%. This is to reflect the additional risk of 75% retention.
- 5.4 It is recommended that the first use of any additional resources within the pilot is to fund the Minimum Funding Guarantee (i.e. that no authority will be worse-off than they would be then in the current retention scheme).

6 Legal Implications

- 6.1 Establishing the business rates pool will require each authority participating in the pool to agree to do so; and to agree the terms upon which they will participate jointly with other members, including to appoint a lead authority as an accountable body for the pool and to decide how the pool should operate.

7. Financial and Resource Implications

- 7.1 If the bid is successful no additional staffing is expected to be required from Rushmoor Borough Council and would be day-to-day business as usual. Winchester City Council are nominated as the lead authority for the pool.
- 7.2 If the bid were successful, this would mean that instead of Rushmoor Borough Council retaining 40% of the business rates we would retain 60%.
- 7.3 Authorities selected as pilots in 2019/20 will be expected to forgo two grants. Rural Services Delivery Grant (RSDG) and Revenue Support Grant (RSG). This does not affect us as we do not receive the former and whilst we received £190k RSG in 2018-19; our Medium Term Forecast foresaw this becoming negative in 2019-20.

8. CONCLUSIONS

- 8.1 In conclusion, Cabinet are asked to approve that Rushmoor Borough Council submit a joint bid and to be part of a business rate 75% business rates pilot with other Hampshire local authorities and the County Council.
- 8.2 Cabinet are also asked to delegate the agreement of the final submission to the Corporate Director in consultation with the Democratic Services Portfolio Holder and Executive Head of Finance.
- 8.3 The pilot will ensure that no local authority will be worse off than they would be has they not joined the scheme.

BACKGROUND DOCUMENTS:

1. MHCLG: Invitation to Local Authority's in England to pilot 75% Business Rates Retention 2019/20
2. MHCLG: Supplementary Information Pooling

CONTACT DETAILS:

Report Author – David May / david.may@rushmoor.gov.uk / 01252 398330

Head of Service – Peter Timmins / peter.timmins@rushmoor.gov.uk / 01252 398440