



CABINET

19TH OCTOBER 2017

AGENDA ITEM (7)

100% BUSINESS RATES RETENTION SCHEME PILOT - GLOUCESTERSHIRE

Accountable Members	Councillor Mark Annett Leader and Cabinet Member for Resources
Accountable Officers	Jenny Poole Group Manager GO Shared Services 01285 623313 Jenny.Poole@cotswold.gov.uk

Purpose of Report	To provide Members with an opportunity to consider proposals for the Gloucestershire local authorities to submit an application to become a 100% Business Rates Retention Pool pilot in 2018/19.
Recommendation(s)	That Cabinet: (a) considers the risks and opportunities associated with membership of a 100% Business Rates Retention Scheme Pool Pilot; (b) determines whether or not the Council wishes to be part of the Gloucestershire pool pilot bid; and (c) determines if the Gloucestershire pool pilot bid should be conditional upon a “no detriment” clause relating to the NHS Foundation Trust claim.
Reason(s) for Recommendation(s)	<p>There are financial opportunities if the Gloucestershire pool pilot bid is successful. However, there are also significant risks due to the level of outstanding appeals in the business rates system and claims from NHS Foundation Trusts for mandatory relief on business rates. The risk could be mitigated to the current level of risk associated with the current business rates pool if the Gloucestershire bid includes a “no detriment” condition and that condition is accepted by Government. The inclusion of a “no detriment” condition may make the bid less attractive to the Government (when compared to other bids which do not require a no detriment condition) and may result in failure of the bid.</p> <p>The risk from business rate appeals is considered to be manageable in the pilot pool and would not require a “no detriment” agreement. However, due to the scale of risk from the NHS Claims across Gloucestershire, a “no detriment” clause related to this risk is recommended.</p>

Ward(s) Affected	None directly
Key Decision	No

Recommendation to Council

Not at this point in time; it may form part of budget proposals to Council in February 2018.

Financial Implications

The Gloucestershire Pool currently comprises all of the Gloucestershire local authorities excluding Tewkesbury Borough Council. For 2017/18, the pool levy is 3.43% (as opposed to 50% outside of the Pool).

The financial gains and losses from Pooling since the inception of pool in 2013-14 is shown below:

Gloucestershire Pool Distribution History

	2013/14	2014/15	2015/16	2016/17
Cotswold District Council	25,326	(203,116)	114,855	275,600
Tewkesbury Borough Council	67,573	(199,647)	0	0
Cheltenham Borough Council	52,824	(307,266)	142,927	272,075
Forest of Dean District Council	47,687	(280,310)	134,091	259,374
Stroud District Council	37,547	(267,117)	137,347	332,705
Gloucester City Council	72,954	(400,597)	173,139	329,331
Gloucestershire County Council	75,978	(414,513)	175,590	428,378
Reserve	300,000	(264,000)	0	0
Strategic Economic Growth Fund	94,972	0	0	240,980
Total	774,861	(2,336,566)	877,949	2,138,143

In 2014/15, the pool suffered a significant loss due to the impact of backdated appeals on rateable values and in particular, the successful backdated appeal by Virgin Media, the largest valued business in Tewkesbury. The final pool position for 2014/15 published a deficit of £2.3m, following a safety net payment to Tewkesbury of £3.9m.

With the ongoing risk associated with the Virgin Media issue, the Pool was dissolved and a new Pool was formed excluding Tewkesbury from April 2016; and this arrangement remains in place for 2017/18.

For 2017/18, the current pool benefit is estimated to be £3.4 million. This Council's share of the gain will not be known until the end of the financial year, but could reasonably be expected to be in the region of £400,000.

In terms of the 50% Business Rate Retention Scheme, the Gloucestershire Finance Officers are proposing to retain the existing pool composition for 2018/19.

Modelling the impact of a 100% Business Rate Retention Pool, including all Gloucestershire authorities, the pool gain (over and above the current 50% pool) is estimated to be between **£2.4 million and £12.4 million (excluding the impact of successful claims from NHS Trusts)**. This is due to the retention of the 50% government share of business rates above baseline target and savings in the removal of levy.

Scenario modelling has indicated that, even in the worst case scenario, a 100% business rates pool will generate a surplus of £2.4 million over and above the current pool. The modelling, however, excludes the impact of successful claims from NHS Trusts. The Gloucestershire Finance Officers are therefore recommending that the bid includes a requirement for a "no detriment" clause to protect the pool in the event of these claims being successful.

Legal and Human Rights Implications	None
Environmental and Sustainability Implications	None
Human Resource Implications	None
Key Risks	<p>The key risks relate to the value of business rate appeals in the system (as per paragraph 1.12). To mitigate these risks, the Gloucestershire pilot proposal could be conditional upon the inclusion of a "no detriment" clause within the pilot deal which would limit any losses to those currently at risk under the existing Gloucestershire pool. However, financial modelling of the worst case scenario has indicated that the pool would not trigger a "no detriment" payment.</p> <p>The modelling, however, excludes the impact of successful claims from NHS Trusts. The Gloucestershire Finance Officers are therefore recommending that the bid includes a requirement for a "no detriment" clause to protect the pool in the event of these claims being successful.</p> <p>Including a "no detriment" clause could increase the risk of the bid not being successful; therefore, it is recommended that the bid limits the "no detriment" requirement to the impact of successful claims from NHS Trusts.</p>
Equalities Analysis	Not required

Related Decisions	Council - 20 th November 2012 - Decision that Council becomes part of a Gloucestershire Business Rates Pool (Minute CL.30)
Background Documents	None
Appendices	None

Performance Management Follow Up	<p>Should all of the Gloucestershire local authorities agree to be part of the pool pilot, Officers will submit the bid to the Department for Communities and Local Government.</p> <p>The outcome of the bid process will be reported to Members as part of the budget setting process. Should the bid be successful, Members will have a further opportunity to withdraw from the pool. However, at that point, it would not be possible to operate a business rates pool for 2018/19.</p> <p>Officers will also notify the Department for Communities and Local Government of the intention to operate the current Business Rates Pool in 2018/19 should the pool bid be unsuccessful. This will protect the Council's interests.</p>
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Options for Joint Working	Subject of the report.
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Background Information

1. General

1.1 The Department for Communities and Local Government has recently published "*Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models.*"

1.2 On 1st April 2017, the Government launched five pilots of 100% business rates retention, which Ministers granted to areas with ratified devolution deals (Greater Manchester, Liverpool City Region, The West Midlands, Cornwall and The West of England). These pilots will retain 100% of business rates income and forego some existing grants. Over the pilot period, they will retain all of their growth in business rates income.

1.3 The Government has decided to proceed with the expansion of the pilot programme for 100% business rates retention for 2018/19. These will run alongside the five current 100% pilots which have been in operation since 1st April 2017. 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. This will provide the opportunity to evaluate how collaboration between local authorities works in practice.

1.4 The Government would like to see authorities form pools and, with agreement in place from all authorities, to apply jointly for pilot status. The Government is promoting the opportunity to work together as a pool across a functional economic area to allow authorities to make coherent strategic decisions about the wider area and to jointly manage risk and reward.

1.5 Applications are invited from authorities in England. The Government is encouraging applications from groups of authorities (either on existing, or revised, pool boundaries) which comprise, in particular, county council(s) and all relevant district councils; groups of unitary authorities; or groups of county councils, all their districts and unitaries. The Government is particularly interested in piloting two-tier areas and rural areas (given the majority of 2017 pilots are in urban areas). To be accepted as a pilot for 2018/19, agreement must be secured locally from all relevant authorities.

1.6 Applicants will need to propose a split for sharing additional growth. The Government particularly want to see additional growth being used to promote the financial stability and sustainability of the pooled area. In addition, it is expected that some retained income from growth will be invested to encourage further growth across the area.

1.7 For the 2017/18 pilots, the Government has agreed a 'no detriment' clause, guaranteeing that these areas will not be worse off as a result of participating in the pilot. However, proposals for the 2018/19 pilots should include details of how authorities will work together to manage risk in line with their proposed pooling arrangements in the event that the 2018/19 pilots programme does not include a 'no detriment' clause. Applications should make it clear whether or not they would be willing to become a 100% BRR pilot if the 2018/19 pilots were expected to operate without the benefit of 'no detriment'. This is discussed further in paragraph 1.12.

1.8 Authorities selected as pilots for 2018/19 will be expected to forego Revenue Support Grant (RSG) and Rural Services Grant. The value of the grant foregone will be taken into account in setting revised tariffs and top-ups, which will be used to ensure that the changes are cost neutral, except for the value of any growth retained.

1.9 Pilot areas will be expected to operate under the arrangements that currently determine safety net payments for pools. In other words, each "pool" will have a single safety net threshold determined on the basis of the pool's overall baseline funding level and business rates baseline. 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. Pilots will operate with a "zero levy", as is the case for the current 2017/18 pilot areas.

1.10 Local authorities that are part of existing pools need to consider what pooling arrangements should apply if their application to become a 100% pilot pool is not successful. Applications to retain or change existing pools will need to be submitted alongside applications for 100% pilots.

1.11 A proposal from Gloucestershire to become a pilot for 2018/19 would fit the criteria the Government are looking for in terms of a rural two-tier system of local government. The proposal would also fit well with the aims and objectives of the Gloucestershire Economic Growth Joint Committee, which has received funding from the current business rates pool.

1.12 There are some significant risks associated with becoming a pilot at this time due to the existing high levels of appeals within the business rates system dating back to 2010. There is also the potential for appeals on the new 2017 list to be higher than the Council (and indeed government) have anticipated. Under the pilot scheme, the risk up to the safety net threshold will fall with the Gloucestershire authorities. The safety net level has been changed from the pool having to fund the first 7.5% of losses to the first 3% of losses. For Gloucestershire, the first £3.5 million of losses would fall upon the pool. Scenario modelling has indicated that, even in the worst case scenario, a 100% business rates pool will generate a surplus of £2.4 million over and above the current pool and certainly would not trigger a "no detriment" payment. The modelling, however, excludes the impact of successful claims from NHS Trusts. The Gloucestershire Finance Officers are therefore recommending that the bid includes a requirement for a "no detriment" clause to protect the pool in the event of these claims being successful.

2. Cabinet Consideration

2.1 Cabinet is asked to consider the balance between financial opportunity and financial risk and to determine whether or not it is prepared to be part of a Gloucestershire bid to become a 100% Business Rate Pool Pilot.

2.2 The Gloucestershire bid could include a "no detriment" clause (see 1.12). However, this could make the bid less attractive to Government and financial modelling has indicated that a Gloucestershire wide pool would be unlikely to trigger a "no detriment" payment from the current appeals in the system. The modelling, however, excludes the impact of successful claims from NHS Trusts. The Gloucestershire Finance Officers are therefore recommending that the bid includes a requirement for a "no detriment" clause to protect the pool in the event of these claims being successful.

2.3 Members are asked to consider if the Gloucestershire bid should be conditional upon a "no detriment" clause relating to successful claims from NHS Trusts being in place.

(END)