



CABINET

20TH SEPTEMBER 2018

AGENDA ITEM (7)

BUSINESS RATES RETENTION SCHEME PILOT - GLOUCESTERSHIRE

Accountable Members	Councillor Mark Annett Leader of the Council and Cabinet Member for Resources
Accountable Officers	Jenny Poole Chief Finance Officer 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 75% Business Rates Retention Pool pilot in 2019/20.
Recommendation(s)	That Cabinet: (a) considers the risks and opportunities associated with membership of a 75% Business Rates Retention Scheme Pool Pilot; (b) determines whether or not the Council wishes to be part of the Gloucestershire pool pilot bid; (c) determines its preferred option for a 50% pool.
Reason(s) for Recommendation(s)	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 the legal challenge relating to the award of mandatory at certain NHS Trusts.

Ward(s) Affected	None directly
Key Decision	Not at this point in time, but may form part of budget proposals to Council in February 2019.
Recommendation to Council	Not at this point in time, but may form part of budget proposals to Council in February 2019.

Financial Implications	Gloucestershire is currently one of the 100% pool pilots in operation during 2018/19. As such any business rate income in excess of the baseline is retained by the Gloucestershire authorities and apportioned in accordance with the pool governance arrangements. The one-year arrangement ends on 31 st March 2019.
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	<p>At the time of preparing this report, the Gloucestershire Chief Finance Officers are modelling the financial implications of a 75% pool pilot. A bid to become a 75% pool pilot also requires the Councils to state how an alternative 50% Business Rate Retention Scheme pool would operate. The Gloucestershire Finance Officers are modelling various options for the 50% pool composition for 2019/20.</p> <p>The financial benefit of a 75% pool needs to be considered against a risk of a successful legal challenge for mandatory NHS relief. It is estimated that County-wide a refund of in excess of £10m would be due, with an ongoing reduction in business rates income of around £3m per annum.</p> <p>The legal challenge is progressing and the Councils will need to consider any financial implications when preparing the 2019/20 financial statements. The Council will need to consider any post balance sheet events up to the point when the accounts are signed off by the auditor (around 31st July 2020).</p> <p>The modelling being carried out will consider the scale of this risk and the risk of successful Business Rates appeals.</p>
Legal and Human Rights Implications	None
Environmental and Sustainability Implications	None
Human Resource Implications	None
Key Risks	The key risks relate to the value of business rate appeals and the legal challenge on 80% mandatory relief for NHS Trusts in the system. See Financial Implications for further details.
Equalities Analysis	Not applicable
Related Decisions	<p>(i) Council - 20th November 2012 - Decision that Council becomes part of a Gloucestershire Business Rates Pool (Minute CL.30)</p> <p>(ii) Cabinet - 19th October 2017 - Decision that Council takes part in the Gloucestershire Pool Pilot bid, conditional upon a 'no detriment' clause relating to the NHS Foundation Trust claim (Minute CAB.43)</p>
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 Ministry for Housing, Communities and Local Government.</p> <p>Officers will also notify the Ministry for Housing, Communities and Local Government of the intention to operate a 50% Business Rates Pool in 2019/20. This protects the Council's interests and is necessary regardless of the decision on bidding for 75% pool pilot status.</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 2019/20 and each Council would default to the original 50% scheme, outside of a pool.

Options for Joint Working

Subject of the report.

Background Information

1. General

1.1 The Ministry of Housing Communities and Local Government has recently published an "Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20."

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). It was subsequently decided that London would become a 100% pool pilot in 2018/19. Gloucestershire was successful in securing one of ten further 100% pool pilots for 2018/19. Over the pilot period, they will retain all of their growth in business rates income.

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

	2013/14	2014/15	2015/16	2016/17	2017/18
Cotswold	25,326	(203,116)	114,855	275,600	482,179
Tewkesbury	67,573	(199,647)	0	0	0
Cheltenham	52,824	(307,266)	142,927	272,075	475,341
Forest of Dean	47,687	(280,310)	134,091	259,374	386,802
Stroud	37,547	(267,117)	137,347	332,705	561,127
Gloucester	72,954	(400,597)	173,139	329,331	649,966
Gloucestershire	75,978	(414,513)	175,590	428,378	638,854
Reserve	300,000	(264,000)	0	0	0
Strat Eco Grow Fund	94,972	0	0	240,980	798,567
Total	774,861	(2,336,566)	877,949	2,138,443	3,992,836

1.4 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.

1.5 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. This arrangement operated in 2016/17 and 2017/18. In 2018/19, the 100% pool pilot came into operation and includes all of the Gloucestershire local authorities.

1.6 For 2018/19, the current 100% pool pilot benefit is estimated to be £14.4 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 £750,000. This one-year arrangement ends on 31st March 2019.

1.7 The Government is planning to increase the level of business rates retained by local authorities from the current 50% to the equivalent of 75% in April 2020. In order to test increased

business rates retention and to aid understanding of the transition into a reformed business rates retention system in 2020, the government is inviting local authorities in England to apply to become 75% business rate retention pilots in 2019/20. It is likely that the pilot pool programme will be smaller than in 2018/19. The deadline for submitting a bid to become a 100% pool pilot is 25th September 2018.

2. The 75% Pool Prospectus

2.1 To ensure that piloting in 2019/20 closely reflects the government's proposals to date for a reformed business rate retention system, authorities selected as pilots in 2019/20 will be expected to forego Revenue Support Grant and Rural Services Delivery Grant.

2.2 Applications are invited from authorities in England. The government is encouraging applications from groups of authorities (either on existing, or revised, pool boundaries) which, in two tier areas, comprise county council and all relevant district councils. Agreement must be secured locally from all relevant authorities.

2.3 Applicants will need to propose a tier split for all precepting authorities. The government particularly want to see additional growth being used to promote the financial stability and sustainability of the pooled area. In addition, bids will need to set out how the pilot will manage risk and reward at a strategic level and lay out how any potential growth in business rates may be spent.

2.4 For the 2018/19 pilots the Government included 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 2019/20 pilots specifically **exclude** "no detriment" provision.

2.5 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 95% 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 2018/19 pilot areas.

2.6 Modelling the impact of a 75% Business Rate Retention Pool including all Gloucestershire authorities, is currently being carried out by the Gloucestershire Chief Finance Officers.

2.7 This financial benefit needs to be considered against a risk of a successful legal challenge for mandatory NHS relief. It is estimated that County-wide a refund of in excess of £10m would be due, with an ongoing reduction in business rates income of around £3m per annum. The legal challenge is progressing and the Councils will need to consider any financial implications when preparing the 2019/20 financial statements. The Council will need to consider any post balance sheet events up to the point when the accounts are signed off by the auditor (around 31st July 2020).

2.8 In addition, 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 5% of losses.

2.9 Local authorities that are part of existing pools need to consider what pooling arrangements should apply if their application to become a 75% pilot pool is not successful. Applications to retain or change existing pools will need to be submitted alongside applications for 75% pilots. The Gloucestershire Finance Officers are currently modelling various options with the aim of securing the highest possible gain for the county whilst minimising the impact of any losses. The Cabinet will be updated on the outcome of modelling at the meeting. Should the 75% pool pilot 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 2019/20 and each Council would default to the original 50% scheme, outside of a pool.

2.10 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.

3. Gloucestershire Economic Growth Joint Committee

Under the governance arrangements for the current business rates pool, the Gloucestershire Economic Growth Joint Committee manages the 20% share of pool gains which are allocated to the Strategic Economic Development Fund. In order to fulfil this role, the Joint Committee receives regular updates on the performance of the business rates pool. On 5th September, the Joint Committee considered an update on the performance of the 100% pool and the 75% pool pilot prospectus.

4. Cabinet Consideration

4.1 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 75% Business Rate Pool Pilot.

4.2 Cabinet is also asked to consider the preferred composition of an alternative 50% Business Rate Pool for 2019/20.

4.3 Modelling of various options will be available for Members to consider at the meeting.

(END)