

REPORT TITLE: BUSINESS RATES PILOT 2019/20

19 SEPTEMBER 2018

REPORT OF PORTFOLIO HOLDER: FINANCE

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WARD(S): ALL

PURPOSE

This paper seeks confirmation from the Cabinet to submit a bid to central government to be part of a business rates pilot in 2019/20 with the other Hampshire district councils and the County Council, as part of this all of the authorities would pool business rates and form an agreement to share risks and rewards. The modelling suggests that this would increase business rates retained by the Council and provide for additional one-off funds to the Council, other districts and the County Council as well as a 'strategic share' across Hampshire.

The government announced a further roll out of business rates pilot areas in July 2018, with bids to be submitted to government by the 25th September. The business rates pilot is an opportunity for councils to retain a greater (75%) amount of business rate growth in their area and also not be subject to a 'levy' on business rate growth as Winchester currently is. This potential benefit is expected to be over £1m for the Council alone alongside any additional funds allocated through the strategic share. The participating councils will also be exposed to an increased level of business rate risk in 2019/20 if the level of business rates falls from its current position then the council could be liable to pick up some of this cost.

Discussion with other Hampshire councils has been positive to date, though it is for each council to consider if they wish to submit a joint bid to government. Government has been clear that a bid that does not include all districts and the county in an area would be much less likely to succeed.

RECOMMENDATIONS:

1. Cabinet to approve a submission bid for Winchester to be part of a Hampshire wide business rate pilot.
2. Cabinet to approve the final submission of the pilot to be delegated to the s151 officer in consultation with the finance portfolio holder.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 Being part of a pilot would support the Council's aspiration to be a premier business location through retaining a greater share of business rates and access to a strategic share. These funds could be utilised to provide investment that supports and enhances the area's infrastructure to retain and grow business.

2 FINANCIAL IMPLICATIONS

- 2.1 The financial details of the potential bid are included throughout the paper. There are potential financial benefits and financial risks through being accepted as a successful pilot area, though until the 2019-20 financial year is complete, it is difficult to say exactly what the financial outcome will be.
- 2.2 According to the modelling the opportunity is for the Council to be between £1m and £2m better off as a one-off benefit, if the forecast business rate position occurs. Conversely, the Council could be worse off if the overall business rate level drops across the county as a whole.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None

4 WORKFORCE IMPLICATIONS

- 4.1 None

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

6 CONSULTATION AND COMMUNICATION

- 6.1 Communication with Hampshire Leaders, Chief executives and Chief Finance Officers.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None

8 EQUALITY IMPACT ASSESSEMENT

- 8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>The pilot bid is unsuccessful</i>	Support from 'Pixel' who have provided analysis for previous successful pilot bids.	Even if the bid is unsuccessful, this process has highlighted strong joint working and to consider the opportunity of a local pooling of business rates in the future.
<i>Timescales – all Chief Finance Officers do not gain support for the bid by the September deadline</i>	Sharing of this report with other CFOs. Consultation with CFOs, Chief Executives and Leaders.	Cross county working together on a key financial issue.
<i>Project capacity</i>		
Financial / VfM <ul style="list-style-type: none"> - Decrease in BRates across Hampshire - Decrease in BRates in just Winchester or Increase in BRates in Winchester but not elsewhere - Uncertainty over future of BRates - Impact of Brexit negotiations 	<p>Reduction to the overall funds but if all other councils see growth then WCC will still benefit through pooling</p> <p>Less benefit gained locally to support other losses in rates across the county. Pooling could create this risk but would need significant external factor to occur</p> <p>Government is asking for submissions so expect that this remains for 19-20 at least</p> <p>Valuation system will deal with any changes up or down through appeals / revaluation. Also mitigated through one-year pilot period.</p>	<p>Future Local Government financing is based on retaining business rates, this gives chance to shape the scheme</p>
<i>Reputation</i>	Balance of gains/losses on baseline funding levels as well business rates growth to mitigate large changes to underlying comparative changes in income across the councils.	Proposal provides opportunity for councils across the county to work together
<i>Other</i>		

11 SUPPORTING INFORMATION:

11.1 **Background to the Business Rates Pilot**

11.2 Since 2013 the government has changed local government finance, so that there is less money directly from central government with more money coming directly to local councils through business rates collected. For the Council , which currently collects about £59m of business rates, this has meant receiving about £4m of income from business rates through the Government's redistribution mechanisms.

11.3 Recently, the government has been investigating moving to 100% of business rates retention for local government as a whole. To test how this would work, pilots were invited for 2018-19 of which there were ten successful bidders (from over sixty). Two areas close to Winchester were successful; a Solent bid (Portsmouth, Southampton and the Isle of Wight Councils) and the Berkshire unitary councils. Analysis on the existing bids from 2017 onwards has been collated by the Institute of Fiscal Studies (<https://www.ifs.org.uk/publications/10551>).

11.4 For 2019-20, the government has announced a bidding round commencing on the 25th July with bids to be submitted to government by the 25 September. The pilots will be for 75% business rates retention within the pilot areas.

11.5 **Reasons for submitting a bid to be included in the pilot**

11.6 There are two main reasons for the submission of a bid to be included within the pilot. Firstly, the bid will demonstrate cross county working and the sharing of the risks and rewards of business rates through the pilot scheme. In a time of reducing financial resources across the county, the bid proposes to support individual council's financial position and deliver a cross county strategic share to enable larger scale infrastructure projects. Secondly, the government will be rolling out a 75% retention scheme across the country in 2020/21. It is helpful to be part of a pilot of this to help shape the scheme before it is rolled out nationally. It will also help us to understand how this will work locally, whether there is any benefit or downside of pooling with the other Hampshire councils, and what the key risks are.

11.7 **The basis of the Business Rates pilot**

11.8 The Business Rates pilot is based upon a 75% business rate retention scheme, and for this to include the eleven Hampshire district councils, the fire authority and the county council.

11.9 The scheme will work by all authorities pooling business rates (for 2018-19 this is estimated at £511m) with no core government grants being received by the respective councils; the main grant being Revenue Support Grant at present, though this is currently forecast to be £0m for 2019-20.

- 11.10 At present, where there is business rate growth, the council must pay back a substantial levy. By pooling with other Hampshire councils the levy rate is reduced and so more business rates is retained locally.
- 11.11 As part of the bid, the following share of any growth is proposed:
- a) 35% to be set aside for a strategic share across the county for major infrastructure projects to be enhanced or delivered more quickly; for example in Winchester, the Council has an aspiration to improve local transport infrastructure with the County Council for those who commute and visit the city.
 - b) 65% to be retained by the individual councils.
- 11.12 The overall growth share of the 75% retention is currently proposed to be weighted to 60% retained by district councils, 14% by the county council and 1% by the fire authority. Within the current 50% scheme, the districts receive 40%, the county 9% and the fire authority 1%.
- 11.13 **Potential scenarios for the Council**
- 11.14 To provide an idea of how this would impact the council, each pilot member has provided a high level estimate of business rates for 2018/19 and identified any key risks. This data has then been modelled with the assistance of Pixel, based on the best case from the model:
- a) The amount for Winchester City Council could be £1.5m based on the assumptions above.
 - b) The strategic share could equate to approximately £19.5m.
- 11.15 It is important to consider that the risks under a pilot will be higher than under the existing business rates system now that the 'no detriment' support has been removed;
- a) There will be a higher share of any losses – 75% rather than 50%
 - b) Greater cash loss on safety net than under the current system (under the existing 50% retention system each authority has its own safety net threshold, so losses are supported separately rather than collectively)
 - c) Based on 2018/19 business rate estimates and the proposed 95% safety net, the maximum safety net loss shared amongst all authorities could be about £8.4m. This would be in addition to any loss suffered by an individual authority in respect of loss of growth.
- 11.16 In order to minimise the risk to individual authorities it is proposed that:

- a) If resources allow, each member will have a Minimum Funding Guarantee (MFG) that is equivalent to either their financial position in the pool or in the main 50% scheme
- b) Funding for the MFG will come from the other members of the pilot, with payments being made pro rata to the funds that each member has available
- c) If this is insufficient to make up to MFG, then losses will be distributed proportionately.

11.17 **Proposed method of sharing growth**

11.18 There are a number of different ways of sharing growth but in order to mitigate any potential losses to individual authorities and to provide an incentive for growth no matter how large or small an individual authority's existing business rates payable is, the following method is proposed:

11.19 All growth is taken centrally and split per paragraph 11.11 above, the growth to individual authorities is then shared on a 50:50 basis between 'percentage of above baseline growth' and the 'baseline funding level', with a no individual authority loss clause. This gives equal incentive to all authorities and ensures that if overall growth is achieved then no authority will lose out from joining the pilot (i.e. they would receive the same as if they had continued under the existing 50% scheme).

11.20 **Next steps**

11.21 The councils included within the bid will be seeking views on the modelled proposals and the chief finance officers (s151 officers) have authority to submit to be part of a bid to government. Subject to the county council and district councils in Hampshire approving the bid, the submission will be made with expected successful bidders announced in Autumn 2018. Some of the assumptions above may change by the time the final bid is submitted to reflect ongoing discussion with other councils; members are requested to delegate these amendments to the s151 officer in consultation with the finance portfolio holder.

11.22 If the bid is successful then the Council will need to factor this into the Medium Term Financial Strategy and Capital Strategy as well as consider with the other Councils allocation of the strategic share top slice amounts as the year progresses.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 Option to not take part in the pilot – rejected because the Council could miss a significant financial opportunity. This would save the council the time and resource spent developing the bid, which could be unsuccessful, though there would no potential financial reward, nor an opportunity to assist in understanding how the new Business Rates retention system will work.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

None

Other Background Documents:-

None

APPENDICES:

None