

## Gloucestershire Business Rates Pool Update

AGENDA NO:

<b>Meeting</b>	Gloucestershire Economic Growth Joint Committee, Nov 2020
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<b>Background documents</b>	Report to GEGJC September 2020
<b>Location/Contact for inspection of background documents</b>	N/A
<b>Main consultees</b>	Gloucestershire Chief Financial Officers
<b>Planned dates</b>	N/A
<b>Purpose of report</b>	<ol style="list-style-type: none"><li>1. To receive an update on the Business Rate Pool;</li><li>2. To consider a funding request in respect of LEP Core Locality Match Funding.</li></ol>
<b>Recommendations</b>	The Committee: <ol style="list-style-type: none"><li>1. Note the forecast position of the Business Rates Pool and estimated balance for the SEDF</li><li>2. Note the recommendation around the continuation of the Business Rate Pool</li><li>3. Agree an allocation of £500k from the SEDF for Core Funding for the LEP</li></ol>
<b>Reasons for recommendations</b>	To update the Committee on the forecast for the Business Rates Pool and agree funding requests
<b>Resource Implications</b>	The decision to recommend funding for the LEP will reduce the available balance from the SEDF

## Background

1. The last update report to this Committee predicted that there would be a gain from the pool to the Strategic Economic Development Fund (SEDF) of £909k in 2020/21 as part of a total pool benefit of £4.547m.
2. The September report to this Committee highlighted that Section 151 Officers would be considering the future of the Business Rates Pool and would be making recommendations to their authorities.

## 2020/21 Forecasts and the Impact of Covid-19

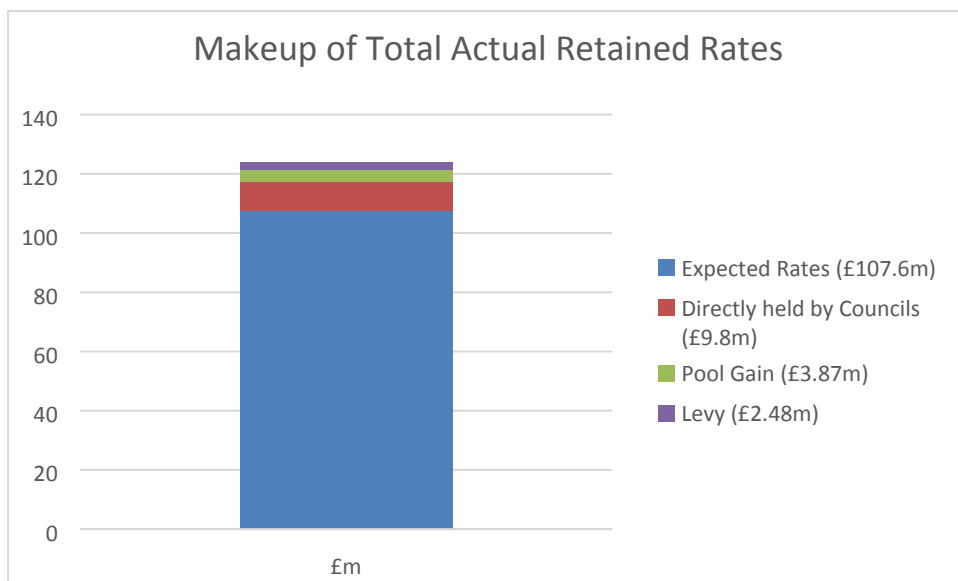
3. Mid-year monitoring has recently been carried out by all of the District Councils within Gloucestershire to assess the current position with relation to Business Rates collection. As noted in the September 2020 report the level of collectible rates is significantly reduced in year as a result of the expanded retail relief scheme. This scheme is fully compensated by Central Government meaning the impact on the pool is minimal.
4. The current position on the pool monitoring is shown in the table below and includes a transfer to the SEDF of £774k as part of an overall pool gain of £3.871 million. This is a slight dip from the previous estimates as Districts are better able to estimate pandemic impact.

<b>Distribution</b>	<b>20/21 Forecast</b>
Strategic Economic Development Fund (as administered by GEGJC)	£774k
District Councils	£2.477m
County Council	£619k
<b>Total Pool Gain</b>	<b>£3.871m</b>

5. Districts are monitoring where retail, leisure and hospitality businesses have permanently closed as a result of the pandemic. In many locations this has already either happened or been announced. In such a situation the reimbursement grant is no longer received from central government and therefore the rates are lost from the individual authority and of course the pool gain. This risk will be critical to both in-year performance and the future rates base.
6. Monitoring will be kept up to date throughout the year for any potential changes in the pool position.
7. This gain is obviously subject to significant fluctuation and therefore should not be factored into any resource allocation decisions at this point. Crucially these figures predate the national restrictions introduced on November 5<sup>th</sup> so the next round of monitoring will take account of any impact created by that situation.

## **Future of the Business Rates Pool**

8. The Ministry of Housing, Communities and Local Government (MHCLG) wrote to all local authorities on September 16<sup>th</sup> with an invitation to apply for pooling in the 2021/22 year. The deadline for response was October 23<sup>rd</sup>. Pools are invited to apply to proceed in 2021/22, although there is the ability to withdraw within 28 days after the publication of the provisional Local Government Settlement (publication date not yet known).
9. The S151 Officers Group have been considering the potential risks and benefits to continuing with pooling. The major risk factor is of course the impact of the pandemic upon the economy which is both significant and uncertain.
10. The overall view of the group is that the pool is viable in 2021/22 but with considerable risks. The accumulated business rates growth already achieved by pool members could absorb considerable losses before the pool members would be worse-off. However, there is a reasonable scenario in which the pool members would be much worse-off in the pool than outside it. The detail behind some of this thinking is explained in the paragraphs below.
11. As part of their discussions S151 Officers commissioned Pixel, Local Government Funding Specialists, to carry out a modelling exercise. Pixel have worked with the Gloucestershire pool previously, having carried out modelling for both the original pool proposal and the 100% rates retention pilot of 2018/19.
12. As has been reported previously there is still uncertainty as to whether the reset of business rates growth, expected in 2021, is likely to proceed. This reset of growth is key as it impacts on the ability of the pool to absorb economic shocks on the base budgets of Councils. The chart below shows how the current level of retained rates within Gloucestershire this year (£123.75 m) compares with the government's expected baseline level (£107.6m). The gain of £16.15 million is split between amounts directly held by Councils, the pool gain and a levy returned to Central government. It is effectively a buffer of £16.15 million where retained rates could fall before base budgets are impacted.



13. If the growth is reset the expected rates would rise closer to actual rates and remove that buffer. This increases the risk that base budgets would be affected by an economic downturn.
14. There has not recently been an indication from central government that the reset will take place, nor any consultation as to how. Therefore, the modelling has assumed that all business rates growth can remain within the County and will not be redistributed.
15. Pixel's work has highlighted that the level of collectible rates may be impacted by a number of different economic factors.
- Higher rates of empty property relief
  - Higher rates of bad debts and write offs
  - Reduced valuations
  - Risks to gross rates through the closure of specific businesses or properties
16. The modelling has been worked through on two scenarios. The first is a central scenario which works through estimates on the above risks. The second is a pessimistic scenario which is a reasonable worst-case scenario.
17. The modelling suggests that in the central scenario there would still be a gain from pooling within Gloucestershire of £2.604 million.
18. The worst-case scenario suggests Gloucestershire would be £4.145 million worse off through pooling than if the pool was not in operation. This is because pooling would mean that the Councils would not be eligible for central government "safety net" grants if business rates collected fell below 92.5% of the expected level. That deficit would instead be made up by the base budgets of the pool members. If this scenario was believed to be likely than the pool should not proceed.
19. The modelling also showed that there could be gains, or reduced risks, by excluding one or more of the existing pool authorities from the pool. This is achieved by reducing the levy rate paid by the pool as a whole. The Section 151 Officer Group was of the view that one of the key benefits of pooling is the close co-operation between

authorities and therefore if the pool is to proceed it should be with the inclusion of all of the Councils in the County.

20. It is understood that the NHS Trusts Appeal Case has a court date scheduled for April 2021. If successful, this would make the pool unviable but the risk of success is judged to be low so is not seen to preclude from continuing with pooling at the current time.
21. The S151 Group therefore recommended, in the knowledge of the potential risks and benefits, that the pool should provisionally proceed for 2021/22. Stroud District Council signified the intention to MHCLG on October 22<sup>nd</sup> that the Gloucestershire Pool wished to continue with the same membership.
22. The risk factors highlighted by Pixel will be monitored by all billing authorities throughout the remainder of the calendar year. The S151 Officer Group will make a decision, after the Settlement, as to whether the potential risks suggest a continuation of pooling or revoking the pooling application is most appropriate. This decision is likely to be in early 2021.
23. All of the modelling and the pooling application was before the restrictions of November 2020. The decision in early 2021 will consider what information is available at that point.
24. Due to the uncertainties, no pool growth for 2021/22 has currently been included within the SEDF forecasts at Appendix A.

### **Additional Funding Request**

25. The SEDF is currently providing £250k per annum of match funding towards the cost of core activities for the LEP. The Committee has previously agreed to this funding until the end of the 2020/21 financial year. A request has been received from the LEP to extend this funding for a further two years until the end of 2022/23. The funding is to support the operational costs for the LEP and allows them to draw down the Government funding. It has been recommended for approval by the Senior Officer Group and details of the funding request are included at Appendix B.

### **Risk Assessment**

26. As always there is a risk to the business rates pool from the settling of backdated appeals. The issue of NHS Trusts requesting charitable status remains the most significant financial risk to the pool and pool members.

### **Officer Advice**

27. No further officer advice required

### **Equalities considerations**

28. There are no equalities considerations associated with this decision. It is purely a financial consideration.

**Consultation feedback**

29. Each of the Business Rates Pool members has been consulted about this report.

**Performance Management/follow-up**

30. Further update reports on the current position and future outlook of the pool will be presented to this committee.

## Projected Balance of the SEDF

	GEGJC Decision Date	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)
<b>Item</b>						
<b>Funding</b>						
SEDF Balance b/f		336	3,998	4,562	2,877	2,622
2017/18 Pool (confirmed)		828				
2018/19 Pilot Gain (confirmed)		3,438				
Pool Gain (indicative)			970	774	0	0
<b>SEDF Funding</b>		<b>4,602</b>	<b>4,968</b>	<b>5,336</b>	<b>2,877</b>	<b>2,622</b>
<b>Allocations</b>						
Operating Costs for Joint Committee	Nov 17	(4)	0	(5)	(5)	(5)
LEP Core Funding (Match)	Nov 17/Feb 20/	(250)	(250)	(250)	(250)	(250)
LEP/LA Inward Investment Programme (EU Match)	Nov 17	(75)	0	0	0	0
J.10 Business Case Commission (contribution)	Nov 18	(275)	0	0	0	0
Economic Intelligence Data Commissioning Fund	Nov 18	0	0	(50)	0	0
Rail Investment Strategy	Sept 19	0	(16)	(54)	0	0
LNP Capital Mapping	Feb 20		(40)	0	0	0
Cyber Central	Nov 19		(100)	(100)	0	0
City Region Board			0	(2,000)	0	0
<b>Total Allocations</b>		<b>(604)</b>	<b>(406)</b>	<b>(2,459)</b>	<b>(255)</b>	<b>(255)</b>
<b>SEDF Balance c/f</b>		<b>3,998</b>	<b>4,562</b>	<b>2,877</b>	<b>2,622</b>	<b>2,367</b>

## Notes

- SEDF balance held and accounted for by Gloucestershire County Council