

BUSINESS RATES RETENTION PILOT 2018/19

Cabinet - 12 October 2017

Report of Chief Finance Officer

Status For Decision

Key Decision No

Executive Summary: The Department for Communities and Local Government (DCLG) have invited local authorities to participate in a pilot of 100% Business Rates Retention in 2018/19.

It is expected to be financially beneficial to have a Kent Pilot and discussions are continuing as to how gains could be shared and also how they could be split between themes.

The submission deadline is 27 October 2017.

Portfolio Holder Cllr. John Scholey

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Recommendation to Cabinet:

If a Kent pilot is proposed, authority is delegated to the Finance Portfolio Holder to decide whether this council should participate.

Introduction and Background

- 1 There has been a commitment from central government to introduce 100% Business Rates Retention since before the 2015 General Election. There was some doubt about this commitment after this year's Queen's Speech omitted any reference to local government finance. However, the Department for Communities and Local Government (DCLG) has now invited local authorities to participate in a pilot of 100% Business Rates Retention in 2018/19.
- 2 The DCLG's prospectus (Appendix A) encourages local authorities to apply as pools, and it states that the Government is particularly interested in piloting two-tier areas. Both criteria demand urgent consideration by Kent authorities as to whether to submit an application to become a pilot.
- 3 Kent Finance Officers commissioned LG Futures, specialist public sector finance consultants, to carry out an assessment of the risks and rewards of

becoming a business rates pilot. This work was commissioned in advance of the DCLG's invitation to authorities to pilot, which has enabled Kent to consider this proposal promptly after the invitation was received.

- 4 A bid covering all Kent would provide the best fit with the DCLG's selection criteria. However, it should be noted that although outside the two-tier area, Medway's participation would give the pilot application an economic and geographical logic and would enhance the chances of success.

Rewards

- 5 On current projections a pilot would deliver a clear financial benefit of £24.5 million for the area as a whole (£22.4 million excluding Medway) in 2018/19. Although the pilot is for one year only, it is possible that the pilot will be extended to 2019/20.
- 6 This benefit represents Business Rates income that would otherwise have gone to central government. It is understood that HM Treasury has allocated resources to the DCLG that will allow it to fund a limited number of pilots in 2018/19. However, these resources are limited, so there will be competition to become a pilot.

Risks

- 7 Participation in a pilot involves bearing the cost of any negative growth amongst pool members, subject to an overall pilot safety net of 97% of baseline business rates income. The government has not guaranteed that there will be 'no detriment' from participating in a pilot; i.e. that the pilot could result in less resources being received by either authorities acting individually or as per a Kent business rate pool.
- 8 However, LG Futures state that the business rates income collected each year in Kent since 2015/16 provides 'strong evidence' that the level of business collected will result in increased resources for Kent in 2018/19.
- 9 The projected gain from participation in the pilot (£24.5 million) represents around 4% of Kent's estimated 2017/18 business rates income. It would therefore take a very significant setback to business rates income growth to wipe out the benefit, particularly in the context of steady growth over the past three years.
- 10 It could be argued that there is a risk in not applying to become a pilot. Local government has argued for greater autonomy and for more local control of resources. If Kent foregoes the opportunity to apply to become a pilot, Kent authorities' commitment to these objectives could be questioned.

Use of Additional Business Rates Growth

- 11 The DCLG's prospectus stresses that the government would like to see pooled income being used across the pilot area to promote financial

stability, sustainability and growth. This indicates that, to be successful, a high proportion of the gain should take the form of a growth fund or similar collective arrangement.

12 At the same time, it is recognised that:

- Existing Kent Business Rates pool members will not wish to lose any of the gains they currently receive
- There is a minimum level of contribution that all authorities might expect to receive as a benefit from pool membership.

Current Business Rates Pool

13 The opportunity to have Business Rates Pool's commenced in 2014/15 and one started in Kent in that year but the initial parties were only Kent CC and Maidstone BC. Membership of the Kent Pool has changed each year and currently consists of Kent CC, Kent Fire and 10 of the 12 districts.

14 This council has not been a member of the Kent Pool to date as business growth in the district has been relatively small, therefore it would not have been beneficial to the whole pool if this Council had been a member.

Application Process

15 Time is of the essence, as an application must be submitted by Friday 27 October. Discussions are continuing across the county and an update will be provided at the meeting.

16 Maidstone Borough Council administers the existing business rates pool. In the interests of continuity, Maidstone have indicated that they are willing and able to take on the role as lead authority.

17 DCLG requires local authorities to state whether they wish to continue with, or amend, existing pooling arrangements in the event of a pilot application being unsuccessful.

18 The existing pooling arrangements work well and it should be noted that there are financial consequences for pool members by varying these arrangements. However, due to the Business Rates Base of this Council now being more stable, it is likely to be beneficial to Sevenoaks DC to become a pool member.

Key Implications

Financial

If this council does become part of a Business Rates Retention Pilot in 2018/19, it would be expected that it would retain more of the £36m of the Business Rates collected than is currently the case.

Further financial information would be produced before a decision is made.

Legal Implications and Risk Assessment Statement.

To be accepted as a pilot for 2018/19, agreement must be secured locally from all relevant authorities to be designated as a pool for 2018/19 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988) and to put in place local arrangements to pool their additional business rates income.

The risks are included in the body of the report.

Equality Assessment

The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

A Business Rates Retention Pilot is expected to be financially beneficial to the county as a whole. However, discussions are likely to continue as to how the financial rewards are distributed prior to any submission being made by the deadline of 27 October 2017.

It is therefore recommended that authority be delegated to the Finance Portfolio Holder to decide whether it would be beneficial for this council to participate in the pool.

Appendices

Appendix A - DCLG Invitation to Pilot 100%
Business Rates Retention in 2018/19

Background Papers

None

Adrian Rowbotham

Chief Finance Officer