

**MAIDSTONE BOROUGH COUNCIL**  
**RECORD OF DECISION OF THE CABINET**

Decision Made: 22 October 2013

**BUSINESS RATE POOLING**

**Issue for Decision**

Discussions are under way between the Kent Councils to review whether to establish a business rates pool for 2014/15. Any proposal will need to be submitted to Communities and Local Government by 31 October. This report sets out the background and seeks Cabinet agreement to delegate a decision on whether to enter a scheme to the Director of Regeneration & Communities.

**Decision Made**

- a) That, in principle, the inclusion of this Council in the Kent application to the Department of Communities and Local Government for a Business Rates Pool for 2014/15, subject to satisfactory governance arrangements and membership providing a financial advantage to the area covered by the pool, be agreed;
- b) That delegated authority be given to the Director of Regeneration & Communities, in consultation with the Leader of the Council, to make a final decision, following assessment of the final membership and governance arrangements.

**Reasons for Decision**

One element of the Business Rates Retention (BRR) scheme that came into force on 1<sup>st</sup> April 2013 is the option for local authorities to develop a Business Rates Pool and effectively opt out of the national arrangements. By opting out of the national arrangements in this way, the local authorities in the pool will increase the gain made locally from growth in business rates.

The national BRR scheme has a damping mechanism in place to limit individual gains/losses. The system uses a Safety Net (to limit losses) which is funded through a Levy (on disproportionate gains). Similar arrangements will need to apply locally within a pool so, along with the gain from business rates growth, a pool risks loss from having to cover business rates reductions without the national safety net provisions.

In 2012/13 when the opportunity to develop a Pool was available for 2013/14 the authorities in Kent were involved in the development of a Kent wide agreement on a local council tax support scheme. The option to

pool was felt to be an unknown risk at that time and the resources to evaluate and develop the optimum pool were not available. Now the Department for Communities and Local Government (DCLG) has requested local authorities that wish to create pools for 2014/15 onwards to make an application including details of membership and governance arrangements by 31<sup>st</sup> October 2013. This year the Kent Finance Officers group along with Kent Chief Executives and Kent Leaders have all been considering the possibility of developing a Pool.

In Kent all districts pay the maximum levy at 50% of the local share of all growth. The County Council, the Fire & Rescue Authority and Medway Council are all top up authorities receiving a large payment from the national scheme. Initial modelling of the outcome of a pool, based on future estimated growth and current data for each Kent district was completed on behalf of the Kent Finance Officers' Association by LG Futures. This modelling suggested that a Kent wide pool would return a net gain to the region providing the County Council, the Fire & Rescue Authority and Medway Council were involved.

In a small number of districts in Kent there is expected to be a need for safety net funding. The greater benefit to the region would occur if those authorities at risk of requiring support through the safety net mechanism were excluded from the pool and were supported by the national scheme.

Modelling has continued to identify the optimum pool of authorities. The modelling, based on local growth assumptions, suggests a net gain for the area covered by the pool in each of the next four years. This is summarised below:

<b>Business Rates Retained:</b>	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>
Optimum authorities individually	251.5	258.9	267.5	278.2
Optimum authorities as a pool	253.9	261.7	270.5	282.4
Gain	2.3	2.7	3.1	4.2

Members should note that the significant gain is made by the County Council, the Fire & Rescue Authority and Medway Council. In some modelled scenarios the gain by Maidstone Borough Council is as little as £25,000. Sensitivity analysis has shown that the pool is stable. The current predictions suggest growth is on average 3% per annum over the next four years and the pool will not be at risk of overall loss unless the average annual growth fell to zero.

At this time six authorities are considering the potential of a pool. This group of six consists of the County Council, the Fire and Rescue Authority, Medway Council and the three district councils within the Mid Kent Improvement Partnership. Modelling a pool of these six authorities provides the following gain. Members should note that within this table there is no change to the gain made by this Council.

<b>Business Rates Retained:</b>	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>
Six authorities individually	237.2	244.0	252.2	261.7
Six authorities as a pool	238.0	245.0	253.7	263.6
Gain	0.8	1.0	1.4	1.9

At this time governance arrangements are not finalised. Due to the urgency of the final decision and application it was necessary to seek provisional approval to membership of the pool. It was also necessary to recommend a delegation to the Director of Communities & Regeneration. The delegation will only be acted upon if membership of the pool is beneficial to the area covered by the pool, including this authority.

### **Alternatives considered and why rejected**

The Cabinet could have chosen, as have some districts in Kent, not to become a member of the pool this year. The success or failure of a pool is measured by actual results whereas the decision to enter a pool is made on the estimates provided by each member. Trust in the validity of the estimates provided by each member is implicit in the decision to pool. The risk exists that the total value of business rates within the pool will not reach the value of accumulated business rates needs baselines and to avoid this risk the Council could have chosen not to enter the pool.

Assuming the estimates provided by each authority are accurate, the current expectation is that the potential members of the pool will generate growth in 2014/15. Choosing not to enter the pool at this time could mean a loss of a further years levy on growth within the borough.

### **Background Papers**

None

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: **30 October 2013**