AGENDA

POLICY AND RESOURCES COMMITTEE MEETING

MAIDSTONE Borough Council

Date: Wednesday 7 September 2016
Time: 6.30 pm
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Mrs Blackmore (Vice-Chairman), Boughton, Brice, Cox, Fermor, Garland, Mrs Gooch, Harper, Harvey, Harwood, McLoughlin, Pickett, Powell, Round and Mrs Wilson (Chairman)

Continued Over/:

Issued on Tuesday 30 August 2016

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact Caroline Matthews on 01622 602743**. To find out more about the work of the Committee, please visit www.maidstone.gov.uk

Alison Broom

Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone Kent ME15 6JQ

PART II

To move that the public be excluded for the items set out in Part II of the Agenda because of the likely disclosure of exempt information for the reasons specified having applied the Public Interest Test.

PUBLIC SPEAKING

In order to book a slot to speak at this meeting of the Policy and Resources Committee, please contact Caroline Matthews on 01622 602743 or by email on carolinematthews@maidstone.gov.uk by 5 pm one clear working day before the meeting. If asking a question, you will need to provide the full text in writing. If making a statement, you will need to tell us which agenda item you wish to speak on. Please note that slots will be allocated on a first come, first served basis.

MAIDSTONE BOROUGH COUNCIL

POLICY AND RESOURCES COMMITTEE

MINUTES OF THE MEETING HELD ON TUESDAY 26 JULY 2016

Present: **Councillor Mrs Wilson (Chairman), and Councillors Mrs Blackmore, Boughton, Cox, Fermor, Garland, Mrs Gooch, Harper, Harvey, Harwood, McLoughlin, Pickett, Powell, Mrs Ring, Round and Mrs Wilson**

39. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Brice.

It was also noted that Councillors Garland and Harwood would be late.

40. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Mrs Ring was substituting for Councillor Brice.

41. URGENT ITEMS

There were no urgent items.

42. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

43. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members and Officers.

44. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

45. EXEMPT ITEMS

RESOLVED: That the items on Part II of the agenda be taken in private as proposed.

46. MINUTES (PART I) OF THE MEETING HELD ON 29 JUNE 2016

RESOLVED: That the Minutes (Part I) of the meeting held on 29 June 2016 be approved as a correct record and signed.

47. MINUTES OF THE MEETING HELD ON 4 JULY 2016

RESOLVED: That the Minutes of the meeting held on 4 July 2016 be approved as a correct record and signed with an additional sentence at the end of the minutes which states:-

"At the end of the meeting Officers were asked to look at options for teleconferencing of co-located meetings in the future".

48. PRESENTATION OF PETITIONS (IF ANY)

There were no petitions.

49. QUESTIONS AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC (IF ANY)

There were no questions from members of the public.

50. COMMITTEE SERVICE WORK PROGRAMME - JULY 2016 ONWARDS

Members considered the Committee Service Work Programme and noted that the Devolution Report that had been requested did not appear on the schedule.

RESOLVED: That it was noted that a report on Devolution would be added to this Committee's agenda for 28th September 2016.

51. REPORT OF THE HEAD OF FINANCE AND RESOURCES - REVENUE & CAPITAL OUTTURN 2015/16

Members considered the report of the Head of Finance and Resources which provided the outturn for revenue and capital expenditure for the year to 2016.

The Head of Finance and Resources explained that there was a minor underspend on revenue for the year of £0.1m.

It was noted, however, that there were a number of services which ended the year with more significant variances and the Head of Finance and Resources highlighted a few areas, for example:-

- There was a major adverse variance against the temporary accommodation budget, this had been partially offset by new initiatives put in place by Officers to ultimately reduce the cost to the Council of providing temporary accommodation.

- An overspend of £0.2m within the street cleansing budget was due to temporary costs arising from operational changes.

- The contract cost for CCTV was higher than budgeted for, which resulted in an overspend of £0.1m but it was hoped that some commissioning work to be carried out in 2016/17 would resolve this.

- An overspend of £0.1m against the Mote Park budget was due to unbudgeted costs for equipment and repairs and lower than anticipated car parking income.

- Unexpected changes to the service charges for the Market (due to a change in landlord at Lockmeadow) and an income shortfall gave rise to an overspend of £0.1m against budget.

The list of grants that were not spent during 2015-16 and have been consequently carried forward into 2016-17 were noted.

Members were appraised of the capital spend against the revised estimate. It was emphasised that the total capital spend for the year was £4.186m. This total excluded £0.350m spent on schemes funded from external sources such as Section 106 monies.

Councillor Harper asked that a vote of thanks be given to Officers for bringing in the budget so close to estimate.

In response to questions from Members, the Head of Finance and Resources advised that:-

- Council set a threshold of £2m for minimum balances, if the Committee wanted to spend balances above the minimum, it can do so without Council approval.

- Another £160k had been given to housing for temporary accommodation but as stated previously, Officers were working hard to come up with initiatives which would help reduce the expenditure.

- The Council has a strategy to secure investments and follows advice from our External Auditors on short term investment opportunities.

- There are a number of reasons why grants are not spent, for example in terms of land charges survey claims, the money is not spent until a decision is reached by the courts.

- The Head of Finance and Resources would feedback to Members on the income target for Street Cleansing.

- The reason why there was a lot of appeals against rateable values on business properties was due to the fact that the Government changed the rules at the end of last year which resulted in more businesses than usual appealing their valuations. However, due to a time bar, appeals could only go back to the point in time of the appeal, not to the point of valuation. The effect of this has meant that there was a deficit on the Collection Fund Account in 2015/16 but a reduced risk of such significant changes in future years.

- Property Services have a generic budget for responsive maintenance but there are some occasions where the resources are not enough when unprepared for repairs need to be carried out.

- The Council Tax team are very good at following up on bad debtors and ultimately collect between 98/99% of Council tax, although it may take a number of years to recover.

RESOLVED:

1) That the provisional outturn for revenue and capital for the 2015-16 financial year be noted;

2) That the carry forward of grant funding from 2015-16 to 2016-17, as detailed in Appendix II of the report of the Head of Finance and Resources be noted;

3) That the provisional funding of capital expenditure in 2015-16 as set out in paragraph 4.4.5 of the report of the Head of Finance and Resources be agreed and that the carry forward of revenue resources set aside to finance the capital programme in future years, as detailed in paragraph 4.4.9, be noted; and

4) That a vote of thanks be given to Officers for their hard work in bringing in this budget so closely.

Voting: For: 15 Against: 0 Abstentions: 0

52. REPORT OF THE HEAD OF POLICY AND COMMUNICATIONS - ANNUAL GOVERNANCE STATEMENT 2015-16 AND LOCAL CODE OF CORPORATE GOVERNANCE

Members considered the report of the Head of Policy and Communications which related to the Annual Governance Statement and Local Code of Conduct.

The Statement includes an update on the actions the Council took in 2015/16 as well as proposed actions for next year.

It was noted that these documents had been reviewed by Audit, Governance and Standards Committee prior to submission to this Committee and that they had made minor amendments which had been incorporated.

The Head of Policy and Communications advised that the Section relating to Scrutiny had proved challenging following the change to the Council's governance arrangements in terms of what information should be included. It was suggested that a paragraph be inserted in relation to performance management and policy development. The Service Committees would be able to hold Officers to account on the performance of their individual service areas.

In response to Members questions, the Head of Policy and Communications advised that:-

- The Members Handbook would be circulated to all Members.

- There have been various exercises carried out over the years to engage with the community on budget consultation etc, for instance a Budget Roadshow was held in 2014 where Members of the Cabinet went out to various locations such as Supermarkets etc to engage with members of the public to ask them to prioritise eight action areas. Last year the Council undertook a Residents Survey which was carried out online and face to face, this had 1,800 responses.

RESOLVED: That the Annual Governance Statement 2015-16 and the Local Code of Corporate Governance be approved, subject to additional narrative being inserted into Appendix 1 of the report of the Head of Policy and Communications regarding the scrutiny function as carried out by the Service Committees, prior to signing by the Leader and Chief Executive.

Voting: For: 9 Against: 5 Abstentions: 1

53. REPORT OF THE HEAD OF POLICY AND COMMUNICATIONS - STRATEGIC PLAN PERFORMANCE UPDATE QUARTER 1

The Committee considered the report of the Head of Policy and Communications which reviewed the progress of key strategies, plans and performance indicators that support the delivery of the Strategic Plan 2015-2020.

Members noted that there were 33 key performance indicators (KPIs). 57% had met their target, 36% had improved their performance compared to the same quarter last year.

The Head of Policy and Communications highlighted performance categorised under the Council's priorities.

In response to Members comments, the Head of Policy and Communications confirmed that:-

- **Flytipping** - A report would be brought before the Communities, Housing and Environment Committee at its September meeting for further discussion. That future data be presented in total tonnage and the number of incidences.

- **Recycling** - Actual data for the amount of recycling achieved by users was not available for households and homes of multiple occupation/flats. However a recent campaign had targeted social landlords to educate those in multiple occupation dwellings and flats to recycle more.

- **Number of Safeguarding Practitioners trained** - The green line depicted the target, although at present there was no data to show as no training had been undertaken.

- **User Satisfaction with the Leisure Centre** – A further report on the performance of the Leisure Centre would be brought before the Heritage, Culture and Leisure Committee at its September meeting for further discussion. In the meantime the Director of Regeneration and Place would attend the next Contractors Meeting to discuss maintenance issues and performance.

- **Economic Development Strategy Update** – The words 'unless the applicant appeals' would be deleted from the start of the last sentence in the comments section.

  Councillor Harwood proposed and Councillor Fermor seconded.

  Voting: For: 12 Against: 2 Abstentions: 1

- **Processing of major planning applications in 13 weeks** – The last sentence of the Performance Comment for this KPI will be amended to 'This will create or should create a more focused customer experience and delivery of much needed planning permissions'. This will be taken back to the Service Manager to decide.

<u>RESOLVED</u>:

1) That the summary of performance for Quarter 1 of 2016/17 for Key Performance Indicators (KPIs) and corporate strategies and plans as amended be noted;

2) That where complete data was not currently available, this was noted;

3) That the performance of Key Performance Indicators from Quarter 4 of 2015/16 for which indicators were not available at Policy and Resources Committee on 27 April 2016 be noted; and

4) That the Head of Policy and Communications ask Chairmen of the Service Committees about their preference for seeing and commenting on future performance updates before they come to Policy and Resources Committee.

Voting: For: 15 Against: 0 Abstentions: 0

54. REPORT OF THE DIRECTOR OF FINANCE AND BUSINESS IMPROVEMENT - MEDIUM TERM FINANCIAL STRATEGY

The Committee considered the report of the Director of Finance and Business Improvement which set out the progress to date with development of the Medium Term Financial Strategy for the five years 2017/18 to 2021/22 and an Efficiency Plan in response to the government's four year local governance finance settlement covering the years 2016/17 to 2019/20.

It was noted that there was still some uncertainty following the EU referendum and having a new Prime Minister. However, it was felt that it was still appropriate for the Council to put forward an Efficiency Plan.

Members were advised that Heads of Service and Section Heads would come up with options for Members to consider and these would need to be prioritised.

It was felt that the first step should be for all Chairmen and Vice-Chairmen (and Group Leaders) to discuss the options. All services should be looked at and an impact assessment put against each in the event of a 100% reduction in order that proper consideration could be given.

RESOLVED:

1) That the progress with the Medium Term Financial Strategy and Efficiency Plan be noted;

2) That it be proposed that further areas be explored and all suggestions and proposals put forward by all Members be considered; and

3) That Members will be consulted on prioritisation of savings ideas.

Voting: For: 15 Against: 0 Abstentions: 0

55. VOTE OF THANKS

The Chairman advised the Committee that it would be Paul Riley's last Committee meeting before leaving the Council in September.

She wanted to thank him for all his hard work and wished him well for the future. This was agreed by the Committee.

56. EXCLUSION OF THE PUBLIC FROM THE MEETING

Minutes (Part II) of the Meeting held on 29 June 2016	Paragraph 3 – Information re financial/business affairs

57. MINUTES (PART II) OF THE MEETING HELD ON 26 JUNE 2016

RESOLVED: That the Minutes (Part II) of the meeting held on 26 July 2016 be approved subject to additional wording to the minute relating to the exempt report of the Head of Commercial and Economic Development – The Acquisition of Land and Property.

By way of the minutes, the Head of Finance and Resources gave an update to the exempt report relating to Rivers Medway, Teise and Beult Flood Alleviation – Project Funding.

58. DURATION OF MEETING

6.30 p.m. to 8.45 p.m.

Committee Work Programme

Democratic Services Team
E: democraticservices@maidstone.gov.uk

Publication Date: 30 August 2016

INTRODUCTION

This document sets out the decisions to be taken by the various Committees of Maidstone Borough Council on a rolling basis. This document will be published as updated with new decisions required to be made.

DECISIONS WHICH COMMITTEES INTEND TO MAKE IN PRIVATE

Committees hereby give notice that they intend to meet in private after its public meeting to consider reports and/or appendices which contain exempt information under Part 1 of Schedule 12A to the Local Government Act 1972 (as amended). The private meeting of any Committee is open only to Members of the Committee, other Councillors and Council officers.

Reports and/or appendices to decisions which Committees will take at their private meetings are indicated in the list below, with the reasons for the decision being made in private.

ACCESS TO COMMITTEE REPORTS

Reports to be considered at any of the Committees' public meeting will be available on the Council's website (www.maidstone.gov.uk) a minimum of 5 working days before the meeting.

HOW CAN I CONTRIBUTE TO THE DECISION-MAKING PROCESS?

The Council actively encourages people to express their views on decisions it plans to make. This can be done by writing directly to the appropriate Officer or to the relevant Chairman of a Committee (details of whom are shown in the list below).

Alternatively, you can submit a question to the relevant Committee, details are on our website (www.maidstone.gov.uk).

Decision Maker and Date of When Decision is Due to be Made:	**Title of Report and Brief Summary:**	**Contact Officer:**	**Public or Private** ***(if Private the reason why)***	**Documents to be submitted (*other relevant documents may be submitted*)**
Policy and Resources Committee Due Date: Wednesday 7 Sep 2016	Medium Term Financial Strategy and Efficiency Plan This report will provide an update to the Medium Term Financial Strategy	Mark Green markgreen@maidstone.gov.uk	Public	Medium Term Financial Stratagey and Efficiency Plan
Policy and Resources Committee Due Date: Wednesday 7 Sep 2016	Business Rates Retention Consultation This report seeks Committee's agreement to the Council's proposed response to the government's consultation on 100% Business Rates	Mark Green markgreen@maidstone.gov.uk	Public	Draft Consultation response Business Rates Retention Consultation
Policy and Resources Committee Due Date: Wednesday 7 Sep 2016	Medway, Teise and Beult Flood Alleviation Report to consider the Council's position	David Tibbit davidtibbit@maidstone.gov.uk	Public	Medway, Teise and Beult Flood Alleviation

Policy and Resources Committee Due Date: Wednesday 28 Sep 2016	First Quarter Budget Monitoring This report will provide an update to the Medium Term Financial Strategy	Mark Green markgreen@maidstone.gov.uk	public	First Quarter Budget Monitoring
Policy and Resources Committee Due Date: Wednesday 28 Sep 2016	Corporate Planning Timetable sets out the process for agreeing the MTFS and Strategic Plan	Angela Woodhouse, Head of Policy and Communications angelawoodhouse@maidstone.gov.uk	public	Corporate Planning Timetable
Policy and Resources Committee Due Date: Wednesday 28 Sep 2016	Communication and Engagement Strategy, Action Plan 2016-17 action plan based on the residents survey	Angela Woodhouse, Head of Policy and Communications angelawoodhouse@maidstone.gov.uk	public	Communication and Engagement Strategy, Action Plan 2016-17
Policy and Resources Committee Due Date: Wednesday 28 Sep 2016	Devolution Report on Devolution	Alison Broom alisonbroom@maidstone.gov.uk	Public	Devolution
Policy and Resources Committee Due Date: Wednesday 28 Sep 2016	Disposal of land at Unicumes Lane, Fant To dispose of the leasehold interest to the Fant Wildlife Group	Lucy Stroud lucystroud@maidstone.gov.uk	Public	Disposal of land at Unicumes Lane, Fant

Policy and Resources Committee Due Date: Wednesday 28 Sep 2016	Information Strategy Information strategy	Angela Woodhouse, Head of Policy and Communications angelawoodhouse@maidstone.gov.uk	public	Information Strategy
Policy and Resources Committee Due Date: Wednesday 26 Oct 2016	Second Quarter Budget Monitiring 2016/17 This report will provide an update to the Medium Term Financial Strategy agreed by Council in September 2016	Mark Green markgreen@maidstone.gov.uk	public	Second Quarter Budget Monitiring 2016/17
Policy and Resources Committee Due Date: Wednesday 23 Nov 2016	Council Tax Tax Base 2017/18 To advise members of the information currently available on the Tax Base for 2017/18 for Council Tax purposes	Ellie Dunnet elliedunnet@maidstone.gov.uk	Public	Council Tax Tax Base 2017/18

Policy and Resources Committee Due Date: Wednesday 23 Nov 2016	Strategic Plan Performance Updater Q2 A quarter 2 update of the strategic plan performance indicators and actions. To go via Wider Leadership Team	Anna Collier annacollier@maidstone.gov.uk	Public	Strategic Plan Performance Updater Q2
Policy and Resources Committee Due Date: Wednesday 23 Nov 2016	Council Tax 2017/18 - Collection Fund Adjustments To agree the levels of Collection Fund adjustments	Ellie Dunnet elliedunnet@maidstone.gov.uk	Public.	Council Tax 2017/18 - Collection Fund Adjustments
Policy and Resources Committee Due Date: Wednesday 23 Nov 2016	Council Tax Tax Base To advise Members of the information currently available on the Tax Base for 2017/18 for Council Tax purposes.	Ellie Dunnet elliedunnet@maidstone.gov.uk	Public.	Council Tax Tax Base

Policy and Resources Committee Due Date: Wednesday 14 Dec 2016	Medium Term Financial Strategy and Budget Proposals 2017/18 This report will provide an update to the Medium Term Financial Strategy agreed by Council in September 2016	Mark Green markgreen@maidstone.gov.uk	Public	Medium Term Financial Strategy and Budget Proposals 2017/18
Policy and Resources Committee Due Date: Wednesday 14 Dec 2016	The Business Terrace Progress and next steps report	Karen Franek karenfranek@maidstone.gov.uk	public	The Business Terrace
Policy and Resources Committee Due Date: Wednesday 18 Jan 2017	Medium Term Financial Strategy Update This report updates the Medium Term Financial Strategy as appropriate and sets out initial revenue and capital budget proposals for 2017/18 for consultation, prior to submission of final proposals to Council on 1st March 2017.	Mark Green markgreen@maidstone.gov.uk	public	Medium Term Dinancial Strategy Update

Policy and Resources Committee Due Date: Wednesday 15 Feb 2017	Third Quarter Budget Monitoring This report will provide an update to the Medium Term Financial Strategy	Mark Green markgreen@maidstone.gov.uk	public	Third Quater Budget Monitoring

POLICY AND RESOURCES COMMITTEE	**7 SEPTEMBER 2016**
Is the final decision on the recommendations in this report to be made at this meeting?	**Yes**

RIVERS MEDWAY, TEISE AND BEULT FLOOD ALLEVIATION

Final Decision-Maker	Policy & Resources Committee
Lead Director	Director of Finance & Business Improvement
Lead Officer and Report Author	Property & Procurement Manager
Classification	Public
Wards affected	Boughton Monchelsea, Bridge, Coxheath & Hunton, Headcorn, High Street, Marden & Yalding, Loose, Staplehurst, Sutton Valence & Langley

This report makes the following recommendations to this Committee:

1. To agree the Council's position in relation to the Environment Agency's proposals to improve flood resilience in the Medway catchment area – the recommended option is at paragraph 3.3.
2. To support the Environment Agency's proposal and work with partners to develop property level and community resilience in the Medway catchment area.

This report relates to the following corporate priorities:

Improving flood resilience impacts upon the character of the borough and supports making the borough an attractive place for all.

Timetable	
Meeting	***Date***
Policy & Resources Committee	7 September 2016

RIVERS MEDWAY, TEISE AND BEULT FLOOD ALLEVIATION

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report updates the Committee on developments in relation to flood alleviation options since the last report was considered at its meeting on 29 June 2016.

1.2 The Director of Finance & Business Improvement is the strategic lead officer for this council. To enable him and other officers to continue to play an effective role, it is necessary for the Committee to decide the approach and direction the Council wishes to take in relation to the Environment Agency's proposals for flood alleviation and improving flood resilience in the Medway catchment area.

---

2. INTRODUCTION AND BACKGROUND

2.1 The Council has engaged with the Environment Agency (EA), Kent County Council (KCC) and Tonbridge & Malling Borough Council (TMBC) to consider a range of options to protect communities at risk of flooding along the Rivers Medway, Beult and Teise.

2.2 The Committee considered reports on progress at their meetings on 27 April 2016 and 29 June 2016 which broadly agreed to continue working with the Environment Agency through the Executive Board, to commence discussions with affected Parish Councils and to seek additional funding from DEFRA for flood defences. A further update on progress was requested for the September meeting.

2.3 The EA published a newsletter in July setting out its progress and its proposals and timescales.

2.4 The EA has completed its initial assessment for the Medway Flood Storage Areas project and considered the costs and benefits of increasing the capacity of the Leigh Flood Storage Area, flood storage on the Rivers Teise and Beult, flood protection walls around Yalding and increasing channel capacity by dredging the River Medway between Yalding and Maidstone.

2.5 The findings were:

- increasing the capacity of the Leigh Flood Storage Area was feasible and will improve protection to Tonbridge and to a lesser extent other communities downstream. The scheme will reduce the flood risk to 1,543 properties, including 153 properties in Maidstone at a cost of £17.1 million.

- flood storage on the Rivers Beult and Teise would help to reduce flood levels in communities around Yalding, Collier Street and Laddingford, but there is not enough space in the catchment to build reservoirs that would make a meaningful difference to flood levels.

The studies found that the risk of flooding would be reduced to 128 properties at an estimated cost of £16.6 million which the EA advised does not meet the economic criteria for funding.

- Walls around Yalding and dredging of the River Medway were rejected on technical and economic grounds.

2.6 The EA concluded that the communities at risk in Yalding, Collier Street and Laddingford would be better served by more localised flood defences and property and community level resilience improvements which can be targeted to the properties at greater risk.

2.7 The EA will be preparing a business case to DEFRA for funding of the Leigh Flood Storage Area in partnership with KCC and TMBC together with private sector contributions which, if successful, would be constructed between 2020 and 2022. A bid has also been made to government via the South East Local Enterprise Partnership for local growth funding for specific business related elements of this scheme.

2.8 The EA is also proposing to take the lead on working with the communities around Yalding, Collier Street and Laddingford to explain the background, the options and the findings and to explain property and community resilience and to identify specific steps to make their homes and communities more resilient to flooding. Once a feasible scheme has been developed the EA will be able to bid for DEFRA funding. KCC has agreed to contribute £1.5m. The timescales are similar to those for the Leigh Flood Storage Area .

2.9 Property level resilience relates to measures that are taken to individual or small groups of properties to reduce the risk of water entry from river flooding. Community level resilience helps to mitigate the effects of flooding to enable the community to function better during and after a flood, and potentially speeds recovery. Such measures include adapting power and water supplies and foul and surface water drainage systems to withstand flooding and implementing road closures to prevent flooding through road wash. The EA is planning to bring together Category 1 and Category 2 emergency responders; i.e. local authorities, emergency services, transport providers and utility companies, to identify and seek means to mitigate risks.

2.10 The EA will be briefing communities at poster exhibitions in Collier Street and Yalding in October 2016. These will be followed by community workshops in Collier Street and Yalding in November, all of which is intended to help identify the specific steps needed to make homes and communities resilient to flooding.

2.11 Whilst the work to date has concentrated on the confluence of the Rivers Medway, Teise and Beult, and the EA is recommending property level resilience rather than flood storage, it is asking whether such property level resilience should be extended to a wider area through the whole of the Medway catchment where other properties are at risk; and whether these areas should be funded solely by DEFRA or by all partners.

2.12 In 2016/17 the Council's Medium Term Financial Strategy includes £95,280 which is the balance of an initial £100,000 budget for flood resilience. This resource has been set aside for feasibility work and the balance of this money will be used for further work should the committee agree to work with partners on property level and community resilience proposals. A further £50,000 per annum has been set aside for the next four years; i.e. with current planning assumptions in the council's capital programme a total of £200,000 is potentially available for the Council to support capital investment in flood protection measures. The capital programme will be reviewed as part of the preparation of the Medium Term Financial Strategy in the period to December 2016 which is reported elsewhere on this agenda.

---

3. AVAILABLE OPTIONS

3.1 **Option 1**: To continue to work with the EA and KCC as part of the executive group and with local communities to develop property level and community resilience in the Medway, Beult and Teise confluence.

With the support of the KCC and others, this option has the potential to significantly increase the level of funding for each property from the standard DEFRA grant per property of £5,500 if a property is at risk from 1 in 20 year flooding. KCC have agreed to contribute £1.5million and any additional resources may assist in targeting properties within the 1 in 40 year flood outline.

However, it is possible that the communities at risk may reject these proposals as inadequate. That response will not be forthcoming until the EA has completed its briefing sessions and workshops in November.

3.2 **Option 2**: As Option 1 but in a wider Medway catchment area and funded by all partners.

The consequences of this option are similar to Option 1 except that the pro-rata level of funding for each property may be diluted.

3.3 **Option 3**: As Option 2 with DEFRA funding only to properties outside the Medway, Beult and Teise confluence.

A compromise between Options 1 and 2 whereby the properties at greater risk in the confluence may receive funding from the additional partner resources and those outside receive the standard grant of £5,500 if their property is at risk of 1 in 20 year flooding.

3.4 **Option 4**: To challenge the EA's proposals and pursue flood storage solutions on the Teise and Beult.

If the communities at risk are not persuaded by the EA's briefing sessions and workshops to accept that flood storage areas are not viable and prefer to pursue these or other options, it is unlikely that this will be supported by the EA or KCC and that funding beyond DEFRA funding of £5,500 per property at risk of 1 in 20 year flooding will be available. Should the Council wish to undertake construction of the storage areas on the Teise and the Beult, it is estimated to cost £13.2 million, which through prudential borrowing would cost £748,000 per annum over 25 years. In addition any storage areas completed would require long term management and maintenance which would be a cost to this Council.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The preferred option is Option 3 as this is the most likely option to deliver increased flood resilience to those at highest risk and will be fully supported by the EA and KCC.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 The EA will be engaging with residents in the Medway, Teise and Beult confluence in October and November on its chosen option. As the Council should be ready to engage with and respond to residents, it would be preferable if the Council had an agreed position.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The EA will deliver the outcome of its review and how it intends to proceed at briefings and workshops in October and November. The Outline Business Case will be submitted to DEFRA in October 2017 which, if approved, will lead to a Full Business Case submission in March 2018, followed by commencement of detailed design in November 2018 and construction between 2020 and 2022.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The decision will impact upon the protection of the character of the borough as there will be implications for the villages and homes within the flood area. Resilience against flooding supports making the borough an attractive place for all.	Head of Finance & Resources
Risk Management	Matching resources to priorities in the context of the significant	Head of Finance &

	pressure on the Council's resources is a major strategic risk It is essential that the Council works with other funding partners if the scheme is to be delivered effectively.	Resources
Financial	These are covered in the report.	Head of Finance & Resources
Staffing	Staff resources will be required for community engagement and ongoing liaison with partners until completion of the project.	Head of Finance & Resources
Legal	There may be a requirement for a tri-partite funding agreement.	Legal Team
Equality Impact Needs Assessment	The proposed solution could be delivered flexibly, while adjustments are possible to ensure equality. In some cases the level of benefit is dependent upon the type of property and not the resident's circumstances	Head of Finance & Resources
Environmental/Sustainable Development	The proposed solution contributes to sustainable communities.	Head of Finance & Resources
Community Safety	The flooding risk has an impact on community safety. Part of the proposed solution is increased community resilience and reducing the risk to health and safety during incidences of flooding.	Head of Finance & Resources
Human Rights Act	No specific impact	Head of Finance & Resources
Procurement	Procurement of property flooding resilience will comply with the Council's constitution.	Head of Finance & Resources
Asset Management	No specific impact	Head of Finance & Resources

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report: None

---

9. BACKGROUND PAPERS

None

Agenda Item 13

Policy and Resources Committee	**7th September 2016**
Is the final decision on the recommendations in this report to be made at this meeting?	**Yes**

Response to consultation on 100% Business Rates Retention

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service	Director of Finance and Business Improvement
Lead Officer and Report Author	Director of Finance and Business Improvement
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

1. That the Committee welcomes the commitment to greater devolution implicit in 100% business rates retention, but wishes to ensure that additional responsibilities are properly funded and are linked to local authorities' role in driving economic growth.
2. That it agrees the draft response to the consultation document 'Self-Sufficient local government: 100% Business Rates Retention' as set out in Appendix 2.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Timetable	
Meeting	***Date***
Policy and Resources Committee	7th September 2016
Deadline for submission of Efficiency Plan	26th September 2016

Response to consultation on 100% Business Rates Retention

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 In September 2015 the then Chancellor of the Exchequer, George Osborne, announced that the government would allow local authorities to keep 100% of business rates income by 2020. A formal consultation on implementation of the proposals was launched in July this year. Appendix 2 to this report sets out the Council's proposed responses to the questions set out in the consultation document.

---

2. INTRODUCTION AND BACKGROUND

2.1 Business rates retention for local authorities was introduced by the Coalition government in 2013. The local government funding regime introduced at that time allowed local authorities to retain 50% of business rates, with the remainder passported to central government. The government's share was then recycled, principally in the form of Revenue Support Grant to local authorities.

2.2 The 2013 reform was part of a localism agenda. However, its practical impact was limited. The business rates multiplier continues to be set by central government and central government determines when revaluations are carried out (the next revaluation is due at the end of 2016/17). In addition, a system of tariffs and top-ups was implemented at the same time as business rates retention, such that authorities with relatively low business rates income did not lose out. Finally, a levy is payable to central government on business rates growth. As a result of all these constraints, the value of 50% business rates retention, and the extent to which it has promoted the localism agenda, are debatable.

2.3 The proposed system of 100% business rates retention will retain many of the same features as the system introduced in 2013. The multiplier will be set centrally and there will be measures to ensure equalisation between authorities.

2.4 An important new feature of the proposals on which consultation is now taking place is that additional functions will be delegated to local authorities. The driver for this change is only partly a commitment to 'localism'; there is also a financial driver. Because the additional 50% of business rates that central government will hand over to local government exceeds the amount now distributed as Revenue Support Grant, 100% business rates retention, per se, would put more money in the hands of local authorities and leave a funding gap at national level. Devolving more functions to local authorities provides a means of resolving this funding gap.

2.5 A menu of functions that could potentially be devolved to local government is set out on pages 18-19 of the consultation document (see Appendix 1).

There is not necessarily a logical fit between these functions and local government's specific areas of skills and experience. However, local authorities have demonstrated the flexibility and management competence to take on additional functions (such as, in recent years, public health); accordingly, with the exception of Attendance Allowance, the Local Government Association has expressed a willingness on behalf of local government to see its role expanded.

2.6 It is recommended that the Council's response to the questions posed in the consultation is broadly consistent with that of the local government community as a whole. That is, that greater devolution is welcomed, but additional responsibilities need to be properly funded, and need to be linked to authorities' role in driving local economic growth.

2.7 Detailed responses to the questions are set out in Appendix 2.

---

3. AVAILABLE OPTIONS

3.1 The options are:

- Do nothing – do not submit a response to the consultation.

- Submit a response to the consultation.

---

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The preferred option is to respond to the consultation. A draft response to the consultation is set out at Appendix 2. In common with other consultations of this type, it is highly structured, with specific views requested in response to a number of detailed questions.

4.2 Consideration was given to submitting a joint response with other Kent District Councils. We are all likely to have similar concerns in relation to the proposals. However, it was concluded that there will be more benefit in submitting separate responses.

---

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 Given the relevance of the government's proposals to business, the Council has consulted the local business community on its response to the government. Meetings have been held with the Maidstone Economic Business Partnership and One Maidstone.

5.2 The main concern of businesses at these meetings was about the level of business rates. Accordingly, measures that could potentially increase rates still further, such as an infrastructure levy, were not welcomed. Businesses supported the Council in its stance about not taking on further responsibilities unless these are fully funded and there is a logical fit with the Council's other activities.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 Subject to the Committee's agreement, a response will be submitted to the Department of Communities and Local Government by the due date of 26th September 2016.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities		[Head of Service or Manager]
Risk Management		[Head of Service or Manager]
Financial		[Section 151 Officer & Finance Team]
Staffing		[Head of Service]
Legal		[Legal Team]
Equality Impact Needs Assessment		[Policy & Information Manager]
Environmental/Sustainable Development		[Head of Service or Manager]
Community Safety		[Head of Service or Manager]
Human Rights Act		[Head of Service or Manager]
Procurement		[Head of Service & Section 151

		Officer]
Asset Management		[Head of Service & Manager]

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: Consultation Document - Self-sufficient local government: 100% Business Rates Retention
- Appendix 2: Draft response to consultation

---

9. BACKGROUND PAPERS

None.

APPENDIX 1

CONSULTATION DOCUMENT

SELF-SUFFICIENT LOCAL GOVERNMENT: 100% BUSINESS RATES RETENTION

Department for
Communities and
Local Government

Self-sufficient local government: 100% Business Rates Retention

Consultation Document

July 2016
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter:
https://twitter.com/CommunitiesUK

July 2016

ISBN: 978-1-4098-4792-2

Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on the implementation of the Government's commitment to allow local government to retain 100% of the business rates that they raise locally. Specifically this consultation seeks to identify some of the issues that should be kept in mind when designing the reforms.
Scope of this consultation:	This consultation seeks to identify some of the issues that should be kept in mind when designing the 100% business rate retention system and associated reforms.
Geographical scope:	These proposals relate to England only.
Impact Assessment:	An impact assessment will be developed in due course as proposals are finalised.

Basic Information

To:	The consultation will be of interest to local authorities, businesses and the public.
Body/bodies responsible for the consultation:	Department for Communities and Local Government.
Duration:	This consultation will last for 12 weeks from Tuesday 5 July 2016 to Monday 26 September 2016.
Enquiries:	For any enquiries about the consultation please email: BRRconsultation@communities.gsi.gov.uk
How to respond:	By email to: BRRconsultation@communities.gsi.gov.uk Or by post to: Business Rates Retention Consultation Local Government Finance Department for Communities and Local Government 2nd floor, Fry Building 2 Marsham Street London SW1P 4DF Please state whether you are responding as an individual or representing the views of a local council or other organisation. If responding on behalf of an organisation, please include a summary of the people and any other organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Ministerial Foreword

The 100% retention of business rates by local government is a reform that councils have long campaigned for – and which central government is now committed to. Implementing this vitally important change will mean that 100% of all taxes raised locally are retained by local government.

The purpose of fiscal devolution is to provide communities with the financial independence, stability and incentives to push for local growth and pioneer new models of public service delivery. We've already taken several important steps in that direction and full business rate retention will maintain that forward momentum. This a huge opportunity for local authorities of all kinds to take control as never before, which is why this is an open consultation – an invitation to councils, businesses and local people to have their say on how the new business rates system should operate.

We have already worked closely with the Local Government Association and others to identify the key issues and options. For instance, in a devolved system, which grants and functions should be transferred to local control? How should the distribution of revenues between local authorities be decided? What are the best mechanisms for managing and sharing risk? And how should the new powers for councils to reduce the tax rate, and for elected mayors to raise extra revenue for infrastructure investments be implemented?

We will not impose a one-size-fits-all solution across the country. In fact, I would encourage you to consider how the system can be tailored to local needs and opportunities – especially in areas where communities are pressing forward with Devolution Deals, combined authorities and elected mayors.

Progress towards 100% retention of business rates is part of wider reform package – such as the option for local authorities to agree multi-year financial settlements and the abolition of the levy on revenue growth in the current business rates system.

I announced in February that we will conduct a review of what the needs assessment formula should be in a world in which all local government spending is funded by local resources not central grant, and use it to determine the transition to 100% business rates retention. We want councils to help shape this work and are today inviting local government and others to have their say on the questions at the heart of the review. Together, these changes are building the fiscal foundation for a new era of devolution. There has never been a better time for communities to shape their own future.

Greg Clark

Rt. Hon Greg Clark MP
Secretary of State for Communities and Local Government

1. Introduction and overview

1.1. By the end of this Parliament, local government will retain 100% of taxes raised locally. This will give local councils in England control of around an additional £12.5 billion of revenue from business rates to spend on local services. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out.

1.2. This amounts to a fundamental reform to the financing of local government. This move towards self-sufficiency and away from dependence on central government is something that councils have called for over a number of decades. The historic 2016/17 local government finance settlement was a first step along this road. It gave those local authorities who are committed to reform far greater certainty over their future funding.

1.3. The move to 100% business rates retention marks an important milestone in the devolution of power and resources from Whitehall and will help shape the role of local government for decades to come. To achieve such radical reform, the Government wants councils, business and local people to take the initiative and shape the design of the new system. This consultation is therefore deliberately open and seeks views and ideas across all aspects of the reforms.

1.4. This is a major opportunity for all those involved in local government - and those interested in the future of their local areas - to come forward with proposals for how the reforms should work for them and should recognise their circumstances. Ahead of this consultation, the Government has been working closely with the Local Government Association (LGA), as well as other representatives of local government and business sector holding early discussions on the reforms. This consultation has been informed by these discussions, and reflects many of the points and questions raised. We would like now to invite others to join the conversation and help shape the debate.

Designing the system

1.5. This consultation seeks to identify some of the issues that we think should be kept in mind in designing of the reforms. This includes how the reformed system recognises the diversity local areas and the changing pattern of local governance arrangements. The system may not have to work in the same way across the country. For example, as is explored in Chapter 3, there could be more ambitious devolution of responsibilities in areas which have already taken steps to reshape their governance and enter into Devolution Deals.

1.6. It is also important to consider how the design of the new system can provide the right level of incentive and reward to those councils – particularly those working closely with local businesses and together as Combined Authorities – that pursue policies that drive additional growth in their areas. For example, the Government has already announced that the levy on growth within the current 50% rates retention scheme will be abolished in the new system. In addition, councils will have new powers to shape the operation of the business rates tax in their area. These issues are considered in more detail in Chapters 4 and 5.

1.7. This consultation also welcomes views on how business rates income might be shared across different tiers of local government, including how the system should recognise areas which have moved to reformed models of governance. There is a balance to be struck between providing a strong incentive for growth in local areas and considering the distribution of funding between local authorities. For example, there will still need to be some system of redistribution between councils so that areas do not lose out just because they currently collect less in local business rates. This consultation seeks views on how this should work, including the extent to which the design of the system should seek to enable places to retain the rates they collect. These issues are considered in Chapter 4.

1.8. The Government is clear that the reformed system should ensure that authorities are able to manage and share risk to an acceptable level, and that they are insulated from undue shocks or significant reductions in their income. The discussion in Chapter 4 highlights different ways that these issues could be managed, including how councils might be able to work together to do so.

1.9. Finally, as announced in the Budget 2016, the Government is taking the opportunity to pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region, and will increase the share of business rates retained in London. The offer to pilot the approach to business rates retention is open to any area that has ratified its devolution deal.

Timetable for reform

Summer 2016	Consultation on the approach to 100% business rates retention. We are inviting responses to this consultation by 26 September 2016. Those responses will help shape specific proposals across all aspects of the reforms.
Autumn 2016	We expect that Government will undertake a more technical consultation on specific workings of the reformed system
Early 2017	As announced in the Queen's Speech, the Government will introduce legislation in this Parliamentary session to provide the framework for these reforms. We expect the legislation to be introduced later in the Parliamentary session.
April 2017	Piloting of the approach to 100% business rates retention to begin.
By end of the Parliament	Implementation of 100% business rates retention across local government.

2. Background and context

<u>Summary</u>

2.1. This chapter provides some information which will help provide background and context to the discussion of the design of the new system:

- It describes the current system of 50% business rates retention.
- It sets out the approach to the reforms to date.
- It provides further information about progress of the Fair Funding Review.
- It discusses how the value of business rates revenue is estimated, including how such estimates may change.
- It provides more information about the arrangements for piloting the approach to 100% business rates retention.

<u>Current system</u>

2.2. The move to 100% business rates retention builds on the current system, in which local government as a whole retains 50% of locally collected business rates. That system was introduced in April 2013. Before then, all business rate income collected by councils formed a single, national pot, which was then distributed by government to councils in the form of formula grant. Through the Local Government Finance Act 2012, and regulations that followed, the Government gave local authorities the power to keep half of business rate income in their area by splitting business rate revenue into the 'local share' and the 'central share'.

2.3. The central share is redistributed to councils in the form of revenue support grant and in other grants. The local share is kept by local government, but is partly redistributed between local authorities through a system of tariffs and top-ups. This redistribution ensures that areas do not lose out just because their local business rates are low compared to their assessed needs.

2.4. Within the current system, councils keep up to 50% of growth in their business rate receipts arising from new or expanding businesses. Local authorities that pay tariffs are also liable to pay a levy of up to half of this type of growth. The money raised from this levy is then used to fund a safety net system. This system protects those councils which see their annual business rate income fall by more than 7.5% below their 'baseline funding level'.

2.5. The Government thinks that 100% business rates retention will have some strong similarities with the existing system. For example, there will continue to be a level of redistribution between authorities similar to the current system of tariffs and top-ups. In addition, there will continue to be protection in the system to insulate authorities from shocks or significant reductions in their income.

2.6. There will also be some important differences. The Government has already announced that the levy on growth will be scrapped under 100% business rates retention, and that authorities will have additional flexibilities around the operation of the multiplier. In addition, we expect that the design of the new system will take account of the changing shape of local government, including the role of Combined Authorities. These issues are considered in more detail in Chapters 4 and 5.

Devolution and local growth

2.7. The Government is committed to devolving greater powers away from Whitehall to drive local and national growth. This recognises that no two places are the same and that people who live, work and run businesses in an area know best what their area needs to prosper and grow.

2.8. Since 2010 this has seen the agreement of two rounds of City Deals providing cities and regions with new powers in return for strong and accountable leadership. Since 2014 the Government has gone further by agreeing multiple ground-breaking devolution deals with areas all across the country: from Liverpool City Region in the Northern Powerhouse, to Cornwall in the rural South.

2.9. Devolution deals include the devolution of power from central government to local areas in England and provide an opportunity to stimulate economic growth and reform public services. These deals will introduce directly elected mayors and enable areas to deliver real improvements to local people and businesses. They include a wide range of new responsibilities on adult education and transport as well as specific funds for housing investment and direct incentives to enable local areas to realise their growth aspirations through the provision of distinct long term investment funds to Mayoral Combined Authorities.

2.10. The Government has invested significantly in local growth by agreeing a £12 billion Local Growth Fund. This provides the basis for the 39 Local Enterprise Partnerships to invest in local infrastructure, skills, housing, business and innovation. At a specific geographical scale, the Government has worked with local areas to establish 48 Enterprise Zones across the country. These provide distinct advantages to businesses and the retention of business rate growth free from reset in local areas. The Government has also provided substantial help to ensure our high streets and town centres thrive through a £6 billion plus support package of investment. This includes reductions in corporation tax and national insurance contributions and significant reductions in business rates for small businesses as announced at the Budget.

Approach to reform

2.11. In advance of this consultation, the Government has been working closely with the LGA and other representatives of local government to develop the principles that the reform package will be based upon. This has included a joint LGA-DCLG chaired Steering Group and set of Technical Working Groups to look at every aspect of how the new system should work, alongside which responsibilities should be devolved.

2.12. To provide focus, the work has been considered in the following themes:

- the devolution of responsibilities.
- the operation of the system, including how growth is rewarded and risk is shared.
- local tax flexibilities.
- assessment of councils' needs and redistribution of resources.
- accountability and accounting in a reformed system.

2.13. Papers and records of the discussions in these Groups are available on the LGA's website: http://www.local.gov.uk/business-rates.

2.14. We have also been talking to representatives of business, via a Business Interests Group – again jointly chaired with LGA. This has helped ensure that business can contribute to the policy and technical debate from its early stages, ensuring that the views of the business community are taken into account when designing the system.

Fair Funding Review

2.15. As part of the 2016/17 Local Government Finance Settlement, the Government announced a Fair Funding Review of councils' relative needs and resources.

2.16. A needs assessment was last carried out in 2013/14. However, this was largely focussed on updating the data used in the assessment. The needs formulae have not been thoroughly reviewed for over a decade, which many councils feel is far too long. There is good reason to believe that the demographic pressures affecting particular areas, such as the growth in the elderly population, have affected different areas in different ways, as has the cost of providing services. It is therefore only right that the way we assess relative need is reviewed. The Fair Funding Review will also establish what the needs assessment formula should be in a world where all local government spending is financed from locally raised resources.

2.17. The Fair Funding Review will address the following issues;

- what do we mean by relative 'need' and how should we measure it?
- what are the key factors that drive relative need?

- what should the approach be for doing needs assessments for different services?
- at what geographical level should we do a needs assessment?
- how should ‘resets’ of the needs assessment be done?
- how, and what, local government behaviours should be incentivised through the assessment of councils’ relative needs?

2.18. For the services currently supported by the local government finance system, the outcomes of the Fair Funding Review will establish the funding baselines for the introduction of 100% business rates retention. The Fair Funding Review will consider the distribution of funding for new responsibilities on a case by case basis once these responsibilities are confirmed; they are likely to have bespoke distributions. Chapter 3 provides more detail about the issues related to the devolution of new duties. A balance must be struck in the new system between providing a strong incentive for growth in local areas, and considering how funding should be distributed between local authorities. Chapter 4 discusses this question in more detail.

2.19. The Government recognised in 2012 that there may be additional costs associated with service delivery in rural areas, introducing weighted sparsity adjustments to the relative needs formula in setting the baseline for the current system of business rates retention in 2013-14. Additional funding has also been provided since 2013-14 as a separate grant or through a transfer of funding into the settlement, and is now a candidate to be devolved as part of 100% business rate retention (see Chapter 3).

2.20. The Fair Funding Review will consider carefully how the different needs and costs of delivering services in urban and rural areas has changed over time, and how best to recognise these differences in the funding baselines for the introduction of 100% business rates retention. To support this, the Government has ensured rural and urban areas are appropriately represented on both the Steering Group for the 100% Business Rate Retention Programme and on the technical group working on the Fair Funding Review.

2.21. We want to give councils every opportunity to consider the best approach to measuring their needs. The needs assessment does not require legislative changes to implement. This means that we do not have to make decisions now, and allows us to progress this work with local government to a different timetable. For example, we are aiming to consult on the principles for the needs assessment in autumn 2016. We expect to have a final consultation on the formulae in summer 2018 in time for the introduction of 100% business rates retention across local government by the end of the Parliament.

2.22. To help shape the Fair Funding Review, we have been engaging with representatives from across local government through a Technical Working Group. Based on feedback from this Group, we have developed an initial call for evidence on Needs and Redistribution which is published alongside this consultation and can be found at: https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention.

Assessing the value of business rates income

2.23. The Government has announced that the move to 100% business rates retention will be fiscally neutral. To ensure this, the main local government grants will be phased out and additional responsibilities will be devolved to local authorities in order to match the additional funding from business rates. In considering the design of the new system, authorities will inevitably be interested in how the value of additional funding from business rates - known as 'the quantum' - will be estimated and how that will compare to estimates of the cost of additional responsibilities that may be devolved.

2.24. Overall, business rate receipts provide a stable source of tax revenue. Our current estimate – based on forecasts from the Office of Budget Responsibility – is that the value of additional business rates revenue available to local government from locally collected rates in 2019/20 will be around £12.5 billion. However, forecasts of business rates income can change and are subject to some sensitivity, which means that we will need to keep this quantum under review and make final decisions closer to the point of implementation.

2.25. While most business rates are collected locally, rates for properties on the 'central rating list' are collected directly by government. The central ratings list contains the rating assessments of networked properties including major transport, utility and telecommunications undertakings and cross-country pipelines. This income is paid into the Consolidated Fund, with the statutory obligation under the Local Government Finance Act 2012 that an equivalent amount be redistributed to local government through grants. Our current estimate is that the value of central list income in 2019/20 will be £1.5 billion.

2.26. We will continue to work with councils to refine estimates of the value of business rates income and are clear that the process for designing the new, reformed system has sufficient flexibility within it to allow for this. The timetable for implementing the reforms means that we are unlikely to need to reach final views on the quantum until 2018.

2.27. Importantly, as we move towards self-sufficiency for local government, we are clear that under 100% business rates retention all authorities will be funded for their existing responsibilities and for any new responsibilities devolved. Changes or refinements to the quantum will not undermine that.

Piloting the approach to 100% business rates retention

2.28. As announced in the Budget 2016, the Government is taking the opportunity to pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region, and will increase the share of business rates retained in London.

2.29. The pilots will provide an opportunity both to test elements of 100% rates retention before it is rolled out more widely, and to see how the system can take account of the circumstances of different areas. They will enable us to learn from different approaches and to improve the design of the final scheme.

2.30. Discussions are underway with relevant authorities to determine what will be included in the pilots for 2017 and beyond. We expect that the pilots might look different in different places and in particular might help develop mechanisms that will be needed to manage risk and reward in a new system.

2.31. The offer to pilot the approach to business rates retention is open to any area that has ratified its devolution deal. Other groups of authorities, including those in Sheffield, have already come forward to explore what pilots could look like in their areas.

2.32. Piloting will allow places to benefit early from growth in their local tax base, and to see in full the impacts of local decisions that drive local business rates growth in their budgets from 2017 – up to three years ahead of schedule. Importantly, the pilots will not reduce the quantum of resource available for other parts of local government. They also do not impact on the assessment of relative needs which will be considered by the Fair Funding Review.

Business rates as a tax

2.33. This consultation considers the use of business rates income; it does not seek to cover issues related to the operation of business rates as a tax, outside of the additional flexibilities discussed in Chapter 5.

2.34. In Budget 2016, following the conclusion of the business rates review, the Government announced a range of measures to reduce the burden of business rates on ratepayers, and to modernise the system. These included;

- permanently doubling Small Business Rate Relief (SBRR) from 50% to 100% and increasing the thresholds to benefit a greater number of businesses
- increasing the threshold for the standard business rates multiplier to a rateable value of £51,000, taking 250,000 smaller properties out of the higher rate
- announcing that as of April 2020, taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from RPI, to be consistent with the main measure of inflation, currently CPI.

2.35. In addition, the Government announced that it will modernise the administration of business rates, aiming to revalue properties more frequently and make it easier for businesses to pay the taxes that are due.

Appeals Reform

2.36. The Government is committed to delivering an efficient, modern and improved business rates appeals system. There is widespread agreement that the current system is in need of reform. Too many rating appeals are made with little supporting evidence and are held up for too long, creating costs and uncertainties for businesses and local authorities.

2.37. In October 2015 the Government published a consultation paper which set out proposals for a three-stage approach to resolving appeals: ‘Check, Challenge, Appeal’, and sought views from businesses, local authorities and other interested parties. The reforms will introduce a more structured, rigorous and transparent system which will be easier for ratepayers to navigate. It will ensure that businesses can be confident that their valuations are correct and that they are paying the right amount of business rates with quicker refunds where appropriate. The Government is grateful for the views shared during the consultation process and has carefully considered all views. The summary of responses and the Government statement, which will set out the decisions the Government has taken in response to the consultation document, will be published shortly.

3. Devolution of responsibilities

Summary

3.1. This chapter considers the issues related to the devolution of responsibilities to local government:

- It describes our approach and how we have identified the range of responsibilities that could be funded from retained business rates.
- It sets out the criteria and how we have assessed the proposed options.
- It sets out the indicative lists of responsibilities that could be funded through retained business rates.
- It discusses the interaction with devolution deals and pilot areas.
- It also considers the treatment of new burdens in the new system.

Overview

3.2. Chapter 3 sets out the rationale and benefits for devolving responsibilities to local government. Alongside those direct benefits, the devolution of funding for new responsibilities will help set the shape and form of local government for the future. We want to make sure that these reforms help ensure that councils have the responsibilities they need to enhance their role as local leaders. We also want to make sure that the new system recognises the changing landscape across local government.

3.3. To ensure that the proposal for 100% business rates retention is fiscally neutral, local government will need to take on new responsibilities to match this increased income, and existing central government grants will need to be phased out. If the value of new responsibilities exceeds the increased retained rates receipts, Government would continue to make grant payments to fund the difference, although our expectation would be any grant payments would not replicate the current Revenue Support Grant.

3.4. We therefore want to hear from local authorities and others about what they think should be devolved as part of the reforms, and how this might work differently in areas with Combined Authorities and devolution deals. In line with this, this consultation takes an open approach – identifying a list of possible candidates for devolution.

3.5. Following responses to the consultation, the Government will make decisions on the responsibilities that will be funded from retained business rates. Where primary legislation is required to devolve the responsibilities, we expect to legislate as soon as Parliamentary time allows.

Our approach

3.6. In reaching a view on a list of options for consultation, we have endeavoured to ensure that we produce a package of responsibilities for potential devolution that fits well with the local government system in England.

3.7. To inform the consultation the LGA and the DCLG have been working with representatives of local government. That work has informed the following criteria for possible candidates for devolution. It has not been assumed that each candidate or responsibility proposed for devolution must meet all of those criteria. Rather, they have been used by the Government as guiding principles to shape discussions on the range of responsibilities to be included in this consultation:

1) Devolution of a responsibility should build on the strengths of local government

a) It will provide opportunities for greater integration across local services, taking advantage of council expertise to provide user-centric, outcomes focussed approaches.

b) Devolution would remove barriers to other innovative service delivery models, for example the commissioning of new multi-agency services that offer better value for the tax payer.

c) There should be appetite from local government for the responsibility to be delivered at a local level.

d) There should be capacity at a local level to deliver services, taking into account other local pressures.

2) Devolution of a responsibility should support the drive for economic growth

a) The responsibility will support local authorities' role in driving local growth, for example through a clear link to local employment, skills or infrastructure policy, and build on the ambition councils have demonstrated through Local Enterprise Partnerships and City Deals.

3) Devolution of a responsibility should support improved outcomes for service users or local people

a) Local authorities should have as much flexibility as possible to tailor local services, for example allowing user-centric, outcomes focused delivery.

b) Service provision can reflect the distribution of need across the country. Consideration should be given to the effect of devolution on groups with protected characteristics under the Equality Act 2010

4) Devolution of responsibilities should be made with consideration for the medium-term financial impact on local government.

a) The national cost and demand for any new responsibility should be relatively predictable and stable over time, relative to the business rates funding stream.

b) The relative demand for funding between local authorities should be relatively stable over time.

c) The timeline for devolution will allow sufficient time for preparations at a local level.

d) The responsibility is a sensible fit with a business rates funding stream, i.e. from a forward planning, governance and technical perspective.

3.8. We recognise that authorities will want to give particular consideration to the final criterion - the medium-term financial impact on local government of each candidate for devolution. Detailed consideration will need to be given to the demand profile for services beyond 2019/20 before final decisions can be made and spending pressures will continue to be assessed as part of future spending reviews.

3.9. To assist in supporting local government medium term financial sustainability, it is important that local authorities should have as much flexibility as possible to tailor local services. At the same time, the Government may want to ensure that certain outcomes are delivered with the funding devolved – for example through new statutory duties. These will be considered through later consultation.

3.10. This consultation makes no comment on the future distribution of the grants considered in this chapter. The allocation of any new grants rolled in will be considered on a case by case basis and are likely to have bespoke distributions. Further consideration will also be needed on the appropriate funding distribution for responsibilities devolved under retained business rates.

<u>The range of responsibilities</u>

3.11. This list of responsibilities or policies contains grants that have been identified as a possible fit against the criteria for being funded though retained business rates.

3.12. This list is not exhaustive and each option will not necessarily feature in the final package. The aim of the list is to enable a debate on the responsibilities to be devolved and funded from retained business rates. It remains open for respondents to come forward with their ideas for devolution of other responsibilities and budgets.

3.13. This could involve devolving functions and responsibilities to be delivered differently than now. However, to be fiscally neutral, central government functions and associated budgets would need to cease and respondents are therefore invited to be clear where they would expect the funding to come from.

Revenue Support Grant	Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service and is established through the local government finance settlement.
Rural Services Delivery Grant	This grant is distributed through the local government finance settlement to the top-quartile of authorities ranked by super-sparsity, based on the distributional methodology for the Rural Services Delivery Grant in 2015-16.
Greater London Authority Transport Grant	This grant is used for capital improvements to relieve congestion, improve reliability on key routes and provide a good fit with UK transport policies. The Chancellor announced in the Spending Review that the Greater London Authority Transport Grant would be devolved to be funded from retained business rates.
Public Health Grant	Public Health Grant provides funding for the discharge of public health functions defined in section 73(B)(2) of the National Health Service Act 2006. The ring-fence on the public health grant will be maintained in 2016-17 and 2017-18. Further consideration will be needed on how best to promote stability and improvements in public health from the proposed new funding arrangements.
Improved Better Care Fund	The funding for the Improved Better Care Fund goes directly to local government to ensure that health and social care services work together to support older and vulnerable people. It is our intention that any change to current funding arrangements ensures that the Improved Better Care Fund is used by local government to fund adult social care services.
Independent Living Fund	The grant for former recipients of the Independent Living Fund (ILF) compensates for the cost pressures caused by the closure of the ILF. This followed the introduction of the Care Act 2014 which ensures that the key features of ILF support, namely personalisation, choice and control, are now part of mainstream adult social care system.
Early Years	The grant is provided to English local authorities to fulfil their duties under sections 6, 7, 7A, 9A, 12 and 13 of the Childcare Act 2006 and under regulations that will be made pursuant to section 2(1) of the Childcare Act 2016.

	It is currently part of the Dedicated Schools Grant. Consideration of this grant for devolution would take place after successful delivery and establishment of the Manifesto commitment to 30 hours free childcare from September 2017.
Youth Justice	The funding provided by the Ministry of Justice to the Youth Justice Board is distributed as a grant to local authorities for the operation of the youth justice system and the provision of non-custodial youth justice services. The Ministry of Justice funding does not include funding from police, probation and health authorities who contribute at a local level to the costs incurred by local authorities in the provision of youth justice services.
Local Council Tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy	Local Council Tax Support Administration Subsidy provides funding towards the administration of local council tax support claims where there is not also a housing benefit application. Housing Benefit Administration Subsidy contributes towards the cost of administering housing benefit on behalf of the DWP. A portion of this subsidy contributes to the administration costs of joint housing benefit and local council tax support claims. Housing Benefit will cease to be paid to working age customers, as Universal Credit, which includes housing costs is rolled out. Housing Benefit for pensioners will remain with Local Authorities for now, and the Government will consult ahead of any proposed changes to that position. Nonetheless, at that point increased support for the higher level of non-joint local council tax support claims will continue to be required and so Local Council Tax Support grant, including the element of Housing Benefit administrative grant for what are currently joint claims, could be considered for devolution.
Attendance Allowance	As announced in December, the Government will also consider giving more responsibility to councils in England to support older people with care needs – including people who, under the current system, would be supported through Attendance Allowance. This will protect existing claimants, so there will be no cash losers, and new responsibilities will be matched by the transfer of equivalent spending power.

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Devolution Deals

3.14. The Government has agreed multiple devolution deals with areas across the country. These deals include the devolution of power from central government to local areas in England and provide an opportunity to stimulate economic growth and reform public services.

3.15. These deals include the devolution of a range of functions and associated budgets, many of which are pooled at Combined Authority level within single investment funds.

Grant funding for devolution deals

Investment funds for devolution deals	All mayoral devolution deal areas have an agreed Investment Fund, which is a grant-based fund specific to each deal, which is paid in annual instalments for 30 years. However, only the first five years' funding is confirmed with the remainder subject to five-year reviews.
Adult Education Budgets	At present, nine devolution deal areas have agreed the devolution of the Adult Education Budget from 2018/19. The devolution of this budget is subject to the satisfaction of a number of 'readiness' conditions set out in the deals. The Adult Education Budget provides grant funding for learning up to Level 2 (up to Level 3 for young people aged 19-23 who do not yet have the equivalent of 2 A-levels).
Transport Capital Grants	All devolution deal areas receive consolidated funding for Transport which is made up of a number of grant streams, for example highways maintenance funding and, in some areas where bus franchising is implemented, the associated commercial bus service operators grant.
Local Growth Fund	All devolution deal areas have the flexibility to incorporate the Local Growth Fund awarded to Local Enterprise Partnerships in their area into their Combined Authority single investment funds. The Local Growth Fund is awarded competitively to Local Enterprise Partnerships to spend on investment designed to drive and unlock economic growth in their local areas in line with local priorities.

3.16. There are a number of connections between devolution deals and the proposal for 100% retained business rates. The Government considers that the move to self-sufficiency under business rates retention could take account of the different governance arrangements across local government. The new pattern of Combined Authorities, Mayors, as well as the Greater London Authority provides an opportunity for specific devolution that may not be appropriate in other areas.

3.17. There is therefore an opportunity to consider funding some or all of the commitments in existing and future deals through retained business rates, i.e. transferring them from grant commitments to being paid for through retained rates. This would give these areas, Combined Authorities, Mayors and the Greater London Authority, the advantage of fiscal autonomy for these functions.

3.18. Doing so would establish different funding arrangements for Mayoral Combined Authorities and the Greater London Authority than in non-devolution areas, reflecting their different governance arrangements, alongside universal devolution to every local authority.

3.19. Funding devolution deals in this way would allow them to continue to be agreed on a bespoke basis. Future deals may contain different functions than those in the list above and we make no assumption that limits the scope of future deals or therefore what, in future deals, could be funded from retained business rates.

3.20. An important consideration for the funding of devolution deals through retained business rates will be the impact that increased funding to devolution deal areas would have upon the system design for 100% retained business rates, in particular, on the Government's interest in implementing a system that minimises the redistribution of business rates, as described in Chapter 4.

3.21. Finally, some commitments may be more suitable than others to fund through business rates. For example, the Investment Fund is subject to 5-year review points and the Local Growth Fund is subject to a competitive bidding process. Devolving these funds into retained business rates would effectively permanently embed that level of funding to those authorities in the retained business rates system.

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

Devolution in pilot areas

3.22. As announced in the Budget[1], the Government is taking the opportunity to pilot the approach to 100% business rates retention in Greater Manchester and Liverpool City Region and will increase the share of business rates retained in London.

3.23. Discussions are underway with Manchester, Liverpool and London to determine what will be included in the pilots for 2017 and beyond. Pilots might look different in different places and they provide an opportunity both to test elements of 100% rates retention before it is rolled out more widely and to reflect the different needs of different areas. This will include discussions on how the transfer of certain functions can complement the devolution arrangements in place and contribute to growing the economic base of the different places. This is seen by the areas as an opportunity to drive growth both through investment and the transfer of functions.

3.24. We are in discussion with pilot areas on approaches to data collection to allow monitoring, and how this data will inform the long term 100% business rates retention system.

Assessing New Burdens costs post-2020

3.25. Successive Governments have sought to keep the pressure on local taxpayers to a minimum through a 'new burdens doctrine[2]'. This requires all Government departments to justify why new duties, powers, targets, responsibilities and other bureaucratic burdens are being placed on local authorities, how much these will cost and that they will allocate commensurate resources to pay for them.

3.26. In the current system, new burdens funding is either paid by incorporating funding into the Local Government Finance Settlement or by payment of section 31 grants. Our starting point is that the New Burdens doctrine should continue to apply after the introduction of the 100% retained business rates system, with funding to be paid through section 31 grants.

Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?

[1] 'Budget 2016'
[2] https://www.gov.uk/government/publications/new-burdens-doctrine-guidance-for-government-departments

4. The business rates system: Rewarding growth and sharing risk

Summary

4.1. This chapter considers the operation of the new system:

- It considers how the system should treat growth, including how and how often the system should be reset.
- It seeks views on the system of redistribution, including the treatment of Combined Authority and Mayoral areas.
- It discusses how risk within the system is managed, including whether there is opportunity to share risk at different levels.
- It seeks views on the operation of the safety net within the reformed system.

Overview

4.2. The Government has been working closely with local government on the design of the 100% rates retention system. The System Design Technical Working Group – made up of representatives from across local government – has played a key role in helping to develop the design options set out here.

4.3. The Government wants to ensure that the reformed system provides stronger incentives to boost growth and rewards those authorities and areas that take bold decisions to further increase growth. This is why, in the reformed system, the levy on income from business rates growth will be abolished.

4.4. We also need to decide how business rates income is shared across different tiers of local government, recognising the new models and arrangements that exist and how the system rewards areas which have moved to reformed models of governance through devolution deals.

4.5. To ensure that authorities can make longer term plans, including plans that will support investment in growth, we need to look at how risk is shared across the system. In doing so, the system also needs to ensure that authorities are adequately protected from business rates volatility and shocks in business rates income.

4.6. Alongside all of these considerations, we should aim to make the system simple to operate and understand. A system that is too complicated may struggle to work in practice.

Growth and redistribution

4.7. We want to make sure that local authorities have the right incentives to grow their income from business rates and that they can keep all the growth they generate. For this reason, the Government announced that the levy on growth that exists under the 50% scheme will be scrapped, to allow local authorities to keep 100% of growth.

4.8. We understand that there is a balance to be struck in the new system between providing a strong incentive for growth in local areas, and considering the distribution of funding between local authorities. We expect to find this balance is by ‘resetting’ the system on a fixed basis, to allow us to reconsider relative need and to recalculate the redistributable amounts (through a system similar to the current top-ups and tariffs arrangement).

4.9. The alternative to having fixed reset periods would be for Government to choose when to reset the system, possibly based on indicators such as the number of authorities requiring safety net payments. Our view is that this would be too uncertain for local authorities, who would not have the clarity of timings to utilise growth in the system on long term projects.

4.10. On the one hand, depending on the services devolved to local government as part of the new system, adjustments to redistributable amounts may need to be made frequently to reflect changes in relative needs. There is a risk that redistributing too infrequently could result in authorities not being able to deliver services where relative need grows faster than local tax resource. On the other hand, changes made too frequently weaken the incentive for growth, and may reduce the confidence of local authorities to build achieved growth into their base budgets, or use that growth for long-term investment. This is exacerbated if the growth that local authorities do achieve is included in the quantum of funding that is to be redistributed when the system is reset.

4.11. At the same time, as well as any growth, the system of resets must be able to take account of local authorities whose business rates income declines within a reset period. As local authorities under the new system will be heavily dependent on business rates income for delivery of core services, we think it is right to set fixed reset periods to give authorities certainty of income. But there is a wide spectrum of options for how frequently resets are carried out:

a) Full reset of the system, including all achieved growth, frequently (e.g. every 5 years).	This would ensure that business rates income was frequently redistributed to meet changes in relative need, and that local authorities would retain a ‘growth incentive’ for the five years between resets.
b) Reset the system, including all achieved growth, infrequently (e.g. every 20 years), or never.	This would set a single baseline for local authorities based on their relative need at a fixed point in time. Any growth local authorities saw after this baseline was

	set could then be incorporated into budgets. However, any reduction in income would also need to be managed by a local authority, which could see reduced income affecting the delivery of local services. This approach could mean that some local authorities are heavily dependent on the safety net (see below) for an extended period.
c) A partial reset of the system on a frequent basis.	We could operate a partial reset of the system every 5 years. Under a partial reset we would still adjust for changes in relative need and business rates income but to a lesser extent that under a full reset. This option could give authorities a greater incentive for growth than (a) but give greater protection for services than (b). This option would allow local government to carry some growth over the reset, but might also require them to retain some losses.

4.12. Under a partial reset a proportion of growth could be included as part of a regular reset, and a proportion would remain with the local authority on a longer term basis. As such it may be possible, under a partial reset, to allow authorities which have seen growth to retain some of that growth with the remaining part being available to support those authorities that have seen their income decline (or their needs increase). Any growth (or decline) at the partial reset could be shared based on overall baseline funding levels or by more precisely reflecting different types of services provided by the authorities. But how much growth is retained (and how much loss is carried) by individual authorities at a partial reset is a key question.

4.13. Therefore, in considering options for a partial reset, local government need to consider the degree of trade-off between allowing authorities to retain growth and supporting authorities which have seen decline (and/or seen needs increase).

4.14. Mechanisms for incentivising growth are being tested by the pilot areas. This may include abolishing the levy on growth in pilot areas before the new system is introduced across local government. This will help demonstrate the impact that this change will have.

Question 6: Do you agree that we should fix reset periods for the system?

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

Redistribution between local authorities

4.15. The Government is clear that there will still need to be some system of redistribution between local authorities to balance revenue with relative needs. The Fair Funding Review will identify relative need for each local authority and we will need to find a way to redistribute business rates income according to that.

4.16. Under the 50% scheme, we have used a system of top-ups and tariffs to redistribute funding from those local authorities that collect more in business rates than their identified need, to those who do not collect enough for their needs.

4.17. We expect to continue to need a redistribution system of top-ups and tariffs, based on the current one. The top-ups and tariffs that each local authority could expect to see will be calculated before the new system is introduced, based on the Fair Funding Review and an assessment on their expected business rates income. More generally the Government is interested in exploring how we could set up a system that minimises the redistribution of rates, while ensuring that areas are not put at a significant disadvantage through collecting less business rates income.

4.18. Top-up and tariff payments will be fixed for the period between resets to give local authorities certainty about their baseline funding level. Having these baseline levels fixed provides a growth incentive for authorities, who will be able to retain growth gains within that reset period.

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Impact of revaluations

4.19. General revaluations of all properties are currently scheduled to take place every 5 years (although the Government aims to reduce this period). The next revaluation takes effect from 1 April 2017. The revaluation is the point in the system at which economic changes in property values are reflected in rateable values. Between revaluations, rateable values only change through appeals and physical changes to the property or location.

4.20. However, the Government is required at the revaluation to reset the multiplier to ensure no more is raised in business rates. So if rateable values increase overall at the revaluation the multiplier will fall (and vice-versa). As a result, at the national level, any increase in the economic value of the tax base does not lead to any additional business rates income.

4.21. Within this national picture, individual local authorities will see their rates income rise or fall at revaluation. This will depend upon whether the economic growth (or decline) in the individual local authority area is above or below the national average. This means that many authorities are likely to see their rates income fall at revaluation despite having seen increases in their rateable values. For the current rates retention system, the Government concluded it would be unfair to allow this to feed through into retained incomes. To do so would penalise many authorities who had generated physical growth in their area between the revaluations but, had lagged behind on relative economic growth. Therefore, the Government currently adjusts each authority's tariff, or top-up, following a revaluation, to ensure that their retained income is the same after revaluation as immediately before.

4.22. We propose the same system of revenue neutral revaluations with economic growth cancelled out through a change to the multiplier will continue to apply for the 100% business rates retention scheme. Therefore, it may again be necessary to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations.

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

4.23. We believe that Combined Authorities with a directly elected Mayor should have the opportunity for an enhanced role in achieving growth under the 100% rates retention system.

4.24. Directly elected Mayors have democratic accountability to their area, and we know that some have expressed a wish to be given greater responsibility for the distribution of resources within the Combined Authority area.

4.25. In some places, we know that there have been discussions about whether a Mayoral area (which covers multiple local authority areas) could be given a greater role in deciding how 'growth' is redistributed across the area. Other places have discussed whether the Mayor and local authorities could be given a single area-wide 'baseline' of relative need, and therefore a single tariff or top-up; and could develop appropriate governance arrangements for deciding how resources are distributed; or even whether they could assume greater responsibility for determining the relative needs baseline itself.

4.26. These, or similar ideas, could increase the autonomy of Mayoral areas and might help stimulate coherent decision making across local authority boundaries, with growth gains being owned and used at a strategic level.

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

4.27. In non-Mayoral areas, we would have to continue to set 'tier splits' – i.e. the percentage of business rates income that each tier of authority would get. There are a wide range of options for how these tier splits could be set.

4.28. Setting tier splits for the future 100% rates retention system will take some further consideration, and will need to take into account the services that are expected to be delivered at each tier of government. Further work on tier splits will need to consider the impact of different options on a local authority's exposure to risk and incentive to grow their business rates base.

4.29. At this point, the Government would welcome views from respondents on their experience of tier splits under the current 50% rates retention system, including any points for consideration in developing the system for the future.

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

4.30. Through the Policing and Crime Bill, the Government is legislating to enable Police and Crime Commissioners (PCCs) to take on responsibility for fire where a local case is made. Whilst fire and rescue authorities are currently part of the business rates retention scheme, police funding is provided separately through the Police Funding Formula. In considering the future approach to business rates retention, it is therefore sensible to look at whether fire funding should remain part of the scheme and the local government finance system in future.

4.31. We could go further by removing fire from the business rates retention scheme, with fire funding provided through a separate grant administered by the Home Office.

4.32. In common with other local authorities, fire and rescue authorities have been offered firm four year funding allocations to 2019/20 in return for robust and transparent efficiency plans. If fire funding were to be removed from the business rates retention scheme, we would seek to replicate published allocations for 2019/20 through a separate fire grant for any authorities who take up that offer. The approach to allocating fire funding in future would be subject to consultation.

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

<u>Enterprise Zones</u>

4.33. Under 100% rates retention, the Government intends that Enterprise Zones and other designated areas will continue to operate as now and, therefore, will be guaranteed 100% of business rates growth for 25 years.

4.34. This means that for the purposes of the scheme, the Government intends that any income above current baselines in Enterprise Zones and designated areas will be disregarded for the purposes of calculating "cost neutrality" when devolving new responsibilities to local government and for the purposes of working out tariffs and top-ups.

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Sharing risk

4.35. The current system can lead to volatility in income for local authorities, and we recognise that some authorities believe that their exposure to risk may be greater under 100% business rates retention.

4.36. Our aim is to balance risk sustainably within the system. We believe the system should support and reward authorities who make bolder choices, including working with others to look more creatively at how to promote and shape growth across their areas. At the same time as rewarding local authorities for their growth gains, the system might allow for local government to hold an appropriate risk at an area level, while systemic risk could be borne across all local authorities.

4.37. We would welcome your views on how risk is best managed within the new system.

4.38. Income from business rates is at risk for broadly two reasons:

- changes to rateable values of hereditaments following successful appeals by ratepayers, and

- physical changes to property, including building closures as a result of business failure.

4.39. Under the current 50% rates retention scheme, these risks are managed in two ways:

- local authorities have to make financial provision against known liabilities – broadly, the potential impact of 'appeal losses', and

- additionally, the system provides a safety net against 'physical losses', as well as against loss on appeals in excess of provisions. The safety net is currently set to operate where authorities incur more than 7.5% loss as measured against baseline funding level.

4.40. Experience of the 50% rates retention system shows that the risk profile of authorities varies enormously and that some local ratings lists are inherently more risky than others – either because a list is dominated by a single rateable property, or because certain types of property are inherently more difficult to value and therefore more liable to be reduced significantly on appeal.

4.41. Under 100% business rates retention, we could revisit how best to manage risk at different geographic levels using ratings lists, how we manage risk arising from successful business rate appeals, and the operation of a future safety net mechanism.

Ratings lists

4.42. The set-up of the 100% rates retention system provides an opportunity to look again at the rating list system.

4.43. Currently, business ratepayers appear on either a central rating list (administered by DCLG) or one of 320 local rating lists (administered by lower tier and unitary authorities). Only business rates income from local lists is taken into account in determining: top-ups and tariffs; the business rates income receivable by different tiers of authority; and eligibility for the safety net. Under the current system, local authorities therefore only benefit from any growth in income from ratepayers on local lists.

4.44. Some local authorities tell us that the highest risk hereditaments should be removed from local lists. These might include power stations, oil refineries and national airports, which could be moved onto a refreshed national level list (i.e. the current central list).

4.45. Alternatively, some authorities have told us that they would welcome the opportunity to manage some of the riskier properties at a broader ‘area level’ – sharing the risk that these properties bring, but also receiving an element of reward from any growth. The Government would expect any changes to ratings lists to remain fiscally neutral. Some authorities have suggested a system along the following lines:

Central list	The central list includes national network properties. The list would continue to be administered centrally.
Local list	Local lists would broadly comprise the same rateable properties as now, but we might remove ‘riskier’ classes of property and perhaps classes that were more in the nature of ‘national infrastructure’. Local list income would continue to be collected and retained at the local authority level.
Area list	We could create new area lists for Combined Authorities which, could take risky or significant property from local lists, Area list income could be made available to the Combined Authority.

4.46. The Government might explore some of these options with the pilot areas, to test what changes to local lists would mean in practice.

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

Question 16: Would you support the idea of introducing area-level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

Helping to manage 'appeal risk'

4.47. Under the current 50% rates retention system, local authorities have had to deal with the impact of business rate appeals at a local level. Many local authorities tell us that the large volume of appeals, the time it takes to deal with them and the difficulties in predicting appeal outcomes has made it difficult for them to forecast their business rates income in any year.

4.48. This also makes it difficult for local authorities to forecast the appeal adjustment that they should make. As a result, local authorities are setting aside more for appeal 'provisions' than had been expected at the start of the 50% rates retention system. As a consequence, in each year since 2013-14, authorities have been budgeting to spend less than they might otherwise have spent as a result of provisions associated with appeals uncertainty. Under the 100% rates retention system, we are interested in exploring how we can help local authorities manage this risk.

4.49. As well as the options discussed in the previous section, we think that there are a number of ways to manage the remaining risk. One option would be for local authorities to continue managing the risk of successful business rate appeals as they do now, with increased support to improve local ability to set aside the right amount in provisions. This would be supported, as now, by a safety net to ensure no local authority is at risk of losing too much of their income (see below for further questions on the future safety net).

4.50. Alternatively, we could explore a system whereby local authorities pool their risk at a wider level, with other local authorities in the area, i.e. through a Combined Authority. Local authorities could be better off by pooling their risk, setting aside appropriate provisions at a wider geographical level to cover all authorities within the pool. This could be combined with 'area lists' for businesses as set out above, allowing a wider geographical area to share both risk and reward.

4.51. Alongside this, we continue to explore how some of the risk associated with successful appeals could be managed at a national level – i.e. funded by all authorities instead of being borne entirely by individual local authorities. Such an approach would necessitate identifying which losses were to be met by the system as a whole and how. Because of data limitations, and the timing of compensation and accounting rules, no approach is likely to be perfect, nor would it remove the need for authorities to make provision for losses.

4.52. Testing mechanisms to manage appeals could be a feature of the pilot areas. This may involve trialling options on a 'shadow' basis, and learning lessons to apply to the future system.

4.53. Any option to manage risk associated with successful appeals will need to be funded from within the overall business rates system, in line with the aim of increased local responsibility.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area level (including Combined Authority), or across all local authorities as set out in the options above?

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

<u>Insulating against shocks</u>

4.54. Under the current 50% rates retention system, a safety net exists to support those local authorities who see a reduction in income greater than 7.5% of their business rates baseline income. The safety net provides funding to those authorities to bring them back up to 92.5% of their 'business rates baseline' (the level of funding set in 2013 to meet their relative need), and is funded by the current levy on growth.

4.55. We are clear that the new system will continue to need to help insulate authorities from shocks. As with other areas of managing risk, we would be interested in views on the right geographical level for managing risk and providing protection.

4.56. For local authorities pooling risk via an area-level ratings list, and pooled provisions for appeals, their collective ratings income could provide an area-level safety net. Combined, this would work to make the geographical area more self-sufficient, working together to manage risk and reward over a wider area. Authorities within that area could decide what proportion of business rates baseline an area-level system would protect.

4.57. Others may prefer the idea of something much closer to our current national level safety net, to provide protection of baseline funding at a defined level. This would need to be funded from within the 100% rates retention system. This would require local government collectively to pay for a safety net fund from their retained rates income.

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

5. Local tax flexibilities

Summary

5.1. This chapter covers the design and operation of the new tax flexibilities that authorities will have under the new system:

- It considers the range of options for the design of the new power to reduce the business rates tax rate, including how decisions are made and at what level.

- It also seeks views on the design of the new ability for Combined Authority Mayors to raise an infrastructure levy.

Overview

5.2. A key part of the reforms to make local authorities more self-sufficient and better able to drive local growth is the devolving of tax-setting powers. Under the new system, authorities will be able to tailor their own business rates regime to fit the local economic environment. The new powers that the Government is providing are:

- the ability to reduce the business rates tax rate (the multiplier), and

- the ability for Combined Authority Mayors to levy a supplement on business rates bills to fund new infrastructure projects, provided they have the support of the business community through the Local Enterprise Partnership.

5.3. We would welcome views on a number of key policy design decisions on both measures which will help ensure that the policies operate efficiently and have maximum impact.

5.4. Our work with local government and business sectors thus far has also produced a number of suggestions for how the announced policy could be amended or developed further. These are also reflected below for comments.

Ability to reduce the business rates multiplier

5.5. Since the introduction of the existing business rates system in 1990, a uniform business rates tax rate – known as the multiplier – has applied across the country. Each business rates bill is calculated by multiplying the property's rateable value by the multiplier. Increases in the multiplier are capped by inflation. The Government has announced that authorities will have a new power to reduce the multiplier. We welcome views on all aspects of the design and operation of this new power.

Decision making and costs of reducing the multiplier

5.6. In single tier areas, it is clear that the relevant authority would take the decision about whether to exercise the power. It is also clear that the relevant authority would meet the costs of doing so. As such, other components of the system for that local authority such as tariffs, top-ups and revaluation would continue to be based on the national multiplier.

5.7. However, there are options around how the power should operate in two tier or in Combined Authority areas alongside the infrastructure levy. For example, which tier should have the power to reduce the multiplier and should that tier bear all the costs of doing so, or should the costs be automatically shared (probably in line with tier splits)? An option may be to give the power to both tiers and whichever tier uses the powers meets the costs. The authorities in question could also agree to share the costs.

5.8. We would be grateful for views on how the power should operate in two tier or Combined Authority areas. In addition, we would be grateful for views on how the power should operate in London, and in areas with fire authorities.

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

Scope of the power to reduce the multiplier

5.9. We expect that this power will provide authorities with the ability to make structural changes to their tax regimes – i.e. to provide an across the board reduction in the multiplier.

5.10. Local authorities already have the power to provide targeted local discounts at their discretion. The key difference between local discount powers and the new power is that the new power could be used to make structural changes to the multiplier. Also, local discounts under existing powers are applied to bills after transitional and mandatory reliefs.

5.11. We think that authorities should continue to use their existing local discount powers for targeted relief and that the new power should be used as a structural power across their areas.

Question 22: What are your views on how decisions are taken to reduce the multiplier and the local discount powers?

Increasing the multiplier after a period of reduction

5.12. We need to consider how the multiplier could be increased after a period of reduction to catch-up with the ‘normal’ inflation-linked multiplier (“the national multiplier”). For example, an authority could be allowed to increase a previously reduced multiplier back up to the national multiplier in one step. Alternatively, the system could allow for a maximum permitted increase in any year (an adjustment would need to be made in revaluation years to take account of the change in the multiplier).

5.13. Capping the rate of increase after a reduction will limit an authority's ability to balance their finances in future years which could influence an authority's decision to reduce the multiplier in the first place.

Question 23: What are your views on increasing the multiplier after a reduction?

Further suggestions on reducing the multiplier

5.14. As mentioned above, a number of suggestions have also been made for how the announced policy could be amended or developed further.

- Role of Mayoral Combined Authorities – The appropriate scale for reducing the multiplier could be determined by Mayoral Combined Authorities, alongside decisions on an infrastructure levy.

- Providing safeguards for neighbouring authorities - The purpose of providing authorities with the power to reduce the multiplier is to provide opportunities to tailor tax regimes to the local trading environment. An authority or group of authorities may therefore decide to reduce the multiplier in order to encourage business in to the area. Some have asked whether arrangements should be put in place to limit the impact of such decisions on neighbouring areas. As all authorities would have similar powers to reduce their multiplier, the Government does not envisage introducing safeguards to mitigate against any potential impacts.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

Ability to charge an infrastructure levy

5.15. We are seeking views on key policy decisions on the design of the power of Combined Authority Mayors to levy a 2p in the pound supplement on business rates bills to fund new infrastructure projects.

Rateable value thresholds

5.16. The system could set a minimum rateable value threshold for the application of the levy. This could guarantee protection for the occupiers of less expensive properties (as with the Business Rates Supplement Act 2009 which provides that no hereditament with a rateable value below £50,000 should pay a supplement).

5.17. On the other hand, a national threshold could mean that regional variations in property values may limit the amount that could be raised for infrastructure projects. Instead, the system could provide Combined Authority Mayors with the freedom to choose whether to set a minimum rateable value threshold above which to charge an Infrastructure Levy. Under that discretionary arrangement, a decision to apply a levy would still require the approval of the relevant Local Enterprise Partnership Board (LEP Board).

Question 25: What are your views on the flexibility levying authorities should have to set a rateable value threshold for the levy?

Interaction with Business Rates Supplement powers

5.18. The new levying powers will only be open to Combined Authority Mayors. The existing Business Rates Supplement powers, which allow authorities to levy a supplement on the national multiplier to fund additional investment aimed at promoting the economic development of local areas, approved by a ballot of ratepayers, will still be available outside of Combined Authority Mayoral Areas.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

Local Enterprise Partnership (LEP) approval

5.19. The Government is clear that the approval of a majority of the business members of the LEP Board will be required in order for an Infrastructure Levy to be raised. This could be sought in the form of a prospectus from the Mayor, setting out the key parameters of the proposal.

5.20. One issue this presents is that whilst LEPs are often co-terminous with Combined Authority Mayoral Areas, this is not always the case. We should therefore consider whether the requirement for LEP approval should extend to all the LEPs within the proposed area of application of the levy.

5.21. We would also welcome views on how LEP approval should be sought, with a view to help ensure that the LEP role is clear, accountable, and representative of the business community.

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

Duration of the levy

5.22. Local ratepayers will of course be interested in the duration of a levy, and how decisions about its duration are made and reviewed.

5.23. We would expect that the proposed duration of a levy would be set out in an initial prospectus containing key parameters of the levy and plans for the project to be funded, submitted for approval from the LEP. We would expect the proposal to be for a period of whole years. Provision could also be made for the Mayor to submit a revised prospectus to the LEP for an extension of the levy for a period of whole years, or to adjust other parameters of a levy, for example following a revaluation.

Question 28: What are your views on arrangements for the duration and review of levies?

Using revenues raised from the levy

5.24. The Government is clear that levy revenues must be used to fund infrastructure projects. Infrastructure could be defined in a similar way to how it is defined for the Community Infrastructure Levy - roads and transport, flood defences, educational facilities, medical facilities, sporting/ recreational facilities, and open spaces – or a different definition could be used to capture different uses.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Multiple levies/multiple projects

5.25. We wish to allow Mayors sufficient room for manoeuvre to fund the projects that would add most value. There is a further question of allowing authorities to charge a single levy for multiple infrastructure projects or multiple levies all at once. For instance, it could be provided that a single Combined Authority Mayoral Area may raise multiple levies all at once, providing that the sum of the infrastructure levies on any given ratepayer does not exceed 2p in the pound.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Further suggestions on infrastructure levy

5.26. Our engagement with the local government business sectors thus far has raised some further suggestions for the operation and scope of the ability to charge an infrastructure levy.

- Extend the power to raise an infrastructure levy beyond Combined Authority Mayors – Some have suggested that other areas, including other Combined Authority areas, should have a similar power to raise an infrastructure levy or that the power should replace existing Business Rates Supplement powers. The Government is clear that this new power will be for Combined Authority Mayors only who are directly elected and can be held accountable. Any authorities not covered by the new power will retain the ability to fund infrastructure through existing Business Rates Supplement powers.

- Extend the business consultation requirements more widely – LEPs already play a strategic role in determining the priorities for infrastructure investment through the Strategic Economic Plan (SEP), and would act as representatives of local business communities to ensure that proposed infrastructure projects will benefit ratepayers. It has also been suggested though that there should be additional safeguards for ratepayers, for example consultation beyond the LEP.

- Include a discount power for Business Improvement Districts (BIDs) – The Business Rates Supplement Act 2009 makes provision for the levying authority to provide a discount to BIDs within the area of application of the supplement. It has been proposed that similar provision could be made for the levy, in view of the additional tax contributions which are made in BIDs.

- Amend the definition of infrastructure – These proposals differ from the existing Business Rates Supplement powers, which provide for a supplement to be raised for any project to promote economic development. It has been suggested the latter option may provide authorities with greater flexibility to use the power. Additionally, there is a question over whether the levy may be used for housing.

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

6. Accountability and accounting

Summary

6.1. This chapter considers the consequences of a reformed local government finance system, particularly in terms of accountability and accounting:

- It considers how the reforms may change the balance of local and central accountability, including in relation to the additional responsibilities that councils will take on.

- It seeks views on the current method of accounting for business rates and - depending on the design of the scheme - whether this may need to change.

- It also considers how the information that Government needs to collect from councils to help the system function might change.

Overview

6.2. The move to 100% business rates retention marks an important milestone in the devolution of power and resources from Whitehall. By 2020, councils will raise the great majority of their funding locally for the local services they provide. In addition, as part of these reforms, a new set of responsibilities will be devolved to local government. This move towards a more self-sufficient local government must be accompanied by a shift towards greater local accountability over funding and the way devolved responsibilities are delivered. There will also be implications for how income from local taxes is accounted for.

6.3. The Government, working with the LGA, CIPFA and other local government representatives, has sought to consider these issues. This Chapter sets out some of the thoughts and ideas raised during that engagement.

6.4. As policy development around system design continues, and decisions about which new responsibilities are devolved are made, the Government will continue to work with councils and others to explore the implications and consequences of the new system. This includes accountability and accounting terms, but also the type of information that government needs to collect from councils as part of the system. These issues may be subject to further consultation at a later date, in the lead up to implementation.

The balance of local and central accountability

6.5. As local services are increasingly funded from locally raised resources, it will be important to ensure councils are accountable for deciding how to fund local services.

6.6. The current process for determining allocations of funds to authorities through a Local Government Finance Report and resolution by Parliament encourages accountability for funding decisions to remain with central government. The requirement for an annual process of distribution from central government also has the potential to undermine the funding certainty offered through multi-year settlements, and the announcement of final decisions relatively late in the year can make it difficult for local authorities to manage the process of local consultation in setting their budgets.

6.7. The Government is interested in exploring how to change the process for allocating funding to increase funding certainty for local government, providing councils with the flexibility to set budgets in good time and strengthening local accountability.

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

6.8. Where responsibilities are devolved from central to local government, it is important to consider how the balance of accountability between central and local government to Parliament for delivery of those services may change - for example, the relative roles and responsibilities of central government Accounting Officers and local government. The position may be different for different areas - for example, Mayoral Combined Authority areas may have more responsibilities, and we will therefore need to consider the implications for accountability for each of the candidates, and overall for devolution under these reforms on a case by case basis. The Government will continue to engage with local government on these issues, particularly as decisions are taken about what new responsibilities will be devolved as part of the reforms.

6.9. In setting out clearer accountability at the local level, the Government will need to continue to respect the rights of the UK Parliament to hold to account both Ministers and officials for the way that they use funding provided through the Parliamentary Vote. It is important that funding decisions made at the national level continue to be scrutinised by the national Parliament, while local decision making is scrutinised by local accountability structures.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

<u>Accounting for income from local taxes</u>

6.10. Local authorities are required by statute to account for Council Tax income and Business Rates income in what is known as the 'Collection Fund Account'. In effect this is an agent's statement, which shows the amount of council tax and business rates that each billing authority forecast it would collect and how that has been distributed between billing authorities, precepting authorities and central government. It is included in each council's annual accounts and is subject to audit.

6.11. Councils recognise in accounting and budgetary terms the amount of income that they forecast they would collect. Any surplus or deficit on collection is carried forward as an adjusting item to the following year's forecast Council Tax or Business Rates income.

6.12. The Government has been working with the LGA, CIPFA and other representatives of local government to consider how local authorities might be required to account for business rate collection in an updated reformed system, in a way that continues to comply with best practice for transparency and accountability.

6.13. In a reformed system, the central government share of local business rates income will no longer exist so will not need to be disclosed in the Collection Fund Account. However, billing and precepting authorities will continue, both for Business Rates and Council Tax. Therefore, both the Government and the Accountability and Accounting Technical Working Group consider that there would be no benefit in removing the requirement to prepare a Collection Fund Account. A number of the disclosures in the Collection Fund Account are required by statute and may need to be revised depending on detailed design choices made in the retained business rates system.

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

<u>Balanced Budget Requirement</u>

6.14. A requirement to produce a balanced budget is a key element of the local authority financial control framework. This requirement applies only to revenue and was introduced by section 32A of the Local Government Finance Act 1992.[3] The Act sets out a number of detailed items that must be included in the balanced budget calculation, but in summary, local authorities are required to perform the following sum:

Net service expenditure	**(x)**
Other expenditure	(x)
RSG and other centrally held grants	x
Forecast business rates income	x
Transfer to/from reserves	x/(x)
Council tax requirement	x

6.15. Since this statutory requirement was introduced the way that local authorities manage their business has changed and the introduction of retained rates will give them further flexibilities in relation to setting their expected level of income.

[3] For councils – different statute applies to the GLA, PCCs, FRAs etc. but the format of the calculation is the same in each case.

6.16. Both the Government and the Accountability and Accounting Technical Working Group agree that there is no benefit in removing the requirement to prepare a balanced budget. However, the way that local authorities are required to calculate their balanced budget no longer aligns with the way they actually manage their finances. It is possible that if the way that councils are required to calculate their balanced budget was adjusted to better align with the way they run their business, both efficiency and transparency gains may be achieved.

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

<u>Other Reporting to Central Government</u>

6.17. In addition to the statutory accounts local authorities are required to prepare and submit financial data returns to DCLG. These are the NNDR1 and NNDR3 forms. These forms serve a dual purpose.

6.18. For local government, the NNDR1 form allows authorities to estimate the amount to be retained by Billing Authorities, and the amount to be paid to central government and Major Precepting Authorities. This is fixed at the start of the financial year on the basis of the Billing Authority's estimate of its Non-Domestic Rating income for the year and is reflected in each authority's balanced budget calculation. The NNDR3 form provides authorities with a tool by which they can calculate their certified non-domestic rating income and calculate the final sums due by way of section 31 grants for certain government-funded rates relief measures.

6.19. The consolidated results of these forms feed into official statistics and the financial statements setting out the amount of business rates income collected in England. Under the current system, they allow central government to put sufficient budget aside to fund mandatory and discretionary reliefs and form the basis of the calculation of the safety net and the levy.

6.20. The Government has announced that following business rates reform, the levy will no longer exist. In addition the way that the safety net is funded may change. This means that some elements of the current NNDR1 and NNDR3 forms will no longer be relevant. Other data currently collected by central government may no longer be required, depending on detailed system design choices made.

6.21. The Government is clear that some form of reporting will still be required, both to allow local authorities to provide information to feed into the safety net and levy calculations and to allow central government to provide information to Parliament on the quantum of business rates collected. However, it may be possible to revise data collection activities to make the data more transparent.

Question 36: Do you have views on how the business rates data collection activities could be altered to collect and record information in a more timely, efficient and transparent manner?

Summary of Questions

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?
Question 6: Do you agree that we should fix reset periods for the system?

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

Question 16: Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

Question 23: What are your views on increasing the multiplier after a reduction?

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

Question 28: What are your views on arrangements for the duration and review of levies?

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Communities and Local Government will process your personal data in accordance with DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.
Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact DCLG Consultation Co-ordinator.

Department for Communities and Local Government
2 Marsham Street
London
SW1P 4DF
or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

APPENDIX 2

DRAFT RESPONSE TO CONSULTATION

APPENDIX 2

Self-sufficient local government: 100% business rates retention

Draft Consultation Response

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

As a general principle, we believe that the grants and responsibilities funded from retained business rates should be those where there is a good fit with existing local authority areas of experience and competence. Specifically:

- Council Tax and Housing Benefit Administration Subsidies should definitely be funded from retained business rates.
- Disabled Facilities Grants and Troubled Families programme funding already come out of the Better Care Fund.
- Disabled facilities Grants are strongly linked to Social Services so should stay with that authority, in our case Kent County Council.
- Attendance Allowance expenditure is demand led. It is not linked in any way to business rates income and should not come to local authorities.

Question 2: Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

Expenditure from national agencies, such as the Environment Agency and the Homes and Communities Agency, should be channeled through local authorities, which are best placed to ensure that it is invested effectively to meet local needs.

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

There should be a bespoke approach to this according to local needs and circumstances. Generally, we are content with the choice of budgets that have already been devolved in other areas, such Transport, Capital, Local Growth funds.

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

It is essential that extra funding is available to ensure that there are no shortfalls. In particular, there is a risk that business rates will be used to fund devolved responsibilities which have not hitherto been funded this way. It is important to ensure that there is adequate additional funding in the system. This may mean topping up business rates from elsewhere.

Question 5: Do you agree that we should continue with the new burdens doctrine post-2020?

We agree with this.

Question 6: Do you agree that we should fix reset periods for the system?

There may be pressure from some local authorities for a flexible system, driven by the pace of growth they may be experiencing. However, we believe that it is more sensible to fix the reset periods. This should not be too frequent, perhaps once every three years. It would be sensible to align the resets with business rates revaluations.

Question 7: What is the right balance in the system between rewarding growth and redistributing to meet changing need?

We are strongly in favour of rewarding growth.

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

We do not believe that partial resets are appropriate. The cost of administration and the time spent on them would outweigh any benefits.

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

The current system is too inflexible. We would argue for maximum flexibility. There are benefits in having a system with an element of certainty but having a high Tariff means local authorities don't see much from the business rates, which defeats the point of business rates retention. It is accepted that there will need to be some form of top-up for those authorities with lower business rates income. This may be achieved on a regional basis. For example, the current Kent-wide pooling arrangement works well.

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

No.

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

We would support the principle of combined authorities having additional powers and incentives, but we do not think this should be linked to those with elected Mayors – this places too much power in the hands of one individual.

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

Headline tier splits do not represent the true situation which exists. For example, Maidstone Borough Council notionally receives 40% of business rates versus Kent

County Council's 9% share. However, most of this disappears because of the tariff. It is important that tier splits should therefore be more transparent.

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

Fire funding should be removed. Linking fire authority funding to other local authority funding adds unnecessary complexity to the system. We believe that fire authorities would also prefer this approach.

Question 14: What are your views on how we could further incentivise growth under a -100% retention scheme? Are there additional incentives for growth that we should consider?

Recycling local business rates within an Enterprise Zone makes sense and is something which we are in very much in favour of.

[NB: Need to ask Economic Development – John Foster - for their input].

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

This is not something we believe is necessary. Most local authorities would be able to manage their own risks.

Question 16: Would you support the idea of introducing area-level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

This is something which does not affect Maidstone Borough Council and which we have no particular view on.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area level (including Combined Authority), or across all local authorities as set out in the options above?

Risk is something which should be managed locally, as local authorities have the power to influence outcomes. We are not able to manage risk across a wider area. Appeals tend to sit in the system for years with nothing being done – there must be prompter resolution of appeals.

[Ask Steve McGinnes for his input].

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

The process of resolving appeals is currently very opaque. More transparency and better local liaison with Valuation Office is needed. There are too many frivolous appeals and a better filter system to deter these is needed.

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

We do not believe that local authorities would find this attractive. The reasons for this are set out in our response to question 17.

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

A wide-ranging, across-the-board safety net goes against the principle of business rates retention. Any income protection system which is introduced should be set at the regional or local level.

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

This should be the responsibility of lower tier authorities, which in Maidstone is the Borough Council. Borough/District councils are collection authority and are closest to the businesses affected by this.

Question 22: What are your views on how decisions are taken to reduce the multiplier and the local discount powers?

Local authorities should be given both powers and should be constrained as little as possible.

Question 23: What are your views on increasing the multiplier after a reduction?

There should be no constraint on increasing the multiplier after a reduction.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

We have no views on this.

Question 25: What are your views on the flexibility levying authorities should have to set a rateable value threshold for the levy?

Maidstone Borough Council is not currently a levying authority. Levying authorities should be given the flexibility to protect small businesses and this is something we would wish to do.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

Maidstone Borough Council does not charge any supplements. It is important to keep it simple, protect business ratepayers and not impose unnecessary burdens on businesses.

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

This is something which we are strongly against. It is preferable for this power to remain with democratically accountable authorities, not with LEPs. The LEP that is responsible for Kent covers two very populous counties so may have difficulty understanding local issues and their impact on businesses.

Question 28: What are your views on arrangements for the duration and review of levies?

This is something which should not be rigid. It is important that maximum flexibility is built into the arrangements.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

It is important that the definition of infrastructure should be as wide as possible.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

The defining principle should be to keep this as simple as possible; preferably a single levy.

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

It is important to protect the interests of local business ratepayers and to have a system that all parties perceive as a transparent and accountable democratic process.

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

In general we would argue for a process that is transparent and simple. We would also like to see the funding arrangements fixed over the period of our Medium Term Financial Strategy, ie five years.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

We are strongly in favour of devolution and local accountability.

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

It is very important that the new system continues to maintain the requirement for a Collection Fund Account.

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

The current balanced budget calculation can be somewhat misleading in relation to business rates. It should be amended so that it can be demonstrated that both Council Tax and Business Rates are used by local authorities to balance their budgets.

Question 36: Do you have views on how the business rates data collection activities could be altered to collect and record information in a more timely, efficient and transparent manner?

It is important that the data collection documents (NNDR1 and NNDR3) are retained but consistency is important and they need to be published in a timely manner.

[NB: Mark will ask KFO's if they had responded and were willing to share their response.]

Agenda Item 14

POLICY AND RESOURCES COMMITTEE	**7th September 2016**
Is the final decision on the recommendations in this report to be made at this meeting?	**No**

Medium Term Financial Strategy and Efficiency Plan

Final Decision-Maker	Council
Lead Head of Service	Director of Finance and Business Improvement
Lead Officer and Report Author	Director of Finance and Business Improvement
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

1. That it agrees the draft Medium Term Financial Strategy and Efficiency Plan set out at Appendix A for submission to Council
2. That it agrees the financial projections and budget prioritisation contained within the Medium Term Financial Strategy and Efficiency Plan
3. That the Council accepts the Government's offer of a four year funding settlement, subject to recommendation 4
4. That authority be delegated to the Chief Executive and the Section 151 Officer, in consultation with the Chairman and Vice-Chairman of the Policy and Resources Committee, to make any amendments to the Efficiency Plan, within the parameters of the agreed Medium Term Financial Strategy, that may be required based on emerging new information between now and the submission deadline.

This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Timetable

Meeting	*Date*
Policy and Resources Committee	7th September 2016
Council	21st September 2016
Deadline for submission of Efficiency Plan	14th October 2016

Medium Term Financial Strategy and Efficiency Plan

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report sets out a combined Medium Term Financial Strategy for the five years 2017/18 to 2021/22 and Efficiency Plan in response to the government's four year local government finance settlement covering the years 2016/17 to 2019/20.

1.2 Updating the Medium Term Financial Strategy and submission of the Efficiency Plan are necessary steps towards agreeing a budget for 2017/18 and setting next year's Council Tax, decisions which the Council is due to make on 1st March 2017.

---

2. INTRODUCTION AND BACKGROUND

2.1 The Medium Term Financial Strategy is a five year rolling strategy that underpins the Council's revenue and capital spending plans. The Medium Term Financial Strategy is ultimately approved by full Council.

2.2 This year, the regular cycle for production of a Medium Term Financial Strategy (MTFS) coincides with a requirement set by Government for production of an Efficiency Plan. The Government made an offer of a fixed, four year local government finance settlement in February 2016, covering the years 2016/17 to 2019/20. The offer to each local authority is conditional on the authority producing and publishing on its website an Efficiency Plan that will outline how it will achieve its objectives within the available resources set out in the settlement.

2.3 The Government has not set out a template for the Efficiency Plan. The Secretary of State for Communities and Local Government has stated that the offer and the production of an Efficiency Plan are intended to be 'as simple and straightforward as possible . . . [it] is not about creating additional bureaucracy'.

2.4 Regardless of the Government's requirements, it is suggested that a local authority would wish for its own satisfaction to be assured that the Efficiency Plan is robust and sufficiently detailed and credible to demonstrate that the authority can manage within the projected levels of funding.

2.5 A local authority is not obliged to accept the offer set out in the four year local government finance settlement. However, the risk in not accepting the offer is that any subsequent year's final settlement may be less favourable than that outlined in February 2016. This risk applies equally to authorities in receipt of Revenue Support Grant (RSG), and those like Maidstone that are not scheduled to receive RSG in future years.

2.6 A report to Policy and Resources Committee on 29th June 2016 set out revenue budget projections for the five year period covered by the MTFS, together with the underlying assumptions. This indicated that the Council faced a budget gap which would reach between £3.4 million and £5.1 million by the end of the five year period. For planning purposes, a mid-range projection of a £4.2 million has been used.

2.7 As set out in Appendix 1 of the MTFS / Efficiency Plan, budget proposals with a favourable revenue impact of £2.9 million out of the required £4.2 million have now been identified. These have been evaluated as part of a budget prioritisation exercise, which has also provided a means of addressing the remaining budget gap of £1.3 million. It has done this by prioritising services and thereby highlighting those services which will be the focus for meeting the residual budget gap.

2.8 As can be seen in Appendix 1, the budget gap of £1.3 million arises towards the end of the five year Medium Term Financial Strategy period. The cumulative budget gap at the end of 2019/20, ie the end of the the period covered by the Efficiency Plan is £ million.

---

3. AVAILABLE OPTIONS

3.1 As set out Section 2, a local authority is not obliged to accept the offer set out in the four year local government finance settlement or to prepare an Efficiency Plan. The options are therefore:

- Do nothing – do not prepare an Efficiency Plan or accept the Government's funding offer.

- Submit the MTFS / Efficiency Plan and accept the funding offer.

---

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 It could be argued that, as the Council is not due to receive RSG after 2016/17, there is nothing to be gained by accepting the funding offer. However, there is nevertheless a risk of a more unfavourable outcome for Councils that do not accept the offer. For example, this Council is already due to be subject to a 'tariff adjustment' to business rates retained by the authority in 2019/20, which is effectively negative RSG. The tariff adjustment amounts to £1.589 million. This tariff adjustment could be increased if the amount of overall local government funding were revised downwards and those authorities that had not accepted the funding offer were to bear a disproportionate share of the cut.

4.2 After 2019/20, the business rates retention regime is likely to change, with the local authority share of business rates increasing from 50% to 100%.

There is a separate report on the government’s consultation on these changes on the Committee’s agenda for this meeting.

4.3 Given what is known currently, Officers' recommendation to Members is that the Council accepts the offer set out in the four year finance settlement and submits an Efficiency Plan.

4.4 Advice on the contents of the Efficiency Plan is still emerging. Given the formation of a new Government, changes in policy cannot be ruled out. For both these reasons, it is further recommended that authority be delegated to the Chief Executive and the Section 151 Officer, in consultation with the Chairman and Vice-Chairman of the Policy and Resources Committee, to make any amendments to the Efficiency Plan that may be required. The Plan will be reviewed by the Policy and Resources Committee regularly as part of the normal annual process of reporting and council budget setting, for example in December following the Government’s financial settlement statement and February in preparation for Full Council where the authority’s budget for the subsequent financial year is agreed. Accordingly, there will be Member involvement in the ongoing development and implementation of the Efficiency Plan.

---

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 Policy and Resources Committee has already received two reports on the MTFS and Efficiency Plan:

- On 29 June the Committee agreed the projections underlying the MTFS including the assumed level of Council Tax. It also agreed the overall approach for development of the Efficiency Plan.

- On 26 July the Committee received an update on progress with development of the Efficiency Plan.

5.2 In addition, all Members were invited to a briefing on 4th July at which the Director of Finance and Business Improvement described the Council’s financial position and the way forward. Committee Chairmen and Vice-Chairmen, the Deputy Leader of the Council and Deputy Leaders of the two largest Council groups (or their substitutes) also took part in a workshop on 4th August to discuss the service prioritisation process that is described in Section 4 of the MTFS / Efficiency Plan.

---

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 Agreement of the MTFS / Efficiency Plan is the first step in the process of preparing an annual budget for 2017/18. It is therefore appropriate, having agreed the MTFS / Efficiency Plan, which sets the overall framework for preparation of the budget, to consult more widely. Proposed consultation arrangements are set out in Section 9 of the MTFS / Efficiency Plan.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in the relevant sections of the report. Where the Committee is concerned about a specific risk it is possible to modify the strategic revenue projection prior to its approval.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. It is important that the committee gives consideration to the strategic financial consequences of the recommendations in this report.	Director of Finance and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	The Council has a statutory obligation to set a balanced	Team Leader Corporate

	budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Governance
Equality Impact Needs Assessment	The report sets out a policy that will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
Environmental/Sustainable Development	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Community Safety	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Human Rights Act	None	
Procurement	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Asset Management	Resources available for asset management are contained within the strategic revenue projections set out in this report.	Director of Finance and Business Improvement

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Medium Term Financial Strategy and Efficiency Plan

---

9. BACKGROUND PAPERS

Report to Policy and Resources Committee, 29.6.16, 'Medium Term Financial Strategy and Efficiency Plan'

Report to Policy and Resources Committee, 26.7.16, 'Medium Term Financial Strategy and Efficiency Plan'

APPENDIX A

DRAFT

MAIDSTONE BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY AND EFFICIENCY PLAN

CONTENTS

1. OVERVIEW AND SUMMARY OF EFFICIENCY PLAN

Background

1.1 Each year, the Council prepares a Medium Term Financial Strategy (MTFS) that sets out how it plans to deliver its corporate objectives in financial terms over the next five years.

1.2 The Government has offered a four year funding settlement to local authorities, covering the years 2016/17 to 2019/20. This provides some certainty about the level of income that the Council can expect for the first three years covered by the next MTFS, ie 2017/18 to 2019/20.

1.3 The Government's funding offer requires local authorities to prepare an Efficiency Plan that shows how they will utilise the available funding. The MTFS fulfils a similar purpose, as it reflects projected levels of funding over the period that it covers. It can therefore be seen that the MTFS and the Efficiency Plan are closely linked.

1.4 For convenience, the Council has adopted a unified approach to preparation of the two documents, and will use the relevant sections of the MTFS to meet the requirement for an Efficiency Plan.

Strategic Context

1.5 The Council has set two over-riding corporate priorities: keeping Maidstone Borough an attractive place for all; and securing a successful economy for Maidstone Borough. These will be delivered both through our day-to-day revenue expenditure and through investment in the borough's infrastructure as part of the Council's capital programme. Funding for revenue spending is tightly constrained, as set out below, but the Council will seek to optimise delivery of the priorities within these constraints.

1.6 There are a different set of issues with capital investment. As set out in section 6 below, funds have been set aside for capital investment and further funding is available, in principle, through prudential borrowing. The challenge is to ensure that capital investment delivers against the Council's priorities, providing the required return on investment for the community.

Revenue funding

1.7 The Government's offer of a four year funding settlement was reported to Council when it set a budget for 2016/17, in March 2016. The MTFS for the five years 2016/17 – 2020/21, as presented in March, took account of the funding settlement in quantifying available resources over the next five years.

1.8 Given the funding settlement figures, the forecasts presented in March indicated that savings and efficiencies totalling £6.5 million would be required to cover the gap between projected resources and predicted spend. Savings of £3 million were proposed, leaving a budget gap of £3.5 million. See details below.

	16/17	17/18	18/19	19/20	20/21
	£ million	£ million	£ million	£ million	£ million
Total Resources Available (A)	33.8	33.5	34.1	33.2	32.5
Predicted Expenditure Requirement (B)	36.0	34.8	34.3	34.8	33.7
Savings & Efficiencies Required (B-A)	2.2	1.3	0.2	1.6	1.2
Required – Cumulative (C)	2.2	3.5	3.7	5.3	6.5
Savings Proposals – Cumulative (D)	2.2	2.5	2.9	3.0	3.0
Still to be identified (C-D)	-	1.0	0.8	2.3	3.5

1.9 In accordance with legislative requirements the Council set a balanced budget for 2016/17 at Full Council in March 2016. On the basis of existing agreed projections, the four year funding settlement will not allow the Council to set a balanced budget in future years, with the budget gap widening from £1 million in 2017/18 to £3.5 million in 2020/21 unless other actions are taken.

1.10 The projections set out above have now been updated in the light of further developments since March 2016 and have been rolled forward to 2021/22. Looking further ahead, there is an additional shortfall of £0.7 million in 2021/22, making a total gap in our 5 year planning period of £4.2m as reported to Policy and Resources Committee in June 2016.

1.11 In developing the current MTFS / Efficiency Plan, there are therefore two main challenges:

- Ensuring that the savings proposed in March 2016 are delivered and are sustainable
- Identifying a strategy to address the remaining budget gap of £4.2 million

1.12 More broadly, given continuing uncertainty about the projections, and in particular the position after 2019/20, it is important that there is a clear strategy that will allow the Council to address future financial challenges and risks.

The approach to meeting the two main challenges described is set out below.

Delivering existing savings proposals

1.13 Existing savings proposals have been reviewed. Where appropriate they have been adjusted, for example where the savings proposals are now no longer considered to be deliverable, or where they are not consistent with the rest of the strategy. The adjustments to the savings proposals are set out in Appendix 1, Revenue Projections 2017/18 – 2021/22.

Most of the savings proposals remain valid. As they form an inherent part of the MTFS, it is therefore essential that they are delivered. Officers are developing, or have developed, implementation plans. Progress with the savings will be monitored carefully as part of the Council's regular quarterly financial monitoring process.

Addressing the budget gap

1.14 The remaining budget gap of £4.2 million is very significant in relation to the Council's net expenditure budget of around £20 million. Owing to its size, no single initiative can be expected to close the gap. A broader, cross-cutting approach is necessary.

1.14 A two-fold approach has been taken to addressing the budget gap. First, proposed budget savings have been identified, using a conventional approach. Starting with the Council's Strategic Plan priorities, Heads of Service were asked to put forward savings proposals, which were then subject to challenge. These proposals are shown in summary form in Appendix 1 in the line 'New Savings Proposals'. The savings arise from a blend of different approaches: given the size of the budget gap, there is no single approach that is sufficient by itself. The following table sets out the generic approaches taken and the amounts contributed by each.

	£000
Delivering service outcomes in different ways	1,030
Efficiency improvements / transformation	805
Additional income	790
Reconfiguration of services	783

1.16 These savings proposals, even if agreed in full, would not be sufficient to close the budget gap for the whole period of the plan. Accordingly, a more radical approach has been taken to identify further savings. This has involved refocusing on the full range of services delivered by the Council, and considering whether the services delivered and the way in which they are delivered reflect the Council's strategy and aspirations.

1.17 The rationale for the approach is this: comparing what we want to deliver with what is actually delivered will indicate any potential misallocation of resources, and may allow resources to be freed up.

1.18 The technique used for this was a MoSCoW (must/should/could/won't) analysis of the Council's services. Each service was assigned one of the following four descriptions:

MUST - essential to the Council
SHOULD - important and its absence would weaken the Council
COULD - useful but the Council is still viable without it
WON'T - essential and can wait for now

The standard of service, both current and desired, was then categorised as gold, silver or bronze.

1.19 The outcome of an indicative service assessment using this technique is set out at Appendix 2. This approach has allowed the Council's expenditure to be prioritised. This in turn assists with the evaluation of the detailed Officer spending proposals described above and will highlight those services that need to be the focus for meeting the residual budget gap. The prioritisation approach will also form the basis of wider stakeholder consultation, as detailed budget proposals are developed for 2017/18.

2 NATIONAL AND LOCAL CONTEXT

Economic Outlook 2017 – 2022

2.1 The current national economic outlook is not favourable, making it even more important that the Council has financial plans that are robust and capable of withstanding shocks. Specifically, indications are that inflation is likely to rise, increasing the Council's cost base, but economic growth will slow down, with a potential reduction in tax receipts for national and local government.

2.2 The Retail Price Index (RPI) in the year to March 2016 rose to 1.6%, up from 0.9% in March 2015. The Consumer Price Index (CPI) 12 month rate (the amount prices change over a year) between March 2015 and March 2016 stood at 0.5%. The Office for Budget Responsibility published its Economic and Fiscal Outlook in March 2016 setting out its forecast up until 2020-21. This reduced down productivity growth by around 0.3 percentage points a year from the November 2016 review to an average of 2.1% a year over the rest of the decade. However, this was before the vote on the European Union (EU) referendum and based on Britain remaining in the EU.

2.3 Following the referendum, many commentators expect a slowdown in economic growth and potentially a recession. For example, PricewaterhouseCoopers in July 2016 projected UK growth to slow to 1.6% in 2016 and 0.6% in 2017. They identified that the projected slowdown will be as a result of reduced business investment following the referendum vote. On the more positive side it is predicted that consumer spending growth will remain stronger than the GDP growth and that there will be a positive contribution to GDP from growth in net trade assisted by the fall in sterling.

2.4 The Monetary Policy Committee (MPC) in August reduced the base rate from the 0.5% previously held for seven years to 0.25%. The MPC may well reduce the base rate further in the coming months. The market reaction to the recent reduction has led to at least one major bank indicating that it may reduce its own interest rates to below base rate.

2.5 Trying to look ahead to predict the national economic position is challenging with the vote to leave the European Union affecting the current economic outlook and a lack of certainty regarding what a post Brexit UK will look like economically.

Local Government Funding

2.6 Central government funding for local authorities has reduced very substantially since 2010. At the same time, the coalition government of 2010-15 and David Cameron's Conservative government of 2015-16 made significant changes to the way that local government is financed. It is too early to say whether these trends will continue under the new Conservative government formed in July 2016. However, there is certain to be further change, given plans already announced by the previous government, and given the challenging economic environment.

2.7 A key change in the structure of local government funding was the introduction of 50% business rates retention for local authorities in 2013. This was part of an agenda of 'localism', giving more freedom and flexibility to local authorities. In practice, the benefit of receiving 50% of business rates (with the 50% split 40:9:1 between the District Councils, County Council and Fire Authority in Kent) was severely limited by the system of tariffs and top-ups that was introduced at the same time, with the intention of equalising business rates income between local authorities. Furthermore, a levy is paid to central government on business rates growth.

2.8 This means that the final value of the retained business rates for this Council is currently 7% of the amount collected. In practice this means that in 2016/17 the Council is projected to collect £61 million of Business Rates from Maidstone businesses of which just £4.3 million will be retained by the borough council.

2.9 The adverse impact of the levy for Maidstone has been mitigated by the business rates pooling arrangement that most Kent local authorities have elected to join. This allows most of the levy to be redistributed within the county.

2.10 The remaining 50% of business rates continued to go to central government, to be recycled back to local authorities in the form of Revenue Support Grant (RSG). RSG is in principle needs-based but the allocation of RSG between authorities was frozen in 2013, with the next re-assessment of needs due to take place in 2020.

2.11 The Government is now consulting on the introduction of 100% business rates retention with effect from 2020. As with 50% business rates retention, this would be linked to a mechanism for rates equalisation, which would mean that probably only a relatively small fraction of the 100% would in practice be retained by the Council. The additional income would be accompanied by devolution of further responsibilities to local government, details of which are currently subject to consultation by Government.

2.12 Whilst business rates have been and are likely to continue to be the main focus of Government reforms, the Council's principal source of funding remains Council Tax. Under current legislation, Council Tax increases are subject to a referendum if they exceed a specified limit, which is set each year by the government. For 2016/17 the limit was the greater of 2% or £5.

2.13 There is the potential for the Council to grow both its Council Tax and Business Rates income, if the numbers of households and businesses respectively grow. However, the scope for growth in the short term is limited.

2.14 A further significant source of income for the Council is New Homes Bonus. The Government distributes over £1 billion of grant in this form, based on increases in the local housing stock. Maidstone is due to receive £5.1 million in New Homes Bonus in 2016/17. Council has agreed that this be allocated to fund the capital programme. The future of New Homes Bonus is uncertain. Consultation on future arrangements for the calculation of New Homes Bonus under the banner of "Sharpening the Incentive" was undertaken by Government between December 2015 and March 2016. The Department for Communities and Local Government are currently analysing the feedback. The overall quantum of resources for local government through taxation is reducing. Consequently the resources available for New Homes Bonus may also be impacted by the outcome of consultation on Business Rates Retention.

2.15 Further details of how the Council funds its services are set out in section 5.

Stakeholder Analysis

2.16 Development of the MTFS / Efficiency Plan needs to recognise the Council's position in relation to a wide range of stakeholders. Income growth, for example, may mean additional contributions from Council Tax payers and businesses.

2.17 The table below maps out the key external stakeholders for the Council and how they are involved in the process of developing the financial strategy. Further details about specific work on consultation are set out in Section 9 below.

Stakeholder	Approach	Key interests & issues	Action	Communication Channels
Parish Councils	Keep satisfied	Planning/enforcement Environment Playgrounds	Keep informed Regular organised engagement	Quarterly meetings with KALC representatives and Parish Conference Parish liaison officer Alert to roadshow Survey/briefings sent in good time for them to respond.
Citizens Advice Bureau and grant funded organisations	Engage and manage	Keeping funding Keeping Accommodation Supporting particular service user groups	Regular contact and information	Chair and Vice Chair of CHE, and leadership team relationships Briefings
Mid Kent	Engage	Shared services	Engage	Through MKS

Stakeholder	Approach	Key interests & issues	Action	Communication Channels
Services Board	and seek to influence	Savings		Board and Shared Service Boards , 151 officer meetings and Chief Executive meetings
KCC	Engage and Seek to influence	Waste Management, Public Realm, Economic Development, Public health , Maidstone families matter Planning, Infrastructure including Transport, Devolution Potential for enhanced two tier working Residents	Engage	Project teams and boards Briefingpapers Chief Executive and Wider Leadership Team
Businesses	Inform	Business rates/transport infrastructure/Town Centre Parking / CCTV	Engage	Through channels such as MBEP, One Maidstone and the Chamber of Commerce Survey
NHS	Monitor	Public health, community safety Housing	Notify	Briefing from contacts
Kent Police	Engage and seek to influence	CCTV, public health, community safety, Housing, Emergency planning	Engage	Briefing from contacts
Kent Fire and Rescue	Monitor	CCTV, public health, community safety, housing?, emergency planning	Notify	Briefing from contacts
Department of Communities and Local	Monitor	Managing within our resources	Notify	Formal contact with Efficiency Plan and budget

Stakeholder	Approach	Key interests & issues	Action	Communication Channels
Government		Set a balanced budget Council tax rise		returns
Department of Work and Pensions – Job Centre Plus	Monitor	Accommodation Impact on residents	Notify	Briefing and Information
KCC Members	Keep informed	All services	Keep Informed Seek Support	Survey Briefing through contacts Inform of Roadshow
MPs	Keep informed	All services, particularly those with a national dimension eg Flooding	Keep Informed Seek Support	Direct briefing Inform of Roadshow
Residents	Keep Informed Engage	All (front facing services in particular)	Engage and Inform	Survey Information in the Press Website Information On-line survey Social Media Face to face roadshows
Staff	Keep Informed	Jobs Resident Interests Service Standards Doing more for less	Engage and Inform Regular contact	All existing internal communication channels
Local Media	Keep Informed	Cuts and Changes to services	Inform proactive Reactive	Regular briefings and press releases
Other Kent District Councils	Keep Informed	Shared savings and efficiencies	Inform	Briefing for Leaders and Kent Joint Chiefs
Charities and Community Groups	Keep informed	Resident Interests Opportunity to take on services	Inform	Briefings Share survey

3 CORPORATE OBJECTIVES AND KEY PRIORITIES

3.1 The Medium Term Financial Strategy and Efficiency Plan are intended to deliver the Council's corporate priorities. As well as a vision and mission the Council has agreed two corporate priorities for 2015-2020 underpinned by 8 areas of action:

Corporate Priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Action Areas:

- Providing a clean and safe environment
- Encouraging good health and wellbeing
- Respecting the character and heritage of our Borough
- Ensuring there are good leisure and cultural attractions
- Enhancing the appeal of the town centre for everyone
- Securing Improvements to the transport infrastructure of our Borough
- Promoting a range of employment opportunities and skills required across our Borough
- Planning for sufficient homes to meet our Borough's needs

For 2016/17 our particular focus is on

- Housing – tackling homelessness and improving supply
- Completing the Local Plan
- Creating a sustainable future for Mote Park
- Town Centre Regeneration
- Devolution
- Maintaining a robust Medium Term Financial Plan

3.2 We recognise that to meet our corporate priorities, working with our partners is essential, along with ensuring all our services provide value for money. Budget prioritisation is focused on ensuring we deliver our priorities with outcomes for our residents in relation to the action areas above. The plan and strategy reflect the level of resources required to achieve the key outcomes from the Council's priorities within the strategic plan.

4 REVENUE EXPENDITURE

Budget Pressures

4.1 The Council's focus on service delivery means that expenditure budgets have to be dynamic, reflecting changing service priorities and pressures. Factors influencing expenditure include both the Council's own strategic priorities and external pressures such as inflation.

4.2 Housing

Developments in the housing market have created very significant budget pressures for the Council. A recent Strategic Housing Market Assessment indicates that 43% of households in Maidstone are unable to resolve their own housing issues on the open market. Rents have risen and are significantly above the local housing allowance rate. Homeless households in temporary accommodation have increased in number, with a corresponding increase in costs, leading to a £500,000 overspend against the temporary accommodation budget in 2015/16. The Council aims to reduce the cost of providing temporary accommodation through direct investment in property, which avoids the cost of expensive third party accommodation. The Council is still developing it's capacity to respond in this way which means that, at the very least, there will be a continued short term impact on budget from the Council meeting its homelessness obligations.

4.3 Planning

The Council submitted a draft Local Plan in May 2016. This involved significant one-off costs. The Local Plan will be subject to an Inspector's Hearing in Autumn 2016. Further one-off costs are anticipated, although the exact amount will depend on what challenges the Local Plan faces.

4.4 Museum and Cultural Activities

The Council is committed to developing Maidstone as a landmark cultural destination. The services which enable this are not statutory in nature, so it is essential that maximum impact is achieved from minimal Council expenditure, levering in external expertise and funds wherever possible.

4.5 Commercialisation

Underlying all service delivery is a commitment to maximising external income from services wherever possible, trading on the Council's areas of skills and experience. The overall approach was set out in a report agreed by Members in August 2014. The theme of commercialisation continues to be developed.

4.6 Transformation

More generally, the Council is making use of the transitional grant of £394,000 that it is due to receive from government in 2016/17 and

2017/18 to fund transformation initiatives. This has included work on channel shift and will include work to enable the savings that have been proposed to help meet the budget gap.

Inflation

4.7 Current inflation rates remain low. The annual increase in Consumer Price Index inflation (CPI) for the year to June 2016 is 0.5% (up from 0.3% for the year to May 2016). While central government no longer use the Retail Price Index inflation (RPI) a number of contractual arrangements at this Council do. The published increase in RPI for the year to June 2016 is 0.9% (up from 0.7% for the year to May 2016).

The Bank of England MPC has recently reduced the base rate and there are indications that it will consider doing so again before the end of the year. This is a reaction to the predicted decline in growth. This action is likely to impact on mortgages which form an element of CPI and RPI and will have a reducing effect on inflation. The inverse of this can be expected from the increase in the cost of imported goods due to the, already seen, reduction in the exchange rate. At this time the inflation indices used in the calculation of growth in the strategic revenue projection given at Appendix 1 have been kept the same as those used by officers in developing the figures for the initial consideration of the MTFS by this Committee on 29th June 2016. The following table sets out the assumptions made:

	Increase	
Employee Costs	1.0%	A base assumption relating to the growth in salary for the year
	0.5%	The annual cost of performance related incremental increases for
	0.2%	Agreed by Policy & resources in February 2016 this increase reflects the growth necessary to fund the national living wage.
Electricity	2.0%	This increase is based on known factors relating to the Council's contract with Laser
Gas	0.0%	There is no expected increase in the cost of Gas
Water	0.0%	There is no expected increase in the cost of water supply or disposal
Fuel	1.0%	A predicted average increase based on previous trends as no forward looking information is available.
Business Rates	0.8%	Based on predicted long term changes in business rates.
Insurance	0.5%	The increase in insurance premiums has been higher in previous years but there have been no significant market issues.
Rent	5.0%	This increase is now confirmed as due for October 2018. The strategic revenue projection has been amended to allow for this. A review of Office Accommodation is being launched.

Service Prioritisation

4.8 As a result of the funding gap described in paragraph 1.6 above, the Council has undertaken an initial assessment of the different services it provides in order to assess to what extent they meet its corporate priorities. This has been expressed in the form of a MoSCoW (must/should/could/won't) analysis. Each service was assigned one of the following four descriptions:

MUST - essential to the Council
SHOULD - important and its absence would weaken the Council
COULD - useful but the Council is still viable without it
WON'T - essential and can wait for now

The standard of service, both current and desired, was then categorised as gold, silver or bronze.

4.9 The outcome of an initial service assessment using this technique is set out at Appendix 2. This indicates that around 70% of services in terms of budget are categorised as 'MUST' and most of the rest are categorised as 'SHOULD'. Even services that are essential need to be delivered as cost-effectively as possible, so the implications of this categorisation are as follows.

- MUST – these services/activities will be addressed as part of our work on transformation. We will consider whether service outcomes can be delivered more cost-effectively in different ways, by carrying out contract / commissioning reviews. We will look for potential efficiency improvements and opportunities to generate additional income. Reports will be made to the relevant service committees to establish objectives, outcomes and options to be assessed.

- SHOULD – these services/activities will be reviewed and options will include reductions in funding and consequent reconfiguration of service scope and levels.

5 FUNDING

Revenue support grant

5.1 On the 10 February 2016 the Department for Communities and Local Government (DCLG) notified the council of the final figure for revenue support grant in 2016/17. At that time the government proposed a four year settlement that the Council may choose to accept. The revenue support grant for 2016/17 is £0.87m and the offer for the following three years 2017/18 to 2019/20 is zero. In addition the Government intend to reduce the business rates available to the Council by £1.589m in the financial year 2019/20. No changes to baseline and tariff charges will be made to allow for this reduction and it can therefore be seen as outside of the current business rates system and more in the nature of a negative revenue support grant.

5.2 At its meeting in June 2016 the Council's Policy and Resources Committee agreed to the principle of accepting the four year settlement and the development of an efficiency plan. The funding assumptions detailed below assume that the settlement provided by the DCLG will be as received up to 2019/20.

Retained business rates

5.3 The Government intends to introduce changes to business rates retention by 2020/21, following on from the end of the proposed four year settlement. The Council has carefully considered the proposals put forward in the Government's consultation and submitted a response.

5.4 The proposals include 100% local retention of business rates along with a series of additional responsibilities and a realignment of the shares of business rates received by each tier of local government. As with the current 50% localisation of business rates, the proposal for 100% localisation will mean substantially less than that amount being made available to Maidstone Council with the vast majority of the resource being redistributed elsewhere within local government. The Council can also expect to lose other specific grants such as Housing Benefit Administration Grant and potentially receive additional responsibilities.

5.5 The strategic revenue projection for 2020/21 and 2021/22 assumes that the impact of 100% retention and the adjusted redistribution by tier will mean that any change in the Council's baseline business rates would be counteracted by loss of other grants so a net zero impact has been assumed.

5.6 The impact of additional responsibilities has been modelled as part of growth pressures on the budget and an estimate of the likely financial impact included in the financial projections.

Business rates growth and the Kent Business Rates Pool

5.7 As a member of the Kent Business Rates Pool the council has the ability to retain more of the income from growth in business rates than it otherwise would. This is because the pool members who are charged a levy (district councils) are sheltered by the pool members who receive a top-up (major preceptors). Under a specific agreement made between Maidstone Borough Council and KCC in 2014/15 and across Kent in 2015/16, the additional benefit is shared with Kent County Council. The shares and their value for the two years the scheme has been in operation are set out below:

SHARE BY PURPOSE		**2014/15 £**	**2015/16 £**	**Estimate 2016/17 £**
Maidstone Borough Council	30%	144,119	30,941	214,000
Kent County Council	30%	144,119	30,941	214,000
Growth Fund	30%	144,119	30,941	214,000
Contingency	10%	48,040	10,314	73,000
	100%	**480,397**	**103,137**	**715,000**

Table: Shares of the Kent Business Rates pool since commencement

5.8 It should be noted that the figure for 2015/16 was less than estimated. This is due to one of the high risk factors of locally retained business rates. The Council saw a higher than expected level of appeals for which a provision was required in 2015/16. This situation was the result of legislative change and is not expected to recur in 2016/17 or later years.

5.9 Previously the Council held the income from growth in reserve and committed it in the year following its receipt. This meant that the resources were not yet committed and the Council had an opportunity to modify its plans for using the resources depending on how much became available. In setting the 2016/17 budget the Council approved the use of the stable element of business rates growth, which is retained by the Council regardless of whether or not it is a member of the pool, into its base budget to maintain overall resource levels. From the current year onwards the earmarked reserve will hold only the growth protected by membership of the pool, with the intention of using it to implement the Council's economic development strategy.

Council Tax Levels

5.10 Total Council Tax is a product of the tax base and the level of tax set by Council. The tax base is a value derived from the number of chargeable residential properties within the borough and their band, which is based on valuation ranges, adjusted by all discounts and exemptions. The tax base for 2015/16 was set at 58,525.4.

5.11 The Council will soon set its tax base for 2017/18 and this will be based on data extracted from the Council Tax records in mid-October 2016.

5.12 A major factor to be considered in setting the tax base for 2017/18 is the agreed scheme of local council tax support. This scheme is undergoing a Kent wide review this year and the Council is consulting with residents on the options for the final scheme. It is currently the intention to report to Members with recommendations for Council in December 2016.

5.13 Until that time the strategic revenue projection is based upon the estimated data used and agreed by this Committee in June 2016 at 59,148.2 for 2017/18.

5.14 The level of council tax increase for 2017/18 is a decision that will be made at Council on 1 March 2017 based on an assumption made by Policy and Resources committee. At this time a decision on the increase in council tax is solely for planning purposes and to enable the necessary public consultation on the Council's budget and MTFS.

5.15 As a general principle, the Council aims to set a balanced budget that enables it to provide the services required by its customers. The significant risks facing the future financial stability of the Council are considered when setting the Council Tax along with the strategic revenue projection's assessment of the future reductions in resource levels.

5.16 In considering this issue Members should recognise the need to set a level of council tax commensurate with the level of service provision and to avoid the use of short term decisions that risk the council's medium term liquidity and financial resilience. The actual increase is an issue for Council as a whole.

5.17 For many years the council's ability to increase the level of council tax has been limited firstly by a cap and more recently by the need to hold a referendum for increases over a government set limit. The government limit set last year was the greater of 2% or £5.00. The Council approved an increase of £4.95 (2.1%).

5.18 For planning purposes Policy and Resources Committee has adopted an annual increase in the tax base equivalent to 1% and an increase of £4.95 per annum in the charge, reverting to 2% in 2020/21 when this becomes a greater figure than £4.95.

Local income from fees and charges

5.19 The Council has a policy that guides officers and councillors to set the appropriate level of fees and charges based on demand, affordability and external factors. The policy is not influenced directly by the MTFS with the exception that charges should be maximised within the limits of the policy.

5.20 In developing the strategic revenue projection for 2016/17 the committee requested that a broad assumption of a 1% increase in future fees and charges be included in the MTFS. To reflect this requirement a £70,000 annual increase in other income is shown in the strategic revenue projection.

5.21 The council has approved a commercialisation strategy which has set a target for net income gained from new and enhanced activities of £1m over the five year period from 2015/16 to 2019/20.

5.22 The delivery of each proposal will be the responsibility of an individual service committee. For this reason the £1m target has not been reflected in the strategic revenue projection until individual committees have considered the level of income achievable

Summary of Resources

5.23 The table below summarises the resources as set out in the strategic revenue projection.

Source	2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
Retained Business Rates	3,042	3,132	3,232	3,297	3,324
BR Growth in base budget	600	600	600	600	600
BR Growth not committed in base budget – see para 5.9	576	576	576	576	576
BR Adjustment	0	0	-1,589	-1,621	-1,634
Total All Business Rates	**4,218**	**4,308**	**2,819**	**2,852**	**2,866**
Council Tax	14,527	14,968	15,417	15,878	16,353
Other Income	16,835	16,905	16,975	17,045	17,115
Total Resources	**35,580**	**36,181**	**35,211**	**35,775**	**36,334**

6 CAPITAL PROGRAMME – EXPENDITURE AND FUNDING

6.1 The currently approved capital programme is set out at Appendix 3. The detail has been amended from the approved programme reported to Council on 2nd March 2016 following the approval by the Policy and Resources Committee, on 26th July 2016, of the capital outturn and carry forward of unused capital resources. Resources in earmarked reserves arising from the set aside of New Homes Bonus will total £11.1 million by 31st March 2017. The balance of unutilised resources by the end of the five year programme is currently estimated to be £2.6 million. The New Homes Bonus resources were originally set aside by this Council to assist in the affordability of the Infrastructure Delivery Plan. Resources have been utilised for infrastructure schemes including the Town Centre, the Bridges Gyratory and the Medway Towpath. Some resources have been utilised for commercial property acquisitions and capital expenditure to deliver commercial activity. The Council is currently considering consultation responses concerning the introduction of a Community Infrastructure Levy and it is anticipated that this will be the subject of Public Examination in 2017.

6.2 During 2015/16 £2.1 million of the Council's earmarked resources were used to finance expenditure for which the Council approved prudential borrowing. Should the Council wish to borrow to finance this expenditure it can do so at a later date thus substituting the resources used to finance the expenditure. However, it would be necessary to ensure the revenue resources are available to afford the necessary debt repayments. It is therefore essential to ensure that these regeneration schemes deliver revenue income.

6.3 The current funding assumptions used in the programme are set out in the table below along with the expected total expenditure:

Funding Source	**2016/17 £,000**	**2017/18 £,000**	**2018/19 £,000**	**2019/20 £,000**	**2020/21 £,000**
Earmarked Reserves	11,146	4,998	2,720	1,970	1,456
Capital Grants	450	450	450	450	450
Capital Receipts	771	0	0	0	0
Prudential Borrowing	9,960	15,525	11,000	0	0
Total Resources	**22,327**	**20,973**	**14,170**	**2,420**	**1,906**
Estimated Expenditure	20,870	21,200	13,001	2,314	1,815
Cumulative Balance of Resources	**1,457**	**1,230**	**2,399**	**2,506**	**2,597**

6.4 It remains necessary for officers to complete a full review of the schemes within the programme and the expenditure proposals will be updated in the programme in time for the December meeting of The Policy and Resources committee. The update will include a projection into a further year 2021/22 to match the period of the capital programme with the period covered by the medium term financial strategy.

7 BALANCES AND EARMARKED RESERVES

7.1 As at 1st April 2016 General Fund balances of £4.6 million exist alongside earmarked reserves of £14.3 million. The table below sets out the earmarked reserves held at the beginning of the current year and their purpose:

	1st April 2016 £,000
Capital Support (New Homes Bonus)	9,620
Local Plan (New Homes Bonus)	135
Neighbourhood Planning	107
Business Rates Reserves	4,253
Trading Account Surpluses	179
Total	**14,294**

7.2 The table shows the balance of Capital Support Funding at the beginning of the year. The capital programme set out elsewhere in the MTFS report shows a programme that will spend this resource and the majority of the New Homes Bonus due in 2016/17.

7.3 The Business Rates Reserves are a combination of resources set aside to finance the deficit on the Collection Fund at the end of 2015/16 and the resources held for use on business growth and related economic development projects in 2016/17.

7.4 Trading account surpluses reflect the balance held in surplus on trading accounts such as building control and land charges that cannot generate surpluses for the general fund but can break even over a period of years. These surpluses are utilised in years where the trading accounts are in deficit.

7.5 It should be noted that the General Fund balance of £4.6 million includes a series of assumptions made in prior years about the use of the resources for purposes such as a commercialisation risk and an invest to save fund. These are not set aside in the formal way that earmarked reserves have been.

7.6 The Council has set a lower limit below which the Committee cannot take general fund balances and this is £2 million.

8 BUDGET RISKS

8.1 In preparing a Medium Term Financial Strategy, it is important to consider the risks that pose threats to its implementation. This section sets out the key risks that have been identified and how they can be mitigated.

8.2 The Council is actively seeking to embed a risk management approach as part of its approach to doing business. It has adopted a risk management framework, which incorporates a process for identifying risks and assigning ownership of specific risks at an appropriate management level within the Council. Details of risks are captured in risk registers at a corporate, service and project level.

8.3 The major risk areas that have been identified as potentially threatening the Medium Term Financial Strategy are as follows.

National and local economic environment

8.4 As set out in section 2, the current economic outlook is uncertain. Recession would impact the Council by reducing its income and creating additional cost pressures, for example around homelessness. These risks are mitigated to an extent by holding balances and reserves. These give the Council the ability to manage fluctuations in income and give it time to adapt to changed circumstances.

Price inflation

8.5 Linked to the overall economic position is the specific threat of price inflation. Payroll accounts for the majority of the Council's costs, so wage inflation in particular will have an impact. Risk mitigation is similar to that for overall economic risks.

Changes in government approach to local government financing

8.6 A new government was formed in July 2016 and it remains to be seen whether its approach to local government financing will be the same as the previous government's. Although the Council is not heavily dependent on government grants, it must operate within the overall framework for local government funding, which is set at a national level and is highly prescriptive. Previous governments have taken advantage of the adaptability of local authorities to reduce central funding for local government significantly. In an environment where national finances will continue to be under pressure, further changes cannot be ruled out, notwithstanding the four year funding settlement for local government announced earlier in 2016.

Delivery of savings & efficiencies

8.7 The Council has already committed to delivering £3 million of savings from 2016/17 onwards. This is a major challenge and will place pressure on the Council's capacity for management and change. The risk can be mitigated by effective planning and management but there remains a significant residual risk. The Council is making use of the transitional grant of £394,000 that it is due to receive from government in 2016/17 and 2017/18 to fund work that will help to deliver these savings.

Changed or new responsibilities

8.8 The government's plans for 100% business rates retention involve local government taking on further functions. It is not clear at this stage what functions, if any, will come to this Council, or whether the level of funding will be adequate. Successive national governments have supported a 'new burdens doctrine' that requires Whitehall departments to justify why new duties, powers, targets and other bureaucratic burdens should be placed on local authorities, as well as how much these policies and initiatives will cost and where the money will come from to pay for them. In practice, there has been considerable variation in the interpretation of this doctrine, and with a large scale transfer of functions there is scope for local authorities to face unfunded burdens.

Unforeseen spending pressures

8.9 Such pressures include the cost of temporary accommodation, which has led to overspends in the Council in recent years, the cost of dealing with planning appeals, and the cost of temporary staff where it has not been possible to make permanent appointments. To an extent these pressures can be mitigated by holding reserves, which are then utilised if there is an unavoidable spending pressure in any given year. However, the resources would need to replenished subsequently. The pressure would in any case have to be addressed as part of budget setting in the following year if it was expected to continue.

Income generation and collection - fees and charges

8.10 Income generated by the Council can be volatile. For example, parking income can be sensitive to changes in the overall economic environment.

Council Tax – Council Tax base and collection rates

8.11 Council Tax income has in the past proved stable and has increased steadily with the growth in the number of homes. Continued growth could be threatened by a downturn in the economy. Collectability of Council Tax could be threatened if a large number of households face joblessness and loss of incomes.

Business rates income – overall level and collection rates

8.12 Business rates income is particularly vulnerable to ratepayer appeals. The Council is less exposed than some authorities, owing to the diverse local economy in Maidstone. However, a general loss of profitability in the retail sector (for example) could lead to a large number of appeals and possible consequent loss of income.

Availability of funding for capital expenditure

8.13 The Council's investment plans depend on the availability of funding, whether through New Homes Bonus, capital receipts, or borrowing through the Public Works Loan Board.

Level of balances and reserves

8.14 As explained above, balances and reserves provide a measure of protection against risks generally. The result is that the overall risk profile of the Council will increase if balances and reserves are depleted.

9 CONSULTATION

Background

9.1 Each year the council as part of the development of the Strategic Plan and MTFS carries out consultation with our businesses and residents and other stakeholders on the priorities and spending of the council. A programme has been proposed that ensures the focus of annual consultations is not repetitive and builds a body of information over time. The intention of the consultation is to both inform and be informed by local residents, businesses and stakeholders.

9.2 Previous consultation has been focused on payment for services by council tax or direct fee at time of use, proposals for savings in discretionary services, request for new savings, variations in the level of customer service, questions on savings proposals and the effect of previous budget savings as well as areas where we should be focusing our efforts to make savings. Our approach has varied from on-line surveys, face to face surveys, public roadshows to on-line budget simulator exercises.

Consultation Approach

9.3 Consultation on the budget in Autumn 2016 will be carried out across a number of channels in a variety of formats including:

- A face to face budget roadshow led by Councillors
- An on-line survey
- Briefings across all our communication channels

9.4 The results of the consultation will inform how resources are prioritised and will be reported to all four service committees as part of the refreshed strategic plan and final medium term financial strategy.

APPENDIX 1
REVENUE ESTIMATE 2016/17 TO 2020/21
RECOMMENDED STRATEGIC REVENUE PROJECTION

2016/17 £,000		2017/18 £,000	2018/19 £,000	2019/20 £,000	2020/21 £,000	2021/22 £,000
	AVAILABLE FINANCE					
870	REVENUE SUPPORT GRANT	0	0	0	0	0
2,983	RETAINED BUSINESS RATES (BR)	3,042	3,132	3,232	3,297	3,324
	BR GROWTH IN BASE BUDGET	600	600	600	600	600
1,176	BR GROWTH UNCOMMITTED	576	576	576	576	576
	BUSINESS RATES ADJUSTMENT			-1,589	-1,621	-1,634
169	COLLECTION FUND ADJUSTMENT					
14,085	COUNCIL TAX	14,527	14,968	15,417	15,878	16,353
19,283	**BUDGET REQUIREMENT**	18,745	19,276	18,236	18,730	19,219
14,214	OTHER INCOME	16,835	16,905	16,975	17,045	17,115
33,497	**TOTAL RESOURCES AVAILABLE**	**35,580**	**36,181**	**35,211**	**35,775**	**36,334**
	EXPECTED SERVICE SPEND					
34,347	**CURRENT SPEND**	36,118	35,580	36,181	35,211	35,775
	INFLATION INCREASES					
730	PAY, NI & INFLATION INCREASES	549	400	404	408	412
	NATIONAL INITIATIVES					
100	LOSS OF ADMINISTRATION GRANT	100	100			
50	PENSION DEFICIT FUNDING	150	150	150	150	150
	ADDITIONAL RESPONSIBILITIES				1,288	11
	LOCAL PRIORITIES					
74	HOMELESSNESS PREVENTION	7				
42	SHARED PLANNING SUPPORT	14				
	MAIDSTONE HOUSE RENT INCREASE		40	40		
30	ECONOMIC DEVELOPMENT STAFFING					
150	TEMPORARY ACCOMMODATION	150		-50	-50	-50
	REPLACE CONTINGENCY	200				
87	MK LEGAL SERVICES GROWTH					
25	MUSEUM					
40	STAFFING CHANGES					
	MINOR INITIATIVES					
	GROWTH PROVISION	50	50	50	50	50
35,675	**TOTAL PREDICTED REQUIREMENT**	**37,338**	**36,320**	**36,775**	**37,057**	**36,348**
2,178	**SAVINGS REQUIRED**	**1,758**	**139**	**1,564**	**1,282**	**14**
2,178	**AGREED MARCH 2016**	**345**	**418**	**49**	**-**	**-**
0	**ADJUSTMENTS**	**(127)**	**(318)**	**(25)**	**-**	**-**
0	**NEW SAVINGS PROPOSALS**	**1,570**	**55**	**1,561**	**125**	**97**
0	**(SURPLUS) / BALANCE TO FIND**	**(30)**	**(16)**	**(21)**	**1,157**	**(83)**

APPENDIX 2 - INDICATIVE OUTCOMES FROM MOSCOW ANALYSIS

Service	Net Direct Cost	Net Direct Revenue	MOSCOW Rating	Current G/S/B	Potential G/S/B
Waste Collection	1,221		Must	G	G
Street Cleansing	1,091		Must	B	S
Recycling	780		Must	G	G
Fleet & Workshop Management	763		Must	G	G
Community Safety (incl CCTV)	441		Must	U	B
Flood Defences & Land Drainage ‡	32		Must	S	S
Homelessness	1,084		Must	S	S
Housing Benefit Administration ‡	353		Must	S	S
Housing Advice	299		Must	S	S
Private Sector Housing - DFGs & Standards*	192		Must		
Housing Strategy - Statutory*	73		Must	S	S
Planning Policy	918		Must	S	G
Development Control	740		Must	S	G
Corporate Support Services ‡	3,906		Must	S	S
Office Accommodation ‡	1,565		Must	S	S
Council Tax and Business Rates Collection	458		Must		
Electoral Registration and Elections	340		Must		
Business Support	234		Must		
Economic Research & Development	167		Must	S	G
Emergency Centre	52		Must		
Youth Development Programme	48		Must		
Debt Recovery Service		(35)	Must		
Internal Printing		(58)	Must		
Interest payable/receivable		(119)	Must		
Rent Rebates		(339)	Must		
Commercial Investments		(845)	Must	B	G
Must Total	**14,756**	**(1,396)**			
Grounds Maintenance	1,418		Should		
Regulatory Services*	1,323		Should	S	S
Grants ‡	239		Should	S	S
Trade Waste		(62)	Should	S	S
Private Sector - Discretionary Grants*	192		Should		
Community Development ‡	156		Should	S	S
Public Health	84		Should	S	S
Housing Strategy - Non Statutory*	73		Should	S	S
Gypsy and Traveller Sites ‡	37		Should	S	S
Culture & Heritage	1,278		Should	S/G	S/G
Open Spaces (excl Grounds Maintenance)	233		Should	S/G	S/G
Cemetery		(16)	Should	G	G
Lockmeadow Market		(78)	Should	B	S
Recreation & Sport		(131)	Should	G	G
Crematorium		(635)	Should	G	G
Public Transport	287		Should	S	S
Building Control	50		Should	S	S
Network & Traffic Management	34		Should	S	S
Land Charges		(162)	Should	S	S
Parking Services		(1,740)	Should	B	G
Shared Services ‡	2,690		Should	S	S
Democratic Representation	527		Should	S	S
Performance, Development and Comms	421		Should	S	G
Bank Charges and Audit Fee	273		Should	S	G
Parish Services ‡	200		Should	S	S
Tourism	165		Should	S	G
Should Total	**8,261**	**(2,824)**			
MBS Support Crew		(56)	Could	G	G
Leisure Services Other (Christmas Lights)	36		Could	S	S
Could Total	**36**	**(56)**			

* Budget split 50:50 between 'must' and 'should' components

‡ MOSCOW ratings to be confirmed

Estimate 2015/16 £	FUNDING / SCHEME	Estimate 2016/17 £	Estimate 2017/18 £	Estimate 2018/19 £	Estimate 2019/20 £	Estimate 2020/21 £
2,971,694	Cont'n from Earmarked Reserve	11,146,310	4,998,411	2,720,010	1,970,740	1,455,900
592,199	Capital Grants	450,000	450,000	450,000	450,000	450,000
750,000	Capital Receipts	770,620				
**	Prudential Borrowing	9,959,600	15,525,000	11,000,000	0	0
4,313,893	**TOTAL FUNDING**	**22,326,530**	**20,973,411**	**14,170,010**	**2,420,740**	**1,905,900**
*** Schemes requiring PB incurred expenditure in this year*						
0	Housing Grants					
	Support for Social Housing					
169,069	Housing Incentives	475,010	350,000	350,000	350,000	350,000
	Housing Investments	2,000,000	600,000	600,000	600,000	600,000
592,199	Housing - Disabled Facilities	450,000	450,000	450,000	450,000	450,000
23,049	Gypsy Site Improvements	277,250				
4,684	Flood Defences	95,280	50,000	50,000	50,000	50,000
13,376	**Brunswick Street	2,061,600	6,025,000			
802,377	**COMMUNITIES HOUSING & ENVI**	**5,359,140**	**7,475,000**	**1,450,000**	**1,450,000**	**1,450,000**
23,884	Crematorium Access					
129,058	Improvements to Play Areas	1,280,740	590,000			
	Green Space Strategy	9,600				
396,372	Commercialisation - RE Panels					
38,158	Mote Park Parking	31,800				
47,220	Mote Park Café	35,060				
	Crematorium Strategy	650,000				
29,368	Mote Park AZ	760,600				
	Mote Park Essential Improvements	610,000	150,000		369,000	
	Other Parks Essential Improvements		225,000	50,000	25,000	
	***Mote Park Visitor Centre		500,000	2,000,000		
	Museum Development Plan	93,000	110,000	176,100	170,000	90,000
664,060	**HERITAGE CULTURE & LEISURE**	**3,470,800**	**1,575,000**	**2,226,100**	**564,000**	**90,000**
19,310	High Street Regeneration	315,160	2,800,000			
	Bridges Gyratory Scheme	1,140,000				
245,580	Acquisition of Commercial Assets	1,473,890				
248,183	Enterprise Hub	5,900				
72,352	Asset Mgt / Corporate Property	287,400	175,000	175,000	175,000	175,000
167,554	Software / PC Replacement	250,500	175,000	150,000	125,000	100,000
57,435	**Maidstone East	3,492,600	5,000,000	5,000,000		
1,992,572	**Union Street	1,007,400	4,000,000	4,000,000		
2,000	**The Mall Regeneration	3,398,000				
5,495	Depot Weighbridge					
29,227	Fleet Acquisitions					
	Town Hall webcast & speakers	100,000				
2,839,708	**POLICY & RESOURCES**	**11,470,850**	**12,150,000**	**9,325,000**	**300,000**	**275,000**
	Riverside Towpath	540,000				
1,790	King Street Multi-storey	20,310				
5,958	Improvements to Car Parks	8,840				
7,748	**STRATEGIC PLANNING SUSTAIN/**	**569,150**	**0**	**0**	**0**	**0**
	Cobtree Golf Course					
0	**COBTREE CHARITY**	**0**	**0**	**0**	**0**	**0**

4,313,893	**TOTAL OVERALL PROGRAMME**	**20,869,940**	**21,200,000**	**13,001,100**	**2,314,000**	**1,815,000**
-4,313,893	**RESOURCES AVAILABLE**	**-22,326,530**	**-20,973,411**	**-14,170,010**	**-2,420,740**	**-1,905,900**
0	**BALANCE CARRIED FORWARD**	**-1,456,590**	**-1,230,001**	**-2,398,911**	**-2,505,651**	**-2,596,551**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 15

Document is Restricted