

Business Rates Retention Pilot 2018/19

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

Executive Summary

This report forms part of the process of agreeing a budget for 2018/19 and setting next year's Council Tax. It explains that the Council is likely to receive additional income, initially estimated as £640,000, for one year only in 2018/19 as a result of its participation in the Kent and Medway Business Rates Retention pilot. The report sets out proposals for the budget allocation of the additional income.

This report makes the following recommendations to this Committee:

It is recommended that the Committee:

1. Notes that Kent and Medway have been selected to carry out a 100% business rates retention pilot in 2018/19;
2. Notes that preliminary estimates indicate that Maidstone Borough Council may receive an additional £640,000 in Business Rates income in 2018/19 as a consequence;
3. Agrees the parameters set out in paragraph 1.10 of this report for the allocation of the additional Business Rates income in the 2018/19 budget.

Timetable

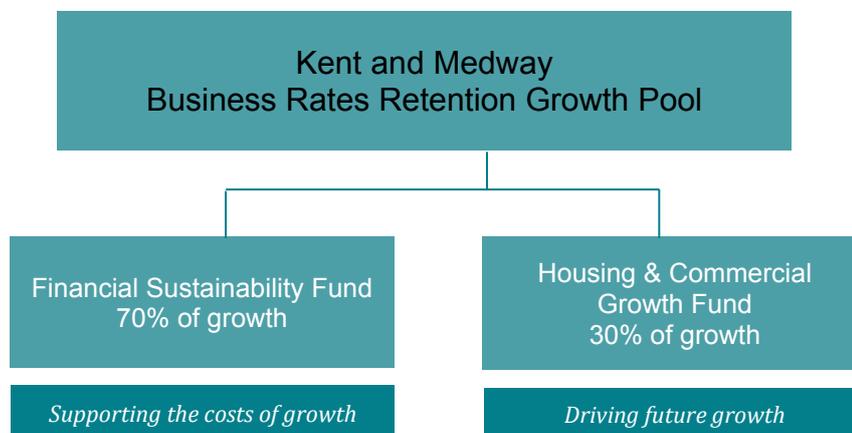
Meeting	Date
Policy and Resources Committee	14 February 2018
Council (as part of the Medium Term Financial Strategy)	28 February 2018

Business Rates Retention Pilot 2018/19

1. INTRODUCTION AND BACKGROUND

100% Business Rates Retention Pilot

- 1.1 There is a longstanding commitment from Central Government to increase the proportion of business rates retained by local authorities from the current level of 50%. Prior to the 2017 General Election, the Government was preparing to move to 100% business rates retention for local authorities with effect from 2020. However, pressure on the Government's legislative timetable has meant that the necessary legislation will not now be enacted. The Government's current plan is to increase business rates retention to 75% with effect from 2020/21. Nevertheless, it still wishes to explore the operation of 100% business rates retention, and last year invited local authorities to participate in a pilot of 100% Business Rates Retention in 2018/19.
- 1.2 The Government encouraged groups of authorities, particularly in two-tier areas, to apply to become pilots. Accordingly, Kent County Council, Medway Council, and all twelve districts within the Kent county area submitted a joint application. This set out how the participating authorities proposed to operate the pilot, including governance arrangements. The details were agreed by the Leader and the Director of Finance and Business Improvement under delegated authority from this Committee. It was announced on 19th December that the application, along with nine others, had been successful.
- 1.3 The main financial implication of pilot status is that the Government will allow 100% of business rates growth to be retained within the local area. Kent and Medway's pilot application included a projection of the consequent financial gain, which was estimated to be £24.7 million in 2018/19. The application proposed that this amount be split between a Financial Sustainability Fund and a Housing and Commercial Growth Fund.



- 1.4 The Financial Sustainability Fund (FSF) is designed to support local authorities in managing the pressures associated with growth. The FSF is distributed according to a formula which:
- provides a guaranteed revenue baseline for each authority, provided that there are sufficient proceeds from 100% retention
 - links growth in funding with population increase and business rates increase (as a proxy for commercial growth) over the past five years
 - for two-tier authorities (the 12 Kent Districts and Kent County Council), splits growth 50:50 between the tiers.
- 1.5 The remaining 30% of retained business rates growth will be invested in a Housing and Commercial Growth Fund (HCGF). The HCGF is designed to pool a sufficiently large level of resources to make a significant difference to support future delivery, where outcomes can be better achieved by local authorities working together across a wider area. This will include (for example) investment in:
- Measures to unlock housing development – including investment in the existing stock to help people remain in their own homes for longer and supporting the delivery of a wider range of housing tenures - potentially matching future Growing Places Fund and similar schemes as well as private sector investment
 - Measures to unlock commercial development, again matching where possible commercial and Government investment
 - Promoting investment and trade, linked with the UK’s international trade priority and driving demand for key employment sites
 - Speeding up the planning process, by increasing the resources to support growth management across all tiers.
- 1.6 The HCGF funds will be pooled in three ‘clusters’, for North Kent, East Kent and West Kent, with the distribution based on each area’s share of total business rate receipts. It is intended to publish a prospectus, agreed by Kent and Medway Council Leaders, setting out the parameters for the use of the HCGF.
- 1.7 Details of the notional allocation of the £24.7 million between the two funds and the participating authorities are set out in Appendix A. Maidstone Borough Council has the discretion to determine how to spend its share of the FSF, estimated at £640,000, having regard to the fund’s overall objectives as set out in the pilot application. Decisions about the North Kent fund within the HCGF will require further discussion between the relevant Council Leaders.

Allocation of Financial Sustainability Fund

- 1.8 In determining how to allocate Maidstone’s share of the FSF, it is important to note that the money is a one-off sum. It is possible that the Business

Rates Retention pilot will be extended to 2019/20, but the Government has made no commitment to doing this. Accordingly, whilst the funds are intended to support the costs of growth, they will not be available on a recurring annual basis, and it would be inappropriate for them to be used to support regular annual outgoings. Instead, it is suggested that a more appropriate use would be to identify projects where an initial investment from the FSF will equip the Council to manage growth on a self-sustaining basis in the future.

1.9 Although the FSF will arise from 2018/19 business rates income, it will not all have to be spent in the financial year 2018/19.

1.10 With this in mind, the following approach to the allocation of the Fund is proposed.

Optimising impact of FSF expenditure

In order to achieve maximum impact from the FSF, it is proposed that it is focused on a small number of discrete projects, distinct from existing agreed revenue and capital expenditure. A greater number of projects would risk spreading management input into individual projects too thinly, and would lead to relatively small budgets for each project, thus limiting their potential to make an impact.

Alignment with strategic objectives

The projects will respond to the Council's corporate priorities. In general, therefore, they will promote social, economic and environmental wellbeing. They are likely to relate to one or more of the three action areas – A Home for Everyone, Town Centre Regeneration and Clean and Safe. They must also be consistent with relevant Council strategies such as the Economic Development Strategy. Performance against corporate priorities is evaluated regularly through public engagement, eg through Resident Surveys, so it would be appropriate to consider projects that residents are likely to see as improving their quality of life.

Leveraging benefit of expenditure

The FSF provides a relatively limited sum of money, and is only available on a one-off basis. Accordingly, it is important that any investment of the FSF exploits the opportunities for leveraging additional income, either by creating a future income stream or by attracting a matching contribution in cash or through partnership working, eg with external organisations like central government or Kent County Council.

Identification and sign-off of projects

Officers will develop more detailed proposals for investment of the FSF. Further information will be contained in the budget proposals for consideration by this Committee at its meeting on 24th February. A process will be set out in this report for project approval.

Allocation of Housing and Commercial Growth Fund

1.11 Allocation of the HCGF is to be determined by Leaders of the North Kent authorities (Dartford, Gravesham, Medway, Swale and Maidstone) and Kent County Council, based on the broad criteria set out above at paragraph 1.5. Following a decision by this Committee at its meeting on 28 September 2016, the Leader meets regularly with her peers in North Kent, so there is already an established forum for discussion about such allocations. Discussions are currently in progress at an officer level amongst the North Kent authorities about the way forward and the outcomes will be fed back to this Committee as part of our reporting on the Business Rates Retention Pilot.

Medium Term Financial Strategy and Budget Process - generally

1.12 At its meeting on 13 December 2017, this Committee received budget proposals which used as a starting point the financial projections for the next five years that had been set out in the Council's Medium Term Financial Strategy. The budget proposals are being considered by the Service Committees during the course of January 2018, prior to Policy and Resources Committee submitting final budget proposals to Council for a decision on the 2018/19 budget at its meeting on 28th February.

1.13 The resources likely to become available as a result of the Council's participation in the Kent and Medway Business Rates Retention pilot are for one year only. Accordingly, it is appropriate for these resources to be dealt with discretely as set out in this report, but with a decision to be made about their budget allocation at the same time as the main budget decisions at Council on 28th February.

2. AVAILABLE OPTIONS

- 2.1 Agree the proposals set out in paragraph 1.10.
- 2.2 Amend or delete some or all of the proposals, and agree alternative proposals.
- 2.3 Defer a decision on the proposals to this Committee's meeting on 14 February 2018.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The preferred option is that the Committee agrees the proposals set out in paragraph 1.9. Whilst a final decision is not required until Council sets a budget on 28 February 2018, an early decision by this Committee will allow advance planning to commence and will potentially allow the benefits of investment to be realised more quickly.
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4. RISK

- 4.1 There is a risk the forecast business rates growth will not be achieved, and that some or all of the projected £640,000 additional income will not be received.
 - 4.2 It should be noted that the overall projected gain of £24.7 million for Kent and Medway is around 4% of the area's estimated 2017/18 business rates income. In the light of steady recent growth in business rates income, it would take a very significant setback to business rates income growth for no growth at all to be achieved in 2018/19. However, business rates income is volatile, largely because of the potential for business rates appeals, so the precise amount received could fall within a broad range around the estimated figure of £640,000.
 - 4.3 Maidstone Borough Council has an annual budget contingency of £200,000, and total usable reserves of £18 million. This would allow a shortfall on business rates income growth to be covered, subject to other demands on the contingency and reserves, in the event of a shortfall in projected income. However, it is recommended that business rates income is monitored on a regular monthly basis, and if it appears at any time that there will be a shortfall, and some or all of the £640,000 income will not be achieved, then projects would be prioritised and funds released only to the extent that that income is expected to be available to cover them.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Policy and Resources Committee received an initial report on the MTFs at its meeting on 28 June 2017 and has subsequently received further reports on the development of the budget for 2018/19. The Committee also received a report on the 100% Business Rates Retention pilot at its meeting on 20th September 2019, when it agreed that Maidstone Borough Council would participate in the pilot application.
 - 5.2 Consultation is currently being carried out on the broader budget proposals for 2018/19. Individual Service Committees are considering the budget proposals relating to the services within their areas of responsibility and there will be an opportunity for Policy and Resources Committee to consider the outcomes of consultation at its meeting on 14th February 2018, before submitting final budget proposals to Council.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The timetable for setting the budget for 2018/19 is set out below.

Date	Meeting	Action
January 2018	All Service Committees	Consider 18/19 budget proposals
14 February 2018	Policy and Resources Committee	Agree 18/19 budget proposals for recommendation to Council
28 February 2018	Council	Approve 18/19 budget

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. Allocation of business rates retention pilot income forms part of the MTFS and budget process.	Section 151 Officer & Finance Team
Risk Management	See section 4 above.	Section 151 Officer & Finance Team
Financial	Set out in report.	Section 151 Officer & Finance Team
Staffing	None.	Section 151 Officer & Finance Team
Legal	The Council has a statutory obligation to set a balanced budget. Allocation of resources in the way set out in this report supports achievement of a balanced budget.	Legal Team
Privacy and Data Protection	None.	Section 151 Officer & Finance Team
Equalities	Where appropriate, Equalities Impact Assessments are carried	Section 151 Officer &

	out for specific budget proposals.	Finance Team
Crime and Disorder	None.	Section 151 Officer & Finance Team
Procurement	Procurement of the services described in section 1.9 of this report will be in accordance with the procurement provisions within the Council's constitution.	Section 151 Officer & Finance Team

8. REPORT APPENDICES

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

- Appendix A: Kent & Medway Business Rates Retention Pilot Projected Growth Shares
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9. BACKGROUND PAPERS

There are no background papers.