

**MAIDSTONE BOROUGH COUNCIL**

**CABINET**

**TUESDAY 22 OCTOBER 2013**

**REPORT OF DIRECTOR OF REGENERATION AND  
COMMUNITIES**

**Report prepared by Paul Riley**

**1. BUSINESS RATE POOLING**

**1.1 Issue for Decision**

1.1.1 This report provides Cabinet with initial information on the operation of a Business Rates Pool and options to include Maidstone Borough Council in a Kent pool.

1.1.2 Due to the tight timescale for formal application the report also recommends delegation of the decisions relating to the final agreement to the Director of Regeneration & Communities as the Chief Finance Officer of the Council.

**1.2 Reason for Urgency**

1.2.1 A formal application to the Department for Communities and Local Government is required by 31<sup>st</sup> October 2013. The potential application is still subject to conclusions on membership and governance arrangements however this decision is required urgently to enable officers to meet that deadline should the final outcome indicate a benefit to the Council.

**1.3 Recommendation of Director of Regeneration & Communities**

1.3.1 That Cabinet agree in principle to the inclusion of this Council in the Kent application to the Department of Communities and Local Government for a Business Rates Pool for 2014/15, subject to membership providing a financial advantage to the area covered by the pool.

1.3.2 That Cabinet delegate a final decision, following assessment of the final membership and governance arrangements, to the Director of Regeneration & Communities in consultation with the Leader of the Council.

#### 1.4 Reasons for Recommendation

- 1.4.1 One element of the Business Rates Retention (BRR) scheme that came into force on 1<sup>st</sup> April 2013 is the option for local authorities to develop a Business Rates Pool and effectively opt out of the national arrangements. By opting out of the national arrangements in this way, the local authorities in the pool will increase the gain made locally from growth in business rates.
- 1.4.2 The national BRR scheme has a damping mechanism in place to limit individual gains/losses. The system uses a Safety Net (to limit losses) which is funded through a Levy (on disproportionate gains). Similar arrangements will need to apply locally within a pool so, along with the gain from business rates growth, a pool risks loss from having to cover business rates reductions without the national safety net provisions.
- 1.4.3 In 2012/13 when the opportunity to develop a Pool was available for 2013/14 the authorities in Kent were involved in the development of a Kent wide agreement on a local council tax support scheme. The option to pool was felt to be an unknown risk at that time and the resources to evaluate and develop the optimum pool were not available. Now the Department for Communities and Local Government (DCLG) has requested local authorities that wish to create pools for 2014/15 onwards to make an application including details of membership and governance arrangements by 31<sup>st</sup> October 2013. This year the Kent Finance Officers group along with Kent Chief Executives and Kent Leaders have all been considering the possibility of developing a Pool.
- 1.4.4 In Kent all districts pay the maximum levy at 50% of the local share of all growth. The County Council, the Fire & Rescue Authority and Medway Council are all top up authorities receiving a large payment from the national scheme. Initial modelling of the outcome of a pool, based on future estimated growth and current data for each Kent district was completed on behalf of the Kent Finance Officers' Association by LG Futures. This modelling suggested that a Kent wide pool would return a net gain to the region providing the County Council, the Fire & Rescue Authority and Medway Council were involved.
- 1.4.5 In a small number of districts in Kent there is expected to be a need for safety net funding. The greater benefit to the region would occur if those authorities at risk of requiring support through the safety net mechanism were excluded from the pool and were supported by the national scheme.

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

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

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

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

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

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

## 1.5 Alternative Action and why not Recommended

1.5.1 The Cabinet could chose, as have some districts in Kent, not to become a member of the pool this year. The success or failure of a pool is measured by actual results whereas the decision to enter a pool is made on the estimates provided by each member. Trust in the validity of the estimates provided by each member is implicit in the decision to pool. The risk exists that the total value of business rates

within the pool will not reach the value of accumulated business rates needs baselines and to avoid this risk the Council could chose not to enter the pool.

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

#### 1.6 Impact on Corporate Objectives

1.6.1 The additional resources retained from business rates growth as a member of the pool will partially compensate for the loss of other financial resources expected in future settlements from central government. Alternatively it could, in part or in full, be used to enhance growth within the region of the pool or within the borough. The final use of the resources will be subject to the governance arrangements agreed for the pool but will support the Council's priorities in partnership with other authorities in Kent.

#### 1.7 Risk Management

1.7.1 The key risk from inclusion in a pool is the possibility that the districts within the pool will not deliver the necessary levels of growth. This is especially important if one or more authorities suffer reductions in business rates that take them below the national scheme safety net as the pool would be required to support those authorities. Should the pool suffer to the point that funds are not available to fully support safety net payments the Council may find that, while achieving growth within the borough, the value of retained business rates for this Council may drop to support net losses within the pool. The pool membership can be adjusted annually and any risk would only exist for each year individually.

1.7.2 The possibility that one member of the pool might exit the pool mid-year does exist. In such circumstances the pool will be disbanded and all members will once more become separate entities within the national scheme losing the benefit derived from the pool. This risk can be mitigated by appropriate governance arrangements.

#### 1.8 Other Implications

##### 1.8.1

1. Financial
2. Staffing

X

3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.8.2 The currently expected benefit of the pool is given in the table at paragraph 1.3.7 for this Council the additional gain from growth, based upon 2013/14 current predictions would be at least £25,000. This is a low risk prediction and modelling of the pool suggests that the overall loss in business rates growth would need to be in the region of 3% of all business rates before the pool would achieve 0% overall growth.

1.8.3 The pools governance arrangements would form a memorandum of understanding that would set limits on risk, reward, entry and exit from the pool and the use of the surplus generated by the pool. The agreement has not been set at this time as it must be satisfactory for all members who wish to enter the pool. The report recommends that agreement to the final governance arrangements be delegated to the Director of Regeneration and Communities in consultation with the Leader of the Council.

**IS THIS A KEY DECISION REPORT?**

**THIS BOX MUST BE COMPLETED**

Yes

No

If yes, this is a Key Decision because:

The decision relates to the Budget

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Wards/Parishes affected: All

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