

Agenda Item No: 12
Report To: Cabinet
Date of Meeting: 12 October 2017
Report Title: 100% Business Rates Retention – Bid for Pilot Status
Report Author & Job Title: Ben Lockwood
Director Finance and the Economy
Portfolio Holder Cllr. Shorter
Portfolio Holder for: Finance & IT



Summary: Government has announced that it is seeking bids from areas to pilot 100% Business Rates Retention. Kent as a two tier shire county which includes a unitary Authority would be an excellent area for government to pilot this scheme and provide an opportunity for Kent Authorities to shape the direction of this policy. In addition Pilot status would secure additional resources for Local Authorities within a Kent Pilot area that could be used to address key priority areas.

Key Decision: No

Significantly Affected Wards: None Specifically

Recommendations: **The Cabinet is recommended to:-**

- I. To Delegate authority to Chief Executive and Director of Finance and Economy in conjunction with the Leader and Portfolio Holder to agree a bid proposal.**

Policy Overview: Government has a policy to move towards 100% Business Rates retention but since the election this seems to have slipped down the governments priorities.

Government is still keen to develop the system and needs to extend the number of pilots to cover a more diverse area than the existing pilots that are primarily Metropolitan areas. Kent as a shire district would make it an attractive area for pilot status allowing understand how pilot status could work in a rural area.

Financial Implications: The pilot bid would insure that the Council would be no worse off than it would be under the existing pooling arrangement but would seek to secure the share of business rates paid to government for redistribution to other areas for

	the county. It is modelled that this would be £25m for the entire county.
Legal Implications	None
Equalities Impact Assessment	Not Required
Other Material Implications:	None
Exempt from Publication:	
Background Papers:	N/A
Contact:	Ben.lockwood@ashford.gov.uk – Tel: (01233) 330540

Report Title: 100% Business Rates Retention – Bid for Pilot Status

Introduction and Background

1. The previous Government was working towards the transition to 100% business rates retention where local authorities would keep all of the business rates raised, but in return a number of other funding streams (Revenue Support Grant, etc.) would be rolled into this funding stream. There would also need to be a system that redistributed Business Rates from areas with high resources to areas with greater need. This policy was omitted from the Queens speech earlier this year and whilst this seems to remain an aspiration for both Government and Local Authorities the process on consulting upon and establishing the legislative framework seems to have been suspended.
2. Despite this Government says it remains committed to the agenda and has requested pilot bids from areas wishing to trial 100% rates retention to allow government to gather information on the design of a prospective system. In particular government are keen to receive bids from 2 tier rural areas as there are clearly areas for them to consider when designing any retention scheme.
3. Government have sought bids from areas for pilot status by 27th October 2017 and therefore there is some urgency in determining whether there a Kent wide bid can be agreed in time. Given that this was not in the Queens speech the view of LG Futures (the councils funding advisors) is that if Pilot Status were to be achieved this would be a fast track to maintaining pilot status for 2-3 years, and therefore it would be a reasonable assumption that the gains that could be made could be retained for 3 years.
4. The 'no detriment' clause applied to 2017/18 Pilots may or may not apply for 2018/19 Pilots, and the government wishes authorities to identify if they would proceed with an application in the absence of the 'no detriment' clause.
5. There will be a Safety Net set at 97% and no levy will be paid. The current safety net figure is at 92.5% so this represents a low risk to pilot areas.
6. The evaluation criteria include a focus on:
 - a. Two tier / Rural / Functional economic areas
 - b. Proposals using additional resources to promote financial stability and economic development
7. This report seeks approval from Members for the Council to support a County wide proposal for a 100% Business Rates Retention Pilot for 2018/19

Current Position

8. Currently Kent has a business rates pool, which has all Kent Authorities, with the exception of Dover, Sevenoaks and Medway as members. The pool currently shares any gain (the value of the reduced levy) with 30% being

retained by the District Council, 30% for the County Council and 30% allocated for economic development. The balance is earmark for risk management and has recently been used to support a pool member in a safety net position.

9. Overall the pool has been very successful for its members securing gains with the 50% local share for 2017/18 forecast to be over £22m with Government also benefiting by £22m. Currently 10 out of 12 pool members are benefiting by at least £0.5m above the governments base line.
10. The pool has experienced some difficulty in agreeing the application of the monies for economic development, the process of identifying and agreeing the use of these monies has been difficult and lessons from this should be incorporated into any pilot bid.
11. Government has asked that any pilot bid includes a statement of what would happen in the event that pilot status is not achieved. In this case the existing pool could be continued either in its current form.

Proposal

12. Kent Authorities have been working with LG Futures to assess whether a bid for pilot status should be submitted. The proposal is to submit a Kent wide bid for pilot status including all district councils, Kent County Council Medway Council and the Fire Authority.
13. Any pilot bid would look to ensure that every authority was at least £500,000 better off than the baseline.
14. The focus of a pilot bid is to ensure that the estimated £25m of business rates income that is currently paid to government is retained in the County to enhance public services. It is proposed that the gains be earmarked to fund initiatives within the following areas:
 - a. To ensure that no authority is worse off in the pilot than it would be under the current regime
 - b. Housing Development and the prevention of Homelessness
 - c. Economic development and regeneration, including transportation and infrastructure.
 - d. Social care, including disabled adaptations.
15. For simplicity, it is proposed that after the first item, the additional resources be allocated evenly over these areas.
16. As the pilot is only guaranteed for 1 year the sustainability of any projects funded through this route will need to be considered, with each area of focus linking into either generating future revenues through growing taxbase or business rates or reducing costs such as homelessness, or social care pressures.
17. Government is keen for Pilot bids to inform the design of any final scheme, therefore they are looking for bids from two tier areas and areas of a rural

nature. Kent meet both of these criteria and if a bid can be developed which includes Medway Council this would add a unitary authority to the scheme and potentially make the pilot more attractive.

18. It must be remembered that a Kent Pilot is potentially very expensive for government, so the make up of the pilot must offer government the chance to learn about the delivery of 100% rates retention. The County is very typical of a shire district, contains two tiers of government, has a unitary and Fire Authority and an economic development area. In addition the Kent wide pool shows that there is a history of cooperation within the County for the management of Business Rates with operating governance frameworks that can be built upon and increase the likelihood of a successful pilot for government.

Implications and Risk Assessment

19. Without the no detriment clause, it is possible for the pilot area to make a loss. Whilst business rates revenues are volatile (including the 2017/18 forecasts), the material gains made in 2015/16 and 2016/17 do provide strong evidence that the future years' forecasts are not unreasonable.
20. The Current system has the Safety Net set at 92.5%, with the pilot there will be a Safety Net set at 97%, and this will apply pilot wide and not to individual authorities. This means that before the Safety Net comes into effect councils currently stand to lose 7.5% of their income, this is lowered to 3% reducing the risk of financial loss to the pilot authorities.
21. No levy will be paid on business rates generated over the baseline. Currently the majority of Kent Authorities are at or above the base line and pay a levy. The pool is an effective tool for reducing the levy payable, and the pilot will further reduce this risk.
22. The main risks are therefore not the potential financial loss but instead the risks relating to the Pilot process and the potential financial gains that could be made:
 - a. That the Kent authorities are unable to agree on a joint proposal to be submitted or one authority opts out;
 - b. Kent submits an application to be a Pilot but it is not selected – it is expected that there will be competition to be a Pilot and that the number of authorities selected is limited and a Kent pilot would be expensive to government. The application should therefore be made attractive to DCLG to mitigate this risk.

Equalities Impact Assessment

23. Not applicable, the bid deals with piloting business rates retention and will not affect any group. We will need to consider whether any distribution methodology would need to have a screening tool completed.

Other Options Considered

24. Do nothing – this is an option that the Kent Pool continues to operate and authorities continue to pay a reduced levy. However if this were the preferred option the governments share of business rates growth would continue to be paid to government and redistributed out of the county. The Pilot bid provides an opportunity to keep that resource within Kent.

Reasons for Supporting Option Recommended

25. The Pilot bid would be structured in a way that members are no worse off than they would be within the Kent Business Rates pool. Whilst the Government has removed the no detriment clause from pilots the County already has a track record of pooling and managing the risk and the additional resources secured through 100% retention would be used to ensure that this position is maintained.
26. The Pilot status would mean that the amount of income that a council would lose before the safety net is triggered will fall from 7.5% to 3%. Reducing the funding risk of the council.
27. The purpose of the bid would be to grow the resources available to the Public Sector in Kent, the modelling suggests this would be by an estimated £25m per annum.

Next Steps in Process

28. The proposal has been discussed by both Kent Chief Executives and Kent Leaders groups and are supportive of the proposal. To achieve this all Kent Authorities are seeking approval from their October committee meetings to submit a bid.
29. Cabinet is asked to Delegate authority to Chief Executive and Director of Finance and Economy to agree a bid proposal.
30. To commission LG Futures to produce the bid for a countywide pilot. .

Conclusion

31. The pilot bid is a way to secure additional resources for Kent residents, and this can be done in a way that manages and reduces the risks that the council has currently accepted by pooling business rates.
32. A Kent Pilot would be good for Kent Authorities and provide an opportunity for Government to learn about the issues facing two tier shire districts within the rates retention policy.

Portfolio Holder's Views

33. To be given at the meeting

Contact and Email

Ben Lockwood – ben.lockwood@ashford.gov.uk