

**Report of the Managing Director**

**Business Rates Retention – bid to be part of a pilot scheme for 2018/19**

**1 Purpose of report**

- 1.1 To update members on the proposals by the current Northamptonshire business rates pool to bid for a 100% Business Rates Retention (BRR) pilot.
- 1.2 To request that the council agree to being part of the pilot scheme and delegate the final details of the pooling arrangements to the Managing Director, in consultation with the Leader of the Council.

**2 Executive summary**

- 2.1 The council is currently a member of the Northamptonshire business rates pool, from which it gains financial benefit based on the level of local business rates growth.
- 2.2 The Department of Communities and Local Government (DCLG) have recently announced a second round of pilot pools for councils to retain 100% of local growth, which would significantly increase the financial benefit of the current pool.
- 2.3 This report sets out the details of the new pilot scheme and proposes that the borough council, along with all other Northamptonshire authorities, be part of a bid to create a pilot pool for 100% BRR.

**3 Appendices**

None

**4 Proposed action:**

**Members are invited to RESOLVE to:**

- 4.1 **Approve the inclusion of the borough council in a bid for pilot status for 100% Business Rates Retention as part of a Northamptonshire Pool.**
- 4.2 **To delegate to the Managing Director, in consultation with the Leader of the Council, the authority to agree the financial and governance aspects of the partnership arrangement with the other local authorities in Northamptonshire within the proposed pilot pool.**

## **5 Background**

- 5.1 Historically non-domestic rates (or business rates) revenue collected by local authorities were pooled by central government for redistribution to local authorities in England via a Formula Grant.
- 5.2 With effect from April 2013, this system was changed to allow councils to retain a proportion of their local business rates growth above a specified baseline, instead of Formula Grant. The scheme was intended to give local authorities an incentive to promote growth over the longer term and reduce their dependency on central government funding.
- 5.3 As part of this process the Northamptonshire authorities agreed to create a county-wide pool. All of the Northamptonshire authorities were treated as a single entity within the scheme. This allowed some of the business rates growth to be retained, promoted shared growth objectives, and reduced the risk of volatility in business rates income for individual councils. Over the last five years the financial benefit from being in a pool has resulted in an additional £27m being retained locally. For 2017/18 the borough council has budgeted for £719k of growth and a further £360k as a benefit of pooling. This is used to directly fund the revenue budget and has made a significant impact on the sustainability of the council.

## **6 Discussion**

- 6.1 The DCLG have already agreed to five pilot pools in previous years and have recently announced a further round of new pilots for which authorities can now bid. This is only a one year scheme for 2018/19 and bids have to be with DCLG by 27<sup>th</sup> October 2017. The final details will be announced later in the year, probably in line with the financial settlement details. The pilot pool will then have a “cooling off” period before it is committed to proceeding with the pilot.
- 6.2 Northamptonshire is a fast growing area and all authorities are above the current baseline position. Retained growth in business rates income for 2017/18 is estimated to be £21 million. Under a pilot scheme with 100% retention this figure could be more than doubled, and is estimated at an extra £23m. It should be noted however that this figure cannot be guaranteed: the baseline position after rolling in Revenue Support Grant would need to be confirmed and future growth is likely but not certain.
- 6.3 The DCLG has yet to decide whether there will be a ‘no detriment’ clause, whereby the pilot area, as a whole, cannot be worse-off than under existing grant and funding arrangements. This is a change to previous pilots who enjoy the cover of a ‘no detriment’ clause. There is therefore a risk that if business rates income reduces, the pool will have to fund the shortfall. However, there is some confidence about the level of growth based on previous and continued success in the county.
- 6.4 It is very unlikely that all applications for pilot status will be successful because of the government’s limited resources for this and their affordability constraints. There will be a competitive process, with applications measured against set

criteria in relation to promoting future growth and financial sustainability. The DCLG are looking for a wide spread of different types of pilot, but with a particular focus on applications from rural areas and from two-tier areas, which Northamptonshire can demonstrate.

- 6.5 All authorities covered by the proposed pilot will have to give their formal agreement to being included within the pool. Governance arrangements have also been indicated as a key feature for the DLCCG, to ensure that prospective pools are managed well and will deliver the growth and financial sustainability outlined in their bids. Being part of an existing pool is an advantage as good governance arrangements can already be demonstrated.
- 6.6 The pilot pool governance arrangements will be similar to those already in place but will need to demonstrate how it will share risk and reward, as well as the sharing of benefits. Additionally, the DCLG wants to see how pilots would invest additional benefits from the pilot to encourage further growth across the area. This was not specified in the first round of pilots, but clearly the DCLG wants the next round of pilots to deliver to a different agenda.
- 6.7 As the deadline for the submission is 27<sup>th</sup> October 2017 members are recommended to agree to inclusion in the pilot pool and to delegate the final details on the financial and governance arrangements to the Managing Director in her role as S151 Officer, in consultation with the Leader of the Council. The pilot bids have to be signed off by the S151 Officer under the conditions outlined by DCLG.
- 6.8 If the pilot bid were to be unsuccessful the council would continue with the current pooling arrangements.

## **7 Legal implications**

- 7.1 In designating a pool for 2018/19, the DCLG will attach conditions to the designation in accordance with paragraph 35(1) of Schedule 7B to the Local Government Finance Act 1988 by appointing a lead authority and requiring the authority to take the steps set out in its application in the event that the pool is dissolved.
- 7.2 Kettering Borough Council would be the lead authority for the pool, as is the case under the existing pooling arrangements
- 7.3 The governance arrangements will be reviewed by councils' legal advisers before they are agreed. As the borough council shares legal services with both Kettering and Daventry councils, District Law will be undertaking this for all three authorities.

## **8 Financial and value for money implications**

The current pooling arrangements benefit the council by £360k pa. This is used to support the revenue budget as part of core funding. The additional benefit from the 100% BRR pilot is estimated to be up to an extra £23m for the whole

county, with the borough council's share being potentially around £1m, depending on the distribution arrangements. The overall financial benefit of the pilot is that additional money will be spent in the county and the objective of the pilot is to maximize the benefit for the citizens of the county. Members should note that this is a one-off benefit as the scheme is for one year only, and there are specific criteria for spending the additional funds (promotion of local growth and/or financial sustainability). It is therefore proposed not to include any benefits in core funding if successful in the bid, but to create an earmarked reserve for projects that demonstrate this criteria with in the councils balance sheet. The finance team will work on arrangements for bidding for the use of the reserve, similar to other arrangements currently in use.

## **9 Risk analysis**

- 9.1 The main risks of submitting a pilot bid are in relation to the uncertainty of business rates growth. If the rateable values of properties are reduced on appeal or the new growth in business rates is not achieved the risk that the pool will go into a safety net position is increased. However, at the current levels of growth this risk is minimal.
- 9.2 Whilst not specifically a risk, there is potential that the level of income predicted will need to be distributed to demonstrate to the DCLG that the pool has addressed the financial pressures and sustainability of the county council. Thus the level the borough council receives directly may be reduced, but the overall level of benefit received in the county overall will be maintained. If the pilot is successful the borough council will retain a benefit, but the level will not be agreed until the final details of the scheme are set out.

## **10 Implications for resources**

Kettering Borough Council currently administers the pool, and will continue to do so if the pilot is successful. Thus the implications for resources are minimal.

## **11 Implications for equalities and communities**

None at this time.

## **12 Author and contact officer**

Liz Elliott Managing Director

## **13 Consultees**

Bridget Gamble, Director

Julie Thomas, Director

Samantha Knowles Assistant Director and Deputy S151 Officer

## **14 Background papers**

Department of Communities and Local Government Papers relating to the introduction of pilot schemes

<https://www.gov.uk/government/publications/100-business-rates-retention-pilots-2018-to-2019-prospectus>