
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	3rd MAY 2018	CATEGORY: OPEN DELEGATED
REPORT FROM:	STRATEGIC DIRECTOR OF CORPORATE RESOURCES	
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/business rates/100% pilot/provisional gain – FM Cttee May 2018
SUBJECT:	100% BUSINESS RATES RETENTION	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the provisional financial implications of the 100% Derbyshire Business Rates Retention Pilot on the Council's Budget are noted.
- 1.2 That the additional resources are set-aside in 2018/19 for capital expenditure and that proposals for investment are drawn up in accordance with Government expectations; namely that resources are:
 - Reinvested to deal with the impact of growth.
 - To create further business growth.
 - To create and enable economic regeneration and employment.

2.0 Purpose of Report

- 2.1 To provide an update on the financial implications following a detailed assessment of the 100% Business Rates Retention Pilot on the Council's Budget for 2018/19.

3.0 Detail

- 3.1 In October 2017 the Council agreed, along with all other Derbyshire authorities, to make an application to the Government to become a pilot area for trialling 100% Business Rates Retention. Following the submission of an outline business case, the application was approved by the Government in February 2018 alongside the Financial Settlement for 2018/19.
- 3.2 Financially, this means that all authorities forego their Revenue Support Grant and any other general grants, but are allowed to maintain all Business Rates generated in the County, together with all growth.

- 3.3 In particular, this means that the 50% of business rates income paid to the Government across the County remains in Derbyshire. In addition, there is no “levy” payment to the Government from growth.
- 3.4 Within the operational arrangements for the Pilot, the Government will guarantee a minimum funding requirement to ensure that no authority is worse off compared to what they would have been outside of the Pilot. Although the Pilot retains all rates and growth, it also inherits a greater risk associated with income collection such as appeals against rating valuations.
- 3.5 In October 2017, initial estimates suggested that an additional £21m would be available for distribution across the County. Following submission of the estimated business rates for 2018/19 by each authority, together with a more detailed assessment of the figures, this is now expected to be approximately £28m in this financial year.
- 3.6 Each authority has signed a Memorandum of Understanding which has been submitted to the Government. As provisionally agreed in the application, the net gains will be broadly split as follows:
- County, Derby City, Fire and Rescue Service – 50% (combined)
 - Strategic Investment Fund – 30%
 - Districts/Boroughs – 20% (combined)
- 3.7 The split has to ensure that all authorities are no worse off, that the County Council are compensated as they lose their top-up grant from the Government, but the split also recognises those authorities that generate the greatest growth.
- 3.8 The Council’s share of the £28m is estimated at £1.1m and is one of the largest amongst the Districts and Boroughs in Derbyshire. These are additional resources over and above the current financing received from within the RSG/Tariff System.
- 3.9 As with the Derbyshire Business Rates Pool, Derby City Council has agreed to act as the lead authority and take responsibility for administering the Pilot. They will be paid £50,000 (effectively top-sliced from overall income) to compensate them for this responsibility.

Strategic Investment Fund

- 3.10 A requirement of the application to become a Pilot was that some of the gain should be re-invested across the Pilot area and not returned to individual authorities. The Government expected that a fairly significant proportion of the gain should be invested strategically and Derbyshire’s application pitched this proportion at 30%.
- 3.11 As detailed in the application, it is planned that the Derby and Derbyshire Joint Committee for Economic Prosperity will be the decision-making body for the allocation of the “central share”. Based on the estimated figures, approximately

£8m will be available in 2018/19 to support business growth and employment across the County.

4.0 Financial Implications

- 4.1 As highlighted above, approximately £1.1m of additional money is available to the Council, over and above that built into the base budget for 2018/19. Additional resources may also be generated in the Business Rates Account during the year, but this will depend on collection rates and the outcome of appeals, etc.
- 4.2 As previously reported, the Collection Fund (Business Rates element) is still in deficit (£1.5m) due to the large incidence of valuation appeals in recent years. This deficit will need to be financed in 2018/19 and in later years if necessary. The Council's estimated proportion (£300k) has been budgeted for in the Council's Base Budget.
- 4.3 Unless there is a dramatic or significant event during the year, the modelling demonstrates that sizeable gains are likely to be made compared to the current system. However, it should be noted that these are estimated figures at this stage and final figures will not be known until May 2019 following out-turn performance for the year.
- 4.4 Based on this, Derbyshire Financial (Section 151) Officers have recommended that only 75% of the estimated central share is made available during 2018/19 pending final figures next year. It is recommended that this plan is also adopted by the Council.

Use of Additional Resources

- 4.5 The Council has complete flexibility how to utilise these resources generated locally, including alleviating current pressure on services and to finance budget deficits, etc.
- 4.6 However, it is considered that the 100% retention system is designed in order to deliver additional resources that are reinvested to deal with the impact of growth, to create further business growth and to create /enable economic regeneration and employment.
- 4.7 Given the potential size of the gain to the Council in 2018/19, it is recommended that the resources are set-aside for this purpose and utilised as "one-off" capital investment.
- 4.8 As reported during the budget-round for 2018/19, the Council's General Fund is relatively healthy and is considered sustainable. The MTFP highlights potential budget deficits in future years, but as planned, they should be addressed by on-going budget savings or income generation, which are more sustainable compared to one-off windfalls.
- 4.9 As previously reported, the General Fund Reserve is significantly above the minimum level of £1.5. Although it is planned to draw down this Reserve over

the next 5-years, the minimum level will still be exceeded in 2022/23 based on current spending plans and budget assumptions.

Beyond 2018/19

- 4.10 The Pilot is currently for 1 year only; whether it continues beyond 2018/19 is subject to wider matters being considered by the Government regarding the overall funding of local government in future years.
- 4.11 Nationally, it is being estimated that the “net cost” to the Government of all Pilots in 2018/19 is approximately £870m. The gain to the Council could be considered a “windfall” as there are no additional requirements being placed upon its current services, perhaps only an expectation of how the gain is spent.
- 4.12 The Council’s MTFP currently assumes that from 2019/20, it will fall back to the current system or to the system being considered, i.e. 75% retention for all authorities from 2019/20. The situation will be kept under review.

5.0 Corporate Implications

- 5.1 The additional resources could be applied to further the aims of the Corporate Plan, in particular under the themes of Place and Progress.

6.0 Community Implications

- 6.1 As detailed in the report, the Pilot should generate additional resources in 2018/19 that would allow investment into growth, economic regeneration and employment.

7.0 Background Papers

- 7.1 None