

**STROUD DISTRICT COUNCIL**  
**STRATEGY AND RESOURCES COMMITTEE**

**AGENDA  
ITEM NO**

**8**

**7 MARCH 2019**

<b>Report Title</b>	<b>BUSINESS RATES PILOT PRINCIPLES OF DISTRIBUTION</b>
<b>Purpose of Report</b>	To set out the principles of distribution of Business Rates Pilot Funds
<b>Decision(s)</b>	<b>The Committee RESOLVES :</b>  a) <b>to approve the principles and process of the allocation of the business rates pilot contained within this report</b>
<b>Consultation and Feedback</b>	<ul style="list-style-type: none"> <li>• Officer Consultation Meetings</li> <li>• Group Leaders</li> </ul>
<b>Financial Implications and Risk Assessment</b>	<p>This report sets out the principles for the allocation of money generated by Stroud for Business Rates pilot.</p> <p>The 2018/19 MTFP assumed a gain of £500k which was to be allocated at a later date. The revised estimate of the gain is £793k</p> <p>The current MTFP shows a significant budget gap in future years and therefore the use of the business rate pilot funding should be carefully considered.</p> <p>Andrew Cummings - Head of Finance &amp; Section 151 Officer</p> <p>Email: <a href="mailto:andrew.cummings@stroud.gov.uk">andrew.cummings@stroud.gov.uk</a></p>
<b>Legal Implications</b>	<p>The report should be considered with reference to the strategic risks (CCR1 and CCR6 in particular). This report seeks a strategic direction for the allocation of the business rates pilot and as such there are no significant legal implications not covered within. Spending on particular projects will have legal advice provided as and when required.</p> <p>Craig Hallett, Solicitor &amp; Acting Monitoring Officer Tel: 01453 754364 Email: <a href="mailto:craig.hallett@stroud.gov.uk">craig.hallett@stroud.gov.uk</a></p>
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<b>Options</b>	The Committee may make changes to the priorities listed
<b>Performance Management Follow Up</b>	2018/19 Outturn Report
<b>Background Papers</b>	Stroud District Council MTFP January 2018

## **1. Introduction and Background**

- 1.1 In 2017 authorities across the Country were invited by the then named Department for Communities and Local Government (DCLG) to apply for the opportunity to join with other Councils in their wider economic area to become a pilot area for 100% Business rates retention. As part of this process a joint bid was submitted by Gloucestershire authorities, and the Local Government Provisional Finance Settlement in December 2017 confirmed that the bid had been successful.
- 1.2 The Government decision to implement pilots was about exploring how rates retention can operate across more than one authority, to promote financial sustainability, and to support coherent decision-making across functional economic areas.
- 1.3 The primary incentive for authorities was the opportunity to retain additional business rates within a pilot area than would have been possible under either the basic 50% rates retention system or the pooling arrangements that many areas, including Gloucestershire, operated.
- 1.4 At the point of making the application for Pilot status it was estimated that the net gain to the County area would be in the region of £10 million. The pilot prospectus from DCLG indicated that splits for sharing growth should promote the financial stability and sustainability of the pooled area. In addition, some retained growth was expected to be invested to encourage further growth across the area.
- 1.5 In light of those requirements the application for Gloucestershire determined that our pilot growth would be allocated in the following fashion.
  - 50% to the County Council reflecting their higher service demands
  - 30% allocated between the districts
  - 20% to the Strategic Economic Development Fund (SEDF). This is allocated by the Gloucestershire Economic Growth Joint Committee to key projects within the County.
- 1.6 At the point of application the methodology for determining the split between districts had not been determined. In the MTFP presented to Stroud District Council in January 2018 an allocation to Stroud of £500k was assumed and this was agreed to be placed in a reserve for allocation at a later date. No criteria for the allocation of this money was established at that point.
- 1.7 Stroud are the lead authority for the pilot, as they had been for the Business Rates Pool, and we retain responsibility for monitoring the pilot throughout the year.

## **2. THE CURRENT POSITION OF THE PILOT**

- 2.1 Monitoring of the Pilot has taken place throughout the year with information provided by each member authority to Stroud who have then co-ordinated the figures into one overall position for the combined pilot.

- 2.2 On the basis of options presented by Stroud, the joint group of Gloucestershire S151 Officers agreed the mechanism for the distribution of growth between the districts in September 2018. The methodology is a continuation of the previous pool arrangements. Each authority receives a minimum level of award and then an additional payment based upon the contribution that their business rates growth has made to the Pilot.
- 2.3 The performance of the pilot has been strong overall. Inevitably business rates performance has fluctuated across member authorities but the overall growth has been higher than anticipated at the point of submitting the bid application.
- 2.4 At the time of writing the most recent forecasting undertaken for the Pool suggests additional growth retained within the County for the Business Rates schemes will be approximately £13.6 million.
- 2.5 As per the principles of the bid application and subsequent agreement on District distribution this would be distributed in the following proportions
  - £2.7 million to the SEDF
  - £6.8 million to the County Council
  - £4.1 million to the Districts, of which Stroud would receive the 2<sup>nd</sup> highest allocation at £793k.
- 2.6 These amounts are estimates and will change when the final year rates position is known. Patterns from prior years suggest that rates income is likely to reduce slightly at the end of the year.
- 2.7 The final position for Stroud will be known at the end of the financial year and will be reported to Strategy and Resources Committee as part of the Outturn Reporting Process.

### **3. Allocation of Funding by Stroud District Council**

- 3.1 There are no restrictions around the use of money generated from the business rates pilot. It is un-ringfenced general fund revenue income and as such can be used for legitimate General Fund purpose, be that revenue or capital. It is a one-off funding source and once used cannot be replaced unless the Council uses another source of funding to do so.
- 3.2 The challenges to the authority's financial position in future years are significant. This one-off money is received after significant cuts have been made to other funding sources including the loss of all of the Revenue Support Grant. There is no certainty in the financial position after 2020 and the Council has an estimated deficit of resources against expenditure. Therefore the use of the business rates should be carefully considered with the same prudent decision making that is applied to all Council budgets.
- 3.3 However, it is vital that principles are established to allow the Council to effectively distribute these funds. It should be recognised that the pilot funds represent a significant opportunity for the Council to inject additional funding into

its key strategic priorities and as such it is vital that allocation is considered appropriately.

- 3.4 Funding to be distributed from the Business Rates Pilot must meet at least one of the following criteria which are listed in no particular order of preference;

#### Supporting local businesses

Although business rates are now a core part of funding for the Council, having replaced the revenue support grant, it is recognised by the Council that the income from the Business Rates Pilot is generated by growth in the business rates yield in the District. Therefore, supporting business within the District is something which the pilot money can be targeted towards.

#### Improving the Council's long-term financial position

The financial sustainability of local authorities was a major driver for DCLG in offering the opportunity for pilot status. Although this is additional funding in 2018/19 it should be recognised that it is received against a backdrop of continually reducing central government support. To this end, the pilot gain could be best used for investing in areas which deliver savings or income in the medium to long term. Although the funding could just be added to the overall reserves position this is unlikely to deliver the best overall value for money.

#### Local Wealth Building

In October 2018 Council formally agreed to adopt the principles of Local Wealth building in district Council policies and procurements. Supporting local businesses and effective procurement within our area has long been a part of Council policy. The Business Rates pilot funding may be used for projects which look to increase the Council's influence in this area.

#### Supporting a zero Carbon District

The District Council has a strong track record of reducing carbon emissions including recognition as the first carbon neutral Council in Europe. On 24<sup>th</sup> January 2019 Council voted for both the 2019/20 budget, including funds for a scoping exercise to move the district towards a zero carbon position, and also a motion in support of making the district carbon neutral by 2030. These decisions further solidified this area as a Council priority. The Business Rates Pilot has been identified as a source of funding to meet the costs of potential works arising from the scoping exercise.

#### Reducing inequality and poverty

The reduction of poverty and inequality is an existing Council commitment as set out in the current Corporate Delivery Plan. Where appropriate schemes are identified the Business Rates pilot growth pot is likely to be a suitable source of funding for projects fulfilling this commitment.

- 3.5 These principles have been established after consideration of both the current priorities of the District Council and the original expectation from DCLG that money will be used to support financial sustainability and economic growth.

#### **4. Decision making for fund allocation**

- 4.1 There is not a need to immediately allocate all of the available funds as to do so would risk not generating value for money by immediately searching for suitable projects rather than identifying those with the best strategic opportunities.
- 4.2 The Budget Strategy approved in October states that options will be presented to members. This document sets out that process.
- 4.3 The Business Rates pilot would be used as the funding source of choice for new priority projects which develop throughout 2019/20 including those priorities created by refreshing the Corporate Delivery Plan or through the outcome of the climate change scoping works.
- 4.4 Where schemes are identified as a sound use of the business rates reserve these will be submitted to the Strategy and Resources committee for approval. Reports to that committee must clearly set out how that particular scheme meets any of the principles of allocation. Future budget monitoring reports to that committee will include an update on the level of the reserve and the progress of projects which have been funded from it.
- 4.5 Projects awarded funding may be of a capital nature. Where that is the case they will be considered in line with the principles of the capital strategy and a full business case will be produced. This is in line with the fundamental principle of the Capital Strategy. Projects requiring an addition to the Capital programme must be recommended by the Committee for a Council decision.
- 4.6 The first project to be identified is the grant funding of a Community Bank which is to be the subject of a separate report to this Committee in April 2019. As an example of the implementation of the Business Rates allocation principles this scheme has been identified as it works both to support local businesses and is an element in the Council's adoption of local wealth building as a priority outcome.
- 4.7 A second project to be funded, although not yet at such an advanced stage, is any works arising from the scoping around climate change. The January 2019 Budget Report identifies the business rates pilot as a prospective funding source and the use of the reserve for works will be presented after scoping is complete.
- 4.8 Officers are also currently considering options for replacing the existing fleet of vehicles for neighbourhood wardens and parking enforcement officers. The existing fleet of vehicles, which is beyond its economic life, is being assessed for replacement with a fleet of a mixture of electric and electric-hybrid vehicles. As such a replacement would meet the principles for the

allocation of the pilot funding it will be the subject of a report to Strategy and Resources Committee when a full business case has been completed.