

<b>REPORT TO</b>	<b>DATE OF MEETING</b>
Cabinet	9 <sup>th</sup> September 2015

Report template revised June 2008



<b>SUBJECT</b>	<b>PORTFOLIO</b>	<b>AUTHOR</b>	<b>ITEM</b>
Business Rates Retention (BRR) Proposed Pooling Arrangements 2016/17	Finance and Resources	Susan Guinness	7

## SUMMARY AND LINK TO CORPORATE PRIORITIES

This report presents to Members the option to join a Lancashire Business Rates Retention pooling arrangement for the 2016/17 financial year. This report also provides an indication of the potential benefits and risks to be considered.

## RECOMMENDATIONS

It is recommended:

1. Members approve that South Ribble Borough Council joins the proposed Lancashire Business Rates Pool Agreement for the financial year 2016/17 should a due diligence review in September 2015 evidences it is potentially financially beneficial to the Council.
2. Members delegate the final decision to join the pool, post the due diligence review, to the Chief Finance Officer in consultation with the Cabinet Member for Finance and Resources.

## DETAILS AND REASONING

### Introduction and background

The Business Rates Retention scheme was introduced with effect from 1st April 2013. In summary this scheme transferred the risk of collecting Business Rates locally to incentivise Councils to grow the tax base within their boroughs. The payback for achieving growth is the local retention of 50% of such growth to fund local services. The remaining 50% additional growth income is paid over to Central Government.

The financial framework within which the regime operates forms part of the Local Government Finance Settlement (together with the allocation of Revenue Support Grant) issued by Central Government to part fund local service delivered by the council. This relatively new core funding scheme is inherently complex. The financial parameters mean that the tax base has to increase each year, by a predetermined amount, in order for the Council to maintain the same cash funding level year on year. The financial benefit of any additional growth achieved over and above this target is shared with central government on a 50:50 basis.

Conversely should tax base growth be minimal, or the movement negative, the council is protected from significant financial loss by receiving a Safety Net payment from Central Government. The first £0.160m of such loss is the Council's liability, the Safety Net payment is triggered at this point for any additional loss over and above £0.160m. To mitigate against this risk the Council has set aside a BRR equalisation account which includes an amount to off set the maximum risk exposure being £0.160m in 2015/16.

## The Proposal

Under the Business Rates Retention Scheme, Local Authorities are able to voluntarily form a business rates retention pool whereby Local Authorities within a pool are treated as a single authority. This means that the Council's levy payment to Central Government is reduced and this therefore results in a financial gain. Local autonomy to distribute amongst pool members applies. The main points in relation to pooling are that:

- Pooling is entirely voluntary.
- The Council may 'resign' from the pool at the end of the year if they wish to.
- Local authorities will themselves determine a pool's geographic coverage.
- One member needs to act as a lead authority in terms of payment and administrative arrangements.
- Pools can be any size, although authorities can only be a member of one pool.
- Pools will need to determine their own governance arrangements and transparently publish their pooling arrangements and financial information on how the pool will operate.
- Political support and understanding of the shared risks and rewards is required.
- A mechanism for how the pool will manage the impact of volatility at an individual authority level needs to be agreed.
- There is a "cooling off period" for all Authorities to withdraw from the pool once the draft Local Government Finance Report is issued.
- In 2015/16 there are 27 pools in operation involving 193 Local Authorities.
- The pooling agreement is submitted for approval by Central Government, the deadline for which is expected to be by the end of October 2015. They reserve the right to reject pooling applications if the rationale for forming the pool is not justified.

Local Authorities who intend to pool for the financial year 2016/17 must notify the Department for Communities and Local Government. The actual details of the notification process is published in a prospectus, however, the issuing of the 2016/17 prospectus has been delayed. The local agreement covering the detailed arrangements outlined above is in the process of being finalised with South Ribble and Chorley Shared Financial Services forming part of the working group completing this task. The agreement will include:

1. The purpose of the pool
2. Pool membership
3. Duration
4. Governance
5. The Lead Authority arrangements
6. Responsibilities of pool members
7. Key principles of the pool
8. Dissolution of the pool

The proposed key features of the agreement are:

- Membership of the pool is restricted to Lancashire councils that are NOT considered to be at risk of entering into a Safety Net position during the year.
- There will be a governing body which will consist of one representative from each pool member being the Leader of each member organisation.

- Each district council will retain its own levy payment. There will be no redistribution of financial gain across members of the pool. Therefore there is no need to approve redistribution formulae.
- The Lancashire pool does not include any local government authorities outside of the Lancashire county region.
- The pooling agreement will be for a one year period initially and thereafter will be subject to an annual review.
- Councils may withdraw from the pool agreement at the end of the year but should give two months notice.
- Once the Council formally agrees to join the pool, withdrawal from the agreement is only permissible at the end of the financial year. Resignation of the pool before then would result in the pooling agreement collapsing for the entire membership.

The financial benefits available to South Ribble in joining the pool cannot be accurately forecasted as this stage due to the number of unknown factors. The data required is contained within both the Local Government Finance Settlement for 2016/17 and also in the 2016/17 Central Government pooling prospectus of which have not been published yet. An estimate based on previous data indicates that the beneficial sum could reach circa £0.720m (net of estimated costs). It is very important to note, however, that this level of receipt is not guaranteed in future years due to the following influencing factors:-

- The technical structure of the current BRR scheme remaining unchanged.
- The BRR financial parameters not significantly changing in the Local Government Finance Settlement due to be published in December 2015.
- The performance with regard to growing the borough's tax base.
- The level of successful appeals award by the Valuation Office Agency against BRR payable by local businesses.
- The framework of BRR pooling arrangements not undergoing significant change by Central Government for 2016/17.
- A change in future years to the proportion of any retained levy receipt claimed by Lancashire County Council.

With regard to the offsetting financial risk, membership of the pool means the Council is no longer entitled to receive a Safety Net payment should the BRR income yield reduce significantly in 2016/17 due to unforeseen circumstances. It is currently considered highly unlikely that South Ribble will fall into a Safety Net position in 2016/17. This position will be re-visited and re-assessed as apart of the due diligence exercise in September.

The estimated cost to South Ribble of joining the proposed pool is set out below. This cost is expected to be significantly less than the possible cash gain, but it will offset the potential financial benefit:-

- 10% of the additional retained levy payment will be paid to Lancashire County Council as the 'top-up' member of the proposed pool.
- A contribution to the Lead Authority for administration costs is estimated at this time to be in the region of £5k.

Finally, it is important for members to note that this agreement does not form a part of, or impact on, the contributions the Council will pay into the City Deal arrangements.

## **Conclusion**

It is the intension of the pool to improve the well-being of the members' communities by working together to retain a greater proportion of business rate growth within the pool area. This will provide opportunities to promote economic growth as well as building financial resilience.

Being part of the Lancashire BRR Pool Agreement will allow South Ribble to retain more of the Business Rates Income received in 2016/17. The financial gain to be achieved in 2016/17 is considered to out weight any potential risk of being a member of the pool. Presently financial risk is mitigated by the set aside of an equalisation reserve and also the development of the borough's tax base via the City Deal developments.

## WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

<b>FINANCIAL</b>	The benefits of this agreement equates to the amount of levy that will be due to Central Government at the end of 2016/17. Under this agreement the Council will be able to retain this amount rather than pay it over to Central Government. It is not possible to calculate this amount at this stage.
------------------	--

<b>LEGAL</b>	Pools are established under paragraph 34 of Schedule 7B to the Local Government Finance Act 1988 (as inserted by Schedule 21 to the Local Government Finance Act 2012).
--------------	---

<b>RISK</b>	<p>The full risk assessment forms part of the background papers to this report. The main points for consideration are summarised here:-</p> <p>The council will forfeit its right to a Central Government Safety Net payment should the BRR income for 2016/17 fall below the Baseline Funding Level. This risk is mitigated against by the BRR equalisation Reserve set up to cover the Council's maximum financial risk exposure when the BRR regime was launched.</p> <p>The financial risk this agreement poses in future years is also mitigated against by trends in recent past performance and the planned growth presented via the City Deal agreement and subsequent development.</p>
-------------	---

<b>THE IMPACT ON EQUALITY</b>	Not applicable
-------------------------------	----------------

### **OTHER (see below)**

<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Crime and Disorder</i>	<i>Efficiency Savings/Value for Money</i>
<i>Equality, Diversity and Community Cohesion</i>	<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Health Inequalities</i>
<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>	<i>Staffing, Training and Development</i>	<i>Sustainability</i>

## BACKGROUND DOCUMENTS

Risk Assessment