

REPORT TO	ON
CABINET	12 September 2018



TITLE	PORTFOLIO	REPORT OF
Business Rates Retention Pilots 2019/20	Finance	Interim Deputy Chief Executive (Resources & Transformation)

Is this report a KEY DECISION (i.e. more than £100,000 or impacting on more than 2 Borough wards?)	Yes
Is this report on the Statutory Cabinet Forward Plan ?	No
Is the request outside the policy and budgetary framework and therefore subject to confirmation at full Council?	Yes
Is this report confidential?	No

1. PURPOSE OF THE REPORT

- 1.1 This report sets out the case for the Council's possible participation in a pilot scheme. The proposal is that a substantial element of government funding of local authorities would be received by membership of a 75% Business Rates Retention Pilot pool in 2019/20. It should be noted that, should the council enter such a pool, the financial benefit would not be gained until the rates have been collected, which would affect 2020/21 budgets through the transfer of a surplus or deficit from 2019/20.
- 1.2 The exact membership of the pool is still to be determined however, the guidance has suggested that the pool should cover economic areas. The current proposal for Lancashire is that Lancashire Business Rates Pool member authorities, plus Blackburn with Darwen, Blackpool, Lancaster, Preston and the Lancashire Fire and Rescue Service could be considered.
- 1.3 The deadline for submitting a bid is 25th September 2018. The decision is a key decision, and will sit outside our policy framework which would require a formal Council decision. As full Council is set for the 26th September, Cabinet are asked to consider this proposal. An 'Urgent decision' will need to be made by this Council on this matter to meet the deadline set by Government.

2. PORTFOLIO RECOMMENDATIONS

- 2.1 Cabinet approve in principle the Council's participation in the Lancashire bid to be a pilot of 75% Business Rate Retention in 2019/20.
- 2.2 Cabinet acknowledge that this matter is a Council decision, however, due to the timescales set, endorse the use of urgent powers to approve the submission of the bid. The S151 Officer (or Deputy S151 Officer in her absence) in consultation with the Cabinet Member for Finance will sign off the decision.

3. REASONS FOR THE DECISION

3.1 The deadline for submitting an application from Lancashire councils to the Government is 25th September 2018. Though specific details of the bid are yet to be finalised, agreement in principle is needed at this stage in order to continue as a member of the proposed pool. This decision is made on the understanding that the Council will be in no worse a financial position, in entering the pilot, that what it would have been if we continue with our existing business rates retention pilot for Lancashire, and also we take into account the funding principles for Revenue Support grant. Early consideration of the figures shows that there is sufficient funding for the council to retain its current position, with Lancashire as a whole also benefitting from the revised pooling arrangements. If the Council is not a member of a pool in 2019/20, it will lose the financial benefit of pool membership it has achieved from 2016/17 onwards.

4. EXECUTIVE SUMMARY

- 4.1 The Government has invited councils in England to bid to pilot 75% retention of business rates in 2019/20 only. The funds cannot be spent until the rates are collected, so the one year scheme will have an effect on our 2020/21 budget position through a transfer of any surplus or deficit arising during 2019/20.
- 4.2 Bids should consist of pools of authorities in an economically beneficial geographical area. Individual authorities should not bid. The deadline for bids is 25th September 2018.
- 4.3 If the bid by Lancashire councils is successful, current calculations suggest that members of the pool should retain a greater share of business rates growth than at present. However, there are also risks of pool membership, which are highlighted in the report.
- 4.4 If the pilot bid does not proceed or is not successful, Lancashire councils should seek to continue the existing pooling arrangement in 2019/20 to continue the benefits already being achieved.

5. CORPORATE PRIORITIES

5.1 The report relates to the following corporate priorities:

Excellence and Financial Sustainability	✓
Health and Wellbeing	
Place	

Projects relating to People in the Corporate Plan:

People	
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6. BACKGROUND TO THE REPORT

- 6.1 On 24 July 2018, the Government published an invitation to councils in England to apply to participate in a 75% business rates retention (BRR) pilot. Bids need to be submitted by proposed pools to the Government by 25 September 2018.
- 6.2 In December 2017 the Government announced the aim of increasing the share of business rates retained by local government from the current 50% to 75% from April 2020 onwards.

The purpose of the 2019/20 pilots is to test increased business rates retention and to aid understanding of the transition into a reformed BRR system in April 2020. We are currently seeking clarification from the government whether Participating authorities would forego Revenue Support Grant (RSG) and Rural Services Grant in return for retaining additional business rates income.

- 6.3 Several Lancashire authorities have negative RSG entitlement in 2019/20, including this Council. If the Council did not participate in the 75% rates retention pilot, it would be likely that the negative RSG would be treated as an increase in the business rates tariff. The Government launched consultation on this issue on 24th July 2018 and the method of eliminating negative RSG to be adopted in 2019/20 will not be known at the time of submitting the 75% retention bid. Unfortunately it is not clear how negative RSG should be treated within a pilot pool. Ribble Valley Borough Council has asked for clarification from the Ministry of Housing, Communities and Local Government but at the time of preparing this report a response was not available.
- 6.4 The Government is interested in exploring how 75% rates retention can operate across more than one authority to promote financial sustainability and to support coherent decision-making across functional economic areas.
- 6.5 The Government would like to see authorities form pools with agreement in place from all participating authorities, to apply jointly for pilot status. They expect a proposed pool to comprise a county council and all of the district councils; a group of unitary authorities; or a two-tier area and adjoining unitaries.
- 6.6 The Government would use the 2019/20 pilots to improve its understanding of how different local arrangements work in relation to 75% BRR. Participating authorities would be expected to work with Government officials on the design of the new BRR system, and share data and information as required.
- 6.7 The bids will need to show that all proposed participating authorities have agreed to become part of the pool, and have agreed a methodology for sharing additional business rates income growth. The Section 151 Officer (Chief Financial Officer) of each authority will need to sign the bid before its submission.
- 6.8 Under the 75% BRR pilots, unlike the previous 100% BRR pilots, a 'no detriment' clause will not be applied. In current and previous pilots, this clause ensured that the member authorities would be no worse-off in the pilot than they would have been in the previous 50% BRR scheme. Instead the successful pilots will be testing a 95% 'safety net' to reflect the increased risk in the proposed increased BRR system. The current safety net is 92.5%.
- 6.9 Bidding is competitive. It is likely that there will be more bids than approved pilots, because of the financial cost to the Government. There is no certainty that the Lancashire bid will be approved by the Government.

7. LANCASHIRE BID

- 7.1 Lancashire councils are proposing to make a bid to be one of the 75% BRR pilot pools in 2019/20, with Ribble Valley Borough Council as the lead authority. At present it is intended that the Lancashire pilot would include the current membership of the Lancashire Business Rates Pool 2018/19, plus Lancaster and Preston, Lancashire Fire and Rescue Service (LFARS), and the unitary authorities Blackburn with Darwen and Blackpool. Final membership is still to be determined, as each potential participant will need to seek approval to be part of the bid.
- 7.2 The intention is that the Lancashire bid should include the county council, all districts, the unitary authorities, and LFARS. This combination of authorities may appeal to the Government as a pilot. However, it is possible that similar combinations of authorities might be included in bids from other counties.
- 7.3 There are a number of different ways that growth from a BRR pilot could be shared between participating authorities. The exact split is yet to be determined. However, at present it is proposed that individual councils would retain most of their growth, though part of it would be paid to Blackpool and Preston to cover their estimated losses arising from membership of the pool. An alternative approach would be to top-slice the growth to allocate to specific purposes. These could include creating an economic development pot. Such top-slicing has been discussed but there are no specific proposals at present. What is clear amongst many authorities is that the current business rates support scheme contributes significantly to the MTFs of each individual council. In agreeing to this proposal, while the government will not assure an overall principle of 'no detriment', Lancashire authorities could agree that, within the scope of the funding available, each council will draw down sufficient funds to cover off current commitments to their MTFs, with the remainder being pooled at a Lancashire level. It should be noted that, the use of the funds at a local level, will also contribute significantly to the economic agenda for Lancashire. District councils' service delivery is a key foundation to the delivery of economic growth, and without it, many economic initiatives would fail.
- 7.4 The allocation of business rates income in the pool will be set by pool members. At this stage, there is no agreement as to the current allocation of the new pool.
- 7.5 The benefits of membership of the existing Lancashire pool in 2016/17 and 2017/18 are shown in Appendix A. A total of £6.011m which otherwise would have been paid to the Government as a levy was retained by pool members.
- 7.6 Options for allocation of the additional funding arising from participation in the 75% retention pilot will be presented in reports during the 2019/20 budget preparation cycle.

8. RISK OF 75% BRR PILOT POOL MEMBERSHIP

- 8.1 Participating councils in Lancashire will be exposed to a higher level of business rate risk for the duration of the pilot in 2019/20. There will be a higher share of any losses, arising due to appeals, bad debts, and empty premises, being 75% rather than the current 50%. There will not be 'no detriment' support from the Government.
- 8.2 The estimates of additional growth available to share in 2019/20 are based on the councils' NNDR1 returns for 2018/19. Should NNDR income fall below 2018/19 levels, the growth anticipated in the bid would not materialise. However, indicative figures suggest that total rates income would need to reduce significantly before councils were worse-off through pilot membership than continuing with existing pools.
- 8.3 In designing the mechanism for sharing risks and rewards, the proposed Lancashire pool should consider how an equivalent to 'no detriment' support within the pool should be provided in order to protect the resource position of individual authorities.

8.4 Currently there is uncertainty about how negative RSG entitlement in 2019/20 would be dealt with in the context of a 75% retention pilot pool.

9. CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

9.1 None.

10. ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

10.1 Should this Council not participate in the bid, it may reduce the chance of the Lancashire bid being accepted.

10.2 If not part of a pool in 2019/20, the existing financial benefits of pool membership to the Council would be foregone. See Appendix A.

11. FINANCIAL IMPLICATIONS

11.1 Membership of a Lancashire 75% BRR Pool in 2019/20 should enable the council to retain more of the growth in rates income. Should the bid be accepted by the Government, the effect on business rates income budget for 2019/20 will be reflected in the Medium Term Financial Strategy. The specific financial implications will depend on the final composition of the pool, and the agreed mechanism for sharing the benefit of growth.

11.2 As the Government is not providing 'no detriment' support to the 75% retention pilots, it is important that the resource position of pool members is protected by a local equivalent of 'no detriment'.

12. LEGAL IMPLICATIONS

12.1 A formal legal agreement will need to be entered into in due course – this will be dealt with by Legal Services.

13. HUMAN RESOURCES AND ORGANISATIONAL DEVELOPMENT IMPLICATIONS

13.1 None.

14. ICT/TECHNOLOGY IMPLICATIONS

14.1 None.

15. PROPERTY AND ASSET MANAGEMENT IMPLICATIONS

15.1 None.

16. RISK MANAGEMENT

16.1 Estimated growth arising from membership of a 75% BRR pilot has been based on the councils' NNDR1 returns for 2018/19. Should NNDR income in 2019/20 not match these estimates, the growth anticipated in the bid would not materialise. Indicative figures for the proposed pool suggest that large reductions in rates income would be required before pool members were worse-off through being in a pilot pool than in the current Lancashire pool.

17. EQUALITY AND DIVERSITY IMPACT

17.1 None.

18. COMMENTS OF THE STATUTORY FINANCE OFFICER

- 18.1 The 75% BRR pilot scheme gives the Council the opportunity to participate in the development of the system which the Government intends to apply to all councils in England from 2020/21 onwards. In addition, it is expected that there should be a financial benefit in 2019/20, though the specific benefit cannot be confirmed at this stage of the development of the Lancashire pool.
- 18.2 In the absence of Government 'no detriment' support, it is important that the design of resource allocation within the Lancashire pool includes equivalent 'no detriment' support to protect the resource position of individual authorities.
- 18.3 Should the Council choose not to participate in the pool bid, and the bid is successful, it would not get the financial benefit of pool membership in 2019/20. The benefit of membership of the 2017/18 pool is indicated in Appendix A.
- 18.4 Should the pool bid not proceed, or the bid not be successful if it does proceed, then Lancashire councils would aim to continue the existing pooling arrangement into 2019/20 to retain the current benefit of pooling.

19. COMMENTS OF THE MONITORING OFFICER

- 19.1 There are no issues of concern that the Monitoring Officer needs to raise. Because of the extremely tight deadline there is a need for an urgent decision to be taken by the Section 151 Officer or her Deputy.

20. BACKGROUND DOCUMENTS

Ministry of Housing, Communities & Local Government (MHCLG), "Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20", July 2018

MHCLG, "Frequently asked questions", August 2018

21. APPENDICES

Appendix A – Lancashire Business Rates Pool 2017/18

Helen Seechurn

Interim Deputy Chief Executive (Resources & Transformation)

Report Author:	Telephone:	Date:
Michael Jackson	01257 515490	10/09/2018

LANCASHIRE BUSINESS RATES POOL 2017/18

This Council is part of the Lancashire Business Rates Pool which began on 1 April 2016. In a Business Rate Pool, tariffs, top-ups, levies and safety nets can be combined. This can result in a significantly lower levy rate or even a zero levy rate meaning that more or all of the business rate growth can be retained within the pool area instead of being payable to the Government.

The Lancashire Business Rates Pool, which includes most but not all of the local authorities in Lancashire, has been designated by the Secretary of State for Communities and Local Government, and the retained levy in Lancashire has been distributed as follows:

- Lancashire County Council is paid 10% of the overall retained levy;
- Each district within the pool retains 90% of their levy.

With regard to this council, the retained levy would be £1.237m (£1.116m in 2016/17), hence under pooling we have benefited from the extra income of £1.113m (£1.005m in 2016/17). Lancashire County Council has received the remaining 10% of retained levy.

As part of the pool arrangements, one authority must be designated as lead authority, which in the case of the Lancashire Business Rates Pool is Ribble Valley Borough Council. As part of this arrangement a fee of £2,000 is payable by each pool member to Ribble Valley Borough Council in their role as lead.

In the Lancashire Business Rates Pool each council bears its own risk and takes its own reward under the pool agreement, i.e. no sharing of a volatility reserve.

Below is a summary of the Lancashire Business Rates Pool members and relevant transactions.

Lancashire Business Rates Pool Members 2017/18	Authority Type	Tariffs and Top-ups 2017/18	Retained Levy on Growth 2017/18	10% Retained Levy payable to / receivable by LCC	Net Retained Levy 2017/18
		£	£	£	£
Chorley Borough Council	Tariff	6,073,147	(843,563)	84,356	(759,207)
Fylde Borough Council	Tariff	7,565,517	(664,723)	66,472	(598,251)
Hyndburn Borough Council	Tariff	3,706,620	(432,570)	43,257	(389,313)
Pendle Borough Council	Tariff	3,164,521	(518,196)	51,820	(466,376)
Ribble Valley Borough Council	Tariff	4,026,300	(661,344)	66,134	(595,210)
Rossendale Borough Council	Tariff	2,534,068	(518,640)	51,864	(466,776)
South Ribble Borough Council	Tariff	9,644,242	(1,236,560)	123,656	(1,112,904)
West Lancashire Borough Council	Tariff	8,123,116	(669,688)	66,969	(602,719)
Wyre Borough Council	Tariff	6,385,329	(466,171)	46,617	(419,554)
Lancashire County Council (LCC)	Top-up	(147,643,257)	0	(601,145)	(601,145)
Pool Total		(96,420,397)	(6,011,455)	0	(6,011,455)
Central Government		96,420,397	0	0	0
Total		0	(6,011,455)	0	(6,011,455)

Note: Pool membership in 2016/17 did not include Fylde Borough Council, but did include Burnley Borough Council

The Net Retained Levy for the council is included within Business Rates Retention income on the Comprehensive Income and Expenditure Statement, along with the council's own share of growth achieved in the year.

(Note: this is an edited extract from Note 13 to the Statement of Accounts 2017/18.)