

## DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	FINANCE AND DEMOCRACY COMMITTEE	25 SEPTEMBER 2017	6
<b>BUSINESS RATES RETENTION AND BUSINESS RATES POOLING</b>			

### PUBLIC ITEM

This item is for consideration in the public part of the meeting.

### SUMMARY

This report summarises the operation of a 'business rate pool' under the revised 'localisation of business rate' arrangements which have been in place since April 2013. The report notes the existence of such a pool for Lancashire authorities which came into being for the 2016/17 financial year. At the meeting of 28<sup>th</sup> October 2016 this Committee approved Fylde Council participation in the Lancashire Business Rate Pool for 2017/18.

Subsequent to the commencement of the current arrangements in 2013, the government announced further reform to the business rates retention scheme and in October 2015 committed that, by the end of the then Parliament (i.e. originally intended to be 2019/20), local government should retain all taxes raised locally, including 100% of locally collected business rates. This amounts to a significant reform of the local government finance system. It should be noted that this commitment refers to the retention of 100% of business rates by the local government sector as a whole – it is not proposed that individual councils should retain 100% of business rates collected within their areas.

The most recent government consultation on 100% Business Rate Retention, undertaken during the spring of 2017 (and therefore prior to the June 2017 general election) included, inter alia, proposals to update the way that business rate pools operate. If implemented as described in the consultation document the proposals would mean that the arrangements for the Lancashire-wide Business Rate pool may cease to be appropriate and relevant for 2019/20 and beyond.

However the legislation required to implement these changes was absent from the programme of proposed government legislation for the current parliament within the June 2017 Queen's Speech, calling into question whether these proposals will now be put in to place.

At the present time it is unclear whether the earlier proposals on 100% Business Rate Retention, and the accompanying impact on the viability of business rate pools, will now be implemented as planned.

The Committee is invited to consider this matter and determine whether Fylde Council ought to continue membership of the Lancashire Business Rates Pool for 2018/19 on the assumption that the pool remains in existence beyond the current year. It is recommended that in the absence of clarity surrounding the intentions of central government with regard to the future of Business Rate pools, it is considered reasonable that the Council should continue membership of the Lancashire Business Rates Pool for 2018/19 assuming that the pool remains in existence.

## RECOMMENDATIONS

### The Finance and Democracy Committee is recommended to:

1. Approve the continuation of Fylde Council participation in the Lancashire Business Rates Pool for 2018/19 on the assumption that the pool remains in existence; and
2. Note that the next update to the Financial Forecast of the Council will be amended to reflect the latest information and expectations in respect of future levels of business rate income to the Council; and
3. Agree that participation in the Lancashire Business Rate Pool for future years beyond 2018/19 should be kept under review and should be the subject of a report to the committee for consideration during next financial year.

## SUMMARY OF PREVIOUS DECISIONS

At the meeting of 28th October 2016 this Committee considered participation by Fylde Council in a Lancashire-wide Business Rate Pool for 2017/18 and determined:

1. To approve the recommendation from Management Team, in light of the updated information regarding future expectations of Business Rate income as contained within the body of this report, and determine that Fylde Council will participate in the Lancashire Business Rate Pool for 2017/18;
2. Approve that sufficient resources are retained within a specific reserve for the duration of the Council's inclusion in the pool in order to mitigate against the possibility of losses as a result of the removal of safety-net protection; and
3. Agree that participation in the Lancashire Business Rate Pool for future years beyond 2017/18 should be kept under review and should be the subject of a report to the committee for consideration during next financial year.

At the meeting of 19th June 2017 this Committee considered an information item on the government proposals for 100% Business Rate Retention as they were framed at that date.

## CORPORATE PRIORITIES

Spending your money in the most efficient way to achieve excellent services ( <b>Value for Money</b> )	√
Delivering the services that customers expect of an excellent council ( <b>Clean and Green</b> )	√
Working with all partners ( <b>Vibrant Economy</b> )	√
To make sure Fylde continues to be one of the most desirable places to live ( <b>A Great Place to Live</b> )	√
Promoting Fylde as a great destination to visit ( <b>A Great Place to Visit</b> )	√

## REPORT

### 1. INFORMATION AND BACKGROUND

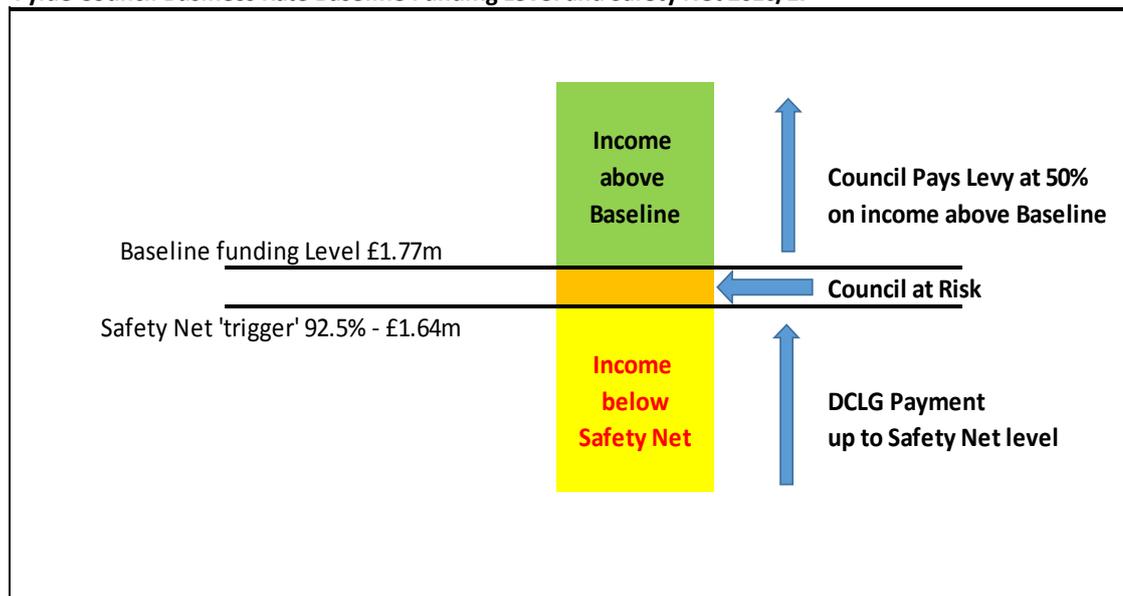
Business rates are a key source of funding for local authorities. From 2013/14 new arrangements replaced the former 'National Rates Pool' and under this revised regime each billing authority retains a share of the business rates for its area based on prescribed proportions. For Fylde, this is 40% retained with the remainder shared between Central Government, County Council and Fire Authority (50%, 9% and 1% respectively).

All district Councils in two-tier areas, like Fylde, are classed as 'tariff' authorities; this means the Council's individual rates baseline is greater than its baseline funding level (as calculated by central government) which results in the Council paying a tariff to the Government from its share of 'retained' business rates.

The business rates retention system also provides for councils to benefit from a share of growth in their business rates base and exposes them to the risk of reduced income where changes are adverse (e.g. business closures, rating appeals). The system, as currently designed, includes mechanisms for both a **levy** and a **safety net** to moderate such variances. A **levy** applies where an authority's retained share of rates income exceeds its baseline

funding level, whereas a **safety net** operates when the retained share of rates income falls below 92.5% of the baseline funding level. The diagram below illustrates this and shows the values for Fylde for 2016/17 (i.e. without participation in a business rate pooling arrangement).

**Fylde Council Business Rate Baseline Funding Level and Safety Net 2016/17**



The diagram shows that under the current system if the Council’s share of retained business rate income exceeds the value of the Baseline Funding Level (which for 2016/17 is £1.77m as calculated by DCLG) the Council would pay to the Government a levy on this additional amount at a rate of 50%, whilst retaining 50% of the growth.

Conversely the current system provides a degree of protection in that if the Council’s share of retained income drops below the Baseline Funding Level the extent of this drop is ‘capped’ at a level equivalent to 92.5% of the Baseline Funding Level (the ‘Safety Net’ level - which for 2016/17 is £1.64m). If the Council’s share of retained income drops below this level the Council receives a grant to bring the income up to the safety net level.

## 2. BUSINESS RATE POOLING

A feature of the business rates arrangements allows councils to group together to form a ‘business rates pool’. Under such an arrangements councils in a pool combine all of their funding calculations under the business rate scheme, effectively adding their numbers together for all elements of the funding calculation, including the calculation of the tariff and top-up amounts.

For 2017/18 Fylde Council joined a Lancashire-wide Business Rate pool for the first time. Combining with other local authorities within Lancashire (comprising a number of the district councils which are ‘tariff’ authorities and Lancashire County Council which is a ‘top-up’ authority) has the effect of producing a position whereby no levy to central government is payable by any of the pooling authorities. It is estimated that participating Councils within the Lancashire pool will retail 95% of their Business Rate growth compared to the 50% that is retained where a Council is not within a Business Rate pool as described within Section 1, above.

The estimated beneficial impact on the total amount of Business Rate income that is retained by Fylde Council as a consequence of joining the Lancashire-wide pool for 2017/18 onwards is shown within the latest update to the Financial Forecast as detailed in the table below:

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<b>Business Rates Funding:</b>					
Retained Rates Income	1,771	3,879	2,819	2,611	2,633
Approved Contribution to Funding Volatility Reserve		- 2,000			
<b>Sub Total - Business Rates net of reserve transfers</b>	<b>1,771</b>	<b>1,879</b>	<b>2,819</b>	<b>2,611</b>	<b>2,633</b>

The latest in-year monitoring of 2017/18 retained business rates income through the pool indicates that it remains financially advantageous for Fylde to remain in the pool for both 2017/18 and 2018/19.

### **3. FURTHER PROPOSED CHANGES TO THE BUSINESS RATE RETENTION SCHEME – 100% RETENTION**

The most recent government consultation on 100% Business Rate Retention, released in February 2017, included proposals to update the way that business rate pools are set up, and strengthen the incentives open to pools. The consultation included the proposal that the current voluntary approach can incentivise the wrong behaviours – leading in some areas to local authorities being excluded from pools due to their being perceived as ‘high risk’. In addition, the removal of the levy from the new 100% Business Rates Retention system would mean that the rewards for pooling are reduced. The government was proposing to remove the requirement for local authority consent to participate in a business rates pool.

By removing the requirement that all authorities must agree to being designated as a pool, the Secretary of State was proposing to ensure that pools are created across functional economic areas that maximise the opportunities for growth. DCLG were also planning to introduce a statutory duty to consult with areas on their pooling arrangements. Although the ultimate decision with respect to business rate pool composition would rest with the Secretary of State, all authorities in a functional economic area would have to take those discussions seriously.

Additionally the government were proposing a further change to the present arrangement by the designation of new ‘Local Growth Zones’, designed to add an additional growth incentive to the 100% Business Rates Retention system, along with an opportunity to give greater responsibility to local government for their own growth-related financial decisions, and to move away from having to approach central government for investment. Participation in a Local Growth Zones would not be optional but the complexion of the grouping would be determined by central government.

If implemented these changes would mean that the arrangements for the Lancashire-wide Business Rate pool may cease to be appropriate and relevant for 2019/20 and beyond.

### **4. LATEST POSITION**

The proposed revised Business Rate retention arrangements, previously intended to come into effect from 2019/20, would most likely have resulted in changes to the amounts of Business Rate income that is retained by Fylde Council, given that the Lancashire-wide pooling arrangement may not remain under the revised regime of compulsory Local Growth Zones. It would therefore have been reasonably clear what the impact of this change would be on the financial position of the Council and this could have been reflected within the next update to the Financial Forecast.

However, the outcome of both the June 2016 EU referendum and the June 2017 general election have had a consequential impact on the planned programme of government legislation, including the Finance Bill which would reform the Business Rate retention system for local authorities. Consequently the legislation required to implement these changes was absent from the programme of legislation for the current parliament within the June 2017 Queen’s Speech, calling into question whether these proposals will now be put in to place.

### **5. CONCLUSION**

Business Rate income is a key element within the Councils Financial Forecast, making a significant contribution to the total income of the Council. The latest forecast approved at Budget Council in March 2017 reflects anticipated income from the Lancashire-wide Business Rate pool (of which Fylde Council became a member for 2017/18) not only for 2017/18 but for all subsequent years in the forecast.

At the present time it is unclear whether the earlier proposals on 100% Business Rate Retention, and the consequential impact on the viability of business rate pools, will now be implemented.

It is anticipated that continued membership of the pool for 2018/19 would result in the Council benefitting financially from the consequential greater proportion of business rate income that is retained by Fylde Council, should the pool continue to operate for 2018/19.

In the absence of clarity surrounding the intentions of central government with regard to the future of Business Rate pools, it is considered reasonable that the Council should continue membership of the Lancashire Business Rates Pool for 2018/19 assuming that the pool remains in existence.

It is also considered appropriate that the next update to the Financial Forecast of the Council be amended to reflect the latest information and expectations in respect of future levels of business rate income to the Council given the current lack of clarity concerning the intentions of central government in this matter.

IMPLICATIONS	
Finance	Whilst it is impossible to accurately predict the 2018/19 financial position in terms of Business Rates Retention and given the lack of clarity surrounding the intentions of central government with regard to the future of Business Rate pools, it is considered reasonable that the Council should continue membership of the Lancashire Business Rates Pool for 2018/19 assuming that the pool remains in existence. The next update to the Financial Forecast of the Council will be amended to reflect the latest information and expectations in respect of future levels of business rate income to the Council.
Legal	The legal framework for the formation of a business rates pool is set out in paragraph 34 of Schedule 7B of the Local Government Finance Act 1988 (as inserted by schedule 1 to the Local Government Finance Act 2012). Each pool has to decide (and get approval from Government) on its governance arrangements. These cover, at the least: <ul style="list-style-type: none"> <li>- the rights and obligations of pool members, including:</li> <li>- how money is to be disbursed to/between pool members and how payments to central government are to be funded by the lead authority</li> <li>- the treatment of pool balances and liabilities following the pool's dissolution.</li> </ul>
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	None

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue, Chief Financial Officer	01253 658566	September 2017

BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
n/a	n/a	n/a