



DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	FINANCE AND DEMOCRACY COMMITTEE	23 SEPTEMBER 2019	4
BUSINESS RATES RETENTION AND POOLING ARRANGEMENTS 2020/21 AND SUPPORT FOR THE GREATER LANCASHIRE PLAN			

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 localisation of business rates arrangements (which have been in place since April 2013) and the '75% Business Rate Retention pilot' arrangements that are in place for 2019/20. Fylde Council has participated in the Lancashire business rates pool since 2017/18.

In 2018/19 the government announced plans to introduce '75% Business Rate Retention' for all authorities with effect from 2020/21. As part of the development of these revised arrangements the government invited bids from existing Business Rate Pools to act as 'pilots' for the proposed scheme. An analysis of the impact of the 'pilot' scheme arrangements for the Lancashire Business Rates Pool indicated that a significant net beneficial impact would result across Lancashire authorities. Consequently the Lancashire pool applied for inclusion in the pilot scheme and was subsequently accepted as a participant for 2019/20.

Alongside the Local Government Finance Settlement for 2019/20, the Government had previously confirmed that it is looking to announce a multi-year financial settlement from April 2020 along with implementation of the Fair Funding Review, also with effect from April 2020. The review was designed to deliver a revised level of funding across local government from 2020/21 and was widely expected to result in shire district councils such as Fylde Council being regarded as requiring a reduced share of national resources.

However in August 2019 the government announced a single, one-year, spending review to give government departments "financial certainty" as they prepare for Brexit currently still planned for October 31st 2019. A one-year settlement for 2020/21 is scheduled to be announced in the autumn of 2019 and the next multi-year Spending Review will now be carried out in 2020 with implementation expected to be from 2021/22. Given the one year spending review, it is now highly unlikely that the fair funding review can now be introduced next year.

Consequently, although there remains a degree of uncertainty at this stage, it is increasingly likely that the business rate regime that is in place in 2019/20 will include provision for a reversion to the arrangements that were in place for 2018/19 i.e. that the Lancashire Business Rate Pool would continue in a similar form for 2020/21 as at present, but without the further benefits of the '75% pilot' arrangements. The specific possible options for the Lancashire Business Rate Pool for 2020/21 are not expected to be known with certainty until the 2020/21 Local Government Finance Settlement is announced, expected to be in early December this year.

The latest in-year monitoring and future modelling strongly suggest that continued participation in a Lancashire Business Rate Pool for 2020/21 would be financially beneficial to Fylde Council. It is therefore recommended that Fylde Council ought to continue to participate in the Lancashire Business Rates Pool for 2020/21 (on the assumption that confirmation is secured that the pool will remain in existence beyond the current year).

Furthermore, although it is currently not anticipated, if it does become possible for the Lancashire pool to continue to operate the 'pilot' arrangements for a 75% Business Rate Retention scheme in 2020/21 the

projected benefit to Fylde Council would be increased and therefore the Committee are also recommended to approve that Fylde Council ought to continue to participate in the 'pilot' arrangements for 2021 were that to be an available option for the Lancashire Business Rates Pool.

Additionally this report describes the proposed development of the 'Greater Lancashire Plan' (GLP) designed to form the basis for a new deal for Lancashire with national government to deliver economic regeneration for the county, leading to economic resilience and growth. Further details are provided within this report. It has been proposed that the cost of developing the GLP be met from the 25% of the additional business rates growth arising from the pilot arrangements that is has been agreed by the pool are to be set aside to create a Lancashire-wide fund to be used to target strategic economic growth and to improve financial sustainability on a county-wide footprint. This fund is referred to as the Strategic Economic Growth and Financial Sustainability Fund (SEGFSF). However that fund will not have any available funding until 2020/21 and it has been proposed that in the short-term the cost of developing the plan could be met proportionately by individual members of the business rate pool. Each council would be reimbursed these sums as the first call on the SEGFSF as and when such funds are generated – expected to be in 2020/21.

The Committee is requested to consider the merits of the development of the GLP and, if the Committee indicates support for the GLP, to approve a funded budget increase in the sum of £20,261 for the current year to provide for Fylde Council's share of the cost of developing the GLP, with funding coming from the Funding Volatility Reserve. This amount would be returned to the Funding Volatility Reserve as a first call upon the SEGFSF.

RECOMMENDATIONS

The Finance and Democracy Committee is recommended to:

1. Approve the continuation of Fylde Council participation in the current Lancashire Business Rates Pool for 2020/21 onwards, on the assumption that the pool remains in existence, along with participation in the '75% Business Rate Retention Pilot Scheme' should that be a further option available in future years;
2. Note that once the one-year settlement for 2020/21 is announced in the autumn of 2019, subsequent updates 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. Approve a fully funded revenue budget increase in the sum of £20,261 for 2019/20, to be met from the Funding Volatility Reserve, to support the development of a Greater Lancashire Plan, subject to the unanimous approval by the relevant Lancashire Leaders (in their capacity as the Governing Body of the Lancashire Business Rates Pool) to the development of the plan from the release of monies held in the Lancashire Strategic Economic Growth and Financial Sustainability Fund.

SUMMARY OF PREVIOUS DECISIONS

At the meeting of 24th September 2018 this Committee considered participation by Fylde Council in a Lancashire-wide Business Rate Pool for 2019/20 and determined:

1. To approve the continuation of Fylde Council participation in the current Lancashire Business Rates Pool for 2019/20 on the assumption that the pool remains in existence;
2. To agree the participation of Fylde Council in the submission of a bid by Lancashire authorities to form part of the '75% Business Rate Retention Pilot Scheme' arrangements for 2019/20 providing that a revised pooling arrangement, acceptable to all authorities, can be established;
3. To 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
4. To agree that participation in the Lancashire Business Rate Pool for future years beyond 2019/20 should be kept under review and should be the subject of a report to the committee for consideration during the next financial year.

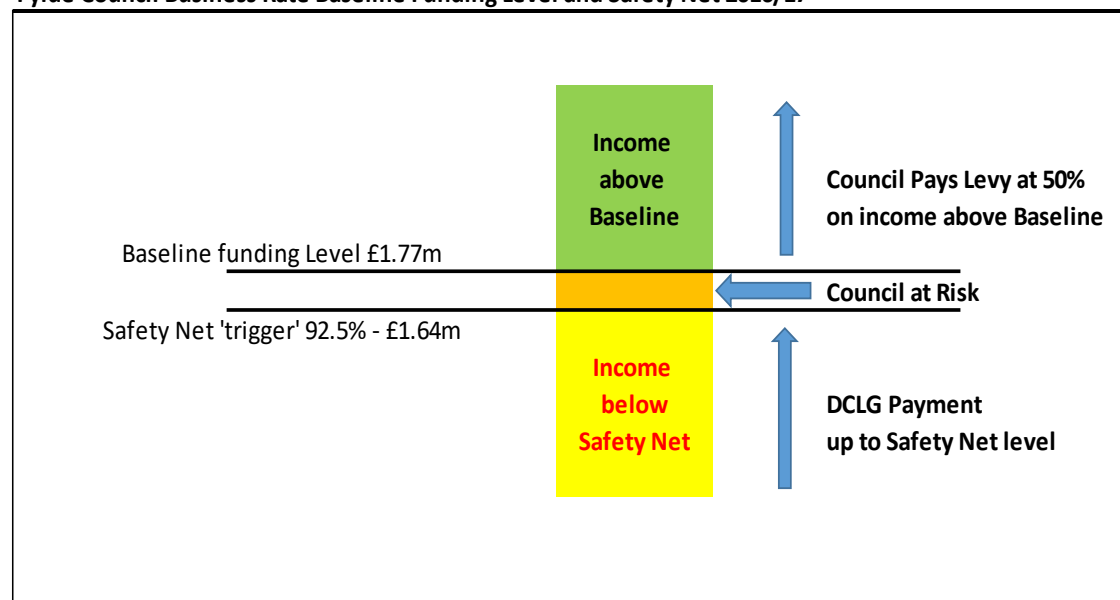
CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (Value for Money)	✓
Delivering the services that customers expect of an excellent council (Clean and Green)	✓
Working with all partners (Vibrant Economy)	✓
To make sure Fylde continues to be one of the most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

REPORT

1. INFORMATION AND BACKGROUND

- 1.1 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 was 40% retained with the remainder shared between Central Government, County Council and Fire Authority (50%, 9% and 1% respectively).
- 1.2 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.
- 1.3 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. prior to the Council's participation in a business rate pooling arrangement).

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



- 1.4 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 was £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.

- 1.5 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 was £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

- 2.1 A feature of the business rates arrangements is to allow 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.
- 2.2 Fylde Council has participated in the Lancashire pooling arrangement since the financial year 2017/18. 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. Participating Councils within the Lancashire pool retain 95% of their Business Rate growth compared to the 50% that is retained where a Council is not within a Business Rate pool.
- 2.3 **As a result of being in the Lancashire pool for 2018/19, Fylde Council was able to retain £576k of business rate growth that would otherwise have been paid over to the government by way of a levy. This is in addition to the £598k extra which was retained in 2017/18 from being in the pool.**

3. FURTHER CHANGES TO THE BUSINESS RATE RETENTION SCHEME – 75% RETENTION

- 3.1 As part of the Local Government Finance Settlement for 2018/19 the government announced plans to introduce '75% Business Rate Retention' for all authorities with effect from 2020/21. As part of the development of these revised arrangements the government invited bids from groups of authorities to act as 'pilots' for the proposed scheme, which were intended to apply for the 2019/20 financial year only.
- 3.2 Authorities selected as pilots forgo Revenue Support Grant and Rural Services Delivery Grant as appropriate, the value of these grants being taken into account when the revised tariffs and top-up's for the pilot authorities are calculated.
- 3.3 The Government determined that because the new 75% pilots are testing the pooled authorities approach to risk the 'no detriment' clause applied to previous pilots would no longer apply. Instead of this the Government increased the safety net protection level from 92.5% to 95% for these new pilot pools.
- 3.4 The Lancashire Pool originally operated on the basis that each member stands their own risk, having given up their right to safety net protection on joining the pool. The arrangements under the pilot differ in that all pool members would share the risk of losses across the pool area, such that reduced business rate income from anywhere within the pilot footprint would adversely affect the level of additional business rates retained.
- 3.5 Modelling at the time suggested that the cumulative beneficial impact of increased retained business rates under such pilot arrangements in Lancashire would be c£10.8m, a level which provided a significant buffer against potential losses. Consequently the Lancashire Business Rates Pool applied to become, and was selected as, one of the '75% Business Rate Retention Pilot' schemes for 2019/20.
- 3.6 District councils such as Fylde see their initial allocation increase from 40% under the previous arrangements to 56% under the pilot arrangements.
- 3.7 A necessary element for applications to the pilot scheme was for the pool to demonstrate that through its governance and additional growth-sharing arrangements, the pool would achieve economic development and growth benefits across the participating authorities. In order to address this requirement the Lancashire arrangements under the pilot scheme include that, at a pool level **the additional growth** in retained business rate income will first be top-sliced as follows, before the remainder is distributed to participating councils:

- Initially, 5% of **additional growth** will be set aside to provide a resilience fund that will mitigate against any losses in business rate income for participating authorities should their income fall below baseline funding levels; and
 - A further 25% of the additional growth will then be set aside to create a Lancashire-wide fund to be used to target strategic economic growth and to improve financial sustainability within the county, referred to as the Strategic Economic Growth and Financial Sustainability Fund (SEGFSF). This is to be allocated based on the unanimous decisions of the relevant Lancashire Leaders in their capacity as the Pilot Pool Governing Body.
- 3.8 It is currently estimated that the residual **additional growth retained by Fylde** as a result of the pilot scheme arrangements will be c£380k in 2019/20. The beneficial effect of this is currently reflected in the Medium Term Financial Strategy for 2019/20 only.

4. SUPPORT FOR THE GREATER LANCASHIRE PLAN

- 4.1 Within the 'Vibrant Economy' theme of the Council's approved Corporate Plan is an action to "Channel business rate funding opportunities to economic development". One such opportunity which has been presented to Lancashire Leaders is the development of a 'Greater Lancashire Plan' (GLP).
- 4.2 The GLP is designed to address the concern expressed by the Northern Powerhouse Minister at the absence of a Combined Authority for Lancashire and the risk that as a consequence Lancashire would continue to 'lose out' in terms of national and regional investment compared to those areas that have put such arrangements in place. The GLP is therefore aimed at achieving some of the key benefits that a Combined Authority might have delivered without the establishment of a formal entity across the county.
- 4.3 The objectives of the GLP are to provide:
- A basis for a new deal for Lancashire with national government;
 - A stronger and more inclusive economy;
 - A more transformative and integrated approach of the local state as a system, rather than just a disparate set of fragmented interventions to address market failure;
 - Better insight into the opportunities for improved Value For Money from public services, for shared and more integrated services, public reform and asset rationalisation;
 - A higher quality environment and a clean and green Lancashire;
 - Better informed, more inclusive and stronger democratic decision-making across Lancashire;
 - Enhanced ability to influence HM Government policy agenda.
- 4.4 The GLP aims to present:
- A bold and ambitious vision for Greater Lancashire 2050, arising from futures work and long range strategic planning, based on scenarios that draw resilience;
 - A strategic framework for Greater Lancashire Plan, capturing the Local Transport Plan refresh, the Local Industrial Strategy, and all the local plans;
 - Building on the existing work of the six Theme Groups, run by Lancashire Leaders;
 - An independent panel of national experts and leading thinkers, to oversee the work and make recommendations;
 - A set of recommendations and rationale for time-limited independent policy commissions;
 - A business case for a Greater Lancashire Strategic Intelligence Unit and secretariat, hosting, maintaining and managing a single, comprehensive evidence base that can be used by all stakeholders.
- 4.5 The current funding request for producing the GLP is estimated at around £400k, comprised of the following elements:

Initial Scope of Work	Cost
Whole Place Independent Reviews – Economic, Social and Environmental	£250k (£100k for each of the economic and public reform reviews and £50K for environment)
Futures Work	£40k
Business Case for Strategic Intelligence Unit	£10k to develop,
Intelligent Client Function	Up to £100k
Total one-off costs to be funded from Economic Growth and Financial Sustainability Fund	£400k

An outline of the project was presented to the Lancashire Leaders meeting on 5th June 2019, and the project received broad support from Lancashire Leaders. A summary of the key elements of the plan is shown at Appendix 1 to this report.

Funding the development of a ‘Greater Lancashire Plan’

- 4.6 Modelling suggests that the Lancashire ‘pilot’ pool will yield an additional £10.8m of locally retained business rates in 2019/20. This amount will be paid back to the participating local authorities on the basis of an agreed tier split but then, each pool member will pay the lead authority (Ribble Valley Borough Council) 25% as set out in section 3 above to be used to target strategic economic development activity, equating to an estimated allocation of £2.7m.
- 4.7 However the Strategic Economic Growth and Financial Sustainability Fund (SEGFSF) will only be established when all of the business rate growth for 2019/20 is known – initially around June 2020. Therefore, any funding demands before that point in time would have to be financed from alternative sources.
- 4.8 The Executive Body of the Lancashire Pool considered the following two options to underwrite the early release of funds.
 - Option 1 - One authority underwrites the full £400k or
 - Option 2 – Each council to underwrite the cost pro rata to the expected contribution of each to the Strategic Economic Growth and Financial Sustainability Fund for 2019/20 as set out below:

	Estimated Contribution to SEGFS Fund £	All to underwrite pro rata to expected contribution to SEGFS Fund £
Blackburn with Darwen	445,648	65,669
Blackpool	0	0
Burnley	236,219	34,808
Chorley	177,840	26,206
Fylde	137,497	20,261
Hyndburn	26,500	3,905
Lancashire	773,067	113,916
Lancashire Fire Authority	53,363	7,863
<i>Lancaster</i>	<i>0</i>	<i>0</i>
Pendle	69,242	10,203
Preston	38,913	5,734
Ribble Valley	147,776	21,776
Rossendale	94,801	13,969
South Ribble	244,386	36,012
West Lancashire	120,961	17,824
Wyre	148,302	21,853
	2,714,515	400,000

- 4.9 This would effectively be a payment from each authority in advance of business rate growth. If any authority failed to reach the level paid in then this would be adjusted at year end.
- 4.10 Given the absence of any single authority being prepared to underwrite the full £400k funding for the development of the GLP it is most likely that the second option is the most appropriate to consider. Consequently each participating council in the Lancashire Business Rate Pool has undertaken to seek support (and funding) for the development of the GLP – in line with the sums shown in the table above.
- 4.11 The forward release of monies from the Lancashire Strategic Economic Growth and Financial Sustainability Fund to support the development of a Greater Lancashire Plan requires the unanimous approval by the Governing Body of the Lancashire Business Rates Pool. Therefore any commitment provided at this stage by Fylde Council in respect of funding for this proposal is conditional upon that unanimous approval being secured.
- 4.12 If this Committee approves support and funding for the development of a GLP the most appropriate source of such funding would be the existing Funding Volatility Reserve, the current balance of £5.221m having being achieved by transfers of favourable business rates outturn variances in previous years. This would require a funded budget increase in the sum of £20,261 for the current year, with funding coming from the Funding Volatility Reserve. It is proposed that this sum would be returned to the Funding Volatility Reserve in 2020/21 when the projected business rate growth for 2019/20 has been realised, with re-imbursement to each authority for the cost of support for the development of the Greater Lancashire Plan being the first call upon the SEGFSF.

5. CURRENT POSITION AND RECOMMENDATIONS

- 5.1 The latest in-year monitoring and future modelling strongly suggest that participation in the general Lancashire pooling arrangements for 2020/21 would be financially beneficial to Fylde Council and that, if it were an available option, a continuation of the '75% pilot' arrangement would deliver additional benefits. The specific possible options for the Lancashire Business Rate Pool for 2020/21 are not expected to be known with certainty until the 2020/21 Local Government Finance Settlement is announced, expected to be in early December this year
- 5.2 Consequently it is recommended that Fylde Council agrees continued participation in the Lancashire Business Rates Pool for 2020/21 (on the assumption that the pool remains in existence beyond the current year).
- 5.3 Additionally, although it is currently not anticipated, if it does become possible for the Lancashire pool to continue to operate the 'pilot' arrangements for a 75% Business Rate Retention scheme in 2020/21 the projected benefit to Fylde Council would be increased. Therefore the Committee are also recommended to approve continued participation in the 'pilot' arrangements for 2021 if that is an available option.
- 5.4 The Committee is also recommended to approve a funded budget increase in the sum of £20,261 for 2019/20, to be met from the Funding Volatility Reserve, to support the development of a Greater Lancashire Plan, subject to the unanimous approval by the Executive Body of the Lancashire Business Rates Pilot Pool to the forward release of monies from the Lancashire Strategic Economic Growth and Financial Sustainability Fund for this purpose.
- 5.5 The next update of 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.

IMPLICATIONS	
Finance	<p>It is proposed that the Council should continue membership of the Lancashire Business Rates Pool for 2020/21 (assuming that the pool remains in existence); and furthermore that the Lancashire Business Rates Pool should continue participation in the '75% Business Rate Retention Pilot Scheme' arrangements for 2020/21, if that becomes an available option.</p> <p>The Committee is also requested to approve a funded budget increase in the sum of £20,261 for the current year, with funding coming from the Funding Volatility Reserve, to provide for Fylde Council's share of the cost of developing the plan, subject to the unanimous approval by the Executive Body of the Lancashire Business Rates Pool.</p> <p>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.</p>
Legal	<p>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:</p> <ul style="list-style-type: none">- the rights and obligations of pool members, including:- how money is to be disbursed to/between pool members and how payments to central government are to be funded by the lead authority- the treatment of pool balances and liabilities following the

	dissolution of the pool.
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 2019

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