



## DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	FINANCE AND DEMOCRACY COMMITTEE	24 SEPTEMBER 2018	4
<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 rates’ arrangements which have been in place since April 2013. Fylde Council has participated in the Lancashire business rates pool for the financial years 2017/18 and 2018/19.

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 amounted 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.

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 and the timetable for implementation of the changes to the Business Rate Retention system has therefore been revised.

As part of the Local Government Finance Settlement for 2018/19 the government then announced plans to introduce ‘75% Business Rate Retention’ for all authorities with effect from 2020/21 (i.e. a year later than the earlier implementation date for changes to the system). As part of the development of these revised arrangements the government is inviting 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 indicate that (if the bid were to be accepted by the Ministry of Housing, Communities and Local Government - MHCLG) a significant net beneficial impact could result across Lancashire authorities. However this would firstly require a revised business rate pooling arrangement to be established between all of the Lancashire authorities.

The Committee is invited to consider this matter and determine whether Fylde Council ought to continue to participate in the Lancashire Business Rates Pool for 2019/20 (on the assumption that the pool remains in existence beyond the current year); and to further consider whether it also supports an application by the Lancashire Business Rates Pool to participate in the ‘pilot’ arrangements for a 75% Business Rate Retention scheme in 2019/20, should a revised pooling agreement be established between all Lancashire authorities.

If such a bid were to be submitted and rejected by MHCLG the current pooling arrangements would be expected to continue in place for 2019/20 and Fylde Council could continue to experience the benefits arising from membership of the pool through continued participation in the scheme.

## 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 2019/20 on the assumption that the pool remains in existence;
2. 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. 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. 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 next financial year.

## SUMMARY OF PREVIOUS DECISIONS

At the meeting of 25th September 2017 this Committee considered participation by Fylde Council in a Lancashire-wide Business Rate Pool for 2018/19 and determined:

1. To 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. 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
3. To 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.

## 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

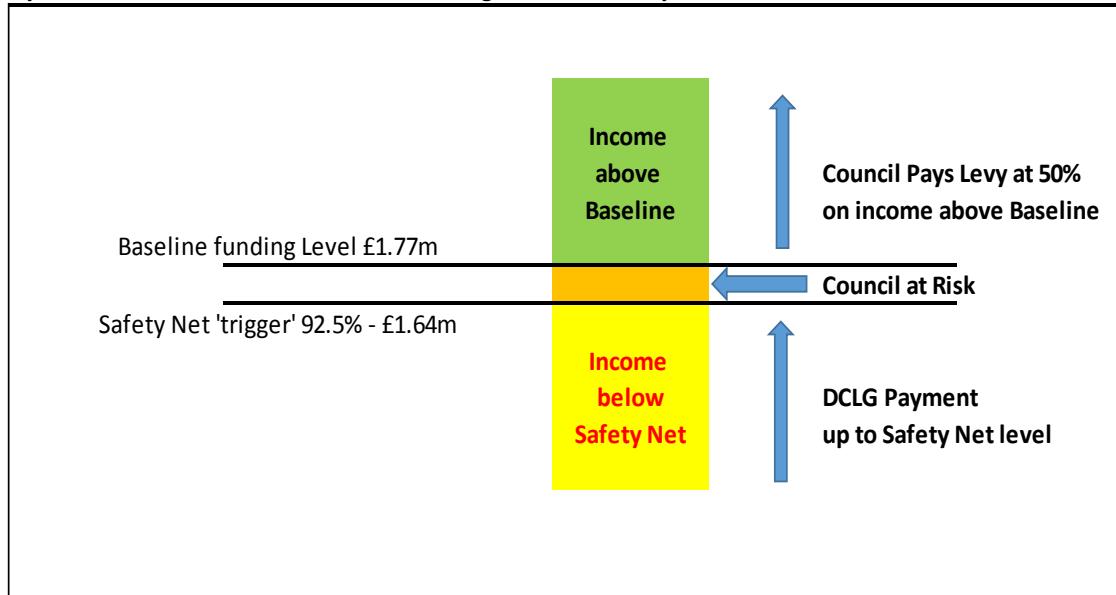
Business rates are a key source of funding for local authorities. From 2013/14 new arrangements replaced the former 'National Rates Pool' and under this revised regime each billing authority retains a share of the business rates for its area based on prescribed proportions. For Fylde, this is 40% retained 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. prior to the Council's 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 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.

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

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.

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.

**As a result of being in the Lancashire pool for 2017/18, Fylde Council was able to retain £598k of business rate growth that would otherwise have been paid over to the government by way of a levy.**

**The latest in-year monitoring of 2018/19 retained business rates income through the pool indicates that it would again be financially advantageous for Fylde to remain in the pool for 2019/20 on the assumption that a continuation of the pooling arrangement remains viable for that year.**

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

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 is inviting bids from groups of authorities to act as ‘pilots’ for the proposed scheme, which would be in existence for the 2019/20 financial year only.

**An analysis of the impact of the ‘pilot’ scheme arrangements for the Lancashire Business Rates Pool indicate that (if the bid were to be accepted by MHCLG) a significant net beneficial impact estimated at £10.8m could result across Lancashire authorities, subject to a revised pooling arrangement being established between all of the Lancashire authorities.**

However, participating councils will also 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 also not be ‘no detriment’ support from the Government.

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 may not materialise at the level projected in the NNDR1 returns. However, as set out above, 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.

The Lancashire Pool currently operates 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.

Authorities selected as pilots will be expected to forgo Revenue Support Grant and Rural Services Delivery Grant. The value of these grants will be taken into account when revised tariffs and top-up’s for the pilot authorities are set up. The Government expect that a proposed pool would comprise a county council and all of the associated district councils; a group of unitary authorities; or a two-tier area and adjoining unitary councils, and that it should extend across a functional economic area. Proposals would need to set out the tier splits for all authorities, including the Fire and Rescue Service.

Bids will be required to outline how the pilot pool will manage risk and reward at a strategic level, and have regard to the financial sustainability of all local authorities involved. It will also be required to detail how any potential business rate growth will be spent. The bid will also need to make clear the governance arrangements for strategic decision making.

The Government have decided that because the new 75% pilots are testing the pooled authorities approach to risk the ‘no detriment’ clause applied to previous pilots will no longer apply. Instead of this the Government have increased the safety net protection level from 92.5% to 95% for these new pilot pools.

The deadline for applications for pilot status is 25<sup>th</sup> September 2018. The intention is that the new 75% pilots will provide an opportunity to test and gather information on the design of the new business rate retention system in preparation for national implementation of the new arrangements in 2020/21.

If a bid were to be submitted and rejected by MHCLG the current pooling arrangements would be expected to continue in place for 2019/20. If this were to be the case continued participation in the Lancashire Business Rates Pool would remain beneficial for Fylde Council.

### **4. CONCLUSIONS**

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 2018 reflects anticipated income from the Lancashire-wide Business Rate pool for 2018/19 only.

At the present time it is apparent that the earlier proposals on 100% Business Rate Retention, and the consequential impact on the viability of business rate pools, have been superseded by a '75% Business Rate Retention' model under which a reconstituted Lancashire Business Rate Pool may remain viable.

In preparation for the commencement of the new arrangements on a national scale, the MHCLG has invited bids from business rate pools to act as 'pilots' for the new arrangement for the financial year 2019/20.

An analysis of the impact of the 'pilot' scheme arrangements for the Lancashire Business Rates Pool indicates that (if the bid were to be accepted by MHCLG) a significant net beneficial impact estimated at £10.8m could result across Lancashire authorities, subject to a revised pooling arrangement being established between all of the Lancashire authorities. However this proposal is accompanied by additional risks as detailed within this report.

Consequently it is recommended that Fylde Council agrees the submission of a bid to MHCLG by the Lancashire Business Rates Pool to form part of the '75% Business Rate Retention Pilot Scheme' arrangements for 2019/20, should a revised pooling agreement be established between all Lancashire authorities. If a bid were to be submitted and rejected by MHCLG the current pooling arrangements would be expected to continue in place for 2019/20 and Fylde Council would continue to experience the benefits arising from membership of the pool by remaining as one of the participating pool members.

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 2019/20 (assuming that the pool remains in existence); and furthermore that Fylde Council participates 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.</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"><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	The financial risks of participation in the '75% Pilot Business Rates' arrangement for 2019/20 are set out within this report.

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue, Chief Financial Officer	01253 658566	September 2018

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