EXECUTIVE MEMBER DECISION

REPORT OF:	Executive Member (Resources)
LEAD OFFICERS:	Director of Finance and Customer Services
DATE:	24th September 2018

PORTFOLIO/S AFFECTED:	All
WARD/S AFFECTED:	All

SUBJECT: Lancashire Bid to become a 75% Business Rates Retention (BRR) Pilot for 2019/20

1. EXECUTIVE SUMMARY

The report considers the benefits and risks of the Council joining a Lancashire wide bid to become a 75% Business Rates Retention pilot area for the 2019/20 financial year.

2. RECOMMENDATIONS

2.1. That the Executive Member for Resources notes that:

2.1.1 Blackburn with Darwen Borough Council (BwD), has joined a Lancashire wide bid to become a 75% Business Rates Retention pilot area for the 2019/20 financial year; the bid is now subject to consideration by central Government

2.1.2 That within the bid, the first 5% of any additional growth in Business Rates retained in Lancashire (i.e. in the move from 50% to 75% BRR), would be used to create a new resilience reserve to mitigate against any associated, additional loss arising from being a pilot member. If funds are remaining in this reserve at the end of the pilot, this would be used to further compensate individual councils facing a loss.

2.1.3 That within the bid, a further 25% of the additional growth would be set aside to create a Lancashire wide fund to be used to target strategic economic growth and sustainability. This investment fund would be allocated on the basis of unanimous decision by members of the Lancashire Leaders Business Rates Pilot Group.

2.1.4 That within the bid, the remaining retained growth would be apportioned according to the new tier splits i.e. Districts 56% (currently 40%); County Council 17.5% (currently 9%); unitaries 73.5% (currently 49%); fire 1.5% (currently 1%) to promote local economic growth and to enable the financial sustainability of pool members.

2.2 That responsibility for finalising the arrangements for the pilot, should the bid be successful, is delegated to the Director of Finance and Customer Services, in consultation with the Executive Member for Resources.

2.3 That once further information is released by central government on the next phase of the bid, a further report will be taken to Council or Executive Board as appropriate.

3. BACKGROUND

The position prior to creating the Lancashire Business Rates Pool

Prior to April 2013, businesses paid their rates over to their local authority who then passed the funds over to the Treasury for redistribution across all local authorities via a formula known as the 'Formula Grant Distribution System'.

A revised system has been in place since April 2013, which allows Councils to keep a proportion of the money they collect in business rates; this results in some authorities earning more in business rates than they used to receive under the previous formula grant methodology, whereas others earn less.

To address this, each year the Government announces a baseline funding level for each local authority and for those authorities who would receive more in business rates than their baseline funding, they must pay over the excess known as the 'tariff', and for those authorities who receive less than their baseline funding level, they are paid a 'top-up' by Government in their financial settlement.

The Council is allowed to keep 49% of the business rates that it generates (with 50% of this paid over to the Government, and 1% to the Fire Authority).

The creation of the Lancashire Business Rates Pool in 2016/17

The majority of the Lancashire District Councils (who pay a 'tariff'), along with Lancashire County Council (who receives a 'top up'), formed a business rate pool across Lancashire which has been in place since 2016/17. The pool has eliminated the requirement for the District Councils to pay over a levy to the Government on their growth; in 2017/18 this equated to retention of an extra £6.01mill in Lancashire which would otherwise have been paid over to central Government.

The membership of the current pool has changed over the three years with Fylde joining the pool in 2017/18 and Burnley leaving in 2017/18 and then re-joining in 2018/19.

Under the current pooling arrangement each authority bears its own risk should they experience a reduction in business rates having given up the right to their individual safety net protection from central government on joining the pool; each District retains their own growth, net of a 10% share of their retained levy which is paid to LCC.

The current safety net payment is set at 92.5% of the Baseline Funding Level which means that the Government will guarantee this minimum level of income across the pool as a whole.

4. KEY ISSUES & RISKS

Invitation to become a 75% Business Rate Retention (BRR) Pilot

On the 24th July 2018, central Government issued a prospectus for authorities to become 75% Business Rates Retention (BRR) pilot areas for the 2019/20 financial year. All applications had to be received by midnight on Tuesday 25 September 2018.

Both LCC and the current pool's Lead Authority (Ribble Valley BC) undertook separate modelling exercises on the 2018/19 NNDR1 returns from all Lancashire authorities and both identified that if a 75% BRR scheme existed across Lancashire, based on the 2018/19 figures, there was approximately £10.8m of predicted growth that could be retained within the region either as an investment fund and/or to promote financial sustainability.

At the Lancashire Leaders and Chief Executives meeting on the 11th September, it was agreed that the Lancashire Chief Finance Officers Group would prepare a risk report on such a bid and draft an outline application form. Following production and circulation of a draft bid and a report to all

Lancashire Authorities on 18th September, Lancaster City Council formally withdrew from the process owing to the significant risk presented by the nuclear power station at Heysham to their Business Rates income. As this is also the reason why they are not members of the current pool arrangements, their absence from the 75% BRR pilot bid is not expected to affect its viability as central Government are aware of their exceptional circumstances from previous discussions on the current pool.

Without Lancaster in the pool the extra forecasted growth, based on the figures within the 2018/19 NNDR1, is approximately £7.1m across the rest of Lancashire.

RISKS

The key risks to consider in a 75% BRR pool, assuming the bid is successful, are:

- The 2019/20 pilots will not benefit from the 'no detriment' clause enjoyed by existing 100% BRR pilots (i.e. the clause through which government underwrites all losses within a pilot to ensure pilot members are no worse off by being a member of the pilot than they otherwise would be). Instead the safety net threshold for the entire pool will be raised from 92.5% to 95% to recognise the increased risk sharing.

- Participating authorities will be exposed to a higher level of business rate risk for the duration of the pilot, i.e. for 2019/20, as they will face a higher share of any losses arising as a result of appeals, bad debts and empty premises; i.e. they will share 75% of the cost of these rather than the 50% shared at present.

- The Safety Net threshold will only be activated by central Government on a pool wide basis however, based on the 2018/19 NNDR1 figures, it is highly unlikely that this will be triggered on the proposed Lancashire pilot. To minimise the risk to the pool, each authority will bear its own risk over and above the 5% resilience fund created from the additional retained growth (see Section 2.1.2 above).

- Should the application fail, the current pooling arrangements are the preferred alternative position. Whilst central Government will take this into account, no absolute guarantee exists that this will happen and therefore there is a small risk that no pooling arrangements will exist in 2019/20 in Lancashire; as such, the District Councils that are currently in the existing pool could lose their current retained levy. This will not impact upon BwD as the council is not a member of the current pool.

- Basic principles for the governance arrangements for the new pool have been agreed between authorities however these must be developed further. If the application is successful there is a risk that within the 28 day 'cool-off' period, agreement is not reached and one or more authorities could withdraw from the pilot. This could result in no pooling arrangements in Lancashire 2019/20.

- Authorities selected as pilots will be expected to forgo Revenue Support Grant (£13.3m in 2019/20 for BwD) and Rural Services Delivery Grant (not applicable to BwD). The value of these grants will be taken into account when revised tariffs and top-up's for the pilot authorities are set up but the impact on BwD and other participating authorities would be revenue neutral.

It should also be noted that the new 75% pilot, if successful, would allow Lancashire authorities to influence the policy and approach taken by Central Government on any future national scheme. Having 2019/20 as essentially a transitional year would provide an opportunity to test and gather information on the design of the new business rate retention system in preparation for the anticipated national implementation of the new arrangements in 2020/21.

5. POLICY IMPLICATIONS

Participation within a 75% Business Rates Retention pilot across Lancashire for 2019/20 would generate additional income for the borough which could then be utilised to support the Medium Term

Financial Strategy of the Council, in securing financial sustainability and economic development.

6. FINANCIAL IMPLICATIONS

In becoming a 75% Business Rates Retention pilot area in 2019/20 it would provide the opportunity to retain an additional 25% of business rates growth in Lancashire.

Whilst it is impossible to project with 100% accuracy the 2019/20 financial impact of 75% Business Rates Retention, the modelling undertaken on the 2018/19 Business Rate estimates (NNDR1 information) indicates that by joining the bid, there is the potential for £1.26m additional growth to be retained by BwD, from which our contribution to the resilience pot is estimated to be £0.063m, with a further £0.316m to the investment fund for use across Lancashire; based on the 2018/19 NNDR1 figures, BwD would therefore retain an additional £0.885m in Business Rates that would otherwise be retained by central government.

Any reduction in business rates income below the authority's baseline funding level must be repaid to the pool.

A contribution from all the participating authorities would be required (at present £2,000 for the current pool) for the costs incurred in administering the scheme by the Lead Authority.

7. LEGAL IMPLICATIONS

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:

- the rights and obligations of pool members;
- 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 pool's dissolution.

8. RESOURCE IMPLICATIONS

The Finance Team would be responsible for the administration and financial monitoring of the Business Rates information that would be required by the Lead Authority, as part of BwD's membership of the pool. This would be resourced within existing establishment.

9. EQUALITY AND HEALTH IMPLICATIONS

Please select one of the options below. Where appropriate please include the hyperlink to the EIA.

Option 1 X Equality Impact Assessment (EIA) not required – the EIA checklist has been completed.

Option 2 ☐ In determining this matter the Executive Member needs to consider the EIA associated with this item in advance of making the decision. *(insert EIA link here)*

Option 3 ☐ In determining this matter the Executive Board Members need to consider the EIA associated with this item in advance of making the decision. *(insert EIA attachment)*

10. CONSULTATIONS

Not applicable

11. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded and published if applicable.

VERSION:	v1

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DATE:	24th September 2018
BACKGROUND PAPERS:	None