



EXECUTIVE BOARD DECISION

REPORT OF:	Executive Member (Resources)
LEAD OFFICERS:	Director of Finance and Customer Services
DATE:	10 th January 2019

PORTFOLIO/S AFFECTED:	All
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WARD/S AFFECTED:	All
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SUBJECT: Approval of the Lancashire Bid to become a 75% Business Rates Retention (BRR) Pilot for 2019/20

1. EXECUTIVE SUMMARY

The purpose of the report is to notify the Executive Board that the Lancashire wide bid to become a 75% Business Rates Retention pilot area for the 2019/20 financial year is one of 15 successful bids announced in the Provisional Local Government Finance Settlement on 13th December 2018.

2. RECOMMENDATIONS

2.1. That the Executive Board notes that:

- 2.1.1 Blackburn with Darwen Borough Council (BwD), will become a member of the Lancashire Business Rates Pool Member for the 2019/20 financial year following confirmation of the success of the bid to become a 75% Business Rates Retention pilot area, that was submitted in September 2018
- 2.1.2 Within the bid, the first 5% of any additional growth in Business Rates in Lancashire (i.e. in the move from 50% to 75% BRR), will be used to create a 'resilience reserve' to mitigate against any associated, additional loss for a council as a result of them being a pilot member. If funds are remaining in this reserve at the end of the pilot, this will be used to further compensate individual councils facing a loss.
- 2.1.3 Within the bid, a further 25% of the additional growth will be set aside to create a Lancashire wide fund to be used to target strategic economic growth and sustainability. This investment fund will be allocated on the basis of unanimous decision by members of the Lancashire Leaders Business Rates Pilot Group.
- 2.1.4 Within the bid, the remaining retained growth will 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.
- 2.1.5 That responsibility for finalising the arrangements for the pilot is delegated to the Director of Finance and Customer Services, in consultation with the Executive Member for Resources.
- 2.1.6 That once further information is released by Government on this, as part of the final Local Government Finance Settlement, this will be included in the 2019/20 Budget Reports

3. BACKGROUND

The Executive Member Decision Report of 24th September 2018 outlined the current operation of Business Rates Retention for local authorities across the country, with the exception of those areas that are already part of one of the Business Rates Retention pilots.

The report explained that 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 in 2016/17, which has been re-approved by central government each year since then. The pool has eliminated the requirement for the District Councils to pay over a levy to the Government on their growth, which in 2017/18 equated to retention of an extra £6.01mill in Lancashire which would otherwise have been paid over to central Government.

Under that pooling arrangement each authority had to bear its own risk should they experience a reduction in business rates, having given up the right to their individual 'safety net' protection from the Government on joining the pool; each District has retained their own growth, net of a 10% share of their retained levy which has been paid to LCC.

The safety net payment trigger was set at 92.5% of the Baseline Funding Level which meant that the Government would guarantee this minimum level of income across the pool as a whole.

On the 24th July 2018, the 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 county 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 to their Business Rates income presented by the nuclear power station at Heysham.

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

4. KEY ISSUES & RISKS

KEY ISSUES

Notification that the bid has been successful came as part of the Provisional Local Government Finance Settlement on 13th December; the Lancashire bid is one of fifteen bids approved.

Provided that no authority within the proposed pool requests the Secretary of State to make a revocation to remove them from the pool (which would be required within 28 days of the notification), the pool will come in to effect on 1st April 2019; this will mean that all of the Lancashire authorities, with the exception of Lancaster City Council, will be covered by the designation and remain in the pool for the full financial year.

If a local authority requests revocation of the designation before the cut-off date, the rest of the pool cannot continue and the Secretary of State will then revoke the designation; as such, the local authorities identified as part of the pool will revert to being considered as individual authorities for the purposes of the business rates retention scheme.

Basic principles for the governance arrangements for the new pool have been agreed between authorities however these must be developed further over the coming few months.

RISKS

The key risks of the 75% BRR pool 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 the Government underwrites all losses within a pilot to ensure pilot members are no worse off by being a member of the pilot than they would otherwise 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 the 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).
- 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 is forecast to be revenue neutral.

The new 75% pilot, should allow Lancashire authorities to influence the policy and approach taken by the Government on any future national scheme. Having 2019/20 as essentially a transitional year, should 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 should generate additional income for the borough which can then be utilised to support the Medium Term Financial Strategy of the Council, in securing financial sustainability and economic development.

6. FINANCIAL IMPLICATIONS

Becoming a 75% Business Rates Retention pilot area in 2019/20 will 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 there is the potential for £1.26m of additional growth funding to be retained by Blackburn with Darwen Borough Council, 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, the Council 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.

Within the successful bid submission, it was noted that the councils in Lancashire have a well-established Leaders group that meet on a regular basis to discuss strategic issues affecting the whole of Lancashire and that the pilot pool is a natural extension of the work of this group in growing the Lancashire wide economy.

The bid stated that the Pool Pilot Governing body will consist of Leaders of those local authorities who are members of the pool and the Chairman of the Combined Fire Authority, as Lancashire Fire and Rescue Service is also a pool member. This body will receive monitoring reports during the year including forecasts of growth/losses for pilot members, and it will also play a crucial role in deciding how the strategic growth and financial resilience fund will be invested. The bid also confirmed the agreement reached by Leaders group in developing the bid, that all decisions made by the Pool Pilot Governing body must be unanimous.

Any Government conditions attached on becoming 75% Business Rates Retention pilot area will need to be complied with and ensured by the Lead Authority.

8. RESOURCE IMPLICATIONS

The Finance Team will be responsible for the administration and financial monitoring of the Business Rates information that will be required by the Lead Authority, as part of the Council's membership of the pool. This will 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 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:	Version 2
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CONTACT OFFICER:	Louise Mattinson, Director of Finance and Customer Services, ext 5600
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DATE:	10 th January 2019
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BACKGROUND PAPERS:	None
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