Rossendalealive BOROUGH COUNCIL

ITEM NO. F1

Subject:	Business Rates Retention Scheme with Lancashire	**Status:**	For Publication
Report to:	Cabinet Council	**Date:**	8th July 2015 15th July 2015
Report of:	Head of Finance	**Portfolio Holder:**	Resources and Performance
Key Decision: ☐	Forward Plan ☒	General Exception ☐	Special Urgency ☐
Equality Impact Assessment:	Required: ~~Yes~~/No	Attached:	~~Yes~~/No
Biodiversity Impact Assessment	Required: ~~Yes~~/No	Attached:	~~Yes~~/No
Contact Officer:	**Philip Seddon**	**Telephone:**	**01706 252465**
Email:	**philseddon@rossendalebc.gov.uk**		

1.	**RECOMMENDATION(S)**
1.1	That members approve the joining a Lancashire based Business Rates pooling arrangement for 2016/17 and beyond.
1.2	That the final details are delegated to the Head of Finance in consultation with the Portfolio Holder for Resources and Performance.

2. PURPOSE OF REPORT

2.1 The purpose of the report is for Members to consider and approve joining a Lancashire based pooling arrangement for Business Rates (NNDR – Non-National Domestic Rates)

3. CORPORATE PRIORITIES

3.1 The matters discussed in this report impact directly on the following corporate priorities:

- **Responsive Value for Money Services**: This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.

4. RISK ASSESSMENT IMPLICATIONS

4.1 In joining any pool the Council forfeits its right to a safety net. This is further explained within the report including the likelihood of this event. Since the commencement of local business rate retention Rossendale has been in an annual levy payment position which is forecast to continue into the future.

4.2 Anticipated deadline for registration by 30th October 2015.

4.3 Any pooling arrangement requires the agreement of Lancashire County Council to make the scheme viable. This agreement is yet to be confirmed.

5. BACKGROUND AND OPTIONS

5.1 Context

5.1.1 At the Lancashire Chief Financial Officers meeting on 30 January 2015 it was agreed to carry out a piece of work to analyse the business rate retention position across Lancashire to ascertain any likely financial benefit of forming a business rate pool.

5.1.2 2015/16 Business Rates estimates (NNDR1s) and levy calculations were submitted by all authorities to enable analysis to be carried out to ascertain whether creating a business rate pool in Lancashire would be beneficial.

5.1.3 The business rates forecast completed by each billing authority for the coming year and submitted to DCLG shows that each Lancashire district is predicted to pay a levy to central government for 2015/16, ranging from £145k to £810k. In total £5m across Lancashire. Rossendale is forecasting £403k.

5.2 **Pool Benefits**

5.2.1 The **total** of all Lancashire levy payments predicted to be paid over to the Government for 2015/16 is almost £5m. The levy rate calculation is as follows:

$$\mathbf{1 - \frac{baseline\ funding\ level}{individual\ authority\ business\ rates\ baseline}}$$

5.2.2 Levy rates greater than 0.50 are capped at this figure. All districts in Lancashire have levies of 50p in the £. For each £1 of growth above their baseline funding level (after allowing for their share of small business rate relief and other reliefs) a levy of 50p is payable to the Government.

5.2.3 The benefit of a pool means that this calculation is performed <u>not on an individual basis</u> but calculated based on the aggregate baseline funding levels and business rates baselines of all the authorities involved in the pool.

5.2.4 Members of a business rate pool combine their funding calculations under the business rate scheme, effectively adding their numbers together for all elements of the funding calculation, such as the tariff and top-ups. As stated above, the benefit to be gained is that collectively, it will a produce a lower percentage Levy calculation.

5.2.5 In our case a pool formed of all districts together with Lancashire County Council (ie the 2 tier area) would result in a negative levy rate of -0.16, this would mean no levy would be paid. Each authority could continue to retain the growth in its business rates income that it would have retained as an individual authority outside of the pool. **However, it would no longer be required to pay any levy over to Central Government. Instead this amount (currently £5m) would be retained within the pool.**

5.3 **Potential Risks**

5.3.1 Members need to be aware that under the Business Rates Retention Scheme, central government provides a safety net facility for authorities who fail to achieve their target income baseline. The government recompenses authorities to bring them up to 92.5% of their target income baseline. All billing authorities are therefore currently exposed individually to a potential maximum cost equivalent to 7.5% of their baseline funding. As part of a pool however, local authorities would no longer be eligible for a safety net payment **ie there would be no protection**.

5.3.2 Options to address this risk could be;

- the pool to support any loss making authority, assuming overall that there are adequate funds collectively

- or the individual authority will have to agree to forfeit their right to a safety net as a condition of joining the pool.
- or authorities who estimate they will make losses in the following year withdraw from the pool which would then re-engage the government's safety net facility for that particular authority

5.3.3 Based on the current trends over the last two years and forecasts for 2015/16, Officers to not anticipate Rossendale to be in a safety net position over the medium tern

5.4 **Pooling Prospectus**

5.4.1 In July 2014 DCLG issued a Pooling Prospectus for 2015/16. It is anticipated that DCLG will again publish, during the summer, a similar prospectus for a 2016/17 scheme. There are currently 27 pools comprising 194 different authorities for 2015/16. The key points of the 2014 Prospectus were as follows:

- Proposals for 2015/16 should reach the Department for Communities and Local Government (DCLG) by 31/10/14
- Benefits of pooling can be wide including promoting joint working, benefits from economic growth, making strategic decisions easier, retention of income above baseline funding, management of income volatility, etc.
- As the pool is treated as a single body DCLG calculate only one number for the sum that is owed by the pool as a tariff or owed to the pool as a top-up payment. Therefore one member of the pool should act as lead authority.
- Management of a pool and its governance arrangements are entirely matters for the individual pool, but DCLG will need to ensure that they are in place, in particular:
    - Member rights and obligations including
    - How money is distributed to both Members and Central Government
    - The treatment of pool balances following dissolution

5.4.2 DCLG selection criteria is based on

- The likely benefits of the proposals for local authorities
- The proposed governance arrangements
- The extent to which the proposals are affordable in terms of the rates retention scheme as a whole (ie wider affordability)

5.4.3 DCLG expect to see, in the main, continuous geographic boundaries.

5.4.4 Designation of a pool and establishment is under para' 34 of Schedule 7B Local Gov't Finance Act 1988 and published as part of the draft Local Government Finance Report. Authorities have the right to withdraw within 28 days of the draft publication. In such an event the whole pool cannot continue, with the benefits lost for a year to the other members. However, members may exercise a request during the course of a year to be effective the following year. There is, therefore, opportunity for authorities to plan opting in and out to take effect from the following financial year.

5.5 **Principles of a Lancashire Wide Pool**

After examining the arrangements for existing pools there are many variations on how funds gained from pooling are distributed and also how risks are shared. The Lancashire working group have suggested that:

1. **Membership of the Pool**
   Membership would include Lancashire County Council and any districts wishing to join. It is proposed that a condition of joining a pool is for each authority to forfeit the right to a safety net and be required to top up any shortfall on achieving their baseline.
   Authorities joining the pooling arrangement should do their own due diligence and be confident that they will essentially be able to achieve a surplus levy position at the end of the financial year in order to take the financial advantages of the pool.

2. **Administration of the Pool**
   The pool to be administered by a district authority. It was felt this was important given districts responsibilities as billing authorities and expertise regarding the administration of business rates and therefore would be more cost effective. Based on other pools it is proposed that fee ranging from £15k to £30k per annum be paid to the administering authority. The final agreed fee could be charged to each authority pro rata to their business rates baseline or maybe a flat rate per member.

3. **Retention of Levy**
   It is proposed the retained levy would be distributed each year as follows:

   1) The County Council is paid 10% of the overall retained levy (based on 2015/16 this would be £492k)
   2) Each district within the pool retains 90% of their levy

   This in part recognises the severe financial pressures all authorities are facing over the medium term and therefore will assist in bridging their individual future annual funding gap.

   Certain NNDR is excluded from the pool and retained by the billing authority/Local Enterprise Partnerships outside of the pool. (eg: Enterprise Zones, Renewable Energy)

4. **Other principles**
   Members of the pool forfeit their right to the safety net. This is a significant consideration for any pool Member and means that any individual authority baseline deficit must be repaid to the pool by that authority.

   Membership to the pool is purely voluntary for each district and for each subsequent year.

6. SECTION 151 OFFICER

6.1 Financial matters are dealt with in the report.

6.2 The Estimated benefit of Rossendale joining the pool on the above basis and as submitted to DCLG is an estimated £363k for 2016/17 (assuming 10% is retained by LCC).

7. MONITORING OFFICER

7.1 Upon determination on which authority shall act as Administering Authority a legal agreement between the parties will need to be drawn up for consideration and legal review.

The remainder of the comments are picked up in the body of the report.

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Unless specifically commented upon within the report, there are no policy implications for consideration.

8.2 Leaders, Chief Executives and Chief Finance Offices from Lancashire County Council, Unitary Councils and District Councils.

9. CONCLUSION

9.1 The pooling arrangement makes financial sense and is necessary in Council achieving its Medium term Financial Strategy

9.2 In order for the administrating body to complete the necessary applications and the final pool agreement all authorities will have to commit to the scheme by 30th September 2015, assuming applications have to be registered by 31st October 2015.

Background Papers	
Document	Place of Inspection
Briefing note to Lancashire Leaders	Finance Department