DECISION

RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 6

meeting date: 8 SEPTEMBER 2015
title: BUSINESS RATE POOLING IN LANCASHIRE
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

1.1 To approve joining a potential Business Rate Pool for Lancashire.

2 BACKGROUND

2.1 The Business Rate Retention scheme commenced in 2013 and fundamentally changed how councils are funded from business rates. Under the scheme 50% of business rates is localised through a system of top-up and tariffs.

2.2 Of the Business Rates we collect 40% is retained by ourselves, 9% payable to Lancashire County Council and 1% to Lancashire Fire and Rescue Authority. The Government receives the remaining 50%.

2.3 Each local authority is given a business rate baseline funding level (in simple terms a target) and the income retained after paying tariffs/receiving top-ups is compared with this amount. If we have received more than this level then we have to pay a levy on this growth to the Government. However if we only receive 92.5% or less than this baseline funding level then we are entitled to protection via a safety net mechanism.

3 TOP-UP’S AND TARIFFS

3.1 At the start of the scheme local authorities were deemed either “top up” or “tariff” authorities to place them in the same position as they were before the scheme started. This meant they either pay a tariff or receive top up funding from their share of business rates. These are annually updated for inflation.

4 LEVIES AND SAFETY NETS

4.1 The intention of the Business Rates Retention scheme is to give an incentive to local authorities to grow their business rates base, and the scheme has been devised to allow local authorities to benefit from this growth.

4.2 The levy rate payable on any growth varies by authority but is capped at 50p in the £. In Ribble Valley we currently pay a levy at this maximum level ie 50%

4.3 For authorities who experience a decrease in their retained rates income a safety net mechanism applies. This safety net guarantees 92.5% of an authority’s baseline funding level.

5 BUSINESS RATE POOLING

5.1 Local authorities are free to come together to form pools for Business Rate purposes. In such cases tariffs, top-ups, levies and safety nets can be combined. This can result in a significantly lower levy rate or even a zero levy rate meaning that more or all of the business rate growth can be retained within the pool area instead of being payable to the Government.

5.2 Pools have to be designated by the Secretary of State for Communities and Local Government. 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, 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 pool's dissolution.

5.3 A core principle of pooling is that it is voluntary. So it is for local authorities to establish whether pooling will benefit them.

5.4 For 2015/16 there are 27 pools in existence comprising 194 different authorities.

5.5 Each year the Government has invited applications from local authorities wishing to form a business rate pool in their area, by way of issuing a pooling prospectus. This prospectus is usually issued in July and sets out the timetable and necessary steps to be taken in order for a pool to commence with effect from the following financial year. The deadline for applications for the past two years has been the end of October.

5.6 However DCLG have not issued to date a pooling prospectus for 2016/17.

6 A POTENTIAL LANCASHIRE POOL

6.1 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.

6.2 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.

6.3 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.

6.4 A working group of CFO's representing both districts and the county council was established to consider further how such a pooling arrangement could work within Lancashire. The July meeting of Lancashire Leaders considered a report on pooling and agreed to pursue the creation of pool for Lancashire for those authorities wishing to join based upon the following principles.

7 POOL BENEFITS

7.1 In addition to retaining all or most of any levies due, 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.

7.2 The **total** of all Lancashire levy payments predicted to be paid over to the Government for 2015/16 is almost £5m (unpooled levy). All districts in Lancashire have individual 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.

7.3 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.**

8 POTENTIAL RISKS

8.1 As stated above, central government provides a safety net facility for authorities who fail to achieve their baseline funding level. The government recompenses authorities to bring them up to 92.5% of their baseline funding level.

8.2 Under pooling, because the overall position of the pool is considered, a safety net trigger would only apply if the combined business rate income failed to reach 92.5% of the total business rates baselines. Some pools therefore build in their own protection by way of setting aside retained growth in the first instance to pay for this.

8.3 Under a Lancashire pooling arrangement however it has been accepted that no such protection would be provided within the pool and hence each individual authority will have to agree to forfeit their right to a safety net as a condition of joining the pool.

8.4 For authorities who estimate they will make losses in the following year however it is possible to withdraw from the pool which would then re-engage the government's safety net facility for that particular authority

9 GOVERNANCE ARRANGEMENTS

9.1 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.

9.2 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

9.3 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 (i.e. wider affordability)

10 PRINCIPLES OF A LANCASHIRE WIDE POOL

10.1 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.

10.2 It is important all members of the pool are clear about the benefits and risks involved before deciding to join the proposed pool. It was agreed by Lancashire Leaders that:

Membership of the Pool

10.3 Membership would include LCC and any districts wishing to join.

10.4 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 below their baseline.

10.5 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.

Administration of the Pool

10.6 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. This could be charged to each authority pro rata to their business rates baseline or maybe a flat rate per member.

Retention of Levy

10.7 It is proposed retained levy would be distributed each year as follows:

- The County Council is paid 10% of the overall retained levy (based on 2015/16 this would be £492k)

- Each district within the pool retains 90% of their levy

10.8 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.

10.9 Certain NNDR is excluded from the pool and retained by the billing authority/LEP outside of the pool. (e.g. Enterprise Zones, Renewable Energy)

11 LATEST POSITION

11.1 These principles were agreed by Lancashire Leaders in July and work by the sub group of Lancashire CFO's is ongoing with regard to finalising a scheme.

11.2 This work is being hampered by the lack of any pooling prospectus or announcement regarding pooling from central Government.

11.3 If the previous year's deadline of the end of October was to be repeated then our application would have to be submitted at fairly short notice.

12 IMPACT ON RIBBLE VALLEY

12.1 The Budget Working Group (BWG) considered the proposed pooling arrangement in detail prior at its meeting in June prior to the Lancashire Leaders meeting. They accepted that if the pool was to go ahead and this Council were to be a member then there would be financial benefits to us as follows based on this year's predicted levy. Currently we expect to pay a levy to central government of £417k. Under a Lancashire pool (as proposed above) we would keep 90% of this amount ie £375k less admin fees paid to the lead authority.

12.2 The BWG also accepted that there is a risk of losses due to not having the comfort of the safety net mechanism. In our case our business rate income would have to fall by over £1m for us to be in such a position.

12.3 **In conclusion it was recognised that the benefits of joining a Lancashire Pool based on the terms above outweighed the risks involved**

12.4 It is worth noting that if we were to join a pool we would still be the billing authority in our area i.e. still responsible for all aspects of business rate collection and administration.

13 RECOMMENDATION

13.1 Committee agree to the Council joining a Lancashire Business Rates Pool on the terms outlined above.

13.2 Authorise the Director of Resources to sign the pooling agreement on behalf of this Council.

DIRECTOR OF RESOURCES

PF46-15/JP/AC
26 August 2015