Notice of:	**EXECUTIVE**
Decision Number:	EX3/2019
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member:	Councillor Simon Blackburn, Leader of the Council
Date of Meeting:	21 January 2019

LANCASHIRE 75% BUSINESS RATE POOLING ARRANGEMENT 2019/2020

1.0 Purpose of the report:

1.1 To explain the background behind a Lancashire-wide bid to the Ministry of Housing, Communities and Local Government (MHCLG) to establish a Business Rates Pool in 2019/20 that should bring additional funding of approximately £9.6m into the economic area and to seek formal agreement for Blackpool Council's participation.

2.0 Recommendation:

2.1 To formally agree to participate in the Lancashire-wide 75% Business Rates Pilot Pool 2019/20 and ask officers to ensure that the Revenue Budget report submitted to Council in February 2019 reflects the Council's participation.

3.0 Reasons for recommendation:

3.1 Whilst it was reported in the Leader's report to Full Council on 21 November 2018 that Blackpool had joined a Lancashire-wide bid to Ministry of Housing, Communities and Local Government to pilot 75% Business Rates Retention in 2019/20, now that the bid has been formally approved by the Chancellor of the Exchequer in his Provisional Settlement Statement of 13 December 2018 the recommendation is that Blackpool Council does indeed participate in this Business Rates Pool in 2019/20.

3.2a	Is the recommendation contrary to a plan or strategy adopted or approved by the Council?	No
3.2b	Is the recommendation in accordance with the Council's approved budget?	Yes

If approved the Council's participation will be reflected in the 2019/2020 approved budget.

3.3 Other alternative options to be considered:

The Pool bid has maximised the number of eligible participants in order to enhance its attractiveness to Ministry of Housing, Communities and Local Government whilst excluding the one Lancashire authority, namely Lancaster City Council, that carries disproportionate financial risk with wo power stations located within its area

The 'do nothing' option forfeits the opportunity to bring in an additional £9.6m into the Lancashire economic area.

4.0 Council priority:

4.1 The relevant Council priorities are both:

- "The economy: Maximising growth and opportunity across Blackpool".
- "Communities: Creating stronger communities and increasing resilience".

5.0 Background information

5.1 The current 50% Business rate Retention Scheme was introduced in 2013. Following this local authorities were encouraged to form business rates pools, sharing risk and reward in return for retaining the levy payable on growth which would otherwise be paid over to the Government.

The Lancashire Business Rates Pool was formed in 2016/17 and has proved successful for all the constituent authorities. There have been some changes in membership since it was formed but the Pool continues to operate on the same principles as originally agreed with the Government. The two Lancashire unitary authorities did not participate as their involvement at the time would not have brought any financial benefit to the pool in view of the magnitude of their business rate top-ups.

In 2017/18 the Government invited proposals for 100% pilots and launched five initial 100% business rates retention pilots in devolution deal areas. These pilots were continued into 2018/19. The Government will continue to have separate discussions with the devolution deal areas about their pilot programme.

In the 2017 Autumn Budget it was confirmed that London would become a 100% Business Rates Retention pilot for the duration of the 2018/19 financial year. This pilot comprises of the thirty-two London Boroughs, the City of London and the Greater London Authority. The Government will continue to have separate discussions with London about their pilot programme.

In the Provisional Local Government Finance Settlement in December 2017 the Government announced a further ten 100% business rates retention pilots for the duration of the 2018/19 financial year in local authority areas across England. Whilst these pilots are set to end on 31 March 2019, they are inviting the areas involved to apply to become 75% business rates retention pilots in 2019/20, 75% being deemed the maximum business rates that could affordably be retained by local authorities nationally - as part of the move towards a reformed business rates retention system in 2020/21, the Government intends to devolve Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG), the Greater London Authority (GLA) Transport Grant and the Public Health Grant (PHG) to local government when the new system commences. The Government also intends to use the intervening period to develop a set of measures that support a smooth transition of funding for public health services from grant funding to retained business rates.

An announcement on 24 July 2018 set out the Government's intentions to invite pools of authorities to submit applications to pilot 75% business rates retention in 2019/20, but for one year only with a deadline for applications of 25 September 2018, the intention being 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 2020/21.

5.2 **New 75% Pilots**

Authorities selected as pilots will be expected to forego Revenue Support Grant and Rural Services Delivery Grant. The value of these grants will be taken into account when revised business rate tariffs and top-ups for the pilot authorities are set up.

The Government expects that a proposed pool would comprise either i) a county council and all of the associated district councils; ii) a group of unitary authorities; or iii) a two-tier area and adjoining unitaries, and it should extend across a functional economic area. Proposals would need to set out the tier splits for all authorities including Fire and Rescue.

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

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

5.3 Current Business Rate Pool

The current Lancashire Business Rates Pool has proved very successful for all members with retained levies last year totaling £6.011m. Individually pool members have benefitted with retained levies ranging from £389k to £1,113k. Ribble Valley Borough Council has been the lead authority for a 3-year period for the Lancashire Pool through whom all payments are channeled.

The table below shows the overall pool position for the last financial year:

2017/18 Lancashire Business Rates Pool Outturn	
	Total £
Retained Levy Calculation	
Total NNDR Income	194,459,738
Small Business Rate Relief	21,210,103
Relief to Other Ratepayers	0
Localism reliefs	1,429,240
Adjusted NNDR Income	**217,099,081**
40% District Share	86,839,632
Less Tariff payable	-51,222,860
Total Retained Income	**35,616,772**
Business Rate Baseline Funding Level 17/18	**23,489,460**
Growth for Year	**12,127,312**
Levy Rate if no pool existed	45-50%
Total Levy Payment Due to MHCLG if no pool	**6,011,453**
Retained Levy under Pooling Arrangements (90%)	**5,410,308**
Due to LCC under Pooling Arrangements (10%)	**601,145**
Forecast - Based on NNDR1	
Total Levy Payment Due if not under Pooling	**4,071,648**
Retained Levy under Pooling Arrangements (90%)	**3,664,483**
Due to LCC under Pooling Arrangements (10%)	**407,165**

The current Lancashire Pool operates on the basis that each member stands their own risk, having given up their right to safety net protection on joining the pool as the safety net of 92.5% does not apply individually, only to the pool as a whole. Additionally each member retains 90% of their levy on growth above their baseline with the remaining 10% payable to Lancashire County Council (LCC). As such the Lancashire Pool works very well and on a simple and transparent basis.

5.4 Lancashire Position – 75% Pilots

At the Lancashire Leaders and Chief Executives meeting on 11 September 2018 Lancashire Chief Financial Officers were tasked with progressing a pilot application. Specifically concern was raised at this meeting as to the potential risks of a new pilot. As lead authority for the current Lancashire Business Rate Pool, Ribble Valley

Borough Council carried out some modelling of a new 75% pilot based on current 2018/19 expected business rate income. In addition Lancashire County Council independently commissioned a piece of work by *Local Government Futures* to explore the financial benefits of a potential 75% pilot in Lancashire. Both models estimated that the possible extra growth to be retained under a pilot pool would be in the region of £10m.

5.5 **Estimated Financial Benefits**

A summary is shown in the table below which compares the growth (or loss) that Lancashire authorities are currently all set to receive for 2018/19 compared with how much growth (or loss) that could be received under a 75% pilot with everyone included. This is based on the assumption that the Government's 25% share foregone is shared out pro-rata to current tier splits. It is also based on 2018/19 NNDR1 returns completed by each authority on the assumption that retained income will be comparable in 2019/20. The model includes all Lancashire authorities for indicative purposes, though Lancaster City Council is not participating in view of the financial risks associated with the rateable values of the two power stations within its area:

	Summary		
Authority	**Current Growth £**	**Pilot Growth £**	**Extra Growth £**
Burnley	2,066,972	2,893,760	826,788
Chorley	1,775,871	2,486,219	710,348
Fylde	1,321,616	1,850,263	528,647
Hyndburn	234,579	328,410	93,831
Pendle	852,071	1,192,900	340,829
Ribble Valley	1,292,691	1,809,767	517,076
Rossendale	794,115	1,111,761	317,646
South Ribble	2,440,634	3,416,888	976,254
West Lancashire	998,117	1,397,363	399,246
Wyre	1,391,439	1,948,015	556,576
Preston	-134,211	-187,896	-53,685
Lancaster	*1,593,834*	*1,593,834*	*0*
Blackpool	123,833	185,750	61,917
Blackburn with Darwen	2,585,671	3,878,507	1,292,836
Lancashire CC	3,260,104	6,056,898	2,796,794
Lancashire Fire and Rescue	418,576	611,112	192,536
Total	**21,015,912**	**30,573,551**	**9,557,639**

It can be seen that one authority, namely Preston, is predicting a loss in 2018/19 based upon its NNDR1. Under a pilot this loss would actually increase because the Government is reducing how much it is standing of these losses from 50% to 25%. However, the current Lancashire Business Rate Pool has proved very successful for all its members with retained levies last year totaling £6.011m. From the table above a further £9.6m of growth could be retained within Lancashire.

In putting the bid together it was important to strike the right balance between risk and reward for all members. It was therefore proposed that the additional growth would be distributed as follows:

1. The first call on any additional growth will be to create a new resilience reserve to mitigate against any losses in business rate income. This will equate to 5% of the additional growth.
2. 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, improve financial sustainability and allocated based on decisions of the Lancashire Leaders Business Rates Pilot Group.
3. It is proposed that the member authorities will use their allocated share of the remaining additional growth to promote local economic growth and to build resilience to improve their financial sustainability following reductions in central Government support. Within Lancashire, in particular, districts have seen increased cost pressures from recycling and waste collection. Upper tier authorities are facing significant adult and child social care pressures

5.6 Does the information submitted include any exempt information? No

5.7 List of Appendices:

Appendix 4a - Application form to Ministry of Housing, Communities and Local Government Business Rates Pilot Scheme 2019/20

6.0 Legal considerations:

6.1 The proposal is in accordance with Schedule 7B to the Local Government Finance Act 1988.

7.0 Human resources considerations:

7.1 None.

8.0 Equalities considerations:

8.1 The bid represents a fair and equitable means of bringing in additional funding across the Lancashire economic footprint whilst mitigating some risk of those participants not achieving their business rates growth targets.

9.0 Financial considerations:

9.1 These have been outlined in detail in the background information section of this report.

10.0 Risk management considerations:

10.1 The principal risk is of business rates receipts falling below the growth point. The current Lancashire Pool handles the risk element from such a decline by leaving the responsibility with the council suffering the financial decline. This provides a clear signal to anyone entering the Pool that they need to be sure they believe they are on the up-side of any change in business rates as it is their jeopardy if their fortunes take a turn for the worse. They need to recognise that they have lost the safety net protection from the Government and therefore could suffer larger losses if they enter the Pool than if they remain outside.

10.2 One council currently indicates that they could be potentially below the growth point but wish to be included in the new Pilot. Their positon will financially worsen if they do, as the Government currently stands 50% of the 'loss' below the baseline level, whereas under a pilot it will stand only 25% of the 'loss'. Part of the incentive for the one negative growth council joining the Pilot is that other members of the Pilot will top-slice some of their gain to remove the potential loss they face if their business rates do not grow above the growth point. This transfers 25% of the risk of below-growth point performance away from the Government and the one council to the rest of the Pilot group. If any council suffered a further reduction during the year, the other Pilot councils would face a larger reduction in their own growth funds to compensate.

10.3 The risk can be mitigate by insisting that all councils stand their own losses, however the proposal submitted to Ministry of Housing, Communities and Local Government is to set aside 5% of the extra growth to create a new resilience reserve to mitigate against losses in business rate income. This was proposed to make the Lancashire application potentially more attractive to the Government, recognising the bid for pilot status needed to be competitive against bids from other parts of the country.

11.0 Ethical considerations:

11.1 The bid represents a fair and equitable means of bringing in additional funding across the Lancashire economic footprint whilst mitigating some risk of those participants not achieving their business rates growth targets.

12.0 Internal/external consultation undertaken:

12.1 None

13.0 Background papers:

13.1
- Report to the Lancashire Leaders and Chief Executives Group.
- Individual local authorities' respective assessments of business rates risks, in particular rateable value appeals and maintained schools becoming academies, thereby attracting 80% mandatory business rate relief.
- Ministry of Housing, Communities and Local Government Business Rates Pilot Scheme 2019/20 application form and eligibility criteria.

14.0 Key decision information:

14.1	Is this a key decision?	Yes
14.2	If so, Forward Plan reference number:	3/2019
14.3	If a key decision, is the decision required in less than five days?	No
14.4	If **yes**, please describe the reason for urgency:	

15.0 Call-in information:

15.1	Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process?	No
15.2	If **yes**, please give reason:	

TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE

16.0 Scrutiny Committee Chairman (where appropriate):

Date informed: 11 January 2019 Date approved:

17.0 Declarations of interest (if applicable):

17.1 Councillors Blackburn and Jackson both declared a personal interest as Council appointed members of the Lancashire Combined Fire Authority.

18.0 Executive decision:

18.1 The Executive agreed the recommendation as outlined above namely:

To formally agree to participate in the Lancashire-wide 75% Business Rates Pilot Pool 2019/20 and ask officers to ensure that the Revenue Budget report submitted to Council in February 2019 reflects the Council's participation.

19.2 Date of Decision:

21 January 2019

19.0 Reason(s) for decision:

Whilst it was reported in the Leader's report to Full Council on 21 November 2018 that Blackpool had joined a Lancashire-wide bid to Ministry of Housing, Communities and Local Government to pilot 75% Business Rates Retention in 2019/20, now that the bid has been formally approved by the Chancellor of the Exchequer in his Provisional Settlement Statement of 13 December 2018 the recommendation is that Blackpool Council does indeed participate in this Business Rates Pool in 2019/20.

19.1 Date Decision published:

22 January 2019

20.0 Executive Members in attendance:

Councillor Blackburn, in the Chair

Councillors Benson, Campbell, Cross, Jackson, Kirkland, Smith, I Taylor and Mrs Wright

21.0 Call-in:

22.0 Notes:

Apologies were received from Councillor Cain who was engaged elsewhere on official Council business.