

REPORT TO THE EXECUTIVE

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PORTFOLIO	Resources and Performance Management
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Business Rates – Lancashire Pool**PURPOSE**

1. To obtain approval for the Council to participate in the Lancashire Business Rates Pool for 2018/19.

RECOMMENDATION

2. The Executive is asked to recommend to Full Council that:
 - (1) Approval for the Council's participation in a pool for the 2018/19 financial year.
 - (2) Approval to submit a request for the Council to participate in the Lancashire Business Rates Pool for 2018/19 and future years.

REASONS FOR RECOMMENDATION

- 3.1 To seek authority to participate in the Lancashire Business Rates Pool (subject to approval from existing pool members and acceptance by Department for Communities & Local Government).
- 3.2 The Council will be required to confirm its position on membership of the pool in time for the assumed DCLG deadline of 31/10/17.

BACKGROUND

- 4.1 Business rates are a significant source of local authority funding. The business rates retention scheme allows billing authorities to retain a proportion of the business rates collected. Essentially business rates works on a 50/50 split between local and central governments, so in Burnley we retain 40% with the remainder shared as follows:

Government	- 50%
County Council	- 9% (18% of local share)
Fire Authority	- 1% (2% of local share)

- 4.2 The retention scheme is designed to reward councils that have encouraged investment and seen growth in their business rates bases by allowing them to benefit from a share of that growth. However, there is also a risk of a reduction in income where the rates base diminishes; this could be because businesses close down, move out of the area or obtain significant reductions in rateable values.
- 4.3 The Government calculates each council's **individual rates baseline** by dividing half of the total amount of business rates to be collected by all English billing authorities for the year by the individual council's proportionate share, which is based on its average collection rates. For each council the DCLG also calculates a **baseline funding level**, based on applying the formula grant process to the estimated local rates share.
- 4.4 Another component of the scheme is the splitting of authorities into **tariff** and **top-up** authorities. District councils in two-tier areas are tariff authorities; the council's individual rates baseline is greater than its baseline funding level so the Council pays a tariff to the Government. This year (2017/18) Burnley's tariff is £5.722m, this has been reduced from £7.173m in 2016/17 following a reduction in the overall rateable value of businesses within Burnley as part of the 2017 Valuation. County councils and fire and rescue authorities are top-up authorities because their baseline funding level is greater than their individual business rates baseline. These authorities receive a top-up grant.
- 4.5 The scheme operates by way of a **levy** (on disproportionate gains) and a **safety net** (to limit losses). The levy applies where the retained share of rates income for the authority exceeds its baseline funding level. The safety net is deployed when the retained share of rates income falls below 92.5% of the baseline funding level.
- 4.6 **Burnley's position in 2016/17**
 Burnley was a member of the Lancashire Business Rates Pool during 2016/17. The 2016/17 outturn position shows £5.127m of business rates income is being retained in Lancashire which would otherwise have been paid over to the Government. Burnley's share of the retained business rates was £0.678m. The Council retains 90% of the retained business rates with the remaining 10% payable to Lancashire County Council. As a result Burnley benefitted from being a member of the pool and has retained £0.610m which would otherwise have been lost.
- 4.7 **Burnley's forecast for 2017/18**
 The Council's budget for 2017/18 estimates that we will pay a levy to the Government of £0.347m as a result of our retained rates income exceeding our baseline funding level. The reduction from the actual retained levy position in 2016/17 is due to the reduction in rateable values, as part of the 2017 Valuation, together with a reduced level of provision required at 31 March 2017 due to a reduction in the value of outstanding business rates appeals lodged with the Valuation Office Agency at that date.

The levy rate calculation is:

$$1 - (\text{baseline funding level} / \text{individual authority business rates baseline})$$

Levy rates are capped at 0.5 and if the calculation produces a negative levy rate the local authority will not be levied. The levy rate is then multiplied by any growth (essentially business rates income greater than the sum of the baseline funding level

plus the tariff amount). Burnley's levy rate, in common with all the Lancashire districts, is 0.5. In effect this means that the Council will have to pay 50% of any growth that it achieves over and above its baseline funding level to Central Government.

BUSINESS RATES POOLING

- 5.1 As part of a pool, the above calculations are not carried out on an individual authority basis but on the aggregated values of each element for all the authorities involved in the pool. 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. The benefit to be gained is that collectively, it produces a lower percentage levy calculation.
- 5.2 2018/19 estimates and levy calculations will be submitted by all of the member councils of the Pool and analysed to determine the benefits or otherwise of being a member of the Lancashire pool. As can be seen from the outturn position in 2016/17, members of the Lancashire Business Rates Pool benefitted by £5.127m.
- 5.3 Each authority would continue to retain the growth in its business rates income that it would have retained as an individual authority outside of the pool. However, as part of a pool the Council would no longer be required to pay any levy to Central Government.

RISKS

- 6.1 As detailed above, the Government provides a safety net facility for authorities who fail to achieve their target income baseline; thus individually billing authorities are exposed to a potential maximum cost equivalent to 7.5% of their baseline funding. However, as part of a pool there would be no safety net protection and so individual councils would no longer be eligible for a safety net payment.
- 6.2 Governance arrangements for a given pool should address these issues and the Lancashire Business Rate Pool Agreement states that each council would be required to forgo the right to any safety net protection and will have to fund their own shortfall.
- 6.3 In 2017/18 the Council is budgeting for gross income from business rates of £9.865m. After the tariff payment, net income is £4.143m. The Council's safety net is £3.681m, implying a margin of safety of £0.462m, which equates to approximately 4.68% of our gross business rates income. If the Council's share of income from business rates fails to reach its baseline level then the Council will have to meet the shortfall so that it doesn't impact on other pool members.
- 6.4 It is worth noting that, in the unlikely event that the forecast position deteriorates to the extent that we no longer anticipate paying a levy, it would not be advisable to join the pool. We will undertake an annual review of the forecast position as we would have to notify the Lancashire Business Rates Pool before the end of August in the preceding year if we wished to withdraw.

DCLG POOLING PROSPECTUS

- 7.1 DCLG issued a Pooling Prospectus in July 2014 inviting applications for pooling. No further guidance or prospectus has been issued since that date. It is not anticipated that a similar document will be published for 2018/19, but it is assumed that proposals for pools will be required by the end of October 2017 in line with the 2014 prospectus.
- 7.2 The key points of the 2014 Prospectus are listed below and it is expected that the principles will remain broadly unchanged:
- 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
- 7.3 The 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)
- 7.4 Designation of a pool and establishment is under paragraph 34 of Schedule 7B Local Government 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, but if this happens the whole pool cannot continue, with the benefits lost for a year to the other members
- 7.5 However, members may exercise a request during the course of a year to take effect for the following year. There is, therefore, opportunity for authorities to plan opting in and out to take effect from the following financial year.

MEMBERSHIP OF THE LANCASHIRE BUSINESS RATES POOL

- 8.1 The Council was a member of the Lancashire Pool during 2016/17 but gave notice to withdraw for 2017/18 due to the uncertainty around the impact of the 2017 Valuation and the outcome of the EU Referendum.

- 8.2 A request to re-join the Lancashire Business Rates Pool would need to be submitted to existing pool members and will require majority approval. To change the membership of the pool the lead authority, Ribble Valley Borough Council, would have to notify DCLG of its intention to dissolve the existing pool and make an application to create a new one.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

- 9 As shown in the body of the report.

POLICY IMPLICATIONS

- 10 There no new policy implications arising from this report.

DETAILS OF CONSULTATION

- 11 Management Team.

BACKGROUND PAPERS

- 12 None.

FURTHER INFORMATION

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ALSO:

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