

**REPORT OF: FINANCIAL SERVICES  
FINANCIAL SERVICES MANAGER**

**TO: EXECUTIVE**

**DATES: 23rd July 2015**

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## **BUSINESS RATES POOLING**

### **PURPOSE OF REPORT**

1. This report seeks approval in principle for the Council to participate in a business rates 'pool' for 2016/17, subject to the final design of the scheme and the designation by the Department for Communities and Local Government (DCLG) of a pool for participating authorities in Lancashire.

### **RECOMMENDATIONS**

2. The Executive is recommended to:
  - (a) endorse the proposal to develop a business rates 'pool' for participating authorities in Lancashire, noting the benefits and risks of the Council's participation as outlined in this report;
  - (b) approve 'in principle' the Council's participation in a 'pool' for the 2016/17 financial year pending completion of the required framework and governance arrangements relating to a Lancashire based scheme and designation by DCLG;
  - (c) grant delegated authority to the Financial Services Manager, in consultation with the Leader and Portfolio Holder for Finance and Devolution, to conclude the necessary due diligence and confirm the Council's final intention on whether or not to participate in a business rates pool by the 30<sup>th</sup> September 2015.

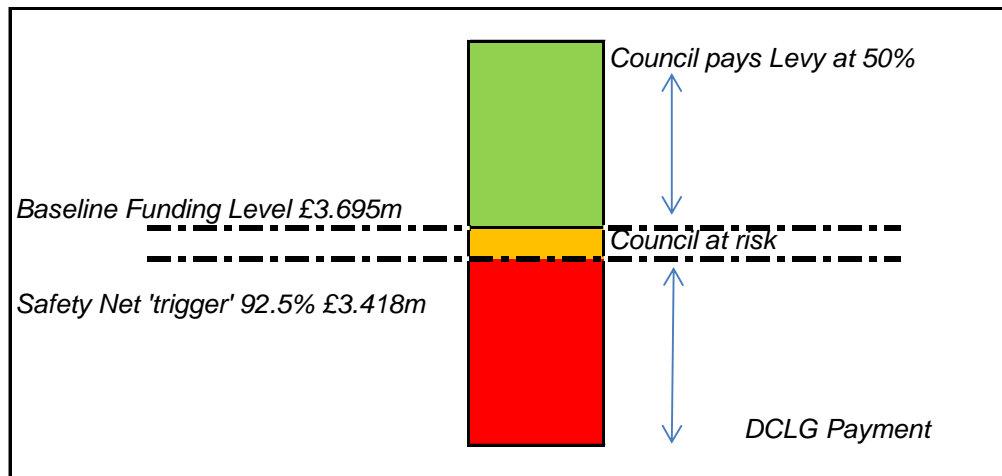
### **REASONS FOR RECOMMENDATION**

3. To inform the Executive of a proposal to develop a Lancashire based business rates 'pool' for 2016/17 and seek authority to conclude the necessary arrangements for the Council's participation subject to final confirmation on the 'pool' arrangements and acceptance by DCLG.

# ISSUE

## Background

4. Business rates are a key source of funding for local authorities. Under the current business rates retention system each billing authority such as Pendle 'retains' a share of the business rates income it collects locally based on prescribed proportions. For Pendle, this is 40% with the remainder shared between the Government, County Council and Fire Authority (50%, 9% and 1% respectively).
5. The system provides for councils to benefit from a share of growth in their business rates base and exposes them to the risk of reduced income where changes are adverse (e.g. business closures, rating appeals). The system, as currently designed, includes mechanisms for both a levy and a safety net. The former applies where an authority's retained share of rates income exceeds its baseline funding level whereas the latter operates when the retained share of rates income falls below 92.5% of the baseline funding level. The following diagram illustrate this and shows the values for Pendle as part of the 2015/16 Local Government Finance Settlement:



6. All district Council's in two-tier areas, like Pendle, are classed as a 'tariff' authority; this means the Council's individual rates baseline is greater than its baseline funding level which results in the Council paying a tariff to the Government. In the current year the Council's budgeted tariff is £4.06m. Conversely, a local authority will receive a 'top-up' if its baseline funding level is greater than its individual business rates baseline. All two-tier county councils and single purpose fire and rescue authorities receive a top-up grant.
7. In the current financial year the Council has budgeted to pay a levy to the Government of £331k as a result of its retained rates income exceeding its baseline funding level. The levy rate calculation is as follows:

**1 – baseline funding level**

<b>individual</b>	<b>authority</b>
<b>business rates</b>	<b>baseline</b>

Levy rates greater than 0.5 are capped at this level. The levy rate for Pendle is capped at 0.5. The creation of a business rates 'pool' means that this calculation is performed not 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

8. It is estimated that a Lancashire pool formed of District Councils and the County Council would produce a negative levy rate which would result in no levy being payable. 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, **as part of a pool the Council would no longer be required to pay any levy to Central Government.**
9. A business rates pool arrangement is not without risk. Under the business rates retention scheme, the Government provides a safety net facility for authorities who fail to achieve their target income baseline. In this situation 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. However, **as part of a pool, the Council would no longer be eligible for a safety net payment** i.e. there would be no safety net protection.
10. The governance arrangements for the pool should address these issues and based on discussions to-date it is expected that each Council would be required to forgo the right to any safety net protection and have to fund their own shortfall. In the current year the Council is budgeting for gross income from business rates of c£8.4m. Taking account of the tariff payment, net income is c£4.4m. The Council's safety net is c£3.4m implying a margin of safety of c£1m equivalent to approximately 12% of our gross business rates income.
11. The above position would be updated prior to finalising the Council's position on participating in a pool. If the forecast position deteriorated to the extent the Council no longer anticipated paying a levy, or worse still, one in which the safety net was triggered it would not be beneficial to join the pool.

#### *DCLG Pooling Prospectus*

12. For the current financial year, DCLG issued a Pooling Prospectus in July 2014 inviting applications for pooling. It is anticipated that a similar document will be published for 2016/17. There are currently 27 pools comprising 194 authorities in 2015/16. The key points of the 2014 Prospectus were as follows:
  - Proposals for 2015/16 should reach 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
13. 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)

14. Designation of a pool and establishment is under paragraph 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. **However, 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 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.

#### *Principles of a Lancashire wide pool*

15. Initial indications are that the pool would include the County Council together with a number of district councils. The detailed arrangements including pool governance are expected to be worked up in the near future. This will include a distribution mechanism for the retained levy on a shared basis. To-date the suggestion has been that this be shared on the basis of 10% for the County with each District retaining 90% of its 'saved' levy. It will be necessary to appoint a 'lead' authority to administer the pool. No decision has yet been made on this albeit that it will most likely be a district council. The administering authority would receive a fee for acting in this capacity paid by the other pool members.
16. The Council will be required to confirm its position on membership of the pool by the 30<sup>th</sup> September in time for the assumed DCLG deadline of 31/10/15 based on the previous year's prospectus.
17. Assuming a Lancashire based pool does proceed, the Executive is asked to approve the Council's participation in principle and provide delegated authority to the Financial Services Manager, in consultation with the Leader and Portfolio Holder for Finance and Devolution, to conclude the final arrangements and confirm the Council's intentions within the anticipated timescales outlined in this report.

## **IMPLICATIONS**

### **Policy**

There no new policy implications arising from this report.

### **Financial**

These are generally as set out in the report.

### **Legal**

There are is provision within the Local Government Finance Act 1988 for the Government to designate business rates pool. In preparation for this it will also be necessary to conclude the governance framework for the pool as part of the pool creation.

### **Risk Management**

The benefits and risks of participating in a business rates pool are as outlined in this report. The financial position outlined in the report would be updated as part of the due diligence undertaken prior to confirming the Council's position on participation.

### **Health and Safety**

There are no Health and Safety implications arising directly from this report.

### **Sustainability**

There are no sustainability implications arising directly from this report.

### **Community Safety**

There are no community safety issues arising directly from the contents of this report.

**Equality and Diversity**

There are no equality and diversity implications arising from the contents of this report.

**APPENDICES**

None

**LIST OF BACKGROUND PAPERS - None**