The following item is submitted as urgent business with the Chair’s agreement in accordance with Section 100B(4) of the Local Government Act 1972. The reason being that the DCLG only confirmed their acceptance of the Lancashire Pool on 17th December 2015 and have required Council to indicate whether they intend to progress the offer by 14th January 2016. This is much earlier than originally expected. The Cabinet meeting on 6th January is now the only date available to consider this proposal. Previously the report would have gone to the February Cabinet meeting and formed part of the Council’s Budget proposals.

PART B: PORTFOLIO ITEMS

Portfolio Holder for Resources (Councillor Gareth Molineux)

11. Business Rate Pool for Lancashire  (Pages 3 - 8)

Report attached.
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1. **Purpose of Report**

   1.1. The Report informs Cabinet of a mechanism to increase its financial resources in 2016/17 and beyond from Business Rates by joining a Pooling arrangement with a number of other Lancashire Councils.

2. **Recommendations**


   2.2. Cabinet delegate responsibility to the Deputy Chief Executive to finalise any detail on the Business Pooling arrangements and if necessary give notice to withdraw from the Pool at any future point if circumstances indicate this would be appropriate.

   2.3. Cabinet agrees that the funds stemming from Business Rate Pooling should form part of the Council’s Budget and that payment to Lancashire County Council and Ribble Valley under these arrangement can go ahead from 2016/17.

3. **Reasons for Recommendations and Background**

   3.1. 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-ups and tariffs. The new system of Business Rates Retention was designed so as 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 by retaining some of the financial growth that occurs above a baseline figure.

   3.2. Of the Business Rates we collect, 40% is retained by ourselves, 9% payable to Lancashire County Council 1% to Lancashire Fire and Rescue Authority. The Government receives the remaining 50%.
3.3. Each local authority is given a business rate baseline funding level. If we receive more than this level then we have to pay a levy on this growth to the Government. The levy to pay varies by authority but currently Hyndburn pays a levy of 50% on all business rates collected above our baseline. and we effectively transfer 50% of the growth over to Central Government and retain the remainder ourselves. In 2015/16 the amount currently predicted to be transferred to the Government is approximately £140,000.

3.4. The current system also operates a protection mechanism for authorities who experience a decrease in their retained business rates income and a safety net mechanism applies. This safety net guarantees 92.5% of an authority’s baseline funding level with the Government paying additional funds to a council in this position to return them to a 92.5% funding point.

3.5. It is a core principle of pooling is that it is voluntary. So it is for local authorities to establish whether pooling will benefit them. Local authorities are therefore free to come together to form pools for Business Rate purposes. 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.

3.6. Pools have to be designated by the Secretary of State for Communities and Local Government. Currently for 2015/16 there are 27 pools in existence comprising 194 different authorities. Each pool has to decide (and get approval from Government) on its governance arrangements. Under DCLG requirements the governing arrangements must cover at the least,

- the rights and obligations of pool members,
- which Council will be the lead Member for the administration of the Pool
- how money is to be disbursed 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

3.7. Lancashire has previously not considered forming a pool as it was not viewed as financially advantageous to do so. However work was undertaken by the Lancashire Chief Finance Officers’ Group in 2015 and this indicated that forming a Business Rate Pool for 2016/17 and beyond would provide financial benefits to all those who participated, if certain conditions were met. The July meeting of Lancashire Leaders considered a report on pooling and agreed to pursue the creation of a pool for Lancashire. The principles developed to date for the pool are

- Membership would include LCC and any Lancashire districts wishing to join.
- 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 themselves from their own funds or reduce expenditure accordingly.
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.

The County Council is paid 10% of the overall retained levy (based on 2015/16 this would be somewhere between £400,000 and £500,000)

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

If the Pool is dissolved any balances will be distributed in accordance with the above.

The pool to be administered by a district authority as it was felt that this was important given districts’ responsibilities as billing authorities and expertise regarding the administration of business rates and therefore it would be more cost effective.

Each member of the pool would make an equal financial contribution to the administration of the Pool of £2,000.

The Pool administration would be done by Ribble Valley Borough Council.

3.8. A submission was made to DCLG in October 2015 to create a Pool with 10 Member Councils from Lancashire. The Councils applying to the Pool were Hyndburn, Burnley, Chorley, Lancashire County Council, Pendle, Ribble Valley, Rossendale, South Ribble, West Lancashire, and Wyre. Three Councils did not wish to progress joining the Pool (Preston, Fylde and Lancaster) as their risk assessment indicated that they might need to rely upon the safety net procedures in relation to business rates in the coming year.

3.9. DCLG announced that the Lancashire Pool had been approved as part of the Local Government Settlement on the 17th December 2015. DCLG has said that the Pool will be formally created from the 14th January 2016 and any Council that wishes to resign from the original request must inform DCLG by that date. Once the date has passed a Council cannot withdraw until the following year.

3.10. It is currently estimated that the levy that Hyndburn will have to pay in connection to 2015/16 will be approximately £140,000. Assuming the figure remains the same for 2016/17, the Council will avoid paying the levy completely but will have to offset the costs of the 10% payment to Lancashire County Council and meet the £2,000 administration payment to Ribble Valley Borough Council. It will therefore be around £124,000 better off from the arrangement.
3.11. 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.

3.12. 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. Therefore in joining a Pooling arrangement, any Council runs the risk that if their business rates sharply decline to below the 92.5% safety net trigger point, they will be without the extra funds the Government would have made available to them if they had stayed outside the Pool. The risk is the financial loss of the Government safety net addition.

3.13. For Hyndburn this potential loss is limited by its ability to withdraw from the Pooling arrangement the following financial year. So the lost incurred would be limited to a one year impact. In addition given our current business rate performance the probability of business rates falling to below 92.5% is considered remote. We also are able to re-assess our position each year and if business rates were falling we could give notice to quit the pooling arrangement the following April ahead of any loss and return to the protection of the Safety net arrangements.

4. **Alternative Options considered and Reasons for Rejection**

4.1. The alternative option is to remain outside a pool. This option is not recommended as the council suffers a reduction of its resources by following this strategy.

5. **Consultations**

5.1. Not applicable.

6. **Implications**

| Financial implications (including any future financial commitments for the Council) | The Council will benefit from around £124,000 of extra revenue each year from being a member of the Pool. |
| Legal and human rights implications | Not applicable |
| Assessment of risk | There is a risk that if the Council’s business rates fall dramatically the Council will lose the right to access additional Government support in these circumstances. The risk is considered to be unlikely to occur and can be limited to one financial year. The council would need to rely upon any in-year surplus or its reserves in these circumstances. |
### Equality and diversity implications

| A **Customer First Analysis** should be completed in relation to policy decisions and should be attached as an appendix to the report. | Not applicable |

7. **Local Government (Access to Information) Act 1985: List of Background Papers**

   7.1. Not applicable

8. **Freedom of Information**

   8.1. The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.
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