

Report of the Deputy Chief Executive

Report to Executive Board

Date: 18th March 2015

Subject: Governance of the Leeds City Region Business Rates Pool

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. The Leeds City Region Business Rates Pool was officially designated by the Department for Communities and Local Government on 14th December 2012 and came into being on 1st April 2013. The LCR Pool is made up of seven authorities: the City of Bradford Metropolitan District Council, Calderdale Council, Harrogate Borough Council, Kirklees Council, Leeds City Council, Wakefield Council and the City of York Council.
2. The Pool exists to further economic development activities within the region and allows Business Rates “levies” that would otherwise be paid over to central government to be retained locally.
3. The governance arrangements for the LCR Pool are set out in a “Final Proposal” which was agreed by each member authority in November 2012 and which forms part of the DCLG designation. Under the Proposal, the Pool is led by a sub-committee of the Leeds City Region Leaders’ Board which comprises the leaders of the seven member authorities. Leeds acts as lead authority for the Pool.
4. With the establishment of the West Yorkshire Combined Authority, the Leaders’ Board, a joint committee appointed by the LCR authorities to discharge economic

development functions, is being wound up, and therefore the Business Rates Pool sub-committee, which was appointed as a sub-committee of that joint committee, cannot continue in its present form. It is therefore proposed that the sub-committee is replaced by a new joint committee of the seven Pool authorities.

5. It is also proposed that the terms of reference of the new joint committee should be broadened to make explicit that pool receipts can be used to further economic growth and regeneration across the Pool area. This supports the Best Council Plan objective of “promoting sustainable and inclusive economic growth”.
6. This report seeks Executive Board’s approval to the new arrangements. Similar approvals are to be sought from the executives/cabinets of the other six Pool authorities.

Recommendations

Members are requested to:

- agree to appoint the Leader of the Council to a new joint committee in relation to the Leeds City Region Business Rates Pool from 1st April 2015 until the 2016 Annual Meeting; such joint committee to consist of the Leader of each Pool authority, and to have the terms of reference set out in Appendix 1;
- approve the revised governance agreement for the Business Rates Pool as set out in Appendix 2; and
- give the City Solicitor delegated authority to seek the formal agreement of the other six members of the Pool to the new arrangements.

1. BACKGROUND

- 1.1 The current Business Rates Retention scheme was introduced in April 2013. Under the scheme business rates receipts are shared equally between central and local government. However, receipts of business rates in each individual local authority area may or may not match the amount the government believes the authority needs to spend, so, at the outset of the scheme, amounts were equalised through a system of “tariffs” and “top-ups”. Authorities that collect more than the government believes they need to spend pay over a “tariff” to government and those that collect less receive a “top-up” to make up the difference.
- 1.2 Tariff authorities that are successful in growing their rates are also liable for “levies” which scale back the rewards of growth – by as much as 50% in some cases. Levies are used to help fund “safety-nets” to other authorities that would otherwise see reductions in their retained rates income of more than 7.5%.
- 1.3 The Business Rates Retention scheme allows groups of authorities to join together to form business rates pools. Pooling is seen by government as a useful tool to encourage collaborative working, but for a group made up of “tariff” and “top-up” authorities there can be direct financial advantages in that levy payments can be

retained locally rather than paid over to government. This is the case for the LCR Pool which has three “tariff” authorities (Harrogate, Leeds & York) and four “top-ups” (Bradford, Calderdale, Kirklees and Wakefield).

- 1.4 Thus far, the LCR Pool has operated successfully, with £1.532m being retained locally for 2013/14, of which Leeds contributed £1,264m. The projected totals for 2014/15 and 2015/16 are £4.0m and £3.5m respectively, for of which Leeds is expected to contribute around £2.0m in 2014/15 and £2.5m in 2015/16. If the Pool had not been created these sums would have been paid to central government as “levies”.
- 1.5 The Leaders’ Board Business Rates Pool sub-committee has to date agreed to use £1m of retained levies to support the Grande Départ and in 2015/16 funds are being allocated to support economic development and promotional activities across the region, including the Tour of Yorkshire.

2. **GOVERNANCE ARRANGEMENTS FOR THE LCR POOL**

- 2.1 The governance agreement for the LCR Pool was comprised in the Final Proposal that was agreed by each member authority in November 2012 and formed part of the DCLG official designation of the Pool. The Proposal provided that the Pool should be led by a sub-committee of the Leeds City Region Leaders’ Board comprising the leaders of the seven Pool members.
- 2.2 With the formation of the West Yorkshire Combined Authority, the Leaders’ Board (joint committee) is being wound-up and will be formally dissolved on 31st March 2015 (see item elsewhere on this Agenda). It follows, therefore, that the sub-committee which was appointed as a sub-committee of the joint committee, will also be dissolved and can no longer provide leadership for the LCR Pool. In order to ensure continuity, it is proposed that the seven Pool authorities agree to set up a new, single-purpose joint committee that will have specific responsibilities for decision-making in respect of the LCR Pool as specified in the proposed terms of reference set out in Appendix 1. The new joint committee will comprise the leaders of the seven Pool authorities.
- 2.3 The existing designation of the Pool by the Secretary of State will not be affected. However, the change of arrangements will require amendments to be made to the governance agreement. In essence, this means deleting the references to the “sub-committee of the Leaders’ Board” and replacing them with the “Leeds City Region Business Rates Pool Joint-Committee” plus minor consequential changes to the wording.
- 2.4 Section 4.2 of the current governance agreement states that “*Any excess income arising from reductions in levy payments will, after allowing for agreed expenses, be allocated to the Investment Fund established by the Leeds City Region*”. However, section 5.1 allows the sub-committee to make “*changes to the purposes for which the income received by the Pool should be used...*” and the sub-committee has used this provision to provide support for the Grande Départ, and for a range of

planned economic development and regeneration activities including the Tour of Yorkshire.

- 2.5 The use of funding to support economic growth and regeneration is entirely consistent with Government guidance which states:

“Under the business rates retention scheme local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area.”¹

and

“Moreover, pooling the rates income from growth across a wider and economically coherent area ensures that all authorities can benefit from economic growth across the wider area.”²

- 2.6 It is therefore proposed that the governance agreement be amended to make the use of Pool receipts to fund activities that support economic growth or regeneration more explicit.
- 2.7 The revised agreement will need to be approved by each member authority individually, including Leeds. Under Regulation 11(6) of The Local Authorities (Arrangements for the Discharge of Functions) (England) Regulations 2012, where functions are all the responsibility of the executive of the authority, the appointment of the joint committee is to be made under Section 102(1)(b) of the Local Government Act 1972, and the number of members to be appointed, their term of office, and the area (if restricted) within which the committee is to exercise its authority, are to be fixed, under Section 102(2) of the 1972 Act. These matters must all be dealt with, in the case of an authority having a leader and cabinet executive, by the executive leader, or unless the executive leader otherwise directs, by the executive, another member of the executive, or a committee of the executive, of the authority. As matters relating to the Pool are all executive functions, each member authority will therefore need to resolve, as specified above, to appoint the new joint committee on the terms set out in this Report, consistently with the terms of the existing designation.
- 2.8 The revised governance agreement (with the proposed amendments highlighted and underlined), is attached as Appendix 2.
- 2.8 As the governance agreement formed part of the DCLG designation, DCLG have been consulted about the proposed changes. Although they have asked to be kept informed, they take the view that the governance agreement and how funding is used are internal matters for the Pool members and that once a Pool is established no further DCLG approvals need be sought unless or until a re-designation is required to accommodate a change in membership.

¹ Pooling Prospectus 2015-16, DCLG, July 2014; Page 4.

² Ibid; Page 5.

3 CORPORATE CONSIDERATIONS

3.1 Consultation and Engagement

3.1.1 This report sets out proposed changes to the governance agreement, and proposes a new joint committee for the LCR Pool made necessary by the winding-up of the Leaders' Board. Similar reports are being considered by the six other Pool members. No further consultation or engagement is considered appropriate.

3.2 Equality and Diversity / Cohesion and Integration

3.2.1 This report has no implications for equality and diversity or cohesion and integration.

3.3 Council Policies and City Priorities

3.3.1 The report supports the Best Council Plan objective 2: "Promoting sustainable and inclusive economic growth".

3.4 Resources and Value for Money

3.4 There are no resource or value for money implications in this report.

3.5 Legal Implications, Access to Information and Call In

3.5.1 Under Schedule 7B of the Local Government Finance Act 1988, the Secretary of State may designate two or more relevant authorities as a pool, subject to conditions requiring the authorities to appoint a lead authority to exercise those functions specified in such conditions, and subject to such other conditions as the Secretary of State thinks fit. This report makes recommendations with regard to the governance agreement for the LCR Pool, and proposes a new joint committee following the dissolution of the Leaders' Board and the consequent dissolution of the LCR Leaders' Board Business Rates Pool Sub-Committee. Each Pool member is being requested to approve the revised governance agreement and to appoint a new joint committee of the authorities in the LCR Pool, including Leeds City Council. Leeds City Council would remain as lead authority for the Pool in accordance with the existing designation. The proposals would not affect the operation of the Pool itself.

3.5.2 This decision is not open for call-in, since the new Joint Committee needs to be in place to ensure the continuation of the Pool for the start of new financial year.

3.6 Risks

3.6.1 The report makes recommendations about the Pool that are essentially administrative in nature. The membership will be unchanged and there are no specific risk implications.

4. **RECOMMENDATIONS**

4.1 Members are requested to:

- agree to appoint the Leader of the Council to a new joint committee in relation to the Leeds City Region Business Rates Pool from 1st April 2015 until the 2016 Annual Meeting; such joint committee to consist of the Leader of each Pool authority, and to have the terms of reference set out in Appendix 1;
- approve the revised governance agreement for the Business Rates Pool as set out in Appendix 2; and
- give the City Solicitor delegated authority to seek the formal agreement of the other six members of the Pool to the new arrangements.

5. **BACKGROUND DOCUMENTS**³

5.1 None.

³ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

Appendix 1 – Terms of Reference

Leeds City Region Business Rates Pool Joint Committee

The Leeds City Region Business Rates Pool Joint Committee is authorised to:

- Allocate any excess income arising from reductions in levy payments in accordance with the Leeds City Region Business Rates Pool governance agreement;
- Determine any changes to the purposes for which any such excess income should be applied, subject to the principle that no authority should receive less than they would if treated individually;
- Determine the expenses to be deducted by the lead authority administering the Pool;
- Consider any applications for other authorities to join the Pool;
- Determine any variations to the membership of the joint committee; and
- Determine any other matters relating to the administration and governance of the Pool including replacement of the lead authority.

The Joint Committee will elect a chairperson.

The Joint Committee will meet as and when required but no less than twice each year. The quorum for meetings of the Joint Committee will be no less than 5 members. Members will be able to nominate substitutes.

Members will have equal voting rights and voting will be by simple majority. In the event of a tie, the chair of the meeting will have a casting vote.

LEEDS CITY REGION BUSINESS RATES POOL – REVISED GOVERNANCE AGREEMENT JANUARY 2015

1 Title

- 1.1 The Leeds City Region Business Rates Pool.

2 Membership

- 2.1 **City of Bradford Metropolitan District Council**, Calderdale Council, Harrogate Borough Council, Kirklees Council, Leeds City Council, Wakefield Council and City of York Council.

3. Commencement

- 3.1 This governance **agreement came** into force on 1st April 2013 and will continue until any one of the members formally leaves the Pool (see “Dissolving the Pool”, below).

4. Rationale and Objectives

- 4.1 The LCR Pool exists to benefit the individual members and to further the aims of the Leeds City Region as a whole as set out in the Regions City Deal “Unlocking our Economic Potential”.
- 4.2 The income received by the Pool will be shared out so that each member authority receives the same amount that they would if they were treated individually under the Business Rates Retention scheme. The only exception to this is set out in Section 8, below. Any excess income arising from reductions in levy payments will, after allowing for agreed expenses, be allocated **to activities that support economic growth and regeneration across the Pool area.**
- 4.3 Any variation to the arrangements set out in 4.2, above, will require the formal agreement **of the Leeds City Region Business Rates Joint Committee.**

5. Leadership and Accountability

5.1 The Pool will be led by a **joint committee**. The **joint committee** will comprise of the leaders of the councils making up the Pool. The **joint committee** shall be responsible for:

- Allocating any excess income arising from reductions in levy payments as set out in 4.2 above
- any changes to the purposes for which the income received by the pool should be used, but the principle that no authority should receive less than they would if treated individually, shall be maintained;
- agreeing the expenses to be deducted by the lead authority administering the Pool;
- considering any applications for other councils to join the Pool;
- any variations to the membership of the **joint committee**; and
- any other matters relating to the administration and governance of the Pool including replacement of the lead authority.

5.2 **The members of the joint committee will elect a chairperson .**

5.3 The **joint committee** will meet as and when required but no less than twice each year.

5.4 The quorum for the meetings will be no less than 5 members. Leaders will be able to nominate substitutes.

5.5 Members will have equal voting rights and voting will be by simple majority. In the event of a tie, the chair of the meeting will have a casting vote.

5.6 The **joint committee** will be supported by officers drawn from the lead authority.

5.7 The **joint committee** may establish any sub-groups or any officer forums that they believe to be appropriate.

5.8 Minutes of **joint committee** meetings will be published **as required by law.**

6. Lead Authority

6.1 The initial lead authority responsible for the administration of the Pool shall be Leeds City Council.

6.2 The lead authority will normally act as such for a full year and may only be replaced at the year end. A lead authority wishing to relinquish the role at the year end must give a minimum of four months notice.

6.3 Each member of the Pool will be jointly and severally liable for any payments required to the Department for Communities and Local Government but,

notwithstanding that, the lead authority will take responsibility for all matters in relation to the administration of the Pool including (but not limited to):

- all liaison with DCLG and other government departments including the completion of all forms and returns associated with the Pool;
- administration of payments to and from the Pool and all calculations relating to the collection fund for the Pool;
- producing an annual report showing how income has been distributed and preparing periodic monitoring reports for Pool members;
- calculation of the costs of administering the Pool which are to be deducted from the rewards of the Pool. If the excess income generated by the Pool was insufficient to cover the administrative costs of the Pool in any year, then the shortfall would be shared between the Pool members in proportion to their spending baselines;
- The lead authority will ensure that the pooling arrangements, annual reports and other financial information is published and is freely available on the LCR website or elsewhere as appropriate.

7. **Dissolving the Pool**

- 7.1 If any member decides to leave the Pool the regulations require that the Pool will be dissolved. Pools can only be dissolved at the end of a year.
- 7.2 Any authority seeking to leave the Pool should inform DCLG and all other members of the Pool as soon as possible. Once the Pool has been established, this must be by 30th September in any year, to allow the remaining members time to seek designation of new pool for the following year (see 7.4, below).
- 7.3 The Lead authority will make the necessary calculations and submit the required returns associated with the dissolving of the Pool.
- 7.4 The remaining members of the Pool may choose to form a new Pool and, if they wish, include new members for the following year (subject to new designation by DCLG).

8. **Treatment of Potential Losses in Income**

- 8.1 Authorities that suffer large reductions in business rates income from year to year (more than 7.5%) will be entitled to safety net payments. If such an authority is a member of a business rates pool, the safety net payment could be lost because the *loss across the pool* may not be as much as the 7.5%/10% threshold. Indeed, if growth across the rest of the pool was weak, it could be that the loss of safety net payments could be greater than the amounts gained from paying reduced levies and the pool could be in deficit for the year.

8.2 Authority(s) that would otherwise have qualified for safety net(s) will have their share of pool proceeds calculated in a way to include what they would have received as a safety net payment. The loss in income to the Pool from the safety net(s) foregone in any year will be met from the income generated from other authorities within the pool not having to pay levies in that year. If that levy income is insufficient, then the net loss from the safety net foregone will be shared amongst all the members of the Pool (including those that would have otherwise qualified for a safety net payment) in proportion to their spending baselines for the year to which the safety net(s) would have applied.
