

Report of Director of Resources**Report to Executive Board****Date: 9th January 2013****Subject: 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 checked="" type="checkbox"/> Yes	<input 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. For 2013/14 onwards, groups of adjacent local authorities are able to join together to pool their retained business rate income under the new Business Rates Retention scheme.
2. Ministers see business rates pooling as *"a new tool to better support economic priorities...to deliver new businesses and jobs"*, but with the right combination of authorities it appears to also offer direct financial benefits to authorities forming a pool.
3. The possible financial benefits of a Leeds City Region (LCR) business rates pool were identified at an early stage, and the LCR City Deal included a commitment to form a regional pool with the additional yield arising to be used to support a new regional investment fund.
4. On the 17th October 2012, Executive Board agreed that Leeds should act as lead authority for a "final proposal" to Government to establish a LCR business rates pool which would be made up of Leeds, Bradford, Calderdale, Harrogate, Kirklees, Wakefield and York.
5. Following submission of the final proposal, the Department for Communities and Local Government "designated" the LCR Pool on 14th December 2012. This means that the Pool will be established unless any member authority drops out before 15th January 2013.
6. The provisional local government finance settlement that was published on 19th December gave the financial context to determine whether the Pool would be viable, and each member now has a final opportunity to decide whether to continue or withdraw. Analysis of the provisional settlement data suggests that there will be a financial benefit in continuing

with the Pooling Proposal. That benefit would be used to support the regional investment fund and could be in excess of £1m for 2013/14.

Recommendations

7. Members are asked to agree that Leeds should continue as a member of the Business Rates Pool that has been designated for the City Region and as lead authority for the Pool. Notwithstanding this decision, the continuation of the pool will be dependent upon none of the other member authorities choosing to withdraw before 15th January 2013.

1 Purpose of this report

- 1.1 The purpose of this report is to update Members on the development of the Leeds City Region Business Rates Pool, to set out the financial context and to seek approval for Leeds to continue as a member and as lead authority for the LCR Pool.

2 Background information

- 2.1 The report considered by the October Board explained that at present the business rates collected by local authorities is paid into a national pool and redistributed to individual authorities in proportion to their needs and resources through Formula Grant.
- 2.2 The Government has introduced major changes to these arrangements for 2013/14 onwards. The centrepiece of the changes is a new Business Rates Retention scheme which is designed to give local authorities a new financial incentive by allowing them to keep a proportion of any growth in their business rates locally.
- 2.3 Under the scheme authorities will fall into one of two categories:
 - Those like Bradford, Calderdale, Kirklees and Wakefield whose funding requirements exceed their retained business rates under the scheme will receive **top-ups** to make up the difference; or
 - Those like Leeds, Harrogate and York whose retained business rates income exceed their funding requirements will pay **tariffs**.
- 2.4 Tariff authorities that are successful in growing their business rates income by more than RPI will have that income scaled back by a system of levies. The levies will be used to help pay for “safety nets” for those authorities that suffer large losses to their business rates income from year to year.
- 2.5 The new provisions will allow local authorities to join together to pool their business rates income. In a pooling arrangement, if a combination of tariff and top-up authorities join together such that they are in overall terms a net top-up, then any real growth in business rates will avoid the levy which the tariff authorities would have otherwise incurred individually. It is this which gives rise to a potential overall benefit to the pool.

3 Main issues

- 3.1 Following the submission of an expression of interest in July 2012 and a final pooling proposal in November 2012, DCLG “designated” the LCR Business Rates Pool on 14th December 2012 (see Appendix 1).
- 3.2 The draft Local Government Finance Settlement was published on 19th December 2012. The draft settlement sets out funding allocations for each local authority and details of the tariffs and top-ups payable under the business rates retention scheme. The rules governing the operation of business rates pools¹ give pool members a 28 day period (from the date the draft settlement is published) within which to reconsider their membership of the pool. That period expires on 15th January 2013. Should any member of the pool wish to withdraw before that date then the designation will be revoked and the pool will be dissolved.
- 3.3 The draft settlement confirms that Leeds will be a tariff authority and initial projections of business rates income suggest that, as an individual authority, Leeds would be liable for a levy. At the time of writing, the projections have not been finalised but it is possible that the levy could exceed £500,000.
- 3.4 Two other members of the LCR Pool, Harrogate and York, are also tariff authorities and it appears that they too would be liable for levies if treated individually.
- 3.5 Authorities have until 7th January to finalise their business rates projections for 2013/14 so at the time of writing, it is not possible to estimate the overall benefit to the LCR Pool of the levies that would be avoided. However, if Harrogate and York achieve growth figures similar to Leeds, the total of levies saved in 2013/14 could exceed £1m. These levy payments, and those arising in future years, would be used to support the LCR investment fund.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 This is a factual report and is not subject to public consultation.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 The LCR Pool will create a mechanism for providing extra funding to support the regional Investment fund. That fund will provide investment across the region, but there are no specific implications for equality, diversity, cohesion or integration. A screening assessment has been carried out and is appended to this report.

4.3 Council policies and City Priorities

- 4.3.1 This report in itself does not have direct implications for Council policies or City Priorities, but supports the wider regional priorities contained within the City Deal, particularly those relating to the new Investment Fund.

¹ Paragraph 34(6) of Schedule 7B to the Local Government Finance Act 1988 (inserted by Schedule 1 of the Local Government Finance Act 2012)

4.4 Resources and value for money

- 4.4.1 This is a financial report and the financial and resource implications are detailed in the main body of the report.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 A decision on the part of the Board to continue as a member of the Pool will only be binding if the six other authorities also agree to continue. If none of the members withdraw before 15th January 2013 the Pool will be established from 1st April 2013 and will continue under the agreed governance arrangements (see Appendix 2) for at least one year. The pooling agreement is non-contractual, and the governance arrangements may be varied, but the principle that no member authority will be worse off as a pool member than they would if treated individually will be maintained.

4.6 Risk Management

- 4.6.1 The risks to Leeds are minimal because the governance arrangements specify that income received by the LCR pool will be shared out so that no member authority would be worse off than if they were treated individually under the Business Rates Retention scheme.
- 4.6.2 There remains a theoretical risk of a reduction in income for Leeds if one or more authorities in the pool suffered a substantial reduction in business rates income from year to year but analysis suggests that the risk in the context of the LCR pool is low because the business rate baselines have been set lower than expected and any losses relating to one authority should be more than offset by levies saved in the others.

5 Conclusions

- 5.1 The proposed LCR pool appears to offer the prospect of significant financial benefits for the Leeds City Region, with little risk to Leeds.

6 Recommendations

- 6.1 Members are asked to agree that Leeds should continue as a member of the Business Rates Pool that has been designated for the City Region and as lead authority for the Pool. Notwithstanding this decision, the continuation of the pool will be dependent upon none of the other member authorities choosing to withdraw before 16th January 2013.

7 Background documents²

None

² 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.