

**Report of the Chief Officer Financial Services
Report to Executive Board**

Date: 13th February 2019

Subject: North and West Yorkshire Business Rates Pool

Are specific electoral wards affected? If yes, 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. Leeds City Council is currently a member of the Leeds City Region (LCR) Business Rates Pool. The Pool came into being on 1st April 2013, with a new Joint Committee arrangement put into place from 1st April 2015 to oversee the Pool (agreed at Executive Board 18th March 2015).
2. In 2017/18 the LCR Pool was notified that it had been successful in bidding to pilot 100% business rates retention for the year 2018/19.
3. The Government released its business rate pilot prospectus for 2019/20 on 24th July 2018 inviting authorities to submit applications to pilot 75% business rates retention.
4. Following discussion with members of the existing Leeds City Region Pool and with North Yorkshire County and Districts, a joint 2019/20 pilot was submitted by Leeds City Council.
5. At the Provisional Local Government Finance Settlement for 2019/20 the Secretary of State announced that our application to pilot 75% business rates retention as an expanded North & West Yorkshire business rates pool in 2019/20 had been successful.
6. This report seeks Executive Board's approval to form a new Joint Committee to oversee the North and West Yorkshire Business Rates Pool from 1st April 2019, including associated governance arrangements.

Recommendations

Members are requested to:

- Note the update on the new North and West Yorkshire Business Rates Pool;
- Note the revoking of the Leeds City Region Pool on 31st March 2019 and agree to disband the Leeds City Region Pool Joint Committee at the same date;
- Agree to appoint the Leader to a new Joint Committee to oversee the new North and West Yorkshire Business Rates Pool, such Joint Committee to consist of the Leaders of the authorities specified in **3.5** and to have the Terms of Reference as set out;
- Note and agree the Governance Agreement for the North and West Yorkshire Business Rates Pool;
- Note and approve the Terms of Reference for the North and West Yorkshire Business Rates Pool;
- Give the City Solicitor delegated authority to seek the formal agreement of the other 13 members of the Pool to the new arrangements.

1. Purpose of this report

1.1 Following the success of the North and West Yorkshire bid to pilot 75% business rates retention in 2019/20, this report will:

- Update Executive Board on the successful bid;
- Note the revoking of the Leeds City Region Pool;
- Request that Executive Board agree the formation of a new Joint Committee to oversee the North and West Yorkshire Business Rates Pool; and
- Request that Executive Board note and agree the Governance Agreement and Terms of Reference for the North and West Yorkshire Business Rates Pool.

2. Background information

2.1 As a precursor to the introduction of 75% business rates retention nationally in 2020/21, the Government released its business rate pilot prospectus for 2019/20 on 24 July 2018 inviting authorities to submit applications to pilot 75% business rates retention. It was also announced that the 2018/19 pilot areas, including Leeds City Region, would not continue to pilot 100% retention but could participate in this bidding process. 2017/18 devolution pilots will continue to pilot 100% business rates retention.

2.2 The opportunity to bid for pilot status in 2019/20 presented the potential for significant additional funding for authorities in comparison to reverting to the standard 50% retention scheme. Following discussion with members of the existing Leeds City Region Pool and with North Yorkshire County and Districts, a joint 2019/20 pilot was submitted. As Members will be aware, further background was given in the Initial Budget Proposals at Executive Board on the 19th December 2018.

2.3 At the Provisional Financial Settlement for 2019/20 the Secretary of State announced that our application to pilot 75% business rates retention as an expanded North & West Yorkshire business rates pool in 2019/20 had been successful, alongside 14 other pilots across England. The letter confirming this can be seen at **Appendix A**. This means that LCR will go from retaining 100% retention of business rates growth in 2018/19 to 75% retention in 2019/20 as part of a wider North and West Yorkshire Pool. Only three of the areas (outside London and 2017/18 “devolution” areas) currently piloting 100% retention in 2018/19 were successful in their bids to pilot 75% retention in 2019/20: Solent, Berkshire and Leeds City Region (this time alongside North Yorkshire).

2.4 As a consequence of this successful bid, the Secretary of State has revoked the designation of the Leeds City Region Pool and from the 31st March 2019 the LCR Pool will cease to exist.

3. Main issues

3.1 Following the successful bid to pilot 75% Business Rate Retention, Executive Board gave their agreement that Leeds becomes a member of the new North and West Yorkshire Business Rates Pool and acts as lead authority for it (Executive Board date 19th December 2018).

- 3.2 The success of this bid safeguards an estimated £7.97m of funding included in the Council's Initial Budget Proposals, in which we assumed that the pilot would be successful. Overall, the pilot brings additional funding to the Region of £29m, of which £6m will be used by the pool to fund regional projects with the remaining growth being returned to member authorities to enhance their financial sustainability.

Governance Arrangements

- 3.3 With the formation of the North and West Yorkshire Business Rates Pool, the Secretary of State has revoked the designation for the Leeds City Region Pool, as shown at **Appendix B**. We therefore request that from the 31st March 2019 the Leeds City Region Pool will disband and cease to exist.
- 3.4 In order to provide leadership for the North and West Yorkshire Pool and ensure consistency of approach, it is proposed that the 14 Pool authorities agree to set up a single-purpose joint committee that will have specific responsibility for leading the North and West Yorkshire Pool.
- 3.5 The new North and West Yorkshire Pool will be led by a Joint Committee comprising of the Leaders (or their nominees) of the member Authorities making up the Pool. Joint Committee representation will be as follows:
- City of Bradford Metropolitan District Council
 - The Metropolitan Borough Council of Calderdale
 - Kirklees Council
 - Leeds City Council
 - The Council of the City of Wakefield
 - City of York Council
 - North Yorkshire County Council
 - Harrogate Borough Council
 - Scarborough Borough Council
- 3.6 As with the LCR Joint Committee, the North and West Yorkshire Pool Joint Committee will direct expenditure and be responsible for allocating excess income arising from the one third Pool share, an estimated £6m, as set out in **3.2** above.
- 3.7 We therefore ask Executive Board to agree the formation of a new joint committee to oversee the North and West Yorkshire Business Rates Pool and to give the City Solicitor delegated authority to seek the formal agreement of the other 13 members of the Pool to the new arrangements.

Governance Agreement

- 3.8 The draft Governance Agreement for a North and West Yorkshire 75% Retention Pilot is attached at **Appendix C** and the Terms of Reference for the Joint Committee at **Appendix D**. The Governance Agreement and Terms of Reference will be formally ratified at the first meeting of the North and West Yorkshire Pool Joint Committee.
- 3.9 This Governance Agreement addresses how the Pool proposes to share and use additional business rates income and sets out the position of the affected precepting

authorities. Further, it explains how member authorities will work together to manage risk and how any residual benefits or liabilities would be dealt with.

- 3.10 The provisions at **Paragraphs 8 and 9** of the Governance Agreement aim to minimise the direct financial risk to member authorities of participating in this pilot. They represent a shared approach to managing the risk inherent in the business rate retention scheme, which increases for local authorities as they are given more control over, and hence have a greater reliance on, locally raised funds.
- 3.11 One of the authorities in this pilot has been operating within safety net since 2013/14. This represents a very real direct financial risk to the Pool and the member authorities. A further risk is that authorities will fall below their business rates baseline and therefore experience a lower level of funding than they would under the 50% retention scheme. The member authorities have agreed that this safety net payment is funded by the pooled income before any redistribution occurs and that the Pool will also make payments to any authority that is worse off under the proposed 75% pilot than they would have been under a 50% arrangement. This “no detriment” mechanism ensures that no authority gains from the pilot until all authorities have at least the level of resources that would have been received under the 50% scheme.
- 3.12 Once any losses in income arising through safety net losses and “no detriment” arrangements have been addressed, as defined in **Paragraph 8** of the Governance Agreement, any residual benefits or liabilities arising in regard to the Pool’s one third share of additional income will be shared amongst all the members of the Pool in proportion to their two thirds share of the additional income received from the Pool. Any residual benefits or liabilities arising in regard to the two thirds share of income apportioned to local authorities are expected to be resolved by the authorities themselves without any additional support from the Pool.
- 3.13 We ask Executive Board to note and approve the North and West Yorkshire Business Rates Pool Governance Agreement and Terms of Reference.

4. Corporate considerations

4.1 Consultation and engagement

- This report sets out the proposed governance arrangements for the new North and West Yorkshire Business Rates Pool. No further consultation or engagement is required.

4.2 Equality and diversity / cohesion and integration

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

4.3 Council policies and best council plan

- Achievement of the priorities identified in the Best Council Plan requires that the Council’s financial resources are maximised and associated risk managed appropriately. The understanding of the Business Rates Pool and associated risk is therefore necessary to ensuring the City can deliver on its ambitions.

4.4 Resources and value for money

- The funding implications of the new North and West Yorkshire Business Rates Pool are noted in this report.

4.5 Legal implications, access to information, and call-in

- 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 arrangements of the new North and West Yorkshire Business Rates Pool following the revoking of the Leeds City Region Business Rates Pool. Each Pool member authority is being requested to approve these arrangements and the appointment of the members as a joint committee of the authorities in the North and West Yorkshire Business Rates Pool, including Leeds City Council.
- 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.
- Leeds City Council will be lead authority for the Pool.
- The report is subject to call in.

4.6 Risk management

- The report makes recommendations about the leadership of the new North and West Yorkshire Business Rates Pool that are essentially administrative in nature.

5. Conclusions

5.1 This report:

- Updates Executive Board on the successful bid to pilot 75% business rates retention as part of a North and West Yorkshire Pool;
- Notes the revoking of the Leeds City Region Pool;
- Requests that Executive Board agree the formation of a new Joint Committee to oversee the North and West Yorkshire Business Rates Pool; and
- Requests that Executive Board note and agree the Governance Agreement and Terms of Reference for the North and West Yorkshire Business Rates Pool.

6. Recommendations

6.1 Members are requested to:

- Note the update on the new North and West Yorkshire Business Rates Pool;
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- Give the City Solicitor delegated authority to seek the formal agreement of the other 13 members of the Pool to the new arrangements.

7. Background documents¹

7.1 None

¹ 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.