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Report to: **NORTH AND WEST YORKSHIRE BUSINESS RATES JOINT COMMITTEE**

Date: **7th OCTOBER 2019**

Subject: **OPTIONS FOR BUSINESS RATES POOLING IN 2020/21**

(Appendix B of this report is classified as Exempt under Schedule 12A Local Government Act 1972 and Access to Information Procedure Rule 10.4 (3) because it contains Information relating to the financial or business affairs of any particular person (including the authority holding that information)

SUMMARY

This report sets out:

a) The current position with regards to the future of pool's piloting 75% business rates retention of funding;

b) The characteristics of the 50% business rates retention scheme;

c) Options available to authorities for pooling in 2020/21;

d) Actions required if member authorities wish to change the Pool membership.

1. Introduction

1.1. The North and West Yorkshire Pool was established on 1st April 2019, following a successful application to pilot 75% Business Rates Retention in 2019/20.

1.2. The North and West Yorkshire Pool aims to benefit the individual members and further the aims of the region as a whole. The Pool has two complementary objectives:

- To support regional economic growth by providing support to and working in collaboration with regional partners;
- To support the financial stability of the member authorities, both at an individual and a regional level.

1.3. On 4th September 2019, the Chancellor of the Exchequer announced the Spending Round 2019, for the financial year 2020/21. Following this announcement and discussions with MHCLG (Ministry of Housing, Communities and Local Government) it is understood that business rates retention pilots at 75% were for one year only and therefore will not roll forward to 2020/21.

2. Background Information

2.1. After the one year Spending Round announced on 4th September, it became clear that 75% Business Rates Retention nationally would be delayed by a year to 2021/22. It is understood, following conversations with MHCLG that the current 75% business rate retention pilots will cease after 2019/20 and as a result return to the rules governing 50% retention. However this appears to exclude the original 'Devo areas' (areas with devolution deals and elected mayors) who will continue to retain 100% of business rates.

2.2. Members of the North and West Yorkshire Business Rates Pool are currently making representations to central government about the likelihood of the 2019/20 pilot not continuing in 2020/21. It is our view that the delay in the Fair Funding Review, Comprehensive Spending Review and Business Rates Retention has made it imperative that those authorities who were piloting the Business Rates Retention should continue to do so in 2020/21. Our first preference would be to continue with this years' 75% retention Pool and we will continue to lobby for this.

2.3. However, if lobbying to continue the 2019/20 pilot is not successful, Members will need to consider the impact on authorities in the North and West Yorkshire Pool of moving to 50% retention. Under the 50% scheme the advantage of forming a business rate pool will only be the retention of levy payments within the region that would otherwise have to be made to central government. Whilst this is significantly below the financial gain from either 75% or 100% business rate retention pilots, a 50% business rates pilot would still retain resources within the region which could be used to support regional priorities.

2.4. A background on the historic and different pooling regimes in the North and West Yorkshire area is at **Appendix A**.

3. The 50% Business Rates Retention Scheme

3.1. As explained in **Appendix A**, under the 50% business rates retention scheme a mixed group of top up and tariff authorities could form a business rates pool. In North & West Yorkshire such a pool could eliminate levy payments that would otherwise have to be paid by tariff authorities to the Government.

3.2. Under the 50% retention scheme the advantage of forming a business rates pool will only be the retention of levy payments that would otherwise have to be made to central government. Levy payments are a proportion of 50% of business rates growth above the baseline and therefore the gains are much lower than under 75% retention.

3.3. The main risk of a 50% retention pool is that if a member authority becomes entitled to a safety net payment, because its retained income has fallen dramatically, then that safety net payment will no longer be received from the Government but will have to be met by other members of the pool. This will represent a loss of income to the region.

3.4. If an authority is in safety net it will continue to receive the safety net payment from the Government if it is not a member of a Pool. **Appendix B, Paragraph 1** gives a further explanation of this in the context of the North and West Yorkshire Pool membership.

3.5. As shown at **Table 1** below, a Pool based on the current Pool membership is estimated to generate £9.6 million in levy payments. This is reduced by the estimated safety net payment of £2.9 million to Selby, leaving the Pool with £6.7 million saved levies in the region.

Table 1: Estimated saved levy payments

Authority	Levies paid
	£m
Bradford	0.000
Calderdale	0.000
Craven	0.607
Hambleton	0.944
Harrogate	1.301
Kirklees	0.000
Leeds	2.019
North Yorkshire County Council	0.000
Richmondshire	0.573
Ryedale	0.410
Scarborough	1.152
Wakefield	0.000
York	2.613
Sub-total	**9.619**
Selby (authority is in safety net)	-2.931
TOTAL	**6.688**

4. Risks to income generated by a 50% retention pool

4.1. The risk remains that other local authorities in the Pool could fall into safety net. Those most at risk are authorities with the highest Business Rates Baseline (the baseline from which growth is measured) relative to their baseline funding level (their assessed needs). These authorities need the smallest relative drop in business rates collected to result in a safety net payment. This tends to be shire district authorities. However, apart from Selby, no other authority appears to be close to safety net at this time. If it is proposed to have a North and West Yorkshire Pool member authorities will be asked if they are forecasting to be in a safety net position during 2020/21.

4.2. There continues to be a risk to income due to the volatility of business rates income. If an authority is in safety net for every £1 lost in retained business rates income this will result in a further £1 call on the Pool income from saved levy payments. For an authority not in safety net the maximum in reduced income to the pool would be £0.50 in reduced levy saved for every £1 lost in retained income.

5. Pooling options available in 2020/21

5.1. **Appendix B, Paragraph 2** shows options available for pooling membership in 2020/21, including the assumptions made in the financial modelling.

5.2. The Joint Committee is asked to consider these options.

6. Actions required if Pool membership is amended

6.1. If a pool wishes to change its membership it must dissolve and reapply to the Secretary of State to be designated as a new pool. Any member authority can inform the lead authority, the other members of the pool and the Secretary of State that it wishes to leave the pool and the pool will be dissolved at the end of the financial year. This can be done at any time until 28 days after the provisional local government finance settlement has been laid before the House of Commons, or the date of the final settlement if that is earlier. The relevant authority would have to follow its own governance rules but its s.151 officer or chief executive would inform the necessary parties.

6.2. However if the remaining members of the pool wish to reconstitute a pool to begin at the beginning of the following financial year they need to apply to the Secretary of State in sufficient time for the department to consider the application, designate the new pool and reflect the necessary calculations in the provisional local government finance settlement. The deadline for submitting an application this year is 25th October 2019. The application must include:

- The proposed membership
- The lead authority of the proposed pool
- The benefits of the pool including a rationale for the geography. The benefits may include the promotion of growth, improved strategic or service integration or managing cashflows
- A governance agreement for the pool

6.3. The proposed membership cannot include members of another pool, therefore the member authority dissolving the pool so that the remaining members can reform a new pool must do so before the 25th October 2019 as well. It still remains open for any single member authority to dissolve the pool until 28 days after the provisional settlement, but after 25th October 2019 there would be no time to set up a new pool for the following year and all benefits would be lost.

6.4. The selection criteria for designating a new pool are largely at the Secretary of State’s discretion but in the last ‘prospectus’ for 50% retention pools it was stated that the department would have regard to the following: -

- The likely benefits for the local authorities and the Government’s wider objectives of growth and service integration
- The proposed governance arrangements
- The affordability of the proposals in terms of the wider business rates retention scheme

6.5. An approach to each of these issues would have to be agreed prior to the application being submitted.

7. Recommendations

7.1. Members are recommended:

a) To note the current position with regards to the future of pool's piloting 75% business rates retention of funding as discussed in **Paragraph 2**;

b) To note characteristics of the 50% business rates retention scheme as discussed in **Paragraphs 3 and 4**;

c) To consider the options referenced in **Paragraph 5** above and detailed in **Appendix B, Paragraph 2**:

    i. Option 1: Retained levy payments shared across whole Pool based on Population and Growth.

    ii. Option 2: Retained levy payments shared across whole Pool based on Baseline Funding and Growth.

    iii. Option 3: Retained levy payments allocated within the pre-2019/20 pooling areas.

    And advise as to a decision on future pooling arrangements in 2020/21;

d) To note the actions and timescales required in **Paragraph 6**.