

Originator: Victoria Bradshaw 0113 378 8540

Report to: NORTH AND WEST YORKSHIRE BUSINESS RATES JOINT COMMITTEE

Date: 30th September 2020

Subject: NORTH AND WEST YORKSHIRE BUSINESS RATES POOL FINANCIAL REPORT

SUMMARY

This report sets out:

- a) The context in which the 2020/21 North and West Yorkshire Business Rates Pool has been set up;
- b) The governance arrangements and memorandum of understanding for the North and West Yorkshire Pool;
- c) The current position of the North and West Yorkshire Pool, including the estimated 2020/21 financial position and the latest income projections;
- d) The proposed allocation of funding for 2020/21.

1. Introduction

- 1.1. The 2020/21 North and West Yorkshire Pool was invoked by Government on 1st April 2020 under the 50% retention scheme. The advantage of forming a business rates pool in this situation is the retention in the region 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 the region has previously enjoyed under 75% retention.
- 1.2. Government had previously announced the introduction of 75% business rates retention nationally in 2020/21. However, this has been further delayed and we await confirmation of when it will be introduced. As such the prospective 2020/21 NWY Pool members agreed to enter into a levy pool; retaining funds in the region.
- 1.3. Government announced that the North and West Yorkshire pooling application was successful on 18th December 2019. However, in early 2020 the COVID-19 pandemic caused significant impact to communities, the economy and businesses. It is in this context that this report is written and the estimated income streams reported are made.

1.4. Specifically, the impact of COVID-19 on the region's business rates tax base is that growth, in some areas, has fallen below expected levels. As a consequence of this, the levy amounts projected in this report are below those estimated at the time of the Pool application in 2019. This is discussed in greater detail at **Paragraph 4**.

1.5. The North and West Yorkshire Pool exists to benefit the individual members and to further the aims of the region as a whole. During the application process the prospective Pool members agreed that income received by the Pool will be shared out so that each member authority receives at least the same amount that they would if they were treated individually under the Business Rates Retention scheme. Specifically, that if an authority falls into safety net, this will be funded by the levies accumulated by the Pool. This is further explained at **Paragraph 5**.

2. Structure of the North and West Yorkshire Business Rates Pool

2.1. Membership of the North and West Yorkshire Business Rates Pool is as follows:

- City of Bradford Metropolitan District Council
- The Metropolitan Borough Council of Calderdale
- Craven District Council
- Hambleton District Council
- Harrogate Borough Council
- Kirklees Council
- Leeds City Council
- North Yorkshire County Council
- Richmondshire District Council
- Ryedale District Council
- Scarborough Borough Council
- The Council of the City of Wakefield
- City of York Council

3. Governance of the North and West Yorkshire Business Rates Pool

3.1. The Pool will be led by a Joint Committee comprising of representatives of the member Authorities making up the Pool. The memorandum of Understanding indicates that the Joint Committee representation shall be as follows:

- City of Bradford Metropolitan District Council
- The Metropolitan Borough Council of Calderdale
- Harrogate Borough Council
- Kirklees Council
- Leeds City Council

- North Yorkshire County Council
- Scarborough Borough Council
- The Council of the City of Wakefield
- City of York Council
- Tenth representative from North Yorkshire Districts to be identified by the Joint Committee once the Pool is established.

3.2. If the Joint Committee agree that no further representative from North Yorkshire Districts is required, the Memorandum of Understanding shall be amended to reflect that there will be nine members of the Joint Committee. As such, the Joint Committee are asked to come to an agreement on this during the meeting.

3.3. The draft Memorandum of Understanding for a North and West Yorkshire Pool is attached at **Appendix A** and the Terms of Reference for the Joint Committee at **Appendix B**. These will remain in draft until ratified by the Joint Committee.

3.4. The Joint Committee are therefore requested to formally approve the Memorandum of Understanding and Terms of Reference, as attached at **Appendices A and B**.

4. Estimated Pool Income 2020/21

4.1. Based on authorities' own estimates at the time of the pool application process, the North and West Yorkshire Business Rates Pool was estimated to keep £9.5 million income in the region from retained business Rates income.

4.2. Since the application process last year, member authorities completed their NNDR1 estimates of Business Rates income for the year 2020/21. At the time this led to an updated, latest estimate of over £10.8 million. However, since the onset of COVID-19, and the resultant impact on the economy, the projected income to the region has reduced to £9.7 million.

4.3. Although Business Rates income will reduce, the levy calculation is adjusted for the S31 reliefs that have been increased due to coronavirus, the net result to the levy calculation is therefore zero for these reliefs. However the levy calculation does not adjust for other factors for which there is no compensation. Such as increased bad debts, increased empty rates relief and a reduction in growth.

4.4. **Table 1** below demonstrates where the levies are paid from and how this has changed from the estimated NNDR1 position. The estimated levies at September 2020 are based on latest information provided by member authorities.

Table 1: Summary Distribution of Additional Income

Authority	Estimated levies based on NNDR1	Estimated levies at Sep 2020
	£m	£m
Bradford	0.000	0.000
Calderdale	0.000	0.000
Craven	0.666	0.799
Hambleton	1.074	1.154
Harrogate	1.407	1.269
Kirklees	0.000	0.000
Leeds	2.181	0.030
North Yorkshire County Council	0.000	0.000
Richmondshire	0.620	0.620
Ryedale	0.564	0.564
Scarborough	1.243	1.950
Wakefield	0.000	0.000
York	3.029	3.299
TOTAL	10.784	9.686

5. Risks to Pool Funding

- 5.1. The 2020/21 North and West Yorkshire Business Rates Pool is a levy pool under 50% business rates retention. Under the 50% scheme the financial advantage of forming a business rate pool is the retention of levy payments within the region that would otherwise have to be made to central government. The government's pooling prospectus is clear, the business rates retention scheme gives authorities scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area.
- 5.2. Estimated Pool income based on member authorities NNDR1 returns was over £10.7 million. However, as demonstrated by the projections in **Table 1** above, the current coronavirus situation may have an impact on business rates income in the region and there could be reduced levies paid into the Pool. For some Authorities a reduction in business rates may result in safety net, though this is not currently projected.
- 5.3. An authority would fall into safety net if it suffered a reduction in retained rates income to a threshold below 92.5% of their baseline funding level.
- 5.4. The government's pooling prospectus notes that the nature of the pooling arrangement is to provide a safety net at 92.5% for authorities who see significant reductions in their income from the rates reduction scheme. The Memorandum of Understanding for the Pool therefore reflects that if an authority falls into safety net the loss of income should be met by the retained levies from the other authorities. If there is not enough in retained levies, the net loss will be shared amongst all members of the Pool (including those in safety net).
- 5.5. If the Pool in its entirety falls into safety net there would be a safety net payment from government up to the Pool's 92.5% threshold. In this situation there may need to be a reallocation of funding to ensure all authorities received a level of funding up to their safety net position.

- 5.6. Whilst monitoring will be ongoing throughout the year, the final unaudited position for the Pool will not be known until Spring 2021, when authorities will be able to finalise their known positions for the year.
- 5.7. Clearly the business rates retention scheme and the associated pooling mechanisms were never intended to absorb the impact of an event such as the current COVID-19 pandemic. Local authorities will continue to lobby Government for financial support to deal with the financial impact on collection funds. Should any such support be forthcoming this may mitigate the extent to which the Pool is impacted.
- 5.8. To summarise the current position, 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.

6. Proposed Allocation of North and West Yorkshire Business Rates Pool Funds

- 6.1. Notwithstanding the risks noted in paragraph 5, the Pool's current projections indicate that whilst some authorities are close to the safety net threshold, no authority is currently projected to breach the threshold.
- 6.2. The latest projections for 2020/21 business rates retained have been received from member authorities. **Table 2** below shows how close each authority is to the safety net threshold.

Table 2: Reduction in adjusted BR income possible before crossing safety net threshold

Authority	Retained rates income	Safety Net threshold	Reduction in BR income before Safety Net is breached
	£	£	
Bradford	157,857,749	128,813,280	32.8%
Calderdale	43,553,144	39,061,386	15.0%
Craven	3,083,737	1,374,119	18.8%
Hambleton	4,395,606	1,931,050	18.3%
Harrogate	6,279,975	3,461,860	10.0%
Kirklees	88,965,710	76,477,763	20.8%
Leeds	158,801,399	146,551,835	7.1%
North Yorkshire County Council	69,597,551	62,637,689	32.3%
Richmondshire	2,743,405	1,391,434	20.5%
Ryedale	2,767,276	1,515,738	14.7%
Scarborough	8,186,489	3,964,613	22.6%
Wakefield	86,236,278	66,724,701	27.2%
York	33,918,291	24,563,396	16.9%

- 6.3. During the application process the prospective Pool members agreed that funds would be allocated to member authorities using the approach previously used for the two predecessor pools (The Leeds City Region Pool and the North Yorkshire Pool) to distribute the funding generated in their own areas, within their own region, using the methodologies they each had applied in 2018/19.

6.4. In summary:

- Bradford, Calderdale, Harrogate, Kirklees, Leeds, Wakefield, York:
50% by growth above the baseline and 50% population
- Craven, Hambleton, Richmondshire, Ryedale, Scarborough, North Yorkshire County Council:
50% by growth above the baseline and 50% by baseline funding level

6.5. As such, **Table 3** below shows the current projected income allocated to member authorities using the methodologies referred to above.

Table 3: Allocation of Projected Funding

Authority	Redistributed levy payments
	£m
Bradford	1.305
Calderdale	0.240
Craven	0.446
Hambleton	0.636
Harrogate	0.253
Kirklees	0.661
Leeds	0.691
North Yorkshire County Council	2.035
Richmondshire	0.395
Ryedale	0.397
Scarborough	1.180
Wakefield	0.934
York	0.514
TOTAL	9.686

6.6. However, as noted above, we are currently working on the assumption that any funding that is available to the Pool will, first and foremost, be used to support any authorities in safety net, in line with the MoU, and then allocated to Pool members in accordance with the agreement.

7. Commitments paid by the 2019/20 North and West Yorkshire Business Rates Pool

7.1. As referred to in **Paragraph 6**, during the application process the prospective members were asked their thoughts on use of pool funds received in 2020/21. The majority opinion was that funds should be reallocated back to members for use in accordance with the Pool's aims.

7.2. However, it is worth noting that the previous pool in the region forward funded a number of commitments in 2020/21. Whilst this does not fall under the formal remit of this Joint Committee, **Table 4** notes these commitments for the Joint Committee's information and demonstrates that the 'usual' Pool commitments are funded in 2020/21, albeit by the 2019/20 North and West Yorkshire Pool.

Table 4: Forward funded commitments applicable in 2020/21

Commitments	2020/21 £m	2021/22 £m
Welcome to Yorkshire subscriptions	0.323	
Tour de Yorkshire hosting fee	0.700	
Secretariat Functions	0.820	
Combined Authority Transport Fund	0.700	
Screen Yorkshire	0.175	0.175
Total	2.718	0.175

7.3. The Joint Committee will note that this does not include funding for the Welcome to Yorkshire business plan in 2020/21. Following the close of the 2019/20 Pool, member authorities were notified of their allocation (in accordance with the Pool's Governance Agreement) from the projected surplus. Whilst some authorities chose to use their share of the surplus to fund WtY, these decisions were taken outside of the Joint Committee structure (and after the Joint Committee ceased to exist) and were made by individual authorities. As such any WtY business plan funding is excluded from the above.

8. Recommendations

8.1. Members are recommended:

- a) To note the context and structure of the 2020/21 North and West Yorkshire Business Rates Pool as described in **Paragraphs 1 and 2**;
- b) To resolve whether the Joint Committee shall be made up of nine members if no further representative from North Yorkshire is required, as described in **Paragraph 3.2**, and note that this will amend the draft Memorandum of Understanding to be approved below;
- c) To approve the Memorandum of Understanding and Terms of Reference set out in **Paragraph 3 and Appendices A and B** including any amendments resolved at **8.1 b)** above.;
- d) To note the projected Pool income for 2020/21 as shown in **Paragraph 4**;
- e) To note the risks of breaching safety net at **Paragraph 5**; and
- f) To note and approve the proposed allocation of projected income to member authorities at **Paragraph 6**.