

Originator: Victoria Bradshaw 0113 378 8540

Report to: NORTH AND WEST YORKSHIRE BUSINESS RATES JOINT COMMITTEE

Date: 25th March 2021

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 is set up;
- b) The current position of the North and West Yorkshire Pool, including the estimated 2020/21 financial position and the latest income projections;
- c) The allocation of projected income to member authorities for 2020/21;
- d) That the Pool will be dissolved on 31st March 2021.

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.
- 1.2. Government had previously announced the introduction of 75% business rates retention nationally in 2020/21. After this was delayed 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 the levels expected pre-COVID-19. 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, however no authority is forecast to hit safety net which would have the first call on the resources held within the pool. This is discussed in greater detail at **Paragraph 3**.

- 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 4**.

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

- 2.1. The Memorandum of Understanding for the North and West Yorkshire Pool is attached at **Appendix A**, and the Terms of Reference for the Joint Committee at **Appendix B**. These were approved by the Joint Committee on 30th September 2020.

3. Estimated Pool Income 2020/21

- 3.1. 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 of retained Business Rates income in the region.
- 3.2. 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 £8.4 million.
- 3.3. Although Business Rates income will reduce, the levy calculation is adjusted for the S31 reliefs awarded to businesses that have been increased due to coronavirus for which authorities are compensated. 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.
- 3.4. **Table 1** below demonstrates how the estimated levies have changed from the estimated NNDR1 position. The estimated levies at March 2021 are based on latest information provided by member authorities. However, it should be noted that we await further confirmation of figures from Ryedale. If these are submitted prior to the Joint Committee meeting, and material, revised tables will be circulated at that time.

Table 1: Summary Distribution of Additional Income

Authority	Estimated levies based on NNDR1 £m	Estimated levies at Sep 2020 £m	Estimated levies at Mar 2021 £m
Bradford	0.000	0.000	0.000
Calderdale	0.000	0.000	0.000
Craven	0.666	0.799	0.619
Hambleton	1.074	1.154	0.940
Harrogate	1.407	1.269	1.298
Kirklees	0.000	0.000	0.000
Leeds	2.181	0.030	0.000
North Yorkshire County Council	0.000	0.000	0.000
Richmondshire	0.620	0.620	0.544
Ryedale	0.564	0.564	0.627
Scarborough	1.243	1.950	1.495
Wakefield	0.000	0.000	0.000
York	3.029	3.299	2.843
TOTAL	10.784	9.686	8.367

4. Risks to Pool Funding

- 4.1. 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.
- 4.2. Estimated Pool income based on member authorities NNDR1 returns was over £10.7 million. However, as demonstrated by the projections in **Table 1**, 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 could potentially result in safety net, though this is not currently projected for any member.
- 4.3. An authority would fall into safety net if it suffered a reduction in retained rates income to a level below a threshold of 92.5% of their baseline funding level.
- 4.4. 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 retention 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).
- 4.5. 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.

4.6. The unaudited year end position for the Pool will not be known until May 2021, when authorities will be able to finalise their unaudited positions for the year. However, the financial position for the Pool remains estimated until audited NNDR3 returns are complete. The deadline for this currently stands at 31st July 2021, however, as with the current financial year, this may be subject to change or delay.

4.7. 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.

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

5.1. Notwithstanding the risks noted in **Paragraph 4**, the Pool's current projections indicate that no authority is currently projected to breach the safety net threshold.

5.2. Based on the latest projections for 2020/21 business rates retained that 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	149,060,163	128,813,280	25.4%
Calderdale	42,541,612	39,061,386	12.0%
Craven	2,724,527	1,374,119	15.5%
Hambleton	3,967,605	1,931,050	15.6%
Harrogate	6,339,280	3,461,860	10.2%
Kirklees	84,078,918	76,477,763	13.8%
Leeds	153,090,963	146,551,835	3.9%
North Yorkshire County Council	69,209,730	62,637,689	31.0%
Richmondshire	2,593,175	1,391,434	18.6%
Ryedale	2,892,276	1,515,738	16.0%
Scarborough	7,275,281	3,964,613	18.6%
Wakefield	84,378,341	66,724,701	25.3%
York	32,900,172	24,563,396	15.3%

5.3. 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.

5.4. In summary:

- Bradford, Calderdale, Harrogate, Kirklees, Leeds, Wakefield, York:
50% by growth above the baseline and 50% by population

- Craven, Hambleton, Richmondshire, Ryedale, Scarborough, North Yorkshire County Council: 50% by growth above the baseline and 50% by baseline funding level

5.5. At the meeting on 30th September, the Joint Committee approved this process of allocation for the projected income. 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	1.035
Calderdale	0.182
Craven	0.357
Hambleton	0.523
Harrogate	0.288
Kirklees	0.427
Leeds	0.607
North Yorkshire County Council	1.690
Richmondshire	0.337
Ryedale	0.377
Scarborough	0.942
Wakefield	1.039
York	0.563
TOTAL	8.367

5.6. However, as noted above, 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.

6. Dissolving the North and West Yorkshire Pool

6.1. Following discussions with all Pool members, it was agreed that the 2020/21 North and West Yorkshire Business Rates Pool would cease from 31st March 2021. This was confirmed by the Secretary of State, whose representative wrote to formally revoke the designation on 16th December 2020, attached at **Appendix C**.

6.2. Members are therefore asked to note the process of allocation of projected income at Paragraphs 5.4 – 5.6, and that, within the terms of the Pool’s Memorandum of Understanding at **Appendix A**, the final Pool income shall be allocated as such, once all member authorities have received final audited accounts. It should also be noted that existing balances cannot be rolled forwards to a future pooling arrangement due to the changing membership of future pools.

6.3. Further to this, Members should be aware that as the 2020/21 NWY Pool is revoked from 31st March 2021, any final decisions around use of this projected funding should be taken by the Joint Committee at today's meeting.

7. Recommendations

7.1. Members are recommended:

- a) To note the context of the 2020/21 North and West Yorkshire Business Rates Pool as described in **Paragraphs 1 and 2**;
- b) To note the Memorandum of Understanding and Terms of Reference set out in **Paragraph 2 and Appendices A and B**;
- c) To note the projected Pool income for 2020/21 as shown in **Paragraph 3** and the risk of breaching safety net at **Paragraph 4**; and
- d) To note and approve the allocation of estimated projected income to member authorities at **Paragraph 5** and, with reference to the Pool being dissolved on 31st March 2021, that final income will be allocated after all member authorities receive final audited accounts, as noted at **Paragraph 6**.