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**Report to:** 2023/24 LEEDS CITY REGION BUSINESS RATES POOL JOINT COMMITTEE

**Date:** 7<sup>th</sup> July 2023

**Subject:** 2023/24 LEEDS CITY REGION BUSINESS RATES POOL FINANCIAL REPORT

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## **SUMMARY**

This report sets out:

- a) The context in which the 2023/24 Leeds City Region Business Rates Pool has been set up;
- b) The governance arrangements and Memorandum of Understanding for the Leeds City Region Pool, and the Terms of Reference for the governing Joint Committee;
- c) The current position of the 2023/24 Leeds City Region Business Rates Pool, including the latest income projections for 2023/24;
- d) The proposed allocation of funding for 2023/24, including a £50,000 administration fee to Leeds City Council;

## **1. Introduction**

- 1.1. The 2023/24 Leeds City Region Business Rates Pool was designated by Government from 1<sup>st</sup> April 2023 under the 50% Business Rates 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 paid to central government.
- 1.2. Levy payments restrict the relative gains made by tariff authorities from the 50% of business rates growth above the Business Rates Baseline, which are higher than those of top-up authorities. If tariff and top up authorities combine in a pool, this can be done in such a way as to retain these levy payments regionally rather than pay them to central government.
- 1.3. The major risk of entering into a Pool arrangement is that if the retained business rates income and associated section 31 grant income of a member authority falls below 92.5% of their assessed spending requirement, or Baseline Funding Level, the payment of a safety net payment from central government will not be forthcoming. This payment will have to be met by the pool and if income to the pool is not sufficient, by member authorities.

- 1.4. In early October 2022, the five West Yorkshire authorities plus the City of York Council agreed to make an application to pool business rates in 2023/24. These member authorities have been in successive pools since 1<sup>st</sup> April 2013, but at the end of 2022/23 Harrogate Borough Council, a member of the 2022/23 Leeds City Region Business Rates Pool, ceased to exist following a Local Government Re-organisation in North Yorkshire. A new business rates pool therefore had to be formed in 2023/24 with a changed membership. In December 2022 the Government announced that the application for the remaining members to form a pool had been successful and designated the 2023/24 Leeds City Region Business Rates Pool from 1<sup>st</sup> April 2023.
- 1.5. This report is written at a time of continued uncertainty about business rates income and the associated section 31 grant income retained by local authorities. The continued impact of the cost-of-living crisis on the region's businesses, and therefore the tax base, remains unclear, particularly on factors such as growth, collection rates and the level of reliefs such as Empty Rate Relief. The level of collection of arrears as recovery action was reintroduced after the pandemic, and the reducing level of additional funded reliefs brought in to support businesses during the pandemic, also continue to be areas of concern. It is in this context that the forecasts about the income to the Pool from regional levy payments, discussed further at **Paragraph 4** of this report, must be considered.
- 1.6. The Leeds City Region 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 as they would have if they were being treated individually under the Business Rates Retention Scheme (BRRS). Specifically, that if an authority falls into safety net, this will be funded by the levies accumulated by the Pool and, if this is not sufficient, by the other member authorities. This is further explained at **Paragraph 5**.

## **2. Structure of the Leeds City Region Business Rates Pool**

2.1. Membership of the Leeds City Region Business Rates Pool is 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

## **3. Governance of the Leeds City Region Business Rates Pool**

- 3.1. The Pool will be led by a Joint Committee comprising of all the Leaders of the member Authorities making up the Pool, or their nominated representatives.
- 3.2. The draft Memorandum of Understanding (MOU) for a Leeds City Region Pool for 2023/24 is attached at **Appendix A** and the Terms of Reference for the Joint Committee for 2023/24 at **Appendix B**. These will remain in draft until ratified by the Joint Committee.

- 3.3. The draft MOU states that pooled levy payments must first meet any safety net payments due to individual member authorities. Any surplus pooled levy payments are then known as the Net Retained Levy and can be used at the direction of the Joint Committee to be used in the following ways: -
- A. The running costs of the pool, if any, will initially be paid by the lead authority and will be reimbursed to them from the Net Retained Levy.
- B. If after A the Net Retained Levy is greater than £0 (i.e. the pool has made an overall gain), then the first £200k of Net Retained Levy will be paid to the City of York Council recognising that this member is the largest contributor of funding to the Pool. If there is any further Net Retained Levy, then the joint committee may make decisions as to how it can be used to further regional economic growth.
- C. If after A and B, the remaining Net Retained Levy is greater than £0, that is the Net Retained Levy is more than that required for the administration fee, for the purposes of the decisions of the joint committee and the £200,000 payment to York, then it becomes a Residual Benefit of the Pool and it will be returned to all member authorities using the following apportionments: -
- 25% in proportion to population, to recognise the most significant driver of need,
  - 25% in proportion to growth above the baseline, to continue to incentivise growth in the business rates tax base in the region,
  - 25% in proportion to the levy payments made to the pool, to recognise the contribution of the 2 levy-paying authorities to the income of the pool,
  - 25% to the 4 top-up authorities in proportion to the top-ups they receive from Government, to recognise that without the participation of top-up authorities levy payments could not be retained within the region.
- 3.4. This methodology was agreed by the Section 151 Officers of the six member authorities for the purposes of making an application to the Secretary of State to pool in 2023/24.
- 3.5. The Joint Committee are requested to formally approve the Memorandum of Understanding and Terms of Reference, as attached at **Appendices A and B**.

#### **4. Estimated Leeds City Region Pool Income 2023/24**

- 4.1. During the application process to continue the Leeds City Region Pool into 2023/24 (October 2022) the estimate of the additional funding that could be retained in the region was £3.2m, based on 2022/23 levels of income. Since that time the member authorities submitted to Government their forecast of income for 2023/24 on the NNDR1 return in January 2023, and a number of authorities provided the lead authority with updated forecasts in April 2023, at which time total income to the pool was forecast to be slightly higher, at £3.7m, largely driven by improved forecasts for Leeds City Council.

**Table 3: Estimated levy payments to the 2023/24 Leeds City Region BR Pool**

<b>Authority</b>	<b>Levy payment NDR1 £m</b>
Leeds	1.162
York	2.582
<b>Total</b>	<b>3.744</b>

## **5. Continued Risks to Pool Funding**

- 5.1. The 2023/24 Leeds City Region Business Rates Pools 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 business rates income across a wider economic area.
- 5.2. Continued risks to the economy, particularly surrounding the ongoing cost of living crisis, continue to pose a risk to business rates income and its associated general fund income streams. Risks to growth, Empty Rate Relief and bad debt costs remain elevated. For some Authorities a reduction in business rates may result in a safety net payment being required from the Pool, though this is not currently projected.
- 5.3. An authority would fall into safety net if it suffered a reduction in adjusted 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 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) in proportion to their Baseline Funding Levels.
- 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 combined 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. 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.

5.7. In January 2023 the member authorities submitted their NNDR1 return to central government forecasting levels of business rates income in their area. From this a calculation can be made to measure the risks of individual authorities falling into safety net, and some member authorities provided updates on this position in April 2023. **Table 4** shows how close each authority is to the safety net threshold using current forecasts.

**Table 4: Reduction in adjusted BR income possible in 2023/24 before crossing safety net threshold**

Authority	Retained Rates income £	Safety Net threshold £	Reduction in BR income possible
Bradford	149,567,954	133,633,735	10.7%
Calderdale	47,470,728	40,523,143	14.6%
Kirklees	91,640,546	79,339,716	13.4%
Leeds	185,882,424	152,036,104	18.2%
Wakefield	93,501,976	69,221,675	26.0%
York	34,286,855	25,482,609	25.7%

5.8. Notwithstanding the risks noted in **paragraph 5** above, the Pools current forecasts for 2023/24 indicate that whilst some authorities are significantly closer to the safety net threshold than others, no authority is currently forecast to breach the threshold with any resultant loss of income from the Government to the region.

## 6. Proposed Allocation of Leeds City Region Business Rates Pool Funds

6.1. At this time, there have been no further requests to fund regional projects by the Leeds City Region Business Rates Pool and therefore, following the Memorandum of Understanding rules as laid out **paragraph 3.3**, it is assumed that all the projected retained levy payments will be used to meet the Pool administration fee to Leeds City Council of £50,000, pay the City of York Council its £200,000 top-slice and then redistribute the remainder using the formula.

6.2. Therefore as at 30<sup>th</sup> April 2023, the projected income to the Pool will be redistributed back to member authorities as set out in **Table 7** below.

**Table 7: Forecast re-distribution of Leeds City Region Business Rates Pool surplus 2023/24**

<b>Authority</b>	<b>Net Redistributed Levy (30-April-2023) £m</b>	<b>Pool administration fee £m</b>	<b>Agreed Top Slice £m</b>	<b>Total Redistributed Levy £m</b>
Bradford	0.747			0.747
Calderdale	0.213			0.213
Kirklees	0.430			0.430
Leeds	0.854	0.050		0.904
Wakefield	0.482			0.482
York	0.767		0.200	0.967
<b>Total</b>	<b>3.494</b>	<b>0.050</b>	<b>0.200</b>	<b>3.744</b>

## 7. Recommendations

7.1. Members are recommended:

- a) To note the context and structure of the 2023/24 Leeds City Region Business Rates Pool as described in **Paragraphs 1 and 2**;
- b) To approve the Memorandum of Understanding and Terms of Reference set out in **Paragraph 3 and Appendices A and B**;
- c) To note the projected Pool income for 2023/24 as shown in **Paragraph 4**;
- d) To note the risks to retained income and of breaching safety net as described at **Paragraph 5**;
- e) To approve the payment of a £50,000 administration fee to the lead authority, Leeds City Council as shown at **paragraph 6** and,
- f) To note the projected and forecast re-distribution of Pool income to member authorities at **Paragraph 6**.