
Report to: LEEDS CITY REGION BUSINESS RATES POOL 2021/22

Date: 6th October 2021

Subject: LEEDS CITY REGION BUSINESS RATES POOL FINANCIAL REPORT

SUMMARY

This report sets out:

- a) The context in which the 2021/22 Leeds City Region Business Rates Pool has been set up;
- b) The governance arrangements and memorandum of understanding for the Leeds City Region Pool;
- c) The current position of the Leeds City Region Pool, including the estimated 2021/22 financial position and the latest income projections;
- d) The proposed allocation of funding for 2021/22;
- e) The continuation of the Leeds City Region Pool into 2022/23;

1. Introduction

- 1.1. The 2021/22 Leeds City Region Business Rates Pool was designated by Government from 1st April 2021 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.
- 1.2. Levy payments restrict the relative gains made by tariff authorities from the 50% of business rates growth above the 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 late October 2020, West Yorkshire authorities plus York and Harrogate councils agreed to make an application to pool business rates in 2021/22. In December 2020 the Government announced that this application had been successful and designated the Leeds City Region business rates from 1st April 2021.
- 1.5. This report is written at a time of heightened uncertainty about business rates income and the associated section 31 grant income retained by local authorities. Specifically, the continued impact of COVID-19 on the region's business rates tax base remains unclear, particularly on factors such as growth, the level of reliefs such as Empty Rate Relief, and the level of collection of arrears. 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 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 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
- Harrogate Borough Council
- 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.

3.2. The draft Memorandum of Understanding for a Leeds City Region 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.

3.3. 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 (October 2020), the Leeds City Region Business Rates Pool was estimated to keep £4.8 million income in the region from retained levy payments.
- 4.2. Since the application process, member authorities completed their NNDR1 forecasts of Business Rates income for the year 2020/21. At the time, January 2021, this led to an updated, latest estimate of slightly over £4.6 million. A monitoring exercise as at 31st August 2021 now estimates an increased level of income retained of £5.1m as the economy has begun to reopen since March 2021.
- 4.3. Although Business Rates income has reduced since the NNDR1 forecasts were completed in January 2021 because of the COVID-19 related reliefs announced by the Government in March 2021, the levy calculation is adjusted for the S31 compensation which has been increased to compensate authorities for these losses, the net result to the levy calculation is therefore zero for these reliefs.
- 4.4. **Table 1** below demonstrates where the levies are paid from and how this has changed from the estimated NNDR1 position. The projected levies as at 31st August 2021 are based on latest information provided by member authorities.

Table 1: Levy payments to the 2021/22 Leeds City Region BR Pool

Authority	Levy payment NNDR1 £m	Levy payment 31-Aug-21 £m
Harrogate	1.145	1.441
Leeds	0.619	0.335
York	2.802	3.297
Total	4.566	5.074

5. Risks to Pool Funding

- 5.1. The 2021/22 Leeds City Region 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' current data has increased slightly between January 2021 and August 2021, as demonstrated by the projections in **Table 1** above. However risks to the economy, particularly surrounding the ongoing coronavirus 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 high, especially if further restrictions were to be

imposed in this financial year. 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).
- 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 2022, 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 need to continue to monitor the ongoing impact of COVID-19 on collection funds and lobby Government for ongoing support to deal with the ongoing financial impact should it prove unmanageable. 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 Leeds City Region Business Rates Pool Funds

- 6.1. Notwithstanding the risks noted in section 5 above, 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 2021/22 business rates retained have been received from member authorities. **Table 2** 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 possible before threshold
Bradford	144,829,370	128,813,280	21.2%
Calderdale	42,386,154	39,061,386	11.5%
Harrogate	6,624,826	3,461,860	11.1%
Kirklees	82,521,010	76,477,763	11.3%
Leeds	162,468,446	146,551,835	9.0%
Wakefield	86,326,067	66,724,701	27.3%
York	33,914,350	24,563,396	16.9%

6.3. In previous years the predecessor joint committees have chosen to make certain payments on member authorities' behalf to meet the cost that would otherwise be borne by the member authority individually. In 2020/21 these payments were met through forward funding from the 2019/20 North & West Yorkshire 75% retention pilot. Some of this forward funding is now at an end and the committee may wish to resume this funding from shared income. These regular payments are set out in **Table 3** analysed between local authority to give a notional understanding of the benefit to each authority. It should be noted that these are the 2020/21 payments and the figures may increase when the Pool is notified of the total cost of each payment in 2021/22.

Table 3: The proposed payments on behalf of member authorities by LCR Region Business Rates Pool 2021/22

Authority	Welcome to Yorkshire subs £m	Screen Yorkshire (2022/23) £m	Lead Authority Admin fee £m
Bradford	0.019	0.030	0.006
Calderdale	0.012	0.012	0.002
Harrogate	0.010	0.003	0.002
Kirklees	0.020	0.025	0.005
Leeds	0.044	0.044	0.009
Wakefield	0.012	0.019	0.004
York	0.050	0.012	0.002
Total	0.166	0.144	0.030

6.4. If the joint committee were to approve the continued use of Pool funds to meet these payments, the total distribution of funding of funding between member authorities. is therefore as set out in Table 4 below.

Table 4: Proposed distribution of Leeds City Region Business Rates Pool 2021/22

Authority	Notional benefit from top-slice £m	Redistributed levy (31-Aug-21) £m	Total benefit from the Pool £m
Bradford	0.055	0.853	0.908
Calderdale	0.026	0.194	0.220
Harrogate	0.014	0.341	0.355
Kirklees	0.049	0.386	0.435
Leeds	0.097	0.977	1.074
Wakefield	0.034	1.289	1.324
York	0.064	0.694	0.758
Total	0.340	4.734	5.074

6.5. The joint committee is asked to consider and approve, in principle, the distribution of funding from the Pool as set out in **Table 4**.

7. The continuation of the Pool into 2022/23

7.1. On 13th September 2021 the Government emailed all authorities within the Business Rates Retention Scheme with an “Invitation to Pool” in 2022/23. The Government requires a response to this invitation by **8th October 2021**. If an existing pool wishes to continue into 2022/23 the Government has asked that the lead authority inform the Government by that date and submit its original governance documents with that confirmation.

7.2. If, however, a Pool wishes to revoke it status, or change its membership or governance arrangements, including the allocation of resources between authorities, details of this change should be sent on a proforma to Government alongside revised governance documents, also by **8th October 2021**. The joint committee should note the short timescales, should any member wish to leave the Pool, for the remaining members, if they wish, to comply with the Government’s deadlines and set up a new business rates pool. At the time of publishing this report no authority has indicated that it does not want to be considered as part of a 2022/23 Pool.

7.3. The joint committee is asked, therefore, in principle and subject to ongoing discussions, to approve the continuation of the business rates pool in 2022/23.

8. Recommendations

8.1. Members are recommended:

- a) To note the context and structure of the 2021/22 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 2021/22 as shown in **Paragraph 4**;
- d) To note the risks to retained income and of breaching safety net at **Paragraph 5**; and
- e) To note and approve in principle the proposed allocation of projected income to member authorities at **Paragraph 6**.
- f) To note the Government's deadline for submitting changes to the membership of the Pool and approve in principle the continuation of the Leeds City Region Business Rates Pool into 2022/23, with current seven member authorities of the Pool, in principle at **paragraph 7**.