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**Report to:** 2024/25 LEEDS CITY REGION BUSINESS RATES POOL JOINT COMMITTEE

**Date:** 6<sup>th</sup> September 2024

**Subject:** 2024/25 LEEDS CITY REGION BUSINESS RATES POOL FINANCIAL REPORT

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## SUMMARY

This report sets out:

- a) The context in which the 2024/25 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 provisional 2023/24 financial outturn and the proposed allocation of funding for 2023/24;
- d) The current position of the 2024/25 Leeds City Region Business Rates Pool, including the latest income projections for 2024/25;
- e) The proposed allocation of funding for 2024/25;
- f) The proposed arrangements for continuation of Leeds City Region Business Rates Pool into 2025/26.

## 1. Introduction

- 1.1. The 2024/25 Leeds City Region Business Rates Pool was designated by Government from 1<sup>st</sup> April 2024 under the 50% Business Rates Retention Scheme. The advantage of forming a business rates pool in this situation is the retention of levy payments within the region 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 2023, the five West Yorkshire authorities plus the City of York Council agreed to make an application to continue to pool business rates in 2024/25. In December 2023 the Government announced that the application had been successful and designated the 2024/25 Leeds City Region Business Rates Pool from 1<sup>st</sup> April 2024.
- 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 successful backdated appeals continues to impact non-domestic rating income following the closure of the 2017 ratings list at the end of 2022/23 and there is an ongoing impact into the new 2023 ratings list. Continued close monitoring of prior year adjustments and their effects on levy paying Authorities' contributions to the income of the pool will need to be carried out. It is in this context that the forecasts about the income to the pool from regional levy payments, discussed further at **Paragraph 5** 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 6**.

## **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 is 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 Memorandum of Understanding (MOU) for a Leeds City Region Pool is attached at **Appendix A**. This was approved by the Secretary of State during the application process for the 2024/25 pool

and is unchanged from the MOU agreed for the 2023/24 Pool. The Terms of Reference for the Joint Committee for 2024/25 can be found at **Appendix B** and are also unchanged from 2023/24.

- 3.3. The 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 will 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 re-imbursed 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 £200k 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 growth above the baseline, to continue to incentivise growth in the business rates tax base in the region,
    - 25% in proportion to individual populations of Member Authorities, to recognise the most significant driver of need,
    - 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.
    - 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,
  - D. Where the Residual Benefit of the Pool is less than £0, (i.e. where the Pool makes an overall loss) – the loss will be shared between all member authorities in proportion to their Baseline Funding Level.
- 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 2024/25 and is consistent with the distribution methodology from the previous financial year.

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

- 4.1. Provisional NNDR3 returns have been submitted to the Department for Levelling Up, Housing and Communities (Now Ministry of Housing, Communities and Local Government) and a national return has now been published by Government. This data has been used to provide an update on the closing position of the pool.
- 4.2. The provisional outturn position for the 2023/24 LCR Business Rates Pool shows a significant reduction in income to the pool compared to the last monitoring return data collected in January 2024. This is largely due to a significant reduction in Gross Rates Payable in the city of York which is due to amendments relating to previous years rates.
- 4.3. The income figures for the pool during each of the monitoring exercises are set out below in **Table 1**. Total income to the pool amounts to £2.4m, which is £1.0m lower than the £3.4m last reported to the joint committee using data collected from authorities in January 2024.

**Table 1: Provision outturn of income to the LCR Business Rates Pool for 2023/24**

| Authority    | Levy payment NNDR1<br>£m | Levy payment 31-Aug-23<br>£m | Levy payment 31-Jan-24<br>£m | Levy payment NNDR3<br>£m | Movement to NNDR1 |
|--------------|--------------------------|------------------------------|------------------------------|--------------------------|-------------------|
| Leeds        | 1.162                    | 1.013                        | 1.048                        | 1.184                    | 0.022             |
| York         | 2.582                    | 2.373                        | 2.358                        | 1.183                    | -1.399            |
| <b>Total</b> | <b>3.744</b>             | <b>3.386</b>                 | <b>3.406</b>                 | <b>2.367</b>             | <b>-1.377</b>     |

**Table 2: Provisional redistribution of income from the LCR Business Rates Pool for 2023/24**

| Authority               | Redistributed levy (NNDR1)<br>£m | Redistributed levy (31-Aug-23)<br>£m | Redistributed levy (31-Jan-24)<br>£m | Redistributed levy (NNDR3)<br>£m | Movement to NNDR1 |
|-------------------------|----------------------------------|--------------------------------------|--------------------------------------|----------------------------------|-------------------|
| Bradford                | 0.747                            | 0.696                                | 0.689                                | 0.435                            | -0.312            |
| Calderdale              | 0.213                            | 0.193                                | 0.179                                | 0.128                            | -0.085            |
| Kirklees                | 0.430                            | 0.389                                | 0.385                                | 0.256                            | -0.174            |
| Leeds                   | 0.854                            | 0.764                                | 0.774                                | 0.584                            | -0.270            |
| Wakefield               | 0.482                            | 0.390                                | 0.432                                | 0.298                            | -0.185            |
| York                    | 0.767                            | 0.704                                | 0.698                                | 0.416                            | -0.351            |
| <b>Subtotal</b>         | <b>3.494</b>                     | <b>3.136</b>                         | <b>3.156</b>                         | <b>2.117</b>                     | <b>-1.376</b>     |
| Pool administration fee | 0.050                            | 0.050                                | 0.050                                | 0.050                            |                   |
| York Topslice           | 0.200                            | 0.200                                | 0.200                                | 0.200                            |                   |
| <b>Total</b>            | <b>3.744</b>                     | <b>3.386</b>                         | <b>3.406</b>                         | <b>2.367</b>                     | <b>-1.376</b>     |

- 4.4. During 2023/24 the joint committee at the time approved the redistribution of the pool income back to member authorities in accordance with the Memorandum of Understanding in force. To remind members, the formula for redistributing income in 2023/24 is the same as the current methodology in 2024/25 which can be found in **Paragraph 3.3**.

- 4.5. There were no safety net payments due to member authorities in 2023/24. The redistribution figures for the pool during each of the monitoring exercises are set out above in **Table 2**.
- 4.6. The practice of the Pool until 2023/24 was only to distribute surplus levy payments once the final certification of the closing NNDR3 returns to Government had been completed. However, there have been long delays in the audits of Local Authority final accounts which includes the certification of NNDR3 returns.
- 4.7. In response, the 2023/24 LCR pool Joint Committee resolved that the Chief Officer - Financial Services, of Leeds City Council, in consultation with the other Section 151 officers of member authorities, be given the delegated authority to distribute the surpluses of the 2023/24 Leeds City Region business rates pool once the Chief Officer has received reasonable assurance from all the Section 151 officers that the outturn NNDR3 returns for their authority submitted to MHCLG, is a true and fair representation of members' business rates income and associated section 31 grant income. This is regardless of whether those returns can be certified upon completion of a clean audit but on the understanding that any funds will be recouped or redistributed should any subsequent changes occur.

## 5. Estimated Leeds City Region Pool Income 2024/25

- 5.1. During the application process to continue the Leeds City Region Pool into 2024/25 (October 2023) the estimate of the additional funding that could be retained in the region was £3.4m, based on 2023/24 levels of income. Since that time the member authorities submitted to Government their forecast of income for 2024/25 on the NNDR1 return in January 2024, and authorities have provided the Lead Authority with updated forecasts for June 2024, which indicate that the total income to the pool will be slightly higher, at £3.7m.
- 5.2. It should be noted however, that at this time York City Council are basing their figures on their NNDR1 return and their income figures may be subject to future revision.

**Table 3: Estimated levy payments to the 2024/25 Leeds City Region BR Pool**

| Authority    | Levy payment<br>NNDR1 2024/25<br>£m | Levy payment<br>30-Jun-24<br>£m |
|--------------|-------------------------------------|---------------------------------|
| Leeds        | 1.390                               | 1.275                           |
| York         | 2.259                               | 2.467                           |
| <b>Total</b> | <b>3.650</b>                        | <b>3.743</b>                    |

## 6. Continued Risks to Pool Funding

- 6.1. The 2024/25 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 pooling prospectus, published by the previous Government in September 2023, is clear that 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.

- 6.2. 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 costs relating to bad debt and backdated appeals 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.
- 6.3. The Memorandum of Understanding for the pool 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.
- 6.4. If the Pool in its entirety falls into safety net there would be a safety net payment from Government, but only 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.
- 6.5. 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 reduce the income available to the region.
- 6.6. In January 2024 the member authorities submitted their NNDR1 returns 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 for June 2024. **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 2024/25 before crossing safety net threshold**

| Authority  | Retained Rates income<br>£ | Safety Net threshold<br>£ | Reduction in BR income possible before threshold |
|------------|----------------------------|---------------------------|--|
| Bradford   | 158,258,735                | 138,773,825               | 12.3%  |
| Calderdale | 48,579,876                 | 42,035,913                | 13.5%  |
| Kirklees   | 93,517,616                 | 82,281,226                | 12.0%  |
| Leeds      | 194,020,324                | 159,142,932               | 18.0%  |
| Wakefield  | 99,012,403                 | 72,509,673                | 26.8%  |
| York       | 35,286,667                 | 26,662,911                | 24.4%  |

- 6.7. Notwithstanding the risks noted in **paragraph 6**, the Pool's current forecasts for 2024/25 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.

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

7.1. 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 £200,000 top-slice and then redistribute the remainder using the agreed formula.

7.2. Therefore, as at 30<sup>th</sup> June 2024, the projected income to the pool will be redistributed back to member authorities as set out in **Table 5**.

**Table 5: Forecast re-distribution of Leeds City Region Business Rates Pool surplus 2024/25**

| Authority               | Redistributed levy NNDR1 2024/25<br>£m | Redistributed levy 30-Jun-24<br>£m |
|-------------------------|--|------------------------------------|
| Bradford                | 0.740                                  | 0.786                              |
| Calderdale              | 0.199                                  | 0.205                              |
| Kirklees                | 0.415                                  | 0.410                              |
| Leeds                   | 0.899                                  | 0.866                              |
| Wakefield               | 0.475                                  | 0.493                              |
| York                    | 0.673                                  | 0.735                              |
| <b>Subtotal</b>         | <b>3.400</b>                           | <b>3.493</b>                       |
| Pool administration fee | 0.050                                  | 0.050                              |
| York Topslice           | 0.200                                  | 0.200                              |
| <b>Total</b>            | <b>3.650</b>                           | <b>3.743</b>                       |

## 8. Preparations for renewal of the Pool in 2025/26

8.1. On 4<sup>th</sup> July 2024 a new Labour Government was elected following the General Election. At the time of writing this report no confirmation has been received that 50% Business Rates pooling will continue into 2025/26. Under the previous Government the application process normally began in early September of the previous year.

8.2. However, the process for creating a pool means that the consent of each individual member Authority is required. Each member can withdraw their consent within 28 days of the Provision Local Government Finance Settlement for the relevant year. The Lead Authority proposes to begin discussions with Section 151 officers and members shortly.

## 9. Recommendations

Members are recommended:

- a) To note the context and structure of the 2024/25 Leeds City Region 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 3 and Appendices A and B**;
- c) To note the anticipated distribution 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 note the 2024/25 projected levy and forecast re-distribution of pool income to member authorities at **Paragraph 6 and 7**.
- f) To note the intended discussions to renew the Leeds City Region Business Rates Pool for 2025/26 at **Paragraph 8**.