

**Report of Director of Resources**

**Report to Executive Board**

**Date: 17<sup>th</sup> October 2012**

**Subject: Leeds City Region Business Rates Pool**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**Summary of main issues**

1. Under the Government's Business Rates Retention proposals, for 2013/14 onwards, groups of local authorities will be able to join together to pool their retained business rate income under the scheme.
2. Ministers see business rates pooling as "*a new tool to better support economic priorities...to deliver new businesses and jobs*", but with the right combination of authorities it appears to also offer direct financial benefits to authorities forming a pool.
3. The possible financial benefits of a Leeds City Region (LCR) business rates pool were identified at an early stage, and the LCR City Deal included a commitment to form a regional pool with the additional yield arising to be used to support a new regional investment fund.
4. An initial expression of interest was submitted to Government on 27<sup>th</sup> July 2012 with Leeds as the lead authority and a follow-up document listing the member authorities as Leeds, Bradford, Calderdale, Craven, Harrogate, Kirklees, Wakefield and York was submitted on 10<sup>th</sup> September 2012.
5. The final proposal with agreed governance arrangements needs to be signed off by the chief executive and the S151 officer of each authority and sent to the Department for Communities and Local Government by 9<sup>th</sup> November 2012.
6. The November proposal will not be binding. Any member of the proposed pool will be still be able to withdraw once the 2013/14 funding figures become available in the draft Local Government Finance Settlement which is due in early December 2012.

## **Recommendations**

7. Members are asked to:

- a) Approve the inclusion of Leeds within the final pooling proposal to be submitted on behalf of the Leeds City Region.
- b) Approve in principle the governance arrangements appended to this report and delegate responsibility for finalizing detailed matters to the Director of Resources.
- c) Agree that Leeds should act as the “lead authority” for the proposed pool.
- d) Agree that a further report be presented in December once the 2013/14 funding details are known so that a final decision on whether to go ahead can be taken.

### **1 Purpose of this report**

1.1 The purpose of this report is to inform Members on the development of the proposed Leeds City Region business rates pool, to outline the benefits of pooling and to seek approval for Leeds to act as “lead authority” for the LCR pool.

### **2 Background information**

2.1 At present the business rates collected by local authorities is paid into a national pool and redistributed to individual authorities in proportion to their needs and resources through Formula Grant.

2.2 The Government is planning to introduce major changes to these arrangements for 2013/14 onwards. The centrepiece of the changes is a new Business Rates Retention scheme which is designed to give local authorities a new financial incentive by allowing them to keep a proportion of any growth in their business rates locally.

2.3 The main features of Business Rates Retention were set out in a report to the Board on 2<sup>nd</sup> November 2011. The scheme is complex and many details are still not clear, but one of the new provisions will be to allow local authorities to join together to pool their business rates income under the scheme.

2.4 DCLG published a pooling prospectus in May 2012 which invited interested groups of local authorities to submit very detailed “expressions of interest” by 27<sup>th</sup> July 2012. Following representations, the pooling prospectus was reissued and the expression of interest requirements were simplified.

2.5 Following discussions at regional level, an initial expression of interest was submitted to Government on 27<sup>th</sup> July 2012 with Leeds as the lead authority and a follow-up document listing the member authorities as Leeds, Bradford, Calderdale, Craven, Harrogate, Kirklees, Wakefield and York was submitted on 10<sup>th</sup> September 2012.

### **3 Main issues**

3.1 To ensure a degree of equalisation at the start of the Business Rates Retention scheme, the Government will calculate a “business rates baseline” and a “spending baseline” for each authority. Authorities whose business rates baselines exceed their spending

baselines will pay “tariffs” to Government whereas authorities whose spending baselines exceed their business rates baselines will receive “top ups”. It appears that Leeds will be a tariff authority under the scheme.

- 3.2 Tariff authorities that grow their business rates by more than RPI will have their rewards scaled back through a system of levies. The levies will be used to help pay for “safety nets” for those authorities that suffer large losses to their business rates income from year to year.
- 3.3 In a pooling arrangement, if a combination of tariff and top-up authorities join together such that they are in overall terms a net top-up, then any real growth in business rates will avoid the levy which the tariff authorities would have otherwise incurred individually. It is this which gives rise to a potential overall benefit to the pool. The Leeds City Region pool would consist of such a mixture of authorities and latest estimates suggest that if growth across the four tariff authorities (Leeds, York, Harrogate and Craven) was 1% above inflation then additional income of over £800,000 could be achieved for the pool through levy savings in the first year (see Appendix 1). If growth can be sustained then the levy savings could build up year-on-year to around £4 million a year by 2018/19. Having said that, the estimates need to be treated with caution because that level of growth may prove difficult to achieve and the actual additional income generated will depend upon the Government’s final decisions on the details of the scheme.
- 3.4 The Government were to consult on the pooling proposals during September and final pooling proposals were due by 19<sup>th</sup> October. However, DCLG have delayed their consultation and have extended the deadline for submitting final proposals and governance arrangements to 9<sup>th</sup> November. The creation of a LCR pool was included in the City Deal agreed with Government so it is anticipated that the pooling proposal will be supported and that DCLG will formally “designate” the LCR Business Rates Pool before the end of November.
- 3.5 The pooling proposal is not binding upon any member authority. Once the 2013/14 draft Local Government Finance Settlement is published in early December, if any member of the pool wishes to withdraw they will be free to do so. However, if an authority or authorities do decide to withdraw, the remaining members will not be able to continue without them. DCLG will dissolve the pool and, because there will be insufficient time for further consultation, no new pool could be set up until the following year.
- 3.6 The proposed governance arrangements for the LCR Pool, which have been informed by comments from DCLG and some other member authorities, are set out in Appendix 2. The governance arrangements stipulate that the income received by the Pool will be shared out so that no member authority would be worse off than they would be if treated individually under the Business Rates Retention scheme. The excess income arising from reductions in levy payments will, after allowing for agreed expenses, be allocated to the Investment Fund established by the Leeds City Region.
- 3.7 The preparatory work in relation to the Pool has all been carried out by Leeds City Council so it appears to be appropriate for Leeds to act as lead authority for the LCR Pool. There will be some resource implications, but the governance arrangements allow the expenses of administering the pool to be deducted from the additional income retained.

3.8 Although no major changes are anticipated, it is possible that further minor amendments to the governance arrangements may be necessary if further comments are received before the 9<sup>th</sup> November deadline. It is therefore proposed that the Director of Resources be given delegated authority to agree any minor changes that may be required. DCLG require that the final version submitted to them by 9<sup>th</sup> November is signed off by the chief executive and S151 officer of each authority.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

4.1.1 This is a factual report and is not subject to public consultation.

### **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 The LCR Pool would create a mechanism for providing extra funding to support the regional Investment fund. That fund will provide investment across the region, but there are no specific implications for equality, diversity, cohesion or integration. A screening assessment has been carried out and is appended to this report.

### **4.3 Council policies and City Priorities**

4.3.1 This report in itself does not have direct implications for Council policies or City Priorities, but supports the wider regional priorities contained within the City Deal, particularly those relating to the new Investment Fund.

### **4.4 Resources and value for money**

4.4.1 This is a financial report and the financial and resource implications are detailed in the main body of the report.

### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 There are no legal implications arising from this report. The decision to be part of the LCR Business Rates Pool is non-binding, and can be reversed by any of the members once details of funding for 2013/14 becomes available in late November.

### **4.6 Risk Management**

4.6.1 The risks to Leeds are minimal because the governance arrangements specify that income received by the LCR pool will be shared out so that no member authority would be worse off than if they were treated individually under the Business Rates Retention scheme.

4.6.2 There remains a theoretical risk of a reduction in income for Leeds if one or more authorities in the pool suffered a substantial reduction in business rates income from year to year (See Appendix 2 section 8), but analysis suggests that the risk in the context of the LCR pool is low because the losses relating to one authority should be more than offset by levies saved in another.

## **5 Conclusions**

- 5.1 The proposed LCR pool appears to offer the prospect of significant financial benefits for the Leeds City Region, with little risk to Leeds.

## **6 Recommendations**

6.1 Members are asked to:

- a) Approve the inclusion of Leeds within the final pooling proposal to be submitted on behalf of the Leeds City Region.
- b) Approve in principle the governance arrangements appended to this report and delegate responsibility for finalizing detailed matters to the Director of Resources.
- c) Agree that Leeds should act as the “lead authority” for the proposed pool.
- d) Agree that a further report be presented in December once the 2013/14 funding details are known so that a final decision on whether to go ahead can be taken

## **7 Background documents<sup>1</sup>**

None

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<sup>1</sup> The background documents listed in this section are available to download from the Council’s website, unless they contain confidential or exempt information. The list of background documents does not include published works.