

Selby District Council

REPORT

Reference: E/14/33

Public – Item 9



To: The Executive
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Status: Key Decision
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Executive Member: Councillor C Lunn – Lead Member for Finance & Resources
Lead Officer: Karen Iveson – Executive Director (and s151)

Title: Leeds City Region Business Rates Pooling

Summary:

This report sets out the issues associated with the potential for Selby to join the Leeds City Region (LCR) Business Rates Pool.

The existing LCR pool was established from April 2013. For the year 2013/14 an additional £1.532m is expected to be retained for distribution locally.

Joining the LCR pool would mean that any levy payable by Selby as a result of business rate gains would be retained within the LCR rather than being paid over to the DCLG. Additional resources would then be available for investment within the LCR.

The risks associated with joining a business rates pool are concerned with the funding of any potential safety net payments although any loss would need to be significant and no authorities within the existing pool are expected to be in this situation.

Recommendations:

It is recommended that the Executive's views on the proposals for Business Rates pooling are reported to Council.

Reasons for recommendation

To allow the Council to meet the Government deadline for pool applications of 31 October should it be considered beneficial for the Council to join the LCR Business Rates Pool.

1. Introduction and background

- 1.1** Under the rates retention scheme, which came into effect on 1 April 2013, local authorities are able to keep a proportion of the business rates that they collect.
- 1.2** The scheme redistributes resources where authorities collect more or less than their assessed need, through a system of top-ups and tariffs. The scheme provides a target for each authority and allows a proportion of additional growth to be retained locally (with a proportion being paid to central government through a levy payment) and also provides a safety net for authorities who, in any year, see significant falls in their income from the rates retention scheme.
- 1.3** As part of the rates retention scheme, authorities can formally seek designation as a pool. This not only allows them to pool their resources under the scheme (which they could do anyway), but ensures that they are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.
- 1.4** North Yorkshire County Council and 5 of the districts in North Yorkshire (excluding Harrogate and Selby) established a pool with effect from April 2014. Selby's membership was declined due to the risks associated with the power stations. Officers have been advised that the North Yorkshire pool is expected to continue next year although Richmondshire have identified a risk to their rates income and further work to quantify this is currently underway. Officers have asked if the potential for Selby to join the North Yorkshire pool is an option for 2015/16 and we await a response from the pool authorities.
- 1.5** In 2012 there was the potential of joining the Leeds City Region (LCR) pool and but the perceived risks within the new Business Rates funding system and the benefits of being part of that pool suggested that that it was not appropriate at that time. The LCR pool is now operational and includes Harrogate & York Councils.
- 1.6** Since Selby was declined membership of the NY pool and following the steer from Council, officers have approached the LCR pool to consider the potential for Selby to join that pool. To date discussions have been positive although this would need formal agreement from the existing members and Government.

2. The Report

Leeds City Region Business Rates Pool Proposal

Procedures for creation of a business rates pool

- 2.1** The Government have produced a prospectus which contains information about pooling for the year commencing 1 April the following year. The deadline for submission of a request to form a pool is 31 October.
- 2.2** Before designating a new pool, Government will need to be assured that governance arrangements are in place and that these cover, at the least:
- the rights and obligations of pool members; including
 - how money is to be disbursed to/between pool members and how payments to central government are to be funded by the lead authority;
 - the treatment of pool balances and liabilities following the pool's dissolution.
- 2.3** Final proposals will need to be signed off by the s151 officers of each authority in the pool. A timetable is attached at Appendix A.
- 2.4** The Government reserves the right to refuse pooling proposals if there is for example an impact on the levy income needed to fund the safety net which affects the overall affordability of the rates retention scheme; or if proposals do not provide a strong, clear rationale for the proposed pool.
- 2.5** It is for local authorities to determine the geographic coverage of the pool as they will want to pool on a basis that best supports economic geography and the onus will be on the prospective pool authorities to produce a strong rationale to support their proposal.
- 2.6** Local authorities can withdraw from a designated pool before the pool comes into effect. Local authorities should be aware that once a designation has been made it cannot be amended so if a local authority chooses to exercise this option it will mean that the pool cannot continue.
- 2.7** Pools are voluntary and will continue from year to year until a designation is revoked.

The Current Position

- 2.8** As a tariff authority not in a pool we are entitled to keep up to a maximum of 50% of our rates growth above target. The 2014/15 target for Selby DC was set at £16.661m. We are currently estimating to collect £17.237m (our 40% share). This means that we estimate there will be £626k to which the levy calculation for Selby would apply. Table 1 overleaf, shows how this allocation is split.

Table1: Current allocation of business rates above target – no pool

	£'000	%	SDC Share £'000	Gov Share £'000
SDC target rates collectable	16,661			
SDC estimated rates collectable per NDR1	17,237			
Additional Rates above target	626			
Selby DC		50%	313	
Government Levy		50%		313

The Proposal

- 2.9** The proposal is for Selby to join the existing LCR pool comprising the following councils:
- Bradford City Council
 - Calderdale Council
 - Harrogate Borough Council
 - Kirklees Council
 - Leeds City Council
 - Wakefield Council
 - City of York Council
- 2.10** The current LCR pool prospectus is attached at Appendix B and it is anticipated that should approval be given for Selby to join the pool, this would be extended to include Selby. The prospectus includes the governance arrangements of the pool including the treatment of gains and losses.
- 2.11** In simple terms the pool works on the principle that no council will be worse off than if they had not been part of the pool i.e. safety net payments, if required, will be funded by the additional retained levies unless there is insufficient levies to cover the required payments. In such circumstances losses would be shared pro-rata to members 'spending baselines'.
- 2.12** Joining the LCR pool would reduce any DCLG levy payable by Selby – the levy rate of the LCR pool including Selby would be 0% (i.e. the pool as a whole is a 'top-up authority'), which based on the figures in Table 1 above, would negate Selby's levy. The impact of this is shown in Table 2.

Table 2: LCR Business Rates Pool

	£'000	%	SDC / Pool Share £'000	Gov Share £'000
SDC target rates collectable	16,611			
SDC estimated rates collectable per NDR1	17,237			
Additional Rates above target	626			
Selby DC		50%	313	
Pool		50%	313	
Government Levy		0%		0
Totals			626	0

- 2.13** If the proposal goes ahead, Selby would join the pool on 1st April 2015 and would begin contributing to the pool in 2015-16. The amount of levies that could be retained by the pool in 2015-16 is very difficult to predict at this stage, but early indications suggest that it could be in the region of £3.8m (of which £320k could be generated by Selby). Further financial modelling is being carried out to help inform any ultimate decision.

3. Legal/Financial Controls and other Policy matters

Legal Issues

- 3.1** The Council would be required to sign a formal legal agreement to join the LCR pool (see prospectus at Appendix B).

Financial Issues

- 3.2** As set out in the report.

Impact Assessment

3.3 Main risk areas for creating a business rates pool

- 3.3.1** In considering the proposal to join the LCR Business Rates Pool there are a number of risks which need considering:

- (a) Significant rateable value reductions of an authority within the pool could affect the finances of all members. This is mitigated by having provision for dissolution of the pool on an annual basis, such that any problem would then only be a one year difficulty. This shortfall would affect the Council's

collection fund, but the Council would have the opportunity to plan how to manage this shortfall. In evaluating pool members, officers will seek to minimise this risk if possible. In Selby's case this is the most significant risk due to a number of very large ratepayers in Selby District, and could mean that the inclusion of Selby in the LCR pool is not desirable for other pool members.

- (b) Non-pooled Councils currently have a safety net below which the government has confirmed the level of business rates retained will not fall. For Selby DC this is £2.026m (92.5% of the estimated collectable to be retained by SDC of ££2.190m). The creation of a pool removes the safety net and therefore the pool carries the risk of safety net payments and relies on pool gains outweighing any safety net requirements. Should this risk materialise the scheme allows for dissolution of the pool on an annual basis limiting liability to one year. Overall the LCR pool is performing well and no existing members are at imminent risk of falling into a safety net situation.
- (c) One partner requesting dissolution would require the pool to be dissolved, risking disruption and reduced revenue retention for the remaining partners if not mitigated. However, any dissolution could not take place mid-year and governance arrangements specify the protocols for giving notice.

3.4 Main benefits for creating a business rates pool

3.4.1 The benefits to the Council of joining a business rates pool include:

- (a) Retains additional money in the Leeds City Region that would otherwise have been given back to central government in the form of a levy. The additional pool receipts are retained for distribution via the LCR Local Enterprise Partnership (LEP) Investment Fund.
- (b) The Government's intention in allowing pooling is that it provides local authorities with a mechanism to deliver and promote jobs & growth and to allow for investment decisions to support economic priorities. As a small council within the LCR, Selby's ability to influence distribution may be limited, although based upon past experience of working with the LEPs, Selby has been able to lever funding into Selby District;
- (c) Encourages collaborative working across local authorities, rather than being constrained by administrative boundaries;
- (d) Allows the benefit from investment in economic growth to be shared across the wider area and helps local authorities to manage volatility in income by sharing fluctuations across budgets.

4. Conclusion

- 4.1** Based on the assessment to date, the indications are that joining the LCR Business Rates Pool would be beneficial for Selby and the City Region as a whole. However, further financial modelling is required and details of the legal agreement still need to be finalised before the end of October in order to submit an application to the Government.
- 4.2** A further report will be presented to Council in October to allow a decision to be taken.

5. Background Documents

None

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Appendices:

Appendix A – Timetable
Appendix B – LCR Business Rates Pool Prospectus (current)

Timetable – Key dates for joining the LCR Business Rates Pool

2 October 2014	Presentation of proposals to Executive including if necessary, appropriate delegation to s151 Officer Chief Exec & Leader for recommendation to Council on 24 October to proceed with Selby joining the Pool.
October 2014	Consideration by other LCR pool authorities
14 October 2013	(Subject to above) Recommendation to Council
31 October 2013	Submission of application new LCR Pool
1 November 2014 – 31 March 2015	At some point between these dates the Government will confirm agreement to the new LCR Pool.
1 April 2015	New LCR Pool commences operation



LEEDS CITY REGION BUSINESS RATES POOL

FINAL PROPOSAL – NOVEMBER 2012

1. Membership and Rationale

- 1.1 Further to the Expression of Interest submitted on 27th July and follow up letter dated 10th September, the following local authorities within the Leeds City Region confirm that they wish to seek designation as a business rates pool under the arrangements set out in the Pooling Prospectus issued by the Department for Communities and Local Government in May 2012.

Bradford City Council
Calderdale Council
Harrogate Borough Council
Kirklees Council
Leeds City Council
Wakefield Council
City of York Council

- 1.2 We believe that the Leeds City Region Business Pool will help to stimulate the economy of the region and will have a positive impact upon adjacent areas. The City Region has recently agreed a City Deal with Government and the Deal includes a commitment from member authorities that the additional financial benefits of pooling will be used to support a City Region Investment Fund. The fund will give priority to projects that maximize GVA, create jobs and contribute to carbon reduction.

2. Lead Authority

2.1 The authorities making up the LCR Pool have agreed that Leeds City Council will act as lead authority for the Pool. The contact details are:



Mike Woods
Principal Financial Manager
Resources Directorate
Leeds City Council
LEEDS
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Tel: 0113 395 1373
E-mail: mike.woods@leeds.gov.uk

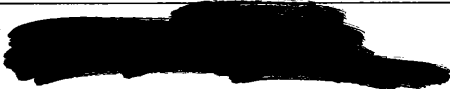

3. Governance Arrangements



3.1 The governance arrangements for the LCR Pool are set in pages 5 to 8 of this proposal.



4. Agreement and Sign Off



4.1 This Pooling Proposal and the governance arrangements set out in pages 5 to 8 are agreed on behalf of each member of the Pool as follows:



Bradford City Council		
Name: Tony Reeves	Designation: Chief Executive	
Name: Stuart McKinnon-Evans	Designation: Director of Finance and S151 Officer	



Calderdale Council		
Name: Merran McRae	Designation: Chief Executive	
Name: Pete Smith	Designation: Head of Finance	

Harrogate Borough Council		
Name: Wallace Sampson	Designation: Chief Executive	
Name: John Sowden	Designation: Director of Resources	

Kirklees Council		
Name: Adrian Lythgo	Designation: Chief Executive	
Name: David Smith	Designation: Director of Resources	

Leeds City Council		
Name: Tom Riordan	Designation: Chief Executive	
Name: Alan Gay	Designation: Director of Resources	

Wakefield Council		
Name: Joanne Roney OBE	Designation: Chief Executive	
Name: Judith Badger	Designation: Director of Finance and Property	

City of York Council		
Name: Kersten England	Designation: Chief Executive	
Name: Ian Floyd	Designation: Director of Customer & Business Support Services	

Date: 9th November 2012



LEEDS CITY REGION BUSINESS RATES POOL - GOVERNANCE ARRANGEMENTS

1 **Title**

- 1.1 The Leeds City Region Business Rates Pool.

2 **Membership**

- 2.1 Bradford City Council, Calderdale Council, Harrogate Borough Council, Kirklees Council, Leeds City Council, Wakefield Council and City of York Council.

3. **Commencement**

- 3.1 This governance document will come into force on 1st April 2013 and will continue until any one of the members formally leaves the Pool (see “Dissolving the Pool”, below).

4. **Rationale and Objectives**

- 4.1 The LCR Pool exists to benefit the individual members and to further the aims of the Leeds City Region as a whole as set out in the Regions City Deal “Unlocking our Economic Potential”.
- 4.2 The income received by the Pool will be shared out so that each member authority receives the same amount that they would if they were treated individually under the Business Rates Retention scheme. The only exception to this is set out in Section 8, below. Any 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. See City Deal for details.

4.3 Any variation to the arrangements set out in 4.2, above, will require the formal agreement of the Leadership Board.

5. **Leadership and Accountability**

5.1 The Pool will be led by a sub-committee of the Leeds City Region Leaders Board. The sub-committee will comprise of the leaders of the councils making up the Pool. The sub-committee shall be responsible for:

- any changes to the purposes for which the income received by the pool should be used, but the principle that no authority should receive less than they would if treated individually, shall be maintained;
- agreeing the expenses to be deducted by the lead authority administering the Pool;
- considering any applications for other councils to join the Pool;
- any variations to the membership of the Board; and
- any other matters relating to the administration and governance of the Pool including replacement of the lead authority.

5.2 For administrative convenience, the chair of the City Region Leaders Board will also act as chair of the City Region Pool sub-committee (but see 5.1 above).

5.3 The Leaders will meet as and when required but no less than twice each year. The meetings will be timed to coincide with those of the City Region Leaders Board (usually every two months).

5.4 The quorum for the meetings will be no less than 5 members. Leaders will be able to nominate substitutes.

5.5 Members will have equal voting rights and voting will be by simple majority. In the event of a tie, the chair of the meeting will have a casting vote.

5.6 The sub-committee will be supported by officers drawn from the lead authority.

5.7 The sub-committee may establish any sub-groups or any officer forums that they believe to be appropriate.

5.8 Minutes of the LCR Pool sub-committee meetings will be published on the LCR website.

6. **Lead Authority**

- 6.1 The initial lead authority responsible for the administration of the Pool shall be Leeds City Council.
- 6.2 The lead authority will normally act as such for a full year and may only be replaced at the year end. A lead authority wishing to relinquish the role at the year end must give a minimum of four months notice.
- 6.3 Each member of the Pool will be jointly and severally liable for any payments required to the Department for Communities and Local Government but, notwithstanding that, the lead authority will take responsibility for all matters in relation to the administration of the Pool including (but not limited to):
- all liaison with DCLG and other government departments including the completion of all forms and returns associated with the Pool;
 - administration of payments to and from the Pool and all calculations relating to the collection fund for the Pool;
 - producing an annual report showing how income has been distributed and preparing periodic monitoring reports for Pool members;
 - calculation of the costs of administering the Pool which are to be deducted from the rewards of the Pool. If the excess income generated by the Pool was insufficient to cover the administrative costs of the Pool in any year, then the shortfall would be shared between the Pool members in proportion to their spending baselines;
 - The lead authority will ensure that the pooling arrangements, annual reports and other financial information is published and is freely available on the LCR website or elsewhere as appropriate.

7. **Dissolving the Pool**

- 7.1 If any member decides to leave the Pool the regulations require that the Pool will be dissolved. Pools can only be dissolved at the end of a year.
- 7.2 Any authority seeking to leave the Pool should inform DCLG and all other members of the Pool as soon as possible. Once the Pool has been established, this must be by 30th September in any year, to allow the remaining members time to seek designation of new pool for the following year (see 7.4, below).
- 7.3 The Lead authority will make the necessary calculations and submit the required returns associated with the dissolving of the Pool.

7.4 The remaining members of the Pool may choose to form a new Pool and, if they wish, include new members for the following year (subject to new designation by DCLG).

8. Treatment of Potential Losses in Income

8.1 Authorities that suffer large reductions in business rates income from year to year (more than 7.5% to 10%, but subject to confirmation) will be entitled to safety net payments. If such an authority is a member of a business rates pool, the safety net payment could be lost because the *loss across the pool* may not be as much as the 7.5%/10% threshold. Indeed, if growth across the rest of the pool was weak, it could be that the loss of safety net payments could be greater than the amounts gained from paying reduced levies and the pool could be in deficit for the year.

8.2 Authority(s) that would otherwise have qualified for safety net(s) will have their share of pool proceeds calculated in a way to include what they would have received as a safety net payment. The loss in income to the Pool from the safety net(s) foregone in any year will be met from the income generated from other authorities within the pool not having to pay levies in that year. If that levy income is insufficient, then the net loss from the safety net foregone will be shared amongst all the members of the Pool (including those that would have otherwise qualified for a safety net payment) in proportion to their spending baselines for the year to which the safety net(s) would have applied.
