

## Report of the Cabinet Member for Corporate Services

### Leeds City Region Business Rates Pool

#### Purpose of report

1. This report provides Members with initial information as to how a Leeds City Region Business Rates pool will work and seeks approval for the Chief Executive and Director of Customer & Business Support Services (as Section 151 officer) to add their signatures to the final pool proposal submission to the Department of Communities and Local Government (DCLG).

#### Background

2. From 1 April 2013, the way Local Government is funded is changing. Under the current system, local authorities receive an annual grant settlement called Formula Grant which is made up of redistributed Business Rates and the Revenue Support Grant and is allocated based on an assessment of relative need. This is in the main funded by Business Rates that are collected by local authorities on behalf of the Government. It is very rarely the case that a local authority will receive back what it collects, e.g. York collects in the region of £90m in rates but only receives around £45m in Formula Grant.
3. Under the new funding system Business Rates are being localised, which the Government hopes will aid and incentivise economic growth at the local level. In theory, this would mean that a local authority keeps any money it collects, however as outlined above, this would result in significant winners and losers. As the system has been developed a number of significant rules have developed:
  - i) Some local authorities need more money than they collect in rates so to ensure they are not unfairly penalised, they will receive a **top up** payment,
  - ii) This will be funded by local authorities whom the Government determine collect more rates than they need in the form of a **tariff**. York will be a tariff authority.
  - iii) The Government wants to ensure that no local authority makes disproportionate gains so any growth will be subject to a **levy** which will be paid into a central pot. As York is a high tariff authority, it will have to pay over a significant levy; after Government has taken its share, projections

show that the council would only keep in the region of 25-30% of **an** growth.

iv) Equally, the Government doesn't want any local authority to lose too much money should a local major economic shock occur, so the central pot collected from levies will fund **safety net** payments.

### **Pooling Arrangements**

4. Under the developing proposals, the Government has also said that it will let local authorities group together to form into local pools. The idea behind this is that economic growth could be incentivised over a larger geographic area than that of just one authority. The main benefit to a local authority of joining a pool would be to share the risks of any volatility in income as well as the potential of removing the need for a levy payment on growth. If the net position of all of the authorities in the pool would normally result in a top up, any growth would be fully kept within the pool and distributed amongst participating authorities rather than going straight to the Government. It should be made clear that if there is a loss in the pool, each member authority would be liable to a share of that loss.
5. DCLG has sought expressions of interest from groups of authorities who may like to set up a pool. This expression of interest is to be formalised via a final proposal for each pool which is to be submitted to DCLG by 9 November 2012. The submission must contain a draft governance arrangement document and a schedule of signatures of the Chief Executive and S151 Officer for each interested authority. A Local Authority cannot express an interest in membership of more than one pool.
6. It should be stressed that signing up to a final proposal for a pool is not binding at this stage. DCLG has made it clear that a pool will not need to be finalised until after the Local Government Finance Settlement has been announced in mid December when each authority will know what its baseline for the scheme will be. Estimating the impact is difficult to predict, not least given the fact that the total amount that DCLG will have to spend on Local Government, including funding provided to local authorities, will not be formally announced until the Chancellor delivers his autumn statement at the start of December.

### **Leeds City Region Pool**

7. As part of ongoing partnership working, member authorities of the Leeds City Region including York have been assessing the benefits of involvement in a pool. It has been acknowledged that a successful pool with the region's authorities could deliver wide economic benefit and remove the levy payment to Government of the two tariff authorities involved, Leeds and York.

8. It is on this basis that Leeds City Council, as lead authority has created a proposal and set of governance arrangements on behalf of the city region in order to submit a formal expression of interest to DCLG. A copy of these is at Annex 1.
9. In relation to the mechanics of any levy payment related to growth, as set out in paragraph 4 rather than paying over in the region of two thirds of all growth to Government, the total amount of any growth in York would be paid into the pool then redistributed back across all Leeds City Region authorities depending on the final distribution mechanism. This would be the same for any growth at any other authority in the pool.
10. In order to progress to the next stage, and ensure York keeps its funding options fully open, the Chief Executive and Director of Customer & Business Support Services (as S151 Officer) require approval to sign the proposal.
11. Members should note that final involvement in the pool will only be recommended if it is of financial and economic benefit to the city. This will be determined via the financial strategy process that is currently formulating the 2013/15 budget.

### **Analysis**

12. The analysis is included in the body of the report.

### **Consultation**

13. None specific to this report.

### **Council Plan**

14. The information and issues included in this report demonstrate progress on achieving the priorities set out in the Council Plan (2011-15).

### **Implications**

15. The implications are:
  - Financial - the financial implications are dealt with in the body of the report.

### **Risk Management**

16. The risks of involvement in the pool will be fully determined, as part of the financial strategy process, before any final decision on membership is sought.

## Recommendations

17. Members are asked to:

Agree that the Chief Executive and Director of Customer & Business Support Services (as S151 Officer) sign the final pool proposal for the Leeds City Region Pool, subject to subsequent assessment once the implications of the 2013/14 Local Government Finance Settlement is known.

Reason: To ensure that York's options are kept open with how best to benefit from the localisation of business rates.

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	<b>Report Approved</b>	√	<b>Date</b> 21 October 2012
<b>Wards Affected:</b> All			
<b>For further information please contact the authors of the report</b>			

Annex 1: Leeds City Region Draft Governance Arrangements