

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 27 JUNE 2023



Title of Report	BUSINESS RATES POOLING	
Presented by	Councillor Nicholas Rushton Corporate Portfolio Holder PH Briefed <input type="checkbox" value="Y"/>	
Background Papers	NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL – Proposal for the Pooling of Business Rates – 31 October 2013 NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL Delegation of Business Rates Pooling Decisions - 18 November 2014	Public Report: Yes Key Decision: Yes
Financial Implications	<p>The report sets out the financial implications for the Council of the proposed changes to the allocation of monies from the Leicester and Leicestershire Business Rate Pool.</p> <p>North West Leicestershire has seen significant growth in business rates in the last decade and is the largest contributor to the Pool. Historically the Council has not been very successful in securing resource from the Business Rates Pool. The proposals provide the Council with an opportunity to secure a greater share of the Pool monies than it has previously. The monies received are planned to be used to finance the Council’s capital investment programme.</p> <p>Signed off by the Deputy Section 151 Officer: Yes</p>	
Legal Implications	<p>With local enterprise partnerships being abolished, the current agreement for the pooling arrangement is no longer fit for purpose and it will not be possible to operate under those provisions in the agreement in the near future. It is therefore necessary to agree an alternative mechanism and revise the agreement accordingly.</p> <p>Signed off by the Monitoring Officer: Yes</p>	
Staffing and Corporate Implications	<p>There are no direct staffing implications arising from the report.</p> <p>The Leicester and Leicestershire Business Rates Pool includes all District Council’s in Leicestershire as well as Leicester City Council and Leicestershire County Council. A</p>	

	key issue when considering the recommendations is that the partnership and joint working implications are recognised.
	Signed off by the Head of Paid Service: Yes
Purpose of Report	To consider and agree the revised distribution methodology for the Leicester and Leicestershire Business Rates Pool.
Reason for Decision	To approve the revised distribution methodology for the Leicester and Leicestershire Business Rates Pool
Recommendations	<p>CABINET IS REQUESTED TO:</p> <ol style="list-style-type: none"> 1. CONFIRM THAT THE COUNCIL CONTINUES TO BE A MEMBER OF THE LEICESTER AND LEICESTERSHIRE BUSINESS RATES POOL 2. AGREE THE PROPOSED NEW DISTRIBUTION METHODOLOGY FOR THE LEICESTER AND LEICESTERSHIRE BUSINESS RATES POOL OF LEICESTER CITY COUNCIL (ONE THIRD), LEICESTERSHIRE COUNTY COUNCIL (ONE THIRD) AND ALL DISTRICT COUNCILS (ONE THIRD) FOR THE POOLING BALANCES IN 2020/21, 2021/22, 2022/23, 2023/24 AND 2024/25 3. AGREE THE PROPOSED NEW DISTRIBUTION METHODOLOGY FOR ALLOCATING THE DISTRICT COUNCIL'S SHARE OF THE BUSINESS RATES POOL AS SET OUT IN PARAGRAPHS 4.3 AND 4.4 FOR THE POOLING BALANCES IN 2020/21, 2021/22, 2022/23, 2023/24 AND 2024/25 4. ENDORSE THE PRINCIPLE THAT THE DATA UNDERPINNING THE METHODOLOGY FOR ALLOCATION THE DISTRICT SHARE IS UPDATED ON AN ANNUAL BASIS 5. AGREE FROM 2025/26 THERE WILL BE AN ANNUAL REVIEW OF THE COUNCIL'S PARTICIPATION IN THE LEICESTER AND LEICESTERSHIRE BUSINESS POOL 6. DELEGATE TO THE CHIEF EXECUTIVE, IN CONSULTATION WITH THE CHIEF FINANCE OFFICER AND LEADER OF THE COUNCIL, TO APPROVE ANY AGREEMENTS NECESSARY TO GIVE EFFECT TO THE NEW DISTRIBUTION METHODOLOGY.

1.0 BACKGROUND

- 1.1 The Council has been a member of the Leicester and Leicestershire Business Rates Pool, whilst it has operated, since its inception in 2013.
- 1.2 Up until the financial year 2019/20, the additional business rates funding retained by being a member of the Pool has been handed over to the Leicester and Leicestershire Enterprise Partnership (LLEP) and then bids made for the funding from those authorities in the Pool. This is in line with the current business rate pooling agreement.
- 1.3 To date, the Pool has provided funding of in excess of £24m for a range of LLEP projects across Leicestershire. If this funding source had not been available, it is likely that these projects would not have taken place.
- 1.4 From the financial year 2020/21, this money has no longer been distributed in this way and has been held pending agreement between Leicester City Council, Leicestershire County Council and the Leicestershire District Council's, as to how this is to be distributed both amongst the councils and then at district level.
- 1.5 Following the Chancellor's recent announcement that Local Enterprise Partnerships will be abolished, it will be necessary to amend the administration of the pool and following discussions, agreement has now been reached as to the most appropriate distribution of the funds collected to date. This report sets out the implications arising from this approach.

2.0 BUSINESS RATES POOLING – HOW IT WORKS

- 2.1 The Government introduced a new system for distributing business rates income in April 2013, enabling councils to retain a share of the net growth in business rates in their area on a 50/50 basis with the Government. The "local share" is then distributed 40% to districts, 9% to Counties and 1% to Fire and Rescue Authorities in two-tier local government areas.
- 2.2 If councils kept all of their share of business rates income collected some would have a much larger amount than they need to deliver services and others would have too little. Therefore, under the current system those with more business rates income than their baseline funding allocation calculated by the Government pay a "tariff" and those with too little income will receive a "top-up".
- 2.3 Tariffs and top-ups are inflated each year according to the retail prices index factor applied to business rate bills. As North West Leicestershire collects all the business rates for the District it is an authority liable to pay a tariff.
- 2.4 In addition to tariffs and top-ups, there is a further system of levies and safety nets which is intended to ensure that authorities with large tax bases do not benefit disproportionately and that losses due to reductions in business rates are limited by a safety net arrangement.
- 2.5 North West Leicestershire District Council pays a 50% levy on its 40% share and benefits from a safety net which stops the Council's business rates income falling by more than 7.5%.

- 2.6 The legislation allows for local authorities to form pools with other authorities in its area (the Sub-Region) for the purposes of business rate retention. In periods when Business Rates income is rising it is beneficial for the sub region to “pool” business rates as this means that the Pool overall would not pay a levy to the Government allowing these funds to be retained in the sub region.
- 2.7 This is achieved because the County Council and the City Council as “top-up” authorities do not pay levies on additional Business Rates. Pooling with these authorities creates a mutually beneficial arrangement whereby more income is retained locally. The intention of all rates pools is that for a given geographical area it is able to retain business rates income generated locally. If a pool is not in place, 50% of growth above each councils’ rates baseline would be paid to central government. However, where a pool is in place the non-pool government share is retained within the pool to fund locally agreed priorities.
- 2.8 It should be noted that pools only work if there are “top-up” councils within it; these are authorities where their funding baseline exceeds their rates baseline i.e. they generate insufficient business rates to meet their funding need. For the Leicestershire Pool there are three top-up councils, namely Leicestershire County, Leicester City and Fire. On the other hand, “tariff” councils are those where they generate more rates than their funding baseline, this is all district councils within Leicestershire.

3.0 THE EXISTING DISTRIBUTION OF THE POOL

- 3.1 In the period whilst the Pool has been operating, up to 2023/24, it has generated an estimated total of £75-80m of additional funding for the councils in Leicestershire. If the Pool had not been in operation these monies would have been returned to Government and not been available for investment locally.
- 3.2 The Pool is governed by an Agreement and sets out how the surplus monies of the Pool are distributed amongst the councils. The following text is an extract from the Agreement regarding the allocation of surplus monies:
- “the balance shall be paid to the LLEP Lead Authority. This is on the basis that all Authorities are represented, engaged and focussed within the LLEP. The balance will be managed through the LLEP to be available for priority economic projects across the LLEP area. Only Authorities within the pool would be entitled to produce bids to access these pooled funds in accordance with the LLEP’s governance or administrative arrangements. The authorities will approve a process for distribution of the balance”.*
- 3.3 In the period of the Pool’s operation up to the 2019/20 financial year the Pool generated, from all council’s, over £24m of additional monies for the local area. The Leicester and Leicestershire Enterprise Partnership (LLEP) allocated these monies to a range of projects across Leicester and Leicestershire.
- 3.4 North West Leicestershire District Council was successful in being allocated £500,000 from the LLEP for the Kegworth Public Realm Project.
- 3.5 Since the 2020/21 financial year no monies have been allocated to LLEP projects. The monies generated from the Pool have been held pending agreement on how to distribute the surplus.

4.0 THE PROPOSED NEW DISTRIBUTION OF THE POOL

4.1 During the four-year period 2020/21 to 2023/24 it is estimated that the Pool has generated an estimated surplus in excess of £50m. There have been on-going discussions in recent years regarding the distribution of these monies.

4.2 Following the outcome of these discussions it is proposed that the following distribution methodology be used:

- Monies are split on a one third basis between the councils in the Pool on the basis of Leicester City Council (one third), Leicestershire County Council (one third) and all district councils (one third).
- The district council one third share is distributed amongst the seven district council's using a hybrid model which takes into account a range of local factors.

4.3 The district council share would be distributed using a hybrid model which takes into account the following factors:

- Contributions to the Pool
- 1/7 equal shares
- Business Rates Rateable Values
- Index of Multiple Deprivation
- Population

4.4 The underlying data which drives each of the factors in the district council distribution methodology would be updated on an annual basis.

4.5 There have been a wide range of options considered for the district council distribution methodology. Each of these options have been modelled to assess the financial impact for each council. The proposed distribution methodology is considered a 'fair' and 'best fit' approach that all councils could sign up to.

5.0 FINANCIAL IMPLICATIONS

5.1 North West Leicestershire District Council has seen significant growth, the largest in Leicestershire, in its Business Rates since 2013. It has benefited from this growth with additional funding being generated from its share of business rates funding that has not gone into the Pool. These monies have been used to support on-going service provision and being invested in the Capital Programme.

5.2 In addition to the share of Business Rates funding received directly by North West Leicestershire District Council it has generated monies for the Pool. The table below summaries the position for the Pool:

Period	Estimated Contributions to the Pool from NWL Area	Monies Received by NWLDC from LLEP	Estimated Monies for NWLDC using proposed distribution
2013/14 to 2019/20	£9.8m	£0.5m	n/a
2020/21 to 2023/24	£23.9m	n/a	£4.0m
Total	£33.7m	£0.5m	£4.0m

Notes:

- The second column shows estimated contributions to the Pool are from the North West Leicestershire (NWL) area, this does not mean these monies are all due to the Council.
- The third and fourth columns shows the monies received by, or estimated to be received by the Council.

5.3 During the period the Pool has been in operation is it estimated business rates growth generated in North West Leicestershire has contributed an estimated £33.7m into the Pool. It has received £0.5m from LLEP funding for the Kegworth Public Realm Project and is estimated to receive £4m from the proposed distribution methodology for the period 2020/21 to 2023/24.

5.4 In line with the Council's financial strategy the monies received from the Pool would be used to fund schemes within the Council's Capital Programme. The funding assumptions for the Capital Programme agreed by Council in February 2023 include anticipated monies from the Pool to deliver the Programme.

6.0 CONSIDERATIONS

6.1 It is clear from the financial analysis the business rates growth in North West Leicestershire has been significant, and that under the current distribution methodology the Council has, relative to its contribution, not been successful in securing funding from the LLEP.

6.2 The proposed new distribution methodology enables the Council to receive a much greater share of the business rates growth it generates for the Pool.

6.3 It could be argued that the Council should receive an even greater share of the monies it contributes into the Pool. However, there are a number of factors that need to be recognised as to why this is not practical, including:

- The starting point of the existing arrangements where all monies are 'pooled' for the collective investment across Leicester and Leicestershire.
- A new distribution methodology needs to provide a 'fair' outcome for all councils.
- The Pool would not be able to operate without the 'top up' authority status both Leicester City Council and Leicestershire County Council provide.
- It is not value for money to have in excess of £50m held in the Pool. This money needs to be invested in local service provision.

6.4 It is important an agreement on the distribution of these monies amongst councils is reached as the monies generated are currently not adding any value to the residents and businesses of Leicester and Leicestershire.

6.5 The proposed distribution has been the subject of protracted on-going discussions over the last few years. The outcome represents a pragmatic solution from all councils to release the monies for investment in local services.

6.6 For the Pool to continue in its current form with involvement of all councils in Leicestershire it is important each council agrees to the proposed methodology. All council's with the exception of the County Council and North West Leicestershire District Council have already approved the proposed distribution methodology through their relevant governance processes. The County Council is due to consider the proposed distribution methodology at its Cabinet meeting on 23 June 2023.

- 6.7 The proposed distribution methodology is a fundamental change to the Pool and the way it was designed to operate when it was established. As such the Agreement that underpins the Pool will need to be updated to reflect any changes to the way in which monies are distributed. This report requests that delegation is provided to the Chief Executive, in consultation with the Chief Finance Officer and Leader of the Council, to approve any necessary agreements on behalf of the Council to give effect to the new methodology.
- 6.8 The current Agreement underpinning the Pool requires councils to commit to being part of the Pool by the 30 June in the preceding financial year of the Pool's operations. For example participation in the Pool for the 2025/26 financial year is required by 30 June 2024. The timing will be important for when the Council considers its participation. It is advised the appropriate time to do this would be part of the budget and medium term planning process that concludes in February each year. This would provide sufficient time to provide certainty to other participating councils and improve certainty in the Council's financial planning.

7.0 Risks

- 7.1 The key risks and mitigations arising from this report are:

Risk	Mitigation
The Pool collapses due to all councils not being able to agree and unable to create a new Pool leading to future Pool benefits returning to Government	The proposed approach is a negotiated approach involving all councils in Leicestershire. Once all councils have signed up to the proposed distribution approach it will mitigate the risk of the Pool collapsing. If the current Pool did collapse the Council could work to create a new Pool. However, there is no guarantee Government would sign off the creation of the new Pool.
Growth in North West Leicestershire happening and not enough monies to fund infrastructure required	Currently the Council has not been overly successful in securing resource from the Business Rates Pool from the LLEP. The proposed distribution methodology secures the Council a proportion of monies from the Pool.
The Pooling benefits reduce when the Government undertake a national Business Rates Reset	This is a risk outside the Council's control. The Council should continue its current financial strategy of using the additional proceeds from business rates growth to finance the Council's capital and one off investment programmes. This will ensure the Council does not over commit its on-going revenue budgets and risk its financial stability. A national reset would also lead to a reduction in the level of monies received by the Council, and all other councils, from the Pool.
Reputational issues for the Council with	The mitigations against reputational risk

other councils in Leicestershire	are set out in the proposals in the report and above in the aforementioned risks. The Council has worked extensively with all councils in Leicestershire to maintain positive relationships and minimise any reputational issues.
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Policies and other considerations, as appropriate	
Council Priorities:	<ul style="list-style-type: none"> - Supporting Coalville to be a more vibrant, family-friendly town - Support for businesses and helping people into local jobs - Developing a clean and green district - Local people live in high quality, affordable homes - Our communities are safe, healthy and connected
Policy Considerations:	Monies arising from the Pool are being used to fund the Capital Programme approved by Council in February 2023.
Safeguarding:	There are no direct safeguarding considerations arising from the report.
Equalities/Diversity:	There are no direct equalities/diversity considerations arising from the report.
Customer Impact:	There are no direct customer impacts arising from the report.
Economic and Social Impact:	There are no direct economic or social impacts arising from the report.
Environment and Climate Change:	There are no direct environment and climate change impacts arising from the report. as a result of the decision.
Consultation/Community/Tenant Engagement:	Extensive negotiation and engagement has been undertaken with all councils in Leicestershire to develop the proposed Pool distribution methodology.
Risks:	The key risks are outlined in Section 7 of the Report.
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