



CABINET – 23 JUNE 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LEICESTER AND LEICESTERSHIRE BUSINESS RATES POOL

PART A

Purpose of the Report

1. The purpose of this report is to update the Cabinet on the performance of the Leicester and Leicestershire Business Rate Pool (the Pool), the associated distributions, and the changes required to the pooling agreement.
2. The Business Rates Retention System, which has been in operation since 2013 enables local authorities to enter into pools and retain net surpluses. Following recent changes, outlined in this report, it has been agreed the surplus will be distributed on a one third basis to Leicester City Council, the County Council and the Leicestershire district councils collectively.

Recommendations

3. It is recommended that:
 - (a) The change to the distribution mechanism for the gains from the Leicester and Leicestershire Business Rate Pool (the Pool) be noted;
 - (b) The Council's share of the gains from the Pool be allocated through the annual Medium Term Financial Strategy (MTFS) process with effect from the 2024/2025 financial year;
 - (c) In the event that the Council's share of gains from the Pool for 2023/2024 is received before the next MTFS is approved, an initial allocation of £7.5m be made towards capital works on Zouch Bridge;
 - (d) From the 2024/25 financial year onwards the Council will:
 - (i) only commit to arrangements for the allocation of gains from the Pool for a single year;
 - (ii) not accept less than one-third of the available funding;
 - (e) The Director of Corporate Resources, following consultation with the Cabinet Lead Member for Resources, be authorised:

- (i) to approve governance arrangements for the Pool from 2024/2025; and
- (ii) in consultation with the Director of Law and Governance, to approve the associated legal agreements.

Reasons for Recommendations

4. The current agreement for the Pool requires the Leicester and Leicestershire Enterprise Partnership (LLEP) to distribute gains for priority economic projects. Following the Chancellor's Budget in March 2023, the LLEP responsibilities will transfer to local authorities by April 2024, necessitating a new agreement.
5. The LLEP had historically required councils to submit bids for funding for specific projects, the preference for all participants in the Pool is to move to fixed cash allocations, to reduce the administrative burden.
6. The Leicester, Leicestershire Pool partners have agreed that gains up to and including 2023/24, that have not been distributed by the LLEP, are to be distributed on a one third basis to the City Council, County Council and the District Councils collectively.
7. Revising the agreement will support the smooth operation of the Pool.

Timetable for Decisions (including Scrutiny)

8. The current agreement for the Pool requires any authority who wishes to withdraw to notify other authorities by 30th June 2023.
9. The Department for Levelling Up, Housing and Communities (DHLUC) must be notified of any changes to pooling arrangements by 30th October each year.
10. DHLUC must be notified within 28 days from the draft Local Government Finance Settlement if the Pool is to be discontinued.

Policy Framework and Previous Decisions

11. In October 2012 Cabinet approved the County Council's participation in the Pool, with Leicester City Council, all Leicestershire district councils and the Leicester, Leicestershire and Rutland Fire Authority.
12. As part of the MTFs the Director of Corporate Resources, following consultation with the Cabinet Lead Member for Resources, is authorised to decide on the appropriate course of action regarding the Pool each year.

Resource Implications

13. The Pool has increased the amount of Business Rates that have been retained locally, rather than being returned to the Government, by £73m between April 2013 and March 2023. (A further potential surplus of £19m is forecast in 2023/24).
14. Of the £73m retained rates; £32m has been allocated to the LLEP (£30m of this funding has been committed to projects through a bidding process. The balance has

used for the LLEP's management fee, to administer the process, and to fulfil the match-funding requirement for the LLEP's core funding.)

15. The Pool holds a £2m contingency, to mitigate the impact of unforeseen reductions in Business Rates. Subject to External Audit of the district council year-end returns, this is expected to leave a balance of £39m to be allocated for Pool gains to the end of 2022/23.
16. The County Council's share of the Pool gains, on a one third basis, to the end of 2022/23 is expected to be £13m. A further £6m is estimated to be received relating to 2023/24, although this will not be distributed until 2024/25.
17. The Local Government Finance Settlement in December 2022 confirmed that Government has delayed the reset of the Business Rate retention system until 2025/26. When the system is reset it will result in all councils losing their share of accumulated growth. Under current MTFs assumptions for the County Council this amounts to £7m per annum of income, and the overall Pool gains would be reduced to £2m to £3m based upon historic growth.
18. Due to the time-limited nature of funding that the County Council will receive from the Pool it is better suited to supporting projects, rather than making on-going service commitments. Allocating funding through the MTFs process will allow the best prioritisation decisions to be made. However, between £7m and £13m could be received before the MTFs is refreshed. It is recommended that an initial allocation of £7.5m is made to contribution towards essential capital works at Zouch Bridge.

Circulation under the Local Issues Alert Procedure

19. None.

Officers to Contact

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PART B

Background

20. The Government introduced the Business Rates Retention System from April 2013 and as part of these changes Local Authorities were able to enter into Pools for levy and safety net purposes. Net surpluses are retained locally rather than being returned to the Government as would have been the case if no pool had existed.
21. Under the scheme, local authorities can voluntarily come together to pool business rates, giving the ability to generate additional income through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area.
22. The Government's stated intention is that this would act as an incentive for local authorities to work with their business community to grow local economies.
23. There is a financial risk associated with pooling as the Government's "safety-net" protection, against falls in business rates, operates at a pool rather than authority level. However, the significant increase in Business Rates collected in Leicestershire has eliminated the risk in all but the most extreme economic scenarios.
24. The Leicester and Leicestershire Pool is one of 22 that operate nationally and has been in place for all years except 2014/15.
25. The Government had intended to reset the system periodically to limit the size of gains. This has not happened since the introduction of the retention scheme allowing the gains from the Pool to become significant.

Allocation

26. At the formation of the Pool the LLEP had been identified by all partners as the preferred organisation to distribute retained gains. The LLEP has distributed funding using three rounds of competitive bidding. Whilst using a bidding approach to allocating funding to projects should ensure effective prioritisation it is, by its nature, expensive and slow to operate. With the LLEPs not expected to exist after March 2024 all partners have agreed to distribute funding using a fixed monetary allocation with prioritisation taking place by each organisation independently.
27. The LLEP's bidding process has resulted in roughly one third of the funding being allocated to projects within each of the City Council, County Council, and the District Councils collectively. This equal distribution was a result of the bidding process and not a pre-agreed outcome.
28. Partners have been discussing options on how to allocate future Pool gains and balances not yet distributed to the LLEP. Leicester City Council's preferred approach for future allocations is to maintain the one-third splits. Whilst this has the advantage of simplicity it does not reflect where economic growth is expected to have an impact on the sub-region.

29. Due to the significant financial impact that economic growth has on public services, for example roads infrastructure, the County Council's preference is for allocations to reflect where economic growth is likely to arise. Following analysis of a range of economic growth indicators the County Council considered an allocation of 22% to Leicester City Council and 78% to the County authorities would be more appropriate, not least because this reflects the 19,000 unmet housing need from Leicester that will require significant public sector investment in infrastructure.
30. Delivery of Local Plans is a shared problem for the County Council and district councils. With high levels of housing growth required the infrastructure requirements are significant. To reflect this the County Council proposed that the district council allocation should be 26%, and the entirety of the County Council allocation would be ringfenced for infrastructure to support Local Plans across Leicestershire, including consultation with districts on its use.
31. The County Council did not gain support for the proposal, which it considered represents a missed opportunity to direct funding towards an issue that concerns all authorities and consequently the residents of Leicester and Leicestershire. However, it does increase the flexibility afforded to the County Council when deciding how to use its share of the gain.
32. In order that progress can be made and to allow the gains from the Pool to be distributed, the County Council has reluctantly agreed to one-third splits for all years up to and including 2023/24. It is recommended that for future financial years the County Council only commits to a single year at a time and does not accept less than one-third of the available funding.
33. The Council was not successful in its bid to the Government's Levelling Up Fund for the replacement of Zouch bridge. The need for improvements works will increase with the passage of time and with no alternative funding streams currently available it is recommended that an initial allocation of £7.5m, from the pool gains, be made towards essential capital works.

Equality and Human Rights Implications

34. There are no direct equality or human rights implications arising from the recommendations in this report.

Background Papers

Report to the Cabinet on 16 October 2012 – “Business Rates Pooling” - <https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=3395&Ver=4>

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