



Cabinet

21 June 2023

Report of: Councillor Sarah Cox - Portfolio Holder for Corporate Finance, Property and Resources

Leicester and Leicestershire Business Rates Pool

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| Corporate Priority: | Great council |
| Relevant Ward Member(s): | All |
| Date of consultation with Ward Member(s): | N/A |
| Exempt Information: | No |
| Key Decision: | Yes b) Making savings or generate income of £50,000 or more |
| Subject to call-in: | Yes |

1 Summary

- 1.1 To update cabinet on the latest position regarding the Leicester and Leicestershire business Rates Pool and the funding allocated to the Council for the period 2020/21 to 2023/24
- 1.2 Up until 2020/21 monies retained in Leicestershire through the operation of the business rates pool have been passported to the Leicestershire Local Enterprise Partnership (LLEP) who have allocated these through a bidding process. This is in line with the current agreement. In a recent announcement, the Government confirmed their intention to abolish Local Enterprise Partnerships which will necessitate a change to the Pool and in due course a revised agreement will be needed. As a result of these impending changes, from the financial year 2020/21, it has been agreed that the allocation should be determined via a formula between the various tiers and then between districts. This results in an amount due to the Council which will be used to support corporate and economic priorities and replenish reserves used to support previous and current expenditure.
- 1.3 In view of the changes in the status of the LLEP, the report also seeks delegated authority to vary the pooling agreement for later years should this be necessary following discussions with other partners.

2 Recommendation(s)

That Cabinet:

- 2.1 **Notes the allocation of funding for the period 2020/21 to 2023/24 which, after allowing for interest paid, will be allocated to the Corporate Priorities Reserve.**
- 2.2 **Delegates authority to the Chief Executive, in consultation with the Leader of the Council, to exercise the Council's vote in reaching agreement for the allocation of funding for 2024/25 and future years.**
- 2.3 **Delegates authority to the Director for Corporate Services in consultation with the Leader of the Council, to make any future amendments to the pooling agreement.**

3 Reason for Recommendations

- 3.1 To ensure there is transparency regarding the funding received by the council through the distribution of the business rates pool.
- 3.2 To enable sufficient flexibility to vary the business rates pooling agreement going forward by delegating this to an officer in consultation with the lead member.

4 Background

- 4.1 The council has been a member of the Leicester and Leicestershire Business rates pool, whilst it has operated, since its inception in 2013. Up until the financial year 2019/20 retained funding has been handed over to the LLEP and then bids made for the funding from those authorities in the pool. This is in line with the current agreement. 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 councils, as to how this is to be distributed both amongst the 3 tiers and then at district level.
- 4.2 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.

5 Main Considerations

- 5.1 Since the pool was set up the amount to be distributed has increased and for the 2023/24 year alone the total annual amount of £19m is estimated as being available for distribution. In addition there is the funding for prior years from 2020/21 also available to distribute.
- 5.2 Negotiations between all parties have been protracted but the final agreement is for a 3 way equal split between the districts, city and county. The districts have then agreed a hybrid model for distribution of the district third which includes a blend of equal share, level of contribution to the pool, the level of rateable value, the index of multiple deprivation, and population. This agreement is for the four financial years 2020/21 to 2023/24 only.

- 5.3 The pooling agreement requires that any funding is utilised for the purpose of economic activities and the Director for Corporate Services as the S151 officer will be required to testify to this. With the level of historic and annual spend in this area this is not considered an issue and records will be compiled demonstrating this requirement has been met.
- 5.4 Business Rates Pools continue unless any one or more member wishes to withdraw. The government will then dissolve the pool by revoking the designation by which it was set up. The pool, whilst needing the districts to enable the surpluses to be generated as they are tariff authorities, also needs the city and county as top up authorities to enable surpluses to be retained locally.
- 5.5 At the present time there is no agreement for the basis of distribution beyond the financial year 2023/24. There is a risk that some members of the pool may withdraw if an agreement is not reached which would result in the current pool being dissolved. An alternative pool could be formed, and an application made to the government at the appropriate time, however with the future uncertainty relating to business rates retention it is not certain that a reconfigured pool would be approved. This would result in considerable revenue currently retained within the Leicestershire area having to be returned to central government.
- 5.6 Regardless of the position within Leicestershire such funding will only be available whilst the current business rates system exists. The Government has discussed changes several times, but this does keep getting pushed further into the future.

6 Options Considered

- 6.1 To not agree to the split and receipt of the allocated funding. This would delay the distribution of funding to all parties and it is unlikely any other option would gain the mutual agreement of everyone in the pool.

7 Consultation

- 7.1 N/A

8 Next Steps – Implementation and Communication

- 8.1 The Director for Corporate Services will ensure appropriate processes are in place to ensure spend on economic activities is in line with the level of funding received.
- 8.2 Finance Officers across the pool will continue to work on the necessary calculations to finalise the amount to be distributed and the distribution itself. It is anticipated that allocations from the earlier years should start to be distributed over the Summer with later years to follow as accounts are finalised.
- 8.3 Negotiations will continue with other members of the pool over the position moving forward in order to secure the most economic advantageous outcome as possible for the area and for this council.

9 Financial Implications

- 9.1 The financial position of the pool and amounts available for distribution are determined by the year end business rates returns submitted to central government. These returns are then audited by external audit as part of the year end statement of accounts audit. Following any required adjustments payments are then made to/from the district councils as the billing authority to the various bodies. Retained pool funding is then held by Leicestershire County Council (LCC) as the accountable body for the pool before it was in the past passported to the LLEP when released for distribution. With such sizeable amounts involved LCC allocated interest to the pool to recognise the financial benefit of holding the sums involved.
- 9.2 Due to the widespread delays in finalising the audit of accounts for 2020/21 and 2021/22 funding that is due to the pool has been sitting with the district councils. Therefore, the council will need to allocate and pay over interest earned on these balances at the time the money is handed over for distribution in line with the agreed formula. This interest has not been budgeted and accounted for.
- 9.3 In addition, it should be noted that until audits are finalised for all members of the pool for the period 2020/21 to 2023/24 the final amounts for distribution are provisional and will be subject to variation.
- 9.4 Subject to these provisions the amount estimated to be allocated to the council for the 4 year period is £1.6m. This is likely to be paid in stages depending on the position regarding final accounts sign off with earlier years issued imminently and any adjustments from final audits adjusted in later years amounts.
- 9.5 It is intended that these amounts, less any interest payment, be added to the Corporate Priorities Reserve to replenish past expenditure incurred on economic priorities. This will then be available to use in line with the purpose and intention of the reserve which primarily is for non-recurring revenue or capital expenditure that meets the council's priorities.
- 9.6 The inability to reach an agreement on the 2024/25 and later financial years is disappointing as this means that until this is resolved any potential future funding stream is uncertain. As such the council's future financial sustainability is still uncertain as this funding stream cannot be budgeted for. Therefore, despite the potential for a large funding stream that could cover costs currently being incurred on economic priorities the medium term financial strategy still contains a sizeable resource gap that needs to be addressed.
- 9.7 The report seeks a delegation to enable officers, in consultation with the Leader, to negotiate on behalf of the council to secure an appropriate allocation going forward.

Financial Implications reviewed by: Director for Corporate Services

10 Legal and Governance Implications

- 10.1 The funding was allocated under the existing signed agreement.
- 10.2 Should the pool continue It is likely the agreement will be updated and therefore delegated authority is requested to enable any new agreement to be approved by the Director for Corporate services in consultation with the Portfolio Holder for Corporate Finance, Property and Resources.

Legal Implications reviewed by: Alison McKane, Interim Assistant Director for Governance & Democracy

11 Equality and Safeguarding Implications

11.1 None

12 Data Protection Implications (Mandatory)

12.1 A Data Protection Impact Assessments (DPIA) has not been completed because there are no risks/issues to the rights and freedoms of natural persons.

13 Community Safety Implications

13.1 None

14 Environmental and Climate Change Implications

14.1 None

15 Other Implications (where significant)

15.1 None

16 Risk & Mitigation

| Risk No | Risk Description | Likelihood | Impact | Risk |
|---------|--|-------------|----------|-------------|
| 1 | Failure to agree on new pooling arrangement results in business rates pool not continuing from 2024/25 resulting in loss of income to the area | Significant | Critical | Medium Risk |
| 2 | Pooling agreement reached for 2024/25 onwards results in minimal gain to the Council or gain too restrictive to support corporate priorities | High | Critical | High Risk |

| | | Impact / Consequences | | | |
|------------|---------------------|-----------------------|----------|----------|--------------|
| | | Negligible | Marginal | Critical | Catastrophic |
| Likelihood | Score/ definition | 1 | 2 | 3 | 4 |
| | 6 Very High | | | | |
| | 5 High | | | 2 | |
| | 4 Significant | | | 1 | |
| | 3 Low | | | | |
| | 2 Very Low | | | | |
| | 1 Almost impossible | | | | |

| Risk No | Mitigation |
|----------------|--|
| 1 and 2 | Will continue to represent the Council in discussion with partners to using appropriate data to support the interests of Leicestershire and Melton's position within it. |

17 Background Papers

17.1 None

18 Appendices

18.1 None

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