**APPENDIX 2**

## BUSINESS RATES RETENTION AND POOLING 2023-24

### 1.0 Background

1.1 The Local Business Rate retention scheme came into effect from 2013/14 as part of the changes to Local Government funding in the Local Government Finance Act 2012.

1.2 In essence, the scheme allowed Local Government to keep 50% of any Business Rate growth from its baseline position. For Hackney and all other London Boroughs the remaining 50% share was split on a 60/40 basis with the Greater London Authority (GLA). In 2017/18 these proportions were amended to the following distribution of all business rates collected: - the GLA 37%; Central Government 33% and London Boroughs 30%.

1.3 A change to the system was made in 2018/19 with the introduction of the London 100% Business Rates Retention and Pooling Pilot scheme. Under this scheme Hackney retained 64% of the rates raised and the GLA kept 36% with no Government share; plus a share of any growth achieved by the two councils.

1.4 Yet another change was made in 2019/20 with the introduction of a 75% London Business Rates Retention and Pooling Pilot scheme. Under this scheme, Hackney retained 48% of the rates raised, the GLA retained 27% and Central Government 25%. In both 2020/21 and 2021/22 the Government decided it would not provide for the continuation of the 75% local shares scheme and that the 2017/18 shares of business rates income applied, i.e. GLA 37%; Central Government 33% and London Boroughs 30%. This reduced the amount of business rates retained by Hackney from 48% to 30% but the losses in income were mitigated to some extent by additional Government funding.

1.4 In 2020/21, even though the financial benefits of the London Business Rates Retention and Pooling Pilot scheme were expected to be lower than in previous years, the boroughs decided to continue with the pooling arrangement. This decision in part was made for strategic reasons as boroughs regarded the scheme as a key milestone on the journey towards greater fiscal and functional devolution, demonstrating the clear benefits of collective working between London authorities. However, the onset of the pandemic during 2020/21 had a significant impact on the collection of business rates, which led to an estimated £14.2m loss to be shared by pool participants. Further modelling for 2021/22 and 2022/23 showed a mix of risks across London, which, matched with the comparatively estimated low level of financial return meant that it was agreed that the London Pool would not continue for 2021/22 and 2022/23.

1.5 However, given the way pools work, there was an opportunity for a smaller and more localised pooling arrangement in London in 2022/23, to generate additional income for the pooling boroughs with a very limited risk. Hackney joined this scheme together with the City of London Corporation, Tower Hamlets, Brent, Barnet, Enfield, Haringey and Waltham Forest. A similar opportunity exists for 2023-24 and this report proposes as in 2022-23, we join the Local Pooling scheme

1.6 The scheme is identical to that in 2022-23 and its main points are summarised below.

## 2.0 Localised Business Rates Pool 2023-24

2.1 The paragraphs below set out the proposed arrangements for a Local London Business Rates Retention Pool in 2023-24, which as with its predecessor aims to generate additional income with very limited risk. As at the end of September, the 2022-23 Pool was on target to deliver the gains identified on the basis of the NNDR 1 business rates return to central government (end January 2021) - in Hackney's case £2.2m

2.2 It should be noted that forming a pool in no way dilutes the sovereignty of each participating authority as each is still responsible for the collection of business rates within its locality. However, forming a pool alters the framework which determines how much business rate income is retained locally with the aim of increasing this amount.

2.3 In order to demonstrate the advantage of the proposed pooling arrangement, we must first distinguish between two types of authority - authorities that pay a tariff and levy and those that receive a top up grant. At the introduction of the Business Rates Retention system in 2013-14, the government calculated a funding level for every local authority – "baseline funding level" - which is the funding level the Government calculated a council needed to meet its 'needs'. This was derived from the previous formula grant system. The Government also calculated a "business rates baseline" for each authority based on the average business rates it contributed to the national pool over the two years from 2010/11.

2.4 Where an authority's business rates baseline exceeds its funding baseline, it pays the difference to central government as a tariff which is used to pay for a top-up for authorities whose funding baseline is above its business rates baseline. In each year since 2013-14, these tariffs and top-ups have been uprated by the business rates multiplier, normally RPI. Tariff Authorities also pay a levy on any growth above the business rates baseline. This levy is paid to the Government and used to fund the safety net system which protects those councils which see their year-on-year business rate income fall by more than a set percentage below their baseline funding levels.

2.5 As part of the business rates regime, the Government has allowed Local Authorities with a geographic link to form a business rate pool. In forming a pool, the group of authorities are seen as a single entity from a business rate perspective and in doing this, have the potential to retain more of the business rate income generated locally. A pool is able to do this by reducing the levy payment. At its highest rate, 50% of growth is paid to the Government through the levy but by forming a pool, this rate can be lowered to 0%, and funds which would have been earmarked to the Government would instead be retained locally and can be distributed to all pool members.

2.6 For a pool to totally eliminate a levy payment, the value of the top ups paid by all the top up boroughs in the pool must be equal to or exceed the tariff paid by the tariff boroughs. It follows, to maximise the benefits of a pool, we need a composition that delivers a net top-up subject to the constraint that there must be a geographic link between the members. The grouping of authorities together to achieve the net top up is largely a mathematical exercise (albeit constrained by the requirement to share geographical boundaries).

2.7 Detailed research by the Pool's advisers (who were also advisers to the London wide pool), London Futures, determined a composition of boroughs which will deliver a net top-up and thereby maximise the financial benefit to the participating boroughs in 2022-23 and in September 2022. its analysis forecast that a similar although slightly lower benefit, will accrue in 2023-24 also.

2.8 Given the benefits and risks (set out below), Hackney along with all the boroughs communicated its intent to join the scheme in early October (a very short deadline set by DLUHC). However this does not mean that we are committed to joining the scheme. All members of the Pool will be able to review their positions and withdraw from the scheme if necessary. The cut-off date for withdrawal is 28 days after the 2023-24 Provisional Settlement is announced (likely to be in December). So this will give us the opportunity to assess the impact of the 2023-24 Provisional Settlement and the 2022 Business Rates revaluation on the viability of the scheme before we are committed to the scheme.

2.9 There would be a significant financial benefit from pooling in this way in 2023-24 as there was in 2022-23. The Pool's advisers have forecast that the scheme will deliver c. £2m additional income to Hackney in 2023-24 (compared to a latest forecast of £2.2m for 2022-23)

2.10 Turning to the risks, these remain limited whilst there could be an impact from the cost of living crisis and from the tail end of Covid. In order to lose all business rate growth, the City Corporation would need to experience a 20% loss in the value of business rates, something which has not been experienced to date. Also, the business rate system has a floor funding level, which the pool will become responsible for should participating authorities fall below this level. These payments would be triggered with significant reductions in business rate income. The make-up of the selected authorities make this circumstance unlikely.

2.11 Perhaps a bigger risk is the impact of 2022 business rates revaluation, which could reduce the gains. However, all councils should receive a provisional 2022 rateable value list at the time of the 2023-24 Provisional Local Government Finance Settlement and all member authorities will be able to review their positions and withdraw from the scheme if necessary. As noted above, the cut-off date for withdrawal is 28 days after the 2023-24 Provisional Settlement is announced.

2.12 In view of the benefits and limited risks and the failsafe re the revaluation, it is proposed the LBH continues in the localised pool in 2023-24 along the 2022-23 participants. The agreed distribution agreed in 2022-23 will be rolled forward into 2023-24, i.e.the City will receive 40% of the financial benefit (appropriate as the City is taking most of the risk) with the balance being shared out to the remaining boroughs on the basis of equal shares. As noted above, Hackney's share of the levy gain under the proposed 2023-24 scheme is estimated to be c. £2m

2.13 The detailed recommendations which require approval for Hackney to participate in the pool are listed below and in the main report, Cabinet is asked to approve these.

## 3.0 Recommendations

3.1 To approve and accept the designation by the Secretary of State as an authority within the London Business Rates Pilot Pool pursuant to 34(7)(1) of Schedule 7B Local Government Finance Act 1988;

3.2 To participate in the Local London Business Rate Pool as described above with effect from 1 April 2023 to 31 March 2024;

3.3 To delegate the authority administrative functions as a billing authority pursuant to the Non- Domestic Rating (Rates Retention) Regulations 2013, to the City of London Corporation ("COLC") acting as the Lead Authority;

3.4 To authorise the Lead Authority to sub-contract certain ancillary administrative functions [regarding the financial transactions [payment of tariffs and top-ups] within the Pool to the GLA as it considers expedient];

3.5 To delegate authority to the Group Director of Finance and Corporate Resources in consultation with the Mayor to withdraw from the scheme if this proves necessary (i.e. depending on the outcome of the 2022 business rates revaluation and the 2023-24 Provisional Local Government Finance Settlement.);

3.6 To delegate authority to the Group Director of Finance and Corporate Resources in consultation with the Mayor to agree to the operational details of the pooling arrangements with the participating authorities;

3.7 To authorise the Mayor to represent the authority in relation to consultations regarding the London Business Rates Pilot Pool consultative as may be undertaken by the Lead Authority pursuant to the Memorandum of Understanding.