

BUSINESS RATES RETENTION AND POOLING 2023-24

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.
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). Over the period 2016/17 until 2020/21, there have been various changes to the proportion of the funding that Hackney and the GLA can retain but since 2020-21, the proportions have been fixed at Hackney 30%, GLA 37%; and Central Government 33%.
3. 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 future years 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 in 2021/22. No plans have been made to reconstitute the London Pool since then.
4. 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 existed for 2023/24 and continues to exist in 2024/25. This report proposes that as in 2022/23 and 2023/24, we join the Localised Pooling scheme in 2024/25
5. The scheme is identical to that in 2022/23 and 2023/24 and will continue to generate additional income with very limited risk.
6. 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.

7. The way the Pool operates and its advantages have been set out previously in various reports but suffice to say, detailed research by the Pool's advisers (who were also advisers to the London wide pool), London Futures, has determined a composition of boroughs which will maximise the financial benefit to the participating boroughs in 2024/25. The composition is the same as in 2023-24 and 2024-25
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 2023. 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 2024-25 Provisional Settlement is announced (likely to be in mid December). So this will give us the opportunity to assess the impact of the 2024-25 Provisional Settlement on the viability of the scheme before we are committed to the scheme.
9. As stated previously, there is a significant financial benefit from localised pooling in 2024/25 as there was in 2022/23 and 2023/24. The Pool's advisers have forecast that the scheme will deliver £1.6m to £2m to the Council in 2024/25. In 2022-23 and 2023-24, we received a financial benefit, estimated to be £5.1m over the two years
10. Turning to the risks, these remain limited whilst there could be an impact from the cost of living crisis. 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 though, makes this circumstance unlikely.
11. In view of the benefits and limited risks, it is proposed the LBH continues in the localised pool in 2024/25 along with the 2023/24 participants. The agreed distribution agreed in 2022/23 will be rolled forward into 2024-25, 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.
12. The detailed recommendations which require approval for Hackney to participate in the pool are listed below and Cabinet is asked to approve these.

Recommendations

- 3.1 **To delegate the authority to the Mayor and Interim Group Director of Finance to 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. The designation will be published alongside the 2024-25 Provisional Local Government Finance Settlement in December 2023.**

- 3.2 To participate in the Local London Business Rate Pool as described above with effect from 1 April 2024 to 31 March 2025;**
- 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 Interim Group Director of Finance in consultation with the Mayor to withdraw from the scheme if this proves necessary (i.e. depending on the outcome of the 2024-25 Provisional Local Government Finance Settlement.);**
- 3.6 To delegate authority to the Group Director of Finance 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.**