

RUNNYMEDE BOROUGH COUNCIL**CONSULTATION WITH APPROPRIATE CHAIRMAN AND VICE CHAIRMAN IN RESPECT OF URGENT ACTION TAKEN UNDER STANDING ORDER 42**

TO: Councillors T Gracey and C Howorth
Chairman and Vice-Chairman of the Corporate Management Committee

FROM: Amanda Fahey, Assistant Chief Executive

OFFICER REFERENCE: Business Rates Pooling **DATE:** 04.10.22
2023/24 Ref No: 1011

1. Synopsis of report:

Under the current Business Rates Retention Scheme, Runnymede Borough Council is able to retain 50% of any growth in business rates generated in its area, paying the balance to central government as a levy. The pooling of business rates allows the Council to potentially retain a greater share of this growth, by sharing the risks and rewards across a group of Councils.

This report aims to provide an overview of those risks and rewards and recommends that the Council signifies its intention to join the Surrey Business Rates Pool for 2023/24.

2. Reasons why this matter cannot wait for a Committee Decision.

On 18 August 2022, the Council received an invitation from the Department for Levelling Up, Housing and Communities ('The Department') to indicate its preferred pooling arrangements for 2023/24. Part 9 of Schedule 7B to the Local Government Act 1988 states that the Secretary of State can designate two or more local authorities as a "pool" for the purposes of the business rates retention scheme, providing that those authorities agree to the designation. If pools are to be created for 2023/24, the Department must make the necessary designations by the time of the 2023/24 provisional Local Government Finance Settlement. Unless designations are made by this date, a pool cannot be brought into existence for 2023/24.

By law, existing designations continue in force from year to year unless they are revoked by the Department, following a request by one or more of the pool members. Similarly, if an existing pool wishes to expand its membership, it will be necessary for the original pool to be revoked and for a new designation to be made. Lead authorities, (in our case, Surrey County Council), are required to confirm the continuation, revocation or expansion of the pool by 22 September 2022 and all parties to the pool need to sign the Memorandum of Understanding, to be submitted alongside the pooling proforma.

LG Futures, who support potential pool members with financial analysis, requested data from all Surrey Councils on 24 August and hosted an online seminar explaining the modelling template on 31 August. A revised template was issued 5 September for completion by all potential pool members. LG Futures have now completed their financial analysis and presented this to Surrey Treasurers at their meeting on 30 September. An extension from the original deadline of 22 September to 7 October was allowed by the Department, to enable this discussion to take place.

This revised deadline falls before the next meeting of the Corporate Management Committee (13 October 2022). If the decision is not taken within the extended deadline, the Council will be unable to participate in a Business Rates Pool for 2023/24, meaning that the opportunity to retain locally a higher proportion of any business rates growth will be lost.

3. Recommendation(s)

- i. To confirm to Surrey County Council, and thereby to the Department for Levelling Up, Housing and Communities, the Council's intention to enter into the Surrey Business Rates Pool for the financial year 2023/24, and
- ii. Delegate authority to the Council's s151 Officer, in consultation with the Chairman and Vice-Chairman of the Corporate Management Committee, to sign the Memorandum of Understanding governing the Pool arrangements for 2023/24.

4. Context of report

Business rate income is normally shared as follows:

- 50% central government
- 40% District Councils/lower tier
- 10% County Councils/upper tier

Districts then pay a tariff to government to reduce their share in line with funding levels, while County Councils and upper tier authorities receive a Top-up. Growth is shared in the same proportions, but Runnymede then pays a levy of 50% of its share of growth to Government, meaning that it actually retains just 20% of any growth outside of pooling arrangements. Joining a pool, allows Runnymede to benefit from combining the different Top-up and Levy positions of each of the member authorities to increase its share of retained growth.

Surrey authorities have been considering the benefits and risks of pooling arrangements for the year 2023/24 and the optimal financial position for membership of the pool. Pool membership is reviewed at each annual submission, rather than rolling forward existing membership, which reduces risk by removing those authorities who may contribute least to the pool and allowing more Councils to benefit from the arrangement over the medium term through rotation. Runnymede is a member of the 2022/23 pool and has been invited to join the pool for 2023/24.

Once all Councils who have been invited to participate have confirmed their agreement, SCC will issue a Memorandum of Understanding for all parties to sign and then submit the pool proposal to government.

5. Report and, where applicable, options considered

Pool members need to be geographically linked and the 2022/23 pool includes Surrey County Council, London Borough of Sutton, Runnymede, Surrey Heath, Woking, Mole Valley and Elmbridge and is projected to achieve £2.9m in pooling gain in total, with Runnymede's share being £314,000.

Under the modelling conducted by LG Futures, and consistent with previous years, the top 4 ranked authorities in terms of potential gains have been assumed as in the pool, with the bottom 3 assumed to be removed. These 3 authorities are those that would pose greatest risk to the pool and are either expected to be at safety net level or with very low anticipated growth. All permutations for the middle ranking authorities have been modelled, with and without the inclusion of Sutton. The pool gains across all scenarios range from £0.9m to £3.5m. The highest forecast gain is a pool which includes Runnymede and would expand the pool to 8 authorities (Surrey CC, Sutton, Surrey Heath, Runnymede, Woking, Epsom & Ewell, Tandridge and Spelthorne) and provides estimated gains of £352,000 for Runnymede.

50% of the net gain from pooling will be allocated to SCC and Sutton, based on their Top-Up amounts, with the remaining 50% of the gain split amongst participating Districts and Boroughs in proportion to the levy payments that would have been applicable if each had acted individually.

Any pooling losses would be shared in the same way. However, given that members of the pool have been selected to optimise the financial gain to the pool, there is low risk of any financial loss for the pool. Risk is mitigated by the rotation of pool members, by the selection of a limited number of participants and the inclusion of those typically furthest above their safety net positions. There is sufficient headroom in the estimated pool receipts to provide a high level of assurance to the Council's funding position as compared to not being a member of the pool, alongside significant opportunity for additional financial benefit that would not otherwise be available. In addition, a key principle of the pooling agreement is that each authority will receive at least the same funding level that they would have received without the pool. Any additional resources generated will be distributed proportionately as set out above.

It should be noted that the government is yet to rule out a reset of business rates baselines, which would redistribute national growth more evenly across the country. This would not make pooling worthwhile as there would be no levy due and therefore no opportunity for pooling gains. There would also be a greater risk of pooling loss due to the increased proximity of each Council to its baseline. However, a number of factors suggest that a reset is unlikely for 2023/24 including lack of an established methodology, no reference to resets in the methodology for the 2023 business rates revaluation exercise, lack of data due to unaudited status of many business rates returns (NNDR3) for 2021/22 and departmental capacity given high level of turnover in recent months. This risk is mitigated due to the fact that a pool can change its mind after the provisional settlement, so could withdraw if resets were introduced for 2023/24.

The Revaluation exercise itself will change individual authorities NNDR Baselines (and therefore Tariff and Top Up amounts) as it aims to make revaluation revenue neutral for councils. There may however be an impact on the levy rate for the pool, which has been taken into account in the modelling.

The main aim of the pool is to maximise the retention of locally generated business rates and to support the economic regeneration of the wider County of Surrey and neighbouring Sutton. The modelling work that has been undertaken demonstrates that financially pool members would retain a greater share of business rates revenue through pooling than they would otherwise as long as the pool experiences economic growth.

Key principles within the MOU are:

- To recognise the fundamental objective to generate increased resources for the area and for individual pool members
- To mitigate risks associated with business rate income as pooling arrangements should reduce inherent volatility
- To share costs, risks and benefits of business rate retention proportionately
- That no pool member should be worse off than if they were outside of the pool
- That pool members will share data and intelligence on substantive issues relating to business rates retention in their area and agree to act reasonably and in good faith

6. Policy framework implications

None

7. Financial and Resource implications (where practicable)

After examination of all reasonable scenarios, the proposed business rates pool for Surrey is estimated to make a net gain of £3.5m with Runnymede gaining by around £352,000. Risk is mitigated by the method of selection of pool members as described in the report.

The possibility of a reset removing any gains from the pool looks unlikely. However, the pool can always choose not to proceed within 28 days of the provisional local government finance settlement.

Revaluation will alter the gains, but the forecast changes do not materially alter the rankings of potential members of the pool. The final impact on the forecast gains will not be known until the actual impact of Revaluation 2023 is known and it should be noted that all figures in the report are only forecasts and subject to change. Based on this modelling, the up-side risk of the potential for gains exceeds any downside risk of losses, particularly when the Council has an opportunity after the provisional settlement to review its position. If any Council chooses to withdraw at that point, the pool will be unable to proceed.

8. Legal implications

The creation of Business Rate Pools is governed by statute under Part 9, Schedule 7B, Local Government Finance Act 1988. The Council's Monitoring Officer (Corporate Head of Law and Governance) has reviewed the MOU and is satisfied with the proposed governance arrangements.

9. Equality implications

There are no equality implications in respect of this decision. The Pooling arrangement is a collaboration between Authorities that seeks to maximise local financial gain and has no impact on individual rate payers.

10. Other implications (where applicable)

None

11. Background papers

None.

12. Chief Officer(s) Decision

Signature of authorised officer . 

I have been consulted and am in agreement with the

Signature(s) and position(s) of other relevant Chief Officer, Corporate Heads or authorised representatives

.....
NB: this must include the Assistant Chief Executive or his authorised representative where the decision involves expenditure, loss of income, or future implications for budget or financial forecast.

13. Chief Executive's Decision

Signature of Chief Executive . 

I have been consulted and am in agreement with the above

14. **Chairman and Vice-Chairman Comments**

I concur in the Chief Officer's decision

Signed

Date

Signed

Date



I have the following further comments:

Further information may be obtained from Amanda Fahey, Assistant Chief Executive on Ext.5320

The completed copy is to be returned by the Councillor to the Corporate Head of Law and Governance (c/o Andrew Finch) who will send a copy to the Chief Officer and report to the relevant Committee, as necessary.