

Standing Order 42

Consultation with Appropriate Chairman and Vice-Chairman for Urgent Action to be Taken Under Standing Order 42

To (Chair & Vice Chair):	Councillors T Gracey and C Howorth
Relevant Committee:	Corporate Management Committee
Date:	2 nd October 2023
Report Author:	Amanda Fahey – Assistant Chief Executive (s151)
Report Title:	Business Rates Pooling 2024/25
SO42 Proforma Number:	1029

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 2024/25.

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

Business rates pooling allows groups of local authorities to voluntarily pool their locally retained business rates. 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 2024/25, the Department must make the necessary designations by the time of the 2024/25 provisional Local Government Finance Settlement. Unless designations are made by this date, a pool cannot be brought into existence for 2024/25.

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.

On 5th September 2023, the Council received an invitation from the Department for Levelling Up, Housing and Communities (DLUHC) to indicate its preferred pooling arrangements for 2024/25.

In a change to the previous process, all local authorities are now required to express their interest with regards to pooling via a DELTA collection form (DLUHC's on-line data collection system) by 10th October 2023, regardless of whether their decision is to: revoke, retain or amend an existing pool; set up a new pool; or decline the offer to pool. The new Delta form became available for completion shortly thereafter 5th September 2023.

The lead authority for a pool (the local authority who manages the pool's resources and is the key contact for central government, in the case of the Surrey pool, Surrey County Council (SCC)), must also attach via DELTA a completed Memorandum of Understanding (MoU) stating the terms of the arrangements for the pool.

LG Futures, who support potential pool members with financial analysis, undertook financial modelling based on estimated data for 2023/24, using NNDR1 returns adjusted for assumptions about the future level of appeals following the national revaluation exercise which took effect from 2023. The completed financial analysis, and recommendations for the pool membership, were presented to Surrey Treasurers at their meeting on 29 September.

The Council now needs to decide what pooling arrangements it wishes to make, inform Surrey County Council so that the MoU can be issued, and signal its intent to Government via the Delta reporting system by 10th October 2023. This deadline falls before the next meeting of the Corporate Management Committee (12 October 2023). If the decision is not taken by the deadline, the Council will be unable to participate in a Business Rates Pool for 2024/25, 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 SCC as Lead authority, and to DLUHC, the Council's intention to enter into the Surrey Business Rates Pool for the financial year 2024/25, 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 pooling arrangements for 2024/25.

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 2024/25 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 2023/24 pool and has been invited to join the pool for 2024/25.

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, which will be submitted to DLUHC by SCC on behalf of the Surrey pool. All authorities will need to complete an on-line submission to declare their pool arrangements for 2024/25 by 10th October 2023.

A similar process was followed for pool arrangements for 2023/24 which were approved by SO42 during October 2022, due to the timing of the invitation to pool, the delivery of the financial analysis and the deadline for responses to Government, which fell between meetings of the Corporate Management Committee.

5. Report and, where applicable, options considered

Pool members need to be geographically linked and the 2023/24 pool includes Surrey County Council, London Borough of Sutton, Surrey Heath, Runnymede, Woking, Epsom & Ewell, Tandridge and Spelthorne and is projected to achieve £5.24m in pooling gain in total, with Runnymede's share being £974,000.

Under the modelling conducted by LG Futures, the highest forecast gain is a pool which includes Surrey County Council, Sutton and 5 Districts and Boroughs including Runnymede (Surrey CC, Sutton, Runnymede, Surrey Heath, Woking, Epsom & Ewell and Spelthorne) and provides estimated gains of between £3.9m and £5.9m for the pool as a whole. This combination removes those authorities that would pose greatest risk to the pool as either expected to be at safety net level or with very low anticipated growth. 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 any reset of business rates baselines, which would redistribute national growth more evenly across the country, 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. The Government have now confirmed that there will be no reset of baselines in 2024/25.

Further financial modelling will take place in January, once the NNDR1 forms for 2024/25 have been completed (Government return detailing estimates for business rates income for each authority). While the makeup of the pool cannot be changed after 10th October submission, the pool has 28 days after the provisional local government finance settlement, to confirm whether it wishes to go ahead or withdraw.

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

The Council has entered into Business Rate Pooling arrangements previously, following the same methodology as outlined in the report, with successful outcomes. The potential financial gain, coupled with mitigating measures to reduce the chance of, and to limit the extent of, any loss means that this action would support the Council's budgetary position for 2024/25, and therefore the delivery of financial resources to support its Corporate Business Plan.

7. Financial and Resource implications

After examination of all reasonable scenarios, the proposed business rates pool for Surrey is estimated to make a net gain of between £3.9 and £5.9m, depending on which scenario is used to assess the likely level of appeals (as the provision for appeals will reduce the anticipated income to be declared in any year). Taking the mid-range scenario used in the modelling, a total gain of £4.5m could be achieved, with Runnymede's share being around £934,000.

Risk is mitigated by the method of selection of pool members as described in the report.

If further financial modelling in January brings to light any significant, downward changes in estimates across the pool membership, which effect the viability of the pool, the pool can choose not to proceed within 28 days of the provisional local government finance settlement.

No additional staffing resource is required to participate in the Pool, simply an agreement to share data that will impact on the estimated receipts for the Pool in line with any agreed timescales.

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) will review the MoU and the proposed governance arrangements before it is signed off.

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

Risk:
Risk is mitigated by financial modelling, undertaken by external experts, to assess the best group of authorities to enter into local Pooling arrangements. This maximises the potential for pooling gains and minimises the risk of loss. As a result, the Surrey Pool as a whole has never been loss-making and no single authority within the Pool has required its individual business rates safety net to be invoked and for that support to be provided from within the Pool. While the risk of a loss can never be entirely removed, selecting those authorities furthest away from a safety net position, means that under the risk-sharing arrangement, significant losses would be required across the Pool membership for a loss to be incurred by the whole Pool.

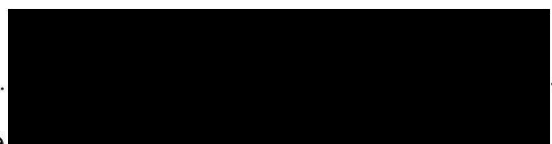
Other:
There are no environmental, biodiversity or sustainability implications of this report.

11. Background papers

None

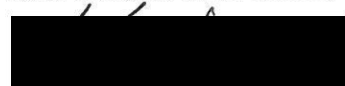
12. Chief Officer(s) Decision

Signature of authorised officer



I have been consulted and am in agreement with the above

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



CHE & C

13. Assistant Chief Executive – Section 151 Officer (if not applicable, please state)

Signature of authorised officer 

I have been consulted and am in agreement with the above

Signature(s) and position(s) of
Assistant Chief Executive – Section 151 Officer or their authorised representative

.....

NB: this must include the Assistant Chief Executive Section 151 Officer or their authorised representative where the decision involves expenditure, loss of income, or future implications for budget or financial forecast

14. Chief Executive's Decision

Signature of Chief Executive 

I have been consulted and am in agreement with the above

15. Chairman and Vice-Chairman Comments

I concur in the Chief Officer's decision

Signed 

Date 06 110 12023

Signed 

Date 06/10/2023

I have the following further comments:

The completed copy is to be returned by the Councillors to the Corporate Head of Law and Governance (Democratic Services) who will send a copy to the Chief Officer and report to the relevant Committee for information.