

Report – Policy and Resources Committee and Finance Committee

Report of Urgent Action Taken: Eight Authority Pool

To be presented on Thursday, 9th March 2023

To the Right Honourable The Lord Mayor, Aldermen and Commons of the City of London in Common Council assembled.

SUMMARY OF ACTION TAKEN

1. 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, should retain more of the business rate income generated locally.
2. From 2018/19 the 32 London Boroughs, Greater London Authority (GLA) and the City of London Corporation were part of the London Business Rates Pool. Significant financial benefits (£609m) were gained from this arrangement, until the pandemic.
3. A business rate pool works by lowering the amount paid to Government on business rate growth above the baseline level set by Government. At its highest, 50% of growth is paid to Government. By forming a pool, this rate can be lowered to 0%, and funds which were earmarked to Government would be retained locally.
4. The pandemic had a significant impact on the collection of business rate, which led to an estimated £14.2m loss to be shared by pool participants in 2020/21. Further modelling for 2021/22 and 2022/23 showed a mix of risks across London, which, matched with the comparatively low level of financial return (the 2020/21 pool was only forecast to make a total gain of £36m due to the levy rate only reducing to 19.4%), meant that it was agreed that the London Pool would not continue for 2021/22 and 2022/23.
5. Following the collective decision not to form a London wide business rates pool for 2022/23, the opportunity was still available for authorities to form their own pool groupings. Having considered the experience from the London Pool, which whilst challenging in 2020/21, did produce significant financial gains in previous years, the City of London alongside Brent, Barnet, Enfield, Hackney, Haringey, Tower Hamlets and Waltham Forest, formed a tactical pool in 2022/23– the “Eight Authority Pool”.
6. The pool was formed with the aim of keeping the levy payments the City of London and Tower Hamlets make to Government (potentially £24m), in London, which would otherwise leave London. The arrangement supports the Government’s

levelling up agenda given four of the partner local authorities are ranked among the six most deprived boroughs in London.

7. In 2022, London Councils confirmed that a London wide Pool will not be operated in 2023/24; and Leaders were given the opportunity to form their own pools if they wished. The participating authorities agreed in principle to extend the 'tactical pool' into 2023/24; with the continued intention to restore a pan-London pool as soon as risks are tolerable. There was no detrimental impact to the rest of London and the arrangement did not preclude boroughs from forming their own pooling arrangements.
8. Arrangements would mimic those operating for the 2022/23 Pool of Eight with the City of London acting as lead authority. It was estimated the Eight Authority Pool could potentially yield £8m for City Fund. The distribution formula remained as previously agreed with the other boroughs: 40% to COL and 60% split equally between the remaining seven boroughs.
9. The principles behind the Eight Authority Pool are the same as the London Business Rate Pool. The participating authorities are Brent, Barnet, Enfield, Hackney, Haringey, Tower Hamlets, Waltham Forest and the City Corporation
10. The financial benefit is generated by levy paying authorities reducing their levy rate from 50% to 0% on the business rate growth they generate. Monitoring of 2022/23 collection rates have remained stable as has the overall amount of collectable business rate. This provides some comfort that business rate growth will remain for the foreseeing future.
11. All the other participating authorities (Brent, Barnet, Enfield, Hackney, Haringey, Tower Hamlets and Waltham Forest) are top up authorities i.e. authorities which do not generate enough income from business rates to meet their funding requirement, and therefore receive additional funding from Government to top them up. Their inclusion lowers the levy rate from 50% to 0%. Due to their top up status, this group would have to lose more than 100% of their business rate base in order pull the pool into a loss.
12. 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 remote. It would take a 20% reduction across all the participating authorities to create a pooling loss - at £400m this is considered highly unlikely. We only experienced a c3% loss during the pandemic when a number of businesses were unable to pay and we are recouping to almost pre-pandemic levels now. Retail, leisure and hospitality are the biggest threat, but as these sectors only constituent a small proportion of our rates base, they are a low risk to the Pool. We estimate the Eight Authority Pool could potentially yield £8m for City Fund in 2023/24.
13. The biggest risk for 2023/24 was the Valuation Office's revaluation on rateable value (RV) - a reduction could potentially have made the Pool unviable. Instead, the RV went up slightly for the City.

Why this group?

14. In order to create a benefit and lower the risk of a loss, the group needed to fulfil the requirement that:
 - The authorities are geographic neighbours.
 - There would be a financial benefit from Pooling. This benefit is delivered by the levy payment saving. For 2023/24, the City of London is forecast to make a levy payment and current projections would indicate that this would be around £20m-25m.
 - The benefit can be maximised. The participation of Brent, Barnet, Enfield Haringey, Hackney, Tower Hamlets and Waltham Forest, who are all top-up authorities, reduces the levy rate to 0%.
 - The risk is minimised.
 - The group is already established due to the 2022/23 arrangements and can therefore simply roll forward these arrangements, which all participants are agreed to do.
 - In forming a pool, there is no detrimental impact to the rest of London and all other boroughs are free to form their own pool should they choose to.
15. The S151 Officers of each of the participating authorities met to discuss the continuation of the pool and agreed to roll forward the 2022/23 arrangement.
16. London Leaders approved the application, on the understanding that the arrangement would revert to a pan-London pool as soon as risks are tolerable.
17. The Department for Levelling Up, Housing and Communities (DLUHC) approved the intention to pool for the eight partner authorities as part of the Provisional Local Government Settlement.
18. Final due diligence work was undertaken to ensure all participating authorities were comfortable in continuing with the pool.
19. All authorities had until 15th January 2023 (28 days after the Local Government Settlement) to pull out of the pooling arrangement, although it should be noted that if one authority pulled out, the whole pool would have fallen.
20. After approval (under urgency) was secured from your Policy & Resources Committee and Finance Committee, approval was sought from the Court of Common Council under urgency procedures given the tight timeframes involved.
21. On the consultation period being over the Christmas and New Year period - London Councils and the Society of London Treasurers have continually fed back to DLUHC the need to get the Provisional Settlement out in early December. Generally speaking, whilst timeframes have been moving positively in that direction, due to significant challenges that resulted from the mini-Budget in autumn, the Settlement was pushed back, which in turn meant a quick turnaround when it came to approvals for the establishment of the Pool; it is anticipated that a more stable and timely approach will be applied in 2023.

22. The decision approved the establishment of the Eight Authority Pool for 2023/24, with the City of London Corporation again hosting and authorised the Chamberlain and Town Clerk to put the necessary administrative arrangements in place.

RECOMMENDATION

23. We **recommend** that the action taken be noted.

All of which we submit to the judgement of this Honourable Court.

DATED this 15th day of January 2023.

SIGNED on behalf of the Committees.

Deputy Christopher Hayward
Chairman, Policy & Resources Committee

Deputy Henry Colthurst
Chairman, Finance Committee