

# Somerset West and Taunton Council

## Special Full Council – 24 February 2022

### Business Rates Pooling – Urgent Leader Decision October 2021

This matter is the responsibility of Executive Councillor Henley, Corporate Resources Portfolio Holder

Report Author: Paul Fitzgerald, Assistant Director – Finance and S151 Officer

#### 1 Executive Summary / Purpose of the Report

- 1.1 This report summarises the background to an urgent Leader Decision taken in October 2021 regarding the Council's membership of the Somerset Business Rates Pool. This report is presented at this Full Council agenda given its relevance to the Budget Report.
- 1.2 The decision was taken as urgent because the Government issued its invitation to local authorities to pool for business rates retention in 2022/23 on 13 September 2021 with a deadline of 8 October 2021 for local authorities to submit their pooling proposals. This did not leave sufficient time to obtain advice, complete the necessary analysis and risk assessment, and take a report through the normal governance cycle, with the next Full Council meeting at the time scheduled for November 2021.
- 1.3 The planned decommissioning of Hinkley Point B Power Station in 2022 has a material impact on the overall level of business rates funding, with Hinkley B contributing c18% of total business rates income collected within the district. EDF has previously indicated decommissioning is planned to commence no later than July 2022. It is a matter for the Valuation Office Agency (VOA) to determine the future business rates liability for Hinkley B, however the Council's finance officers have prudently modelled the impact on income assuming virtually all the liability will cease once production ceases.
- 1.4 It is estimated there is a high probability that the council's share of retained business rates will fall below the Government-set safety net level, which adversely affects the benefits of the business rates pool as well as SWTC's own funding position. On this basis it was assessed as prudent for SWTC to exit the Pool for 2022/23, to remove the risk that the fall of business rates in SWT area would also erode the financial benefits of pooling for the County Council and other three District Councils in Somerset.
- 1.5 The Somerset Business Rates Pool will continue in 2022/23, comprising Somerset County Council plus Mendip, Sedgemoor and South Somerset District Councils.
- 1.6 In lieu of removing the above risk from the Pool, the County Council and other three District Councils in Somerset have also agreed to continue to pay a share of pooling gains to SWTC in 2022/23, which continues to spread the benefit of pooling across the whole of Somerset despite the adverse step-change in SWTC business rates income

due to Hinkley.

## **2 Recommendations**

2.1 Council is requested to note the report.

## **3 Risk Assessment**

- 3.1 The main risk is financial with Hinkley Point B generating c18% of total business rates collected in the district, and the expectation that the loss of this income would likely lead to SWTC share of retained business rates funding falling below the safety net.
- 3.2 The risk applies to SWTC's own share of business rates retention funding, but also the potential benefits of pooling with the intent of more funds retained locally and not distributed to central government. Operating within a pool, the payment of 'safety net' funds would need to be funded through a top-slice of gains in the other districts, whereas operating outside a pool the payment of safety net funds would come from central government resources.
- 3.3 The expected decommissioning of Hinkley B means there is a high probability of SWTC retained business rates share falling below Safety Net thereby triggering a safety net payment. This risk is increased if decommissioning were to commence before July 2022 - EDF has publicly stated this will be 'no later than July 2022' which infers it could be earlier.

## **4 Background and Full Details**

- 4.1 The Council currently operates within the Somerset Business Rates Pool comprising the County Council and four district councils in Somerset. Business rates pooling combines the business rates funding targets, tariffs and top ups within the Business Rates Retention system. The benefit arises when collectively our business rates income is above the Baseline as pooling reduces the levy % on income above Baseline paid to government, resulting in an increase in funds retained locally. These gains are shared between the County and districts using a locally agreed formula, apportioning the financial benefit in proportion to 'baseline need' and business rates growth in each area.
- 4.2 The risk of Pooling is that the safety net threshold is lower than if the Council's operated outside a pool, meaning the Pool will need to cover the cost of Safety Net payments locally unless there is a catastrophic fall in business rates in any year in which case Government may still need to contribute some the cost.
- 4.3 DLUHC issued its invitation to local authorities to pool for business rates retention in 2022/23 on 13 September 2021 with a deadline of 8 October 2021 for local authorities to submit their pooling proposals. This did not leave sufficient time to obtain advice, complete the necessary analysis and risk assessment, and take a report through the normal governance cycle, with the next Full Council meeting at the time scheduled for November 2021.
- 4.4 The Councils' S151 Officers manage the pooling arrangement, and commissioned analysis at short notice from LG Futures to support the pooling decision for 2022/23. This included considering scenarios based on the business rates estimates for adjusted for Hinkley decommissioning in April 2022 and July 2022 – on the presumption the early

decommissioning commences the lower the amount of business rates will be due from EDF for the power station.

- 4.5 In practice the Valuation Office Agency will need to provide a new Rateable Value (RV) for Hinkley B when decommissioning commences. It is not possible to pre-empt this, but a prudent assumption of £0 RV has been used for this financial modelling purposes. As a rough benchmark, Hinkley Point A decommissioning power station currently has a RV of £118,000.
- 4.6 Whilst there is a possibility SWTC will remain above the business rates retention baseline, and then contribute 'growth funding' into the pool, it is equally possible that rates income will fall below the safety net and require top up funding. When operating within the pool this top up to the safety net is funded by growth in other districts, whereas outside the pool this top up is funded by central Government thus increasing growth funding retained within Somerset.
- 4.7 The Somerset S151 Officers have reviewed scenarios to assess the risk and reward of pooling with and without SWTC given the impact of Hinkley Point B ceasing production. By exiting the Pool it is estimated that SWTC's 'best case' funding projection is reduced by c£150k, but protects the Pool from funding a potential safety net payment to SWTC of c£250k. Equally the Pool members retain more growth funding through the pooling mechanism as the benefit is shared between four authorities rather than five.
- 4.8 In lieu of de-risking the pool by exiting, the remaining Pool members have agreed that a proportion of retained growth funding in 2022/23 will be paid to SWTC proportionate to the funding baseline, ensuring additional growth funding retained continues to benefit across the County. It is estimated this could be in the range £250k-£350k for SWTC and would represent an improvement on SWTC's 'worst case' funding position at Safety Net.
- 4.9 On balance it was therefore recommended by the S151 Officer that SWTC exits the Pool for 2022/23 to minimise risk to funding for the Council and for the greater benefit to the combined funding position across Somerset.

## **5 Links to Corporate Strategy**

- 5.1 Optimising business rates funding and risk contributes to the Council's financial sustainability priority.

## **6 Finance / Resource Implications**

- 6.1 The agreement of the remaining Pool members to share some of the pooling gain in 2022/23 has enabled an estimated £250,000 to be included in the 2022/23 budget as a reasonable estimate of this benefit. This benefit could be lower – possibly £Nil – if SWTC remained in the Pool.

## **7 Legal Implications**

- 7.1 None for the purposes of this report.

**Democratic Path:**

- **Leader Urgent Decision – 7 October 2021**
- **Full Council – 24 February 2022**

**Reporting Frequency: Once only**

**Appendices**

**A – Copy of Urgent Key Decision Report October 2021**

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