Communities and Local Government

Business rates retention scheme

Pooling Prospectus

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July 2012
Department for Communities and Local Government

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Local Government Resource Review - Rates Retention Scheme: Pooling Prospectus

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Ministerial Foreword

This Government is taking action to promote strong, sustainable and balanced growth in every part of the country. We want to see strong local economies with thriving businesses and new jobs, and localism is at the heart of achieving this.

We have already removed power from Whitehall, giving it to local authorities and local businesses in Local Enterprise Partnerships, allowing them to determine local economic priorities. Through the Growing Places Fund we are investing £770 million to generate local economic activity, with Local Enterprise Partnerships deciding how funding is spent in their area to drive economic growth. We have also established 24 Enterprise Zones across the country creating the conditions for new business growth, with tax relief, simplified planning rules and super fast broadband.

The Government is also reforming the business rates system, ending one of the most centralised systems of local government finance anywhere in the world, and instead will give local authorities a real incentive to promote economic growth by allowing them to retain a share of the growth in their business rates income. Put simply, authorities that see their local economy grow, will be better off.

To support local authorities working together in partnership to drive economic growth, our business rates reforms will, for the first time, allow local authorities to come together to pool their business rates income, giving them a new tool to better support economic priorities across their area to deliver new businesses and jobs. Local authorities will have the freedom to decide how pools should operate, what area they should cover, and how they should use the business rates income they bring in.

I hope local authorities will consider the opportunities for pooling their business rates to help deliver what's needed to create new jobs and businesses in their area.

Rt Hon Eric Pickles MP
Secretary of State for Communities and Local Government

Introduction

The Coalition Agreement[1] included a commitment to review local government finance, as part of the Government's plans for a radical devolution of power and financial autonomy to local government and community groups. The local government resource review forms an important part of two of Government's key objectives: promoting economic growth, and localism.

The first phase of the local government resource review has focussed on business rates, and the Local Growth White Paper[2] said that Government would be considering the opportunities that the business rates system offered to strengthen the incentives to support growth and give local authorities greater financial autonomy.

The Government set out its proposals for reforming business rates through the rates retention scheme[3] last summer, with eight accompanying technical documents on the detail of how the scheme would operate. Following consultation on its proposals the Government published its response[4] to the consultation in December confirming its approach for the rates retention scheme. The Local Government Finance Bill, currently before Parliament, provides for the introduction of the rates retention scheme. Subject to Parliamentary consideration of the proposals, the rates retention scheme will come into effect in April 2013.

The Government's proposals will radically reform the way in which local authorities are funded, providing a strong incentive for them to go for growth, while ensuring adequate resources to provide services to local residents.

The Government is moving away from one of the most centralised local government funding systems in the world, where business rates are collected by local authorities, pooled centrally by Government and redistributed to local authorities (including police and fire authorities) through a complex needs based formula grant. This centralised approach means there is no real financial incentive for local authorities to promote growth. The rates retention scheme will create such an incentive by allowing local authorities to retain a proportion of business rates income.

As part of the rates retention scheme, local authorities will be able to come together voluntarily to pool their business rates, giving them scope to generate additional growth through collaborative effort, and to smooth the impact of volatility in rates income across a wider economic area. This

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[1] http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf

[2] http://www.bis.gov.uk/assets/biscore/economic-development/docs/l/cm7961-local-growth-white-paper.pdf

[3] http://www.communities.gov.uk/documents/localgovernment/pdf/1947200.pdf

[4] http://www.communities.gov.uk/documents/localgovernment/pdf/2053502.pdf

document sets out the opportunities that pooling presents, the process for formally designating pools, and **invites local authorities to come forward with expressions of interest by Friday 27 July**.

The Department will then work with local authorities to develop the detailed proposals for consultation by September. Final proposals including governance arrangements (signed off by the Chief Executives and section 151 officers of each of the local authorities in the pool) should be submitted by no later than **Friday 19 October**.

Benefits of pooling

Over the last few years, local authorities have increasingly been working together in different ways: delivering services; sharing back office functions to deliver efficiency savings; and collaborating on issues that affect their wider area as part of Local Enterprise Partnerships.. Government supports such joint-working between local authorities and wants to encourage it.

As such, the rates retention scheme provides local authorities with the opportunity to come together where they wish to do so to pool business rates and build growth across a wider area.

Pooling business rates:

- provides a new tool to deliver what's needed to promote growth and jobs, allowing investment decisions to support economic priorities

- encourages collaborative working across local authorities, rather than constraining activity within administrative boundaries

- allows the benefit from investment in economic growth to be shared across the wider area – potentially providing a growth dividend to pool partners

- helps local authorities manage volatility in income by sharing fluctuations across budgets

Local authority partnership working

Local authorities are already coming together to assess the economic performance across their natural economic areas, identifying issues and challenges for improvement.

Case Study

Coventry City Council and Warwickshire County Council worked together to publish the Coventry and Warwickshire Economic Assessment[5] in March 2011 which looked at potential causes and drivers of variations in the area's performance. The report identified:

● a lack of growing businesses, particularly in areas with strongest new start-up rates, and potential under-representation of "high growth" businesses

● more could be done to better exploit innovation assets by improving the diffusion and spill-over effects across the whole economy

[5] http://www.warwickshire.gov.uk/Web/corporate/wccweb.nsf/Links/E0DA25CC92C9AA14802578500039F258/$file/CW%20LEA%20Final%20Doc.pdf

- weak agglomeration effects of Coventry and the wider locality that are not generating the scale of economic benefits that might be expected

- relatively poor transport connectivity along the north-south corridor

- lack of higher level skills in the north of the area, which may be constraining productive capacity

- higher value, knowledge intensive businesses and sectors that have not been growing at the same rate as the national economy

The Coventry and Warwickshire authorities, and their private sector partners in the Coventry and Warwickshire Local Enterprise Partnership responded to this in developing their five year strategy for the area, which identified three key ambitions, with more specific and detailed actions set out in its annual business plan:

1. create an environment where it is easy for businesses to start, locate and thrive

2. accelerate the growth of the economy through targeted support in the key strategic sectors

3. tackle the skills problem by aligning supply and demand

The Growing Places Fund is investing £770 million to generate economic activity in the short term by addressing immediate infrastructure and site constraints and promoting the delivery of jobs and housing. The funding establishes a locally controlled revolving fund so that funding can be reinvested to unlock further development, and leverage in additional investment.

The funding, which is allocated to Local Enterprise Partnerships, has three overriding objectives:

- generating economic activity in the short term by addressing immediate infrastructure and site constraints and promoting the delivery of jobs and housing

- allowing Local Enterprise Partnerships to prioritise the infrastructure they need, empowering them to deliver their economic strategies

- establishing sustainable revolving funds so that funding can be reinvested to unlock further development, and leverage in private investment

Case Study

South East Midlands Local Economic Partnership is the Local Enterprise Partnership covering the South East Midlands and covers the following local authorities: Aylesbury Vale, Cherwell, Kettering, Northampton, Bedford Borough Council, Corby, Luton, South Northamptonshire, Central Bedfordshire, Daventry and Milton Keynes. South East Midlands Local Economic Partnership was allocated £18.8m through the Growing Places Fund over the Comprehensive Spending Review period, with funding held by Luton Borough Council as the accountable body.

The South East Midlands Local Enterprise Partnership Board considered the approach for allocating Growing Places funding and decided to invest primarily in projects that were ready for delivery with short term secured returns and to assess projects against the following criteria: risk; impact; value for money; strategic importance; and governance. Income would be returned to a local revolving infrastructure fund through a variety of mechanisms as land was sold or homes completed.

A Task Group of local authority officers was set up, assisted by South East Midlands Local Economic Partnerhip's Property Development, Investment and Infrastructure Delivery Group and invited Expressions of Interest from local authorities and private sector developers. The projects put forward for funding focussed around:

Utility constraints – removing short term-barriers to long-term projects, including power, flood attenuation and next generation broadband

Infrastructure projects – meeting costs of early technical and design needs to meet Highways Agency requirements and prepare for tender

Rail infrastructure – funding for the short-term to ensure processes are carried out to bring the East-West Rail project to the point of delivery

Premises and property – provision of additional commercial floor space for new innovation and enterprise facilities and prime stalled development sites

Issues identified by the Task Group included:

- Projects would need to be scrutinised carefully to ensure that they really could start quickly

- An assessment of the risk attached to the mechanism for recovering funds would need to be made

- Once the initial decision has been made by the Board a process of 'due diligence' would be required, which might take two to three months, before money could be released

- Contractual arrangements would need to be established between South East Midlands Local Economic Partnership and the relevant local authority to ensure that funds were used properly and returned within the due dates

- The Board would need regular reports to monitor progress

The Board agreed that some projects looked more promising than others and these would form the ‘first phase for consideration’. The Board also agreed that projects in the Enterprise Zone should be given priority.

Local authorities and Local Enterprise Partnerships working collaboratively, tackling these kinds of issues, could use pooling as a mechanism to help deliver their growth objectives.

How pooling would work

Why pool?

Local authorities who pool their business rates income may find that by combining their business rates growth they have a stronger hand to play in tackling cross boundary issues and delivering shared, strategic priorities. In addition, pooling can help local authorities’ manage volatility in business rates income, sharing fluctuations across the pool.

The effects of forming a pool will be different in each case, depending on the members of the pool, and their individual circumstances, including whether they are a tariff or top-up, and the rates of growth in business rates income.

Pooling may also place authorities in a more beneficial collective position as it could allow the members of the pool to benefit from the business rates income through off setting tariffs against top-ups and reduction in levy rates to the collective benefit of authorities in the pool.

Setting the tariff or top-up

Where local authorities come together to form a pool there will be a single tariff or top-up figure for the pool, which will be the sum of all the tariffs and top-ups of the individual authorities within the pool.

Example 1- Setting a pool tariff or top-up

Local Authority A	Local Authority B	Local Authority C
Business rates baseline: £100m	Business rates baseline: £50m	Business rates baseline: £100m
Baseline funding level: £50m	Baseline funding level: £150m	Baseline funding level: £75
Tariff £50m	**Top-up £100m**	**Tariff £25m**

Pool
Business rates baseline: £250m
Baseline funding level: £275m
Top-up £25m

This example illustrates how authorities' tariffs and top-ups are combined to form a single tariff or top-up for the pool.

Setting the levy

There will also be a single levy figure for the pool, calculated on the aggregate income and growth across the pool. The Government intends that the proportional levy should be set at a rate of 1:1, meaning that a one per cent increase in business rates cannot result in more than a one per cent increase up on their baseline funding level.

Example 2 - Setting a pool levy

Local Authority A

Business rates baseline: £100m

Baseline funding level: £50m

Tariff £50m

Levy 50 (pence in pound)

Local Authority B

Business rates baseline: £50m

Baseline funding level: £150m

Top-up £100m

No levy

Local Authority C

Business rates baseline: £100m

Baseline funding level: £75m

Tariff £25m

Levy 25 (pence in pound)

Pool

Business rates baseline: £250m

Baseline funding level: £275m

Top-up £25m

No levy

In this example, local authorities A and C benefit by being part of the pool as the pool no longer pays a levy and would benefit by retaining any growth.

Setting the safety-net

Pooling also allows local authorities to manage the fluctuation in business rates income across their area, e.g. as a result of major business closing or a large appeal cost, as the business rates income from across the pool will be able to cushion the impact of such volatility.

However, pooling also means that eligibility for safety-net payments is calculated at a pool-wide level (in the same way as tariffs, top-ups and levy payments). The Government intends to set the level at which safety-net payments become payable at between 7.5 and 10 per cent below the authority's (or pool's) baseline funding level. The final figure will be subject to consultation with the local government sector in the summer.

Example 3 - Pool with safety-net

Local Authority A

Business rates baseline: £100m

Business rates income: £105m (10% above baseline funding level)

Not eligible for safety-net

Local Authority B

Business rates baseline: £50m

Business rates income: £49m (1% below baseline funding level)

Not eligible for safety-net

Local Authority C

Business rates baseline: £100m

Business rates income: £92m (11% below baseline funding level)

Eligible for safety-net

Pool

Business rates baseline: £250m

Business rates income: £246m (1.5% below baseline funding level)

Not eligible for safety-net

In this example, outside a pool local authority C would be eligible for safety-net payments, given the size of the fall in its business rates income below its baseline level. assuming the level at which the safety net becomes payable is set at 7.5%**.** However, in a pool, the different rates of growth in local authority A and B offset local authority C's decline, meaning that the pool is not eligible for safety-net payments. The pool would be able to use the rates income from authorities A and B to provide support to local authority C to manage the fluctuation in its income. It will be for pools to decide whether and how they support members seeing significant drops in their business rates income.

Distributing resources within a pool

It is for members of the pool to determine how best to distribute resources within a pool. In doing this, local authorities will want to consider how the distribution of any growth in business rates income is shared across the members of the pool, both over the course of the lifetime of the pool and on dissolution. Pool members will also want to explore how best to mange volatility to ensure that the risk of fluctuations in business rates income is fairly spread.

Government's approach to pooling

The key principle of the Government's approach to pooling is that it should be voluntary. The Government believes pools will be most successful where they have been formed locally, with local authorities and elected councillors seeing benefits in working in partnership across council boundaries to promote shared strategic priorities for economic growth.

The Government believes that, as far as possible, it should be for local authorities themselves to determine how best a pool might work.

Geographic coverage

It will be for local authorities to determine the geographic coverage of a pool. Government believes local authorities will want to pool on the basis that best supports natural economic geography. Government reserves the right to refuse pooling proposals where there is no clear rationale for the proposed pool (e.g. where members of a pool have no rational connection). The smallest local authority area that can be part of a pool is a district council.

In two-tier areas, pools could choose to operate on a county-wide basis or districts councils could pool with authorities outside county areas. They could also chose to pool across a wider area, including on a Local Enterprise Partnership-wide basis, where this makes sense and where members wish to do so.

Membership

It will be for members of a pool to determine membership of the pool. Government will not prescribe the size of pools or which authorities should be in a pool. However, pools will need to be able to operate effectively and make decisions on funding, and authorities may want to consider optimum size when looking at membership. Authorities will not be able to be a member of more than one pool. In two-tier areas, given the responsibilities of upper tier authorities, authorities will wish to consider the merits of including a county council within a pool formed within the county area. Authorities may want to satisfy themselves that their proposed pool membership does not create any perverse disadvantages for neighbouring authorities not included in the pool, which may subsequently result in objections to the pool proposals. The Department will invite comments from those affected by pooling proposals.

Governance

It will be for members of a pool to determine how the pool will be governed and operate, including in the event of a pool dissolving. The Government believes transparency will be important in pooling and as such expects pools to publish their pooling arrangements and financial information on the operation of the pool. To the extent that any guidance is needed on good practice for managing pools, the Government looks to the sector to produce it. Issues which authorities may wish to consider when framing pooling agreements might include:

- governance structure for management of the pool, including decision making;
- how the pool will share the benefits of growth and the impacts of volatility between its constituent parts;
- how investment decisions will be made;
- how the pool will ensure transparency of decision making and investment decisions, and;
- how the pool will handle dissolution, including any requirement to give notice of an intention to request dissolution, and distribution of assets and liabilities in the event of dissolution.

Pooling requirements

While wanting to let local authorities decide how best they should manage and operate any pools, the Government does believe that there are some arrangements that will be required, if pools are to operate effectively.

There should be a clear rationale for the geographic coverage of the proposed pool.

Pools should operate on a whole local authority basis, and an authority can not be a member of more than one pool.

Authorities will have to nominate one member to act as a lead authority. It is Government's intention that payments from, or to, the pool under the rates retention scheme would be channelled through the lead authority. The lead authority would also be responsible for supplying any information on behalf of the pool in connection with operation of the rates retention scheme. Each member of a pool would, however, be jointly and severally liable for any payments required to the Department for Communities and Local Government.

Depending on which authorities decide to pool, there could, exceptionally, be an impact upon the levy income needed to fund the safety-net. The Government therefore believes it would be sensible to reserve the right, in such exceptional circumstances, to consider factors such as the overall affordability of the rates retention scheme in deciding whether to designate a pool.

Incentives

The Government consulted on whether there should be further incentives within the rates retention scheme for local authorities that wished to pool. There was no support for this in the consultation exercise, and the Government has not introduced further incentives at the outset of the scheme. However, the Government reserves the right to return to this issue at a later date, if it would be beneficial.

Designating a pool

For a pool to come into effect, the Department for Communities and Local Government must make a pooling designation before local authorities are notified of the basis in which he intends to calculate tariffs and top-ups – i.e. before publication of the draft Local Government Finance Report, which is expected to be published as usual at the end of November/early December. The Government has amended the Local Government Finance Bill to provide an opportunity for local authorities to request to withdraw from a designated pool before a pool comes into effect, if after seeing the draft Local Government Finance Report they no longer believe that pooling provides the opportunities they had previously thought.

Once designated, a pool will be treated as a single body for the purpose of calculating its tariff or top-up. Pools will continue from year to year until a designation is revoked.

While local authorities in a pool will be treated as a single body, for the purposes of calculating tariffs, top-ups or levy payments, individual authorities in a pool would still be notified of tariffs and top-ups and the effect of any amending reports and would receive amending local government finance reports.

Conditions

When designating a pool, the Department for Communities and Local Government may attach conditions, as necessary – e.g. a requirement to publish an annual financial statement showing how income has been distributed or what income has been retained by the pool for future investment, or a requirement to notify other members of the pool of an intention to request dissolution of a pool and to do so in time to allow the other members of the pool to still submit a new pooling proposal for the following financial year.

The Department for Communities and Local Government would have the flexibility to add, modify, or remove conditions on a pool, to deal with changing circumstances, but before doing so would be required to consult pool members on proposed changes.

The Department for Communities and Local Government would be able to dissolve a pool if any conditions of designation are breached, following consultation with its members and other persons that may be affected.

Dissolving a pool

The Government is clear that pooling should be voluntary, and this means that members of a pool should be able to leave a pool should they decide it is no longer in their interests to be a member of it.

Where an authority that is a member of the pool requests that it is dissolved, the Department for Communities and Local Government must dissolve it, but will first be required to consult those affected, and inform the members of the pool and other persons affected.

Where a pool is dissolved, this will take effect from the following financial year unless it is made before the Local Government Finance Report is laid before Parliament and is in response to a request to dissolve the pool made within 28 days of the draft Local Government Finance Report being published. To dissolve a pool part way through a financial year would be too disruptive. Once a pool has been designated and the Local Government Finance Report laid, it is therefore indissoluble for the entire period of the financial year.

If a pool is dissolved, members of a pool would return to their individual tariff, top-up and levy amounts. Pools would need to ensure that they had arrangements in place in the event of dissolution, so that there was an agreed way of apportioning levy payments and safety net payments (which will not be known until the end of the financial year).

Local authorities should consider whether to incorporate into pooling agreements a requirement for members to notify each other of an intention to seek dissolution. Where there is no such provision, the Secretary of State may attach such a condition to a pool.

Timetable

To ensure pools are able to come into effect in time for the start of the rates retention scheme in April 2013, the timetable for pooling is as follows:

17 May	Invitation for local authorities to bring forward pooling proposals
27 July	Deadline for local authorities to submit expressions of interest
August	Development of detailed pooling proposals
September	DCLG consults interested parties from those affected by the pooling proposals
19 October	Submission of final pooling proposal including governance arrangements signed off by the Chief Executives and section 151 officers of each authority in the pool.
November[6]	Designation of pooling proposals, ahead of publication of draft Local Government Finance Report
Dec/January	Local authorities to notify the Department of their intention not to proceed. This must be before the statutory consultation on the draft Local Government Finance Report closes.
April 2013	Start of rates retention scheme

Submitting a pooling proposal

Local authorities that wish to submit an expression of interest should complete the template at Annex A (one template on behalf of the pool) and submit it by Friday 27 July.

In the intervening period the Department will work with interested local authorities to support the development of the detailed proposal. Final proposals including governance arrangements (signed off by the Chief Executives and section 151 officers of each of the local authorities in the pool) should be submitted by Friday 19 October.

[6] Date is subject to the timing of the publication of the draft Local Government Finance Report.

Interactive calculator

In order to support local authorities develop a pooling proposal, the Government has published a revised version of the interactive calculator. The interactive calculator enables users to explore the principal features of the proposed business rates retention scheme by entering their own inputs and varying components. The revisions remove some of the policy options where Ministers have now taken decisions and allow users to assess the effects of pooling in the rates retention scheme. Users are now able to compare the outcomes of the scheme with and without pooling, allowing them to better understand how pooling may affect their retained rates income.

No assumptions are made about how the combined retained income of the pool is distributed between participating authorities. However, for comparison purposes, the calculator does show the total retained income of the pooled authorities as if they were not pooled. This will show whether or not the pooled authorities in total are better off if pooled or treated separately.

The updated calculator will replace the current calculator located here: http://www.communities.gov.uk/publications/localgovernment/resourcereviewcalculator

Annex A

RATES RETENTION SCHEME: POOLING PROPOSAL

1. Pool title or description:

2. Lead contact for pool:

Name	
Organisation	
Position	
Address	
Telephone	
Email	

3. Local authorities included in pool:

4. Counties and/ or Local Enterprise Partnership(s) pool covers:

5. What is the aim/rationale for the pool? Please briefly describe:

6. Does the pool support the area's growth priorities (including Local Enterprise Partnership strategy and priorities)? If so, briefly describe how:

7. Please provide an indicative timetable for developing the detailed proposal and securing Chief Executives and s151 officers sign off:

Expressions of interest must be submitted by **Friday 27 July.**

Please send them to: Elizabeth Cowie, Pooling Proposals, Department for Communities and Local Government, 5/D1, Eland House