Department for
Communities and
Local Government

Business Rates Retention

Pooling Prospectus 2015-16

July 2014
Department for Communities and Local Government

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Introduction

Government has radically reformed the way local authorities are funded, moving away from one of the most centralised local government financed systems in the world to a more localised regime which provides much greater freedoms for local authorities. By enabling local authorities to retain 50% of the business rates collected at local level Government has given local authorities a strong incentive to pursue local growth intiatives. This supports the wider local growth agenda where local authorities and Local Economic Partnerships are given the tools and levers they need to unlock growth potential in their areas.

Under the business rates retention scheme local authorities are able to come together, on a voluntary basis, 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.

Last year, there was a total of18 pools, comprising 111 different authorities. Some of these were continuing pools having been designated in 2013-14. Based on forecast data those local authorities are projected to keep more of their income at a local level - through lower levy rates - than they would otherwise have done.

Timetable for proposals for 2015-16

Any proposals for new pools must be made to the Department by Friday 31 October 2014.

Existing pools do not need to re-confirm their intention to pool for 2015-16. Each of the pools that were designated for 2014-15, will continue to exist for 2015-16, unless one, or more, of the pool authorities notify the Department that they wish to withdraw from the pool. The Government will then dissolve the pool by revoking the designation by which it was set up.

If any of the existing pools are in this position and where the remaining members already know they wish to continue they should confirm their intention to establish a new pool by 31 October 2014. This will enable us to revoke the existing designation before making a new designation in time for the 2015-16 Settlement process.

Similarly, if an existing pool wishes to expand, it will be necessary for the original pool designation to be revoked and for a new designation to be made. The Department will need to be informed of any such proposal by 31 October 2014.

Scheme background

Under the rates retention scheme, which came into effect on 1 April 2013, local authorities are able to keep a proportion of the business rates that they collect. As a result, authorities now have a direct financial interest in the rates system and an incentive to work with their business community to grow local economies.

The rates retention scheme recognises that, at the outset of the scheme, the size of authorities' business rates bases was varied and that authorities had, and continue to have, very different resource needs, depending on their functions and demography. The scheme therefore provides that, each year, some business rates income is transferred between local authorities by means of top-ups or tariffs.

The scheme also provides a safety net for authorities who, in any year, see significant reductions in their income from the rates retention scheme. Over time the safety net will be paid from a levy on the growth in the business rates income of tariff authorities.

As part of the rates retention scheme, authorities can formally seek designation as a pool. This not only allows them to pool their resources under the scheme (which they could do anyway), but ensures that they are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments.

Further technical detail can be found at Annex A.

Benefits of Pooling

The Government believes that pooling can deliver a range of benefits for local authorities. This has been borne out by the experience of the 111 authorities that chose to be part of pools for 2014-15.

At a time when authorities are faced with tight public expenditure settlements and scrutiny of their spending from local ratepayers, collaboration over service delivery can help secure improved value for money. The act of setting up pools can help further the process of joint working and could result in wider benefits that go well beyond pooling.

Moreover, pooling the rates income from growth across a wider and economically coherent area ensures that all authorities can benefit from economic growth across the wider area. This can mean that the strategic decisions that are needed about infrastructure investment are easier to make.

Also, in many cases, authorities that pool can be better off collectively. This is because the levy rate for a pool as a whole can be lower than that for individual pool members if they remain outside the pool. This is the case in each of the 18 pools in effect for 2014-15. Based on local authority estimates of income (NNDR1s), the 18 pools will have an income of about £159 million above their combined baseline funding levels; and because they are in pools, the lower levy rates that apply mean that they will keep more of that income than they would otherwise have done.

Furthermore, by pooling their rates retention resources, pool authorities can help manage the inherent risk caused by natural volatility in rates income. Variations in annual rates income are normal, reflecting the nature of the rating system and, particularly, the risk of rating appeals. By pooling their rates retention resources, authorities can collectively manage these variations by balancing gains and losses across the pooled area.

A core principle of pooling is that it is voluntary. So it is for local authorities to establish if pooling is a benefit to them.

The effect of forming a pool will be different in each case, depending on the membership of the pool, and their individual circumstances (i.e. the balance of top-ups and tariffs) and the rate of growth in business rates income over the life of the pool. Local authorities will therefore need to undertake their own due diligence, modelling the individual position alongside the pool position. To assist local authorities the Department has published a interactive calculator.

The interactive calculator enables users to explore the outcomes of the scheme with and without pooling, allowing them to better understand how pooling may affect their retained rates income based on their own local intelligence.

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 calculator can be found at:

https://www.gov.uk/government/publications/business-rates-retention-scheme-pooling

Pooling could show a potential benefit – because the pool levy rate may be lower than the levy rates that would have been paid by members individually, thereby increasing the amount of rates income kept locally. Local authorities will also want to consider the impact of fluctuations in business rates income. Some local authorities may find that a reduction in their local business rates income which would otherwise have qualified for a safety net payment, will no longer do so, because overall the pool is above its safety net threshold. In these circumstances local authorities in the pool will need to decide whether and how they support members seeing significant reductions in their business rates income.

Making an Application

It is not necessary for authorities that are already designated as part of one of the 18 pools to re-apply for designation in 2015-16, if no change is proposed to the pool membership. The designation will simply carry forward to 2015-16.

In any other circumstance, a proposal for a new pool for 2015-16 must clearly set out the following:

Membership

The identity of each authority that is to be part of the pool.

The Department will not designate a pool if the proposed membership includes an authority that is part of another pool unless there is a simultaneous application for that other existing pool to be revoked or another proposed pool.

In short, authorities cannot be part of more than one pool. If an authority has a number of options open to it, it must decide which pool it wishes to belong to before an application is made to the Department.

Benefits

An application must include an explanation of the potential benefits to pool members from pooling their business rates under the rates retention scheme. This might include the rationale for the pool's geography and a description of its role in promoting growth, promoting strategic and service integration, and managing cash flows.

Lead authority

As the pool is treated as a single body for the purposes of the rates retention scheme the Department calculates only one number for the sum that is owed by the pool as a tariff payment, or owed to the pool as a top-up payment. Similarly, there is a single number calculated as the sum owed to, or by the pool in respect of safety net or levy payments.

Pools will need to identify a Lead Authority through whom payments due to and from the Department can be channelled. This can be any one of the pool members. The Department will agree a schedule of payments with the Lead Authority setting out the in-year payments of tariff, or levy payments, to be paid by the pool, and top-up and safety net payments due to the pool.

Governance agreement

The management of the pool, the distribution of pool income, the arrangements for meeting any liabilities and the overall governance of the pool are entirely matters for each individual pool.

Copies of existing governance agreements can be viewed at: http://www.local.communities.gov.uk/finance/1314/pooling/agreements.htm. These are provided only for illustration and for the assistance of those negotiating proposals for new pools.

However, before designating a new pool, Government will need to be assured that governance arrangements are in place and that these cover, at the least:

- the rights and obligations of pool members, including
- how money is to be disbursed to/between pool members and how payments to central government are to be funded by the lead authority
- the treatment of pool balances and liabilities following the pool's dissolution.

The Department will work with interested local authorities to support the development of the pool. Final proposals will need to be signed off by the s.151 officers of each authority in the pool.

Selection Criteria

The Department will consider all applications for designation received by 31 October 2014.

In deciding whether to designate a pool or not, the Department will have regard to the:

- the likely benefits of the proposals for local authorities and the Government's wider objectives for growth, and improved strategic and service delivery
- the proposed governance arrangements and
- the extent to which proposals are affordable in terms of the rates retention scheme as a whole.

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

In the same way that Government will refuse pooling proposals where the overall affordability of the business rates retention scheme is at risk, the Government also reserves the right to refuse proposals which do not provide a strong, clear rationale for the proposed pool.

It will be for local authorities to determine the geographic coverage of the pool as they will want to pool on a basis that best supports economic geography and the onus will be on the prospective pool authorities to produce a strong rationale to support their proposal.

Generally, we would expect pools to have continuous boundaries, but there may be instances where that is not the case. For example, in a Local Enterprise Partnership based proposal, not all local authorities in a Local Enterprise Partnership area may want to pool leaving a gap within the boundary. Equally, if a local authority wished to leave a pool and the rest of the members wanted to continue, it could create a gap in what had otherwise been a continuous pool.

Enforcing a rigid requirement for a continuous boundary in either of these circumstances would prevent an otherwise viable pooling arrangement from being established. To fit with the Government's wider policy of empowering Local Enterprise Partnerships and the Government desire to encourage pooling where there is a local appetite, establishing pools which do not have continuous boundaries in these circumstances will be acceptable.

Designation and Revocation Process

Designating a pool

Pools are established under paragraph 34 of Schedule 7B to the Local Government Finance Act 1988 (as inserted by Schedule 1 to the Local Government Finance Act 2012) http://www.legislation.gov.uk/ukpga/2012/17/schedule/1.

For a pool to come into effect, from the start of the next financial year, the Secretary of State for Communities and Local Government must make a pooling designation before the publication of the draft Local Government Finance Report for that year, in which local authorities are notified of the basis on which the Department intends to calculate tariffs and top-ups. This is expected to be published as usual in the Autunm.

While local authorities in a pool will be treated as a single body, for the purposes of calculating tariffs, top-ups or levy and safety net payments, authorities in a pool will be notified of their position in the draft Local Government Finance Report. This will enable local authorities to confirm if pooling is still of benefit to them.

Local authorities can withdraw from a designated pool before the 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. To exercise this option a local authority must write to the Department within 28 days of the publication of the draft Report and before the final Report is laid before the House of Commons. The Secretary of State will then revoke the designation.

Local authorities should be aware that once a designation has been made it cannot be amended so if a local authority chooses to exercise this option it will mean that the pool cannot continue. In those circumstances the local authorities who had been designated as members of that pool would revert to individual positions.

Pools will continue from year to year until a designation is revoked.

Conditions

In designating a pool for 2015-16, the Department will attach conditions to the designation in accordance with paragraph 35(1) of Schedule 7B to the Local Government Finance Act

1988 by appointing a lead authority and requiring the authority to take the steps set out in its application in the event that the pool is dissolved.

It also reserves the right to attach such other conditions as it sees fit, in accordance with paragraph 35(2) of Schedule 7B. If the Department attaches conditions these are likely to be around the publication of information by the lead authority in the interests of transparency.

The Department also reserves the right to modify or remove conditions at any point in the future, as becomes necessary.

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 is no longer in their interests.

Where an authority that is a member of the pool requests that it is dissolved, the Secretary of State must revoke the pool but will first inform the members of the pool and other persons affected.

A request to dissolve a pool can be made anytime during the year; however the effect will be felt in the following financial year. This is because it is too disruptive to dissolve part way through the year, so 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 will return to their individual tariff, top-up, and safety net levy amounts. Pools will need to ensure that they have arrangements in place in the event of dissolution, so that there is an agreed way of apportioning levy payments and safety net payments (which will not be known until after the end of the financial year).

Annex A

Pooling and the Rates Retention Scheme: Technical Annex

Tariffs and Top-Ups

1. In setting up the rates retention scheme, the Department calculated for each local authority:

    i. a Baseline Funding Level and

    ii. a Business Rates Baseline

2. These were set out in the Local Government Finance Report for 2014-15, together with the basis on which they were calculated. http://www.official-documents.gov.uk/document/hc1213/hc09/0948/0948.pdf

3. The difference between these numbers determines whether an authority will pay a tariff, or receive a top-up payment – if an authority's business rates baseline is higher than its baseline funding level, it will pay the difference to the Department as a tariff; if it is lower, the difference will be paid to it as top-up funding.

4. Where authorities were designated as a pool, the pool was treated as a single entity and a single tariff or top-up calculated for the pool as a whole. This was done by aggregating the baseline funding levels of each of the authorities in the pool and comparing this with the aggregate of their business rates baselines.

5. Tariffs and top-ups will be indexed for 2015-16 by the difference between the small business rating multipliers for 2014-15 and 2015-16.

$$\frac{\mathbf{A \ X \ B}}{\mathbf{C}}$$

where:

A – is an authority's tariff or top-up for 2014-15
B – is the small business rating multiplier for 2015-16 and
C – is the small business rating multiplier for 2014-15

6. For 2014-15 designated pools that continue into 2015-16, will simply have their tariff or top-up indexed as above.

7. For any new pool that comes into being for 2015-16, the Department will:

    i. first, calculate the aggregate tariff of top-up that would have applied in 2014-15 and then

    ii. index this by the difference in the small business rating multipliers, as set out above.

Levy and Safety Net

8. Baseline funding levels and business rates baselines are also used to determine levy rates and safety net thresholds.

Levy:

9. For individual authorities, the levy rate is calculated as the lower of 0.5 or:

$$\mathbf{1 - D/E}$$

where:

D – is the authority's baseline funding level for 2013-14 and
E – is the authority's business rates baseline

10. For pool authorities, D and E were the aggregated baseline funding levels and business rates baselines used in the calculation of tariffs and top-ups (see above).

11. Once set, the levy rate does not change from year to year.

12. For designated pools that continue to be designated for 2015-16, the levy rates set last year will continue to apply.

13. For newly designated pools in 2015-16, the aggregated figures in paragraph 7 above will be used to calculate a single levy rate that will apply to each of the constituent local authorities.

Safety Net:

14. Safety net payments are made to authorities where their retained rates income is less than their safety net threshold for the year.

15. An authority's safety net threshold is set at 92.5% of the authority's baseline funding level for the year.

16. Authority's baseline funding levels are indexed annually by the difference in the current and previous year's small business rates multipliers. So, for 2015-16, the baseline funding level to be used in the calculation of the safety net threshold will be:

$$\frac{\mathbf{D \times B}}{\mathbf{C}}$$

where:

D – is the authority's baseline funding level for 2014-15
B – is the small business rating multiplier for 2015-16
C – is the small business rating multiplier for 2014-15

17. For continuing pools, D will be the aggregate baseline funding level previously used to determine tariffs, top-ups and safety net thresholds for 2014-15.

18. For new pools, designated for 2015-16, D will be the aggregated baseline funding levels used to determine the pool's notional 2014-15 tariffs, or top-ups.