

Evaluation of options considered in relation to Governance Arrangements for the Greater Birmingham and Solihull Business Rates Retention Scheme Pooling Arrangement

1. Pool Title or Description

Greater Birmingham and Solihull

2. Local Authorities Included in Pool

Birmingham City Council
Bromsgrove District Council
Cannock Chase District Council
East Staffordshire Borough Council
Lichfield District Council
Redditch Borough Council
Solihull Metropolitan Borough Council
Tamworth Borough Council

3. Aim/Rationale of the Pool

The Greater Birmingham and Solihull Pool will aim to:

- Build on and strengthen the working relationships of the Greater Birmingham and Solihull Local Enterprise Partnership;
- Adopt a strategic approach to promoting growth and job creation, that supports the delivery of the LEP's Strategy for Growth;
- Support a holistic approach to investment/inward investment;
- Align with GBS Finance as it develops to create additional resource for projects;
- Reduce the impact of the volatility of business rates income over the pool by spreading the risk;
- Recognise the interdependence of the local authority members; and
- Enable joint decision-making on how the pool will operate and investment priorities.
- In doing so whilst the primary motivator of the pool is to drive economic development it is recognised that the pooled resources might be directed towards economic development, core funding or a combination of both and that this will be determined by the GBS Pool Leaders.

4. Growth Strategies

The Greater Birmingham and Solihull Pool will support the delivery of the Greater Birmingham and Solihull Local Enterprise Partnership's Strategy for

Growth, seeking to maximise economic growth across those local authority areas within the pool.

5. Decision Making Structures

5.1 Executive Body

The Executive Body will be the body that takes the formal decisions for the pool, specifically including the amount of funding that will be pooled, subject to being mandated by each individual authority, and how the pooled resources will be distributed.

5.2 Membership

The make up of the Executive Body will be

RECOMMENDED OPTION A1

The Leaders of each pool authority will form an Executive Body called GBS Pool Leaders.

OR

OPTION A2

The LEP Board be made the Executive Body for the pool. However, under the Localism Act, the General Act of Competence cannot be used to delegate powers to the LEP Board. The Government would therefore need to put enabling powers in the Local Government Finance Bill for this option to be viable.

5.3 Voting Arrangements

Each Member of the Executive Body will have equal voting rights on both the resources to be pooled and the application of resources included within the pool and decisions will be agreed where there is not more than one dissenting vote.

Quorum for meetings will be 50% of the membership of the Executive Body.

Whilst the Executive Body need to establish the future years methodology to pooling, this would need to be mandated by each individual authority participating in the Pool.

5.4 Investment Decision Making

The first call on pooled resources will be to cover the administrative costs of the accountable body detailed in section 6.

Funding decisions will be made by

OPTION B1

GBS Pool Leaders determine how all funding decisions are taken across the remainder of pooled resources, whether they relate to core funding or economic investment.

OR

RECOMMENDED OPTION OPTION B2

Pool Leaders will determine how all funding decisions are taken across the remainder of pooled resources, whether they relate to core funding or economic investment, following consultation with the LEP Board and the Pool Authorities.

OR

OPTION B3

The LEP Board determine how all funding decisions are taken across the remainder of pooled resources, whether they relate to core funding or economic investment. However, under the Localism Act, the General Act of Competence cannot be used to delegate powers to the LEP Board. The Government would therefore need to put enabling powers in the Local Government Finance Bill for this option to be viable.

6. Accountable Body

Birmingham City Council will act as the accountable body on behalf of the Greater Birmingham and Solihull pool. The cost associated with this will be £XXX,XXX per annum over XXXX years.

In its role as accountable body Birmingham City Council will undertake the following:

- Administer the transfer of resources between the pool and the Government.
- Coordinate the transfer of funds between pool authorities in accordance with pool priorities.

- Where the transfer of funds is not carried out in line with the timetable required, interest will be charged at a rate of X.X% on a daily basis.
- Coordinate the submission of information requirements to the Government on behalf of the pool.
- Coordinate the calculation of the budgeted level of Pool retained levy payments/reduced safety net payments in any year and the actual Pool retained levy payments/missed safety net payments after the year end.
- Coordinate monitoring of business rates income across the pool and report quarterly to the Executive Body.
- Borrowing for investment purposes. After meeting the accountable body costs, the first call on pooled resources will be to repay borrowing.
- Legal agreements for the pool.

Each individual pool member will, however, continue to operate their own collection fund for business rates.

7. **Management of the Pool**

As accountable body, Birmingham City Council will manage the day-to-day running of the pool. This will require members of the pool to freely share information regarding forecasts and collection levels of business rates income.

8. **Distribution of Risk and Reward**

The wider potential economic and distributional flexibilities and advantages have been detailed in section 3 above. Whether or not the total quantum of business rates income is greater or less for authorities participating in the pool is dependent upon:

- The range of additional financial benefits generated across the pool as a result of generating additional economic growth that otherwise would not have occurred through collaboration
- The amount of Pool levy payments retained
- The amount of safety net that would have been received

Simplistically, if the pool includes both top up and tariff authorities, and grows its business rates then the tariff authorities would pay a lower levy and hence there will be additional resources within the pool. Similarly, if some individual LAs fall below their individual safety net, but collectively the pool does not fall as far, then less safety net grant would be paid to the pool.

8.1 Pool Retained Levy Payments

Whilst the primary motivator of the pool is to drive economic development it is recognised that the pooled resources might be directed towards economic development, core funding or a combination of both and that this will be determined by the GBS Pool Leaders.

Where the net position of the pool is that levy payments have been retained, the Executive Body will determine, as set out in option B, the most appropriate allocation strategy, subject to the approach taken to fund reduced safety net payments:

RECOMMENDED OPTION C1 - Share Proceeds of Retained Levy Payments

1. On formation of the pool it is agreed that all members will pay/receive their annual tariff/top up payment (inflated annually by RPI), that would have been paid/received by individual authorities had no pool existed, to/from the accountable body.
2. Additionally, all members of the pool will retain the business rates income that they would have received had no pool existed.
3. All members of the pool will however pay any Pool retained levy payments to the accountable body to be used by the Executive Body as they feel is appropriate to assist with core funding and/or economic investment.

OR

OPTION C2 – Shared Benefit of Growth

1. On formation of the pool it is agreed that all members will pay/receive their annual tariff/top up payment (inflated annually by RPI), that would have been paid/received by individual authorities had no pool existed, to/from the accountable body.
2. Additionally, all members of the pool will retain the business rates income assessed as part of their baseline funding, which grows in line with RPI annually.
3. All members of the pool will pay any real growth in business rates and retained levy payments to the accountable body to be used by the Executive Body as they feel is appropriate to assist with core funding and/or economic investment.

OR

OPTION C3 – Fixed Percentage Distribution

1. On formation of the pool it is agreed that all members will pay/receive their annual tariff/top up payment, that would have been paid/received by individual authorities had no pool existed, to/from the accountable body.
2. Additionally, all members of the pool will retain the business rates income assessed as part of their baseline funding. Any real terms growth and/or levy payments will be allocated to each member on a pro rata basis with baseline funding levels.

All future allocations of funding will be made pro rata to this baseline funding position in order to share the proceeds of growth across the pool.

8.2 Reduced Safety Net Payments

The greatest financial risk that can result from the Business Rates Retention Scheme is the pool not receiving safety net payments that would have been received across pool members had the pool not existed. Where an authority would have received safety net payments but this is not forthcoming, due to the pool not falling below the safety net threshold and the pool also has retained levy payments then

OPTION D1

The individual local authorities concerned will generate their own arrangements to make good the reduction in resources

OR

RECOMMENDED OPTION D2

Initially 25%, or other such sum as agreed, of the Pool retained levy payments will be set aside as a contingency fund. The first call on this contingency fund will be to fund safety net payments not received. The allocation of this funding is to be determined by the Executive Body. The remaining 75%, or other such sum as agreed, of funding will be allocated by the Executive Body.

As the Pool becomes more established and discovers whether a contingency is required and at what level, this ratio can be reviewed as the level of funding to be pooled is reviewed.

OR

OPTION D3

The Executive Body may choose to allocate retained levy payments to assist authorities with “core funding”. An assessment of whether further assistance is required regarding missed safety net payments would be made after the allocation of levy funding.

8.3 Net Lower Level of Resources for the Pool

Where any retained levy payments of the pool are less than any missed safety net payments and the combined resources of the pool are less than they would have been had no pool existed then

OPTION E1

Each authority will retain their share of the business rates in their locality and continue to contribute their tariff payment to/receive their top up payment from the pool.

OR

OPTION E2

Total resources of the pool will be allocated pro rata to the baseline levels of funding.

OR

RECOMMENDED OPTION E3

A decision of the Executive Body will be taken on the distribution of funding based on the specific circumstances prevailing at the time.

8.4 Changes to Funding to be Pooled

The Executive Body will review the methodology of the amount of funding that will be pooled and the methodology for distributing funding annually. Each review will take place by the end of June preceding the financial year for which the change will take place. As the pool will begin on 1 April 2013 the first review of funding distributions is expected to take place by June 2014. If no review takes place then the previous year's methodology will continue to be adopted.

Whilst the Executive Body need to establish the future years methodology to pooling, this would need to be mandated by each individual authority participating in the Pool.

8.5 Business Rates Collection

Each individual authority will be responsible for collecting the business rates required to implement the pool's funding strategy. If individual authorities are not able to make their required contributions to the funding strategy because

of poor collection rates then the individual authorities concerned must make good this shortfall.

8.6 Admittance of New Members

The Greater Birmingham and Solihull Pool is open to the possibility of accepting additional members to its pooling arrangement. New members will be accepted subject to:

- there being a unanimous decision of the Pool Leaders/LEP Board to accept the new member(s)
- new membership will begin from 1 April of the following financial year
- consultation and designation requirements of CLG.

8.7 Notice Period

Membership of the Greater Birmingham and Solihull pool is on a voluntary basis. Therefore all members will be able to leave if they choose to.

Any authority that wishes to leave the pool must provide a minimum 12 months notice with membership ending on the 31 March in the financial year following notice being given.

However, if a local authority wishes to leave the pool following a decision to change the resources that are to be pooled, taken by the Executive Body (see section 8.4), then a minimum of 6 months notice would be required with membership ending on 31 March following.

8.8 Scrutiny

Scrutiny and financial verification of the work of the Executive Body and the Accountable Body will be carried out by the Scrutiny and Audit Committees of the constituent Authorities. The Authorities will be expected to co-ordinate work programmes for their Committees to prevent duplication

9.0 In a number of respects the recommended options are still to be determined , although this will not prevent submission of the required information to the DCLG. These are detailed below :

9.1 Over/Under Forecasts of Business Rates

Where there is an over/under forecast of business rates when budgets are set, this will lead to a deficit/surplus respectively for each pool authority's business rates collection fund. Where this leads to less income from Pool retained levy payments than expected

OPTION F1

It will be for each individual pool member to make good the shortfall in resources available from the levy for investment.

OR

OPTION F2

The deficit in funding to pay for levy payments will be established based on the net outturn for all pool members' collection fund positions. Where there is a net shortfall in levy funding, those authorities that had a deficit in providing levy funding will fund this deficit pro rata to their individual deficits.

OR

OPTION F3

The net deficit will be made good collectively by pool members pro rata to baseline funding levels.

In order to reduce the likelihood of this having an ongoing impact, not more than 50% of Pool retained levy payments will be used to fund capital repayments.

Where a surplus has been generated the Executive Body will determine how best to invest this funding in future years subject to the approach taken to fund any deficits as described above.

9.2 Financial Obligations

When a local authority serves notice to leave the Pool,

OPTION G1

Pool Leaders will agree what proportion of pool investment costs should be repaid to the pool. In addition, any ongoing capital repayment costs that will need to continue to be met by the authority leaving the pool will be calculated by the accountable body.

OR

OPTION G2

A set formula will determine the proportion of pool investment costs that should be repaid to the pool. In addition, any ongoing capital repayment costs that will need to continue to be met by the authority leaving the pool will be calculated by the accountable body.

9.3 Dissolution

The Executive Body can take a decision on whether or not the Pool should dissolve at the end of a financial year.

On the pool dissolving Birmingham City Council will, as accountable body distribute any resources held on behalf of the pool. Where there are capital repayments that require ongoing funding, BCC will continue to charge local authorities for these payments until the borrowing is repaid in full. This will be

OPTION H1

Pro rata to baseline funding levels

OR

OPTION H2

Pro rata to contributions to the Pool retained levy payments.

OR

OPTION H3

To be determined by the Executive Body at the time of dissolution

Glossary of Terms

Accountable Body

The Local Authority that takes responsibility for all of the monetary flows to and from the Government and will carry out any borrowing required on behalf of the Pool.

Baseline Funding Level

The amount of a LA's start up funding allocation from the business rates retention scheme. This is the combination of retained business rates plus top up/minus tariff.

Core Funding

Funding that would be received by local authorities if they did not pool resources from business rates plus/minus top ups/tariffs and is used to help fund the core services provided by the council.

Executive Body

This is the decision making body of the Pool.

GBSLEP Board

The decision making body of the GBSLEP. This is made up of both public sector and private sector representatives.

GBS Pool Leaders

The Leaders of the LAs that are members of the GBS Pool.

Levy Payment

A charge made by the Government to limit disproportionate gains by LAs. This has been set by the Government so that a LA can never see more than a 1% increase in its baseline funding level for each 1% increase in its level of business rates.

Tariff

The payment made from tariff authorities to central government over the course of the financial year due to having a higher level of business rates than the baseline funding level.

Top Up

The payment made from central government to top up authorities over the course of the financial year due to having a lower level of business rates than the baseline funding level.

Windfall Funding

Funding that would not otherwise have been retained by the pool authorities as a result of retained levy payments

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