

Governance Arrangements for the Greater Birmingham and Solihull Business Rates Retention Scheme Pooling Arrangement

Definition of Terms

“Executive Body” – the decision making body made up of elected Leaders of the Pool Authorities also referred as the “GBS Pool Leaders”.

“GBSLEP” - Greater Birmingham and Solihull Local Enterprise Partnership – a jointly owned company encompassing a partnership between local authorities and businesses. It plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of jobs.

“GBS Finance Limited” – a company that will manage, invest, recycle and dramatically leverage a number of public and private funds to invest in key projects, infrastructure and GBSLEP’s priorities.

“GBS Pool Leaders” – the decision making Executive Body of the GBS Pool made up of the elected Leaders of the Pool authorities.

“Accountable Body” – the authority that is responsible for managing the day-to-day financial management of the pool and the financial interactions with the Government in relation to the Business Rates Retention Scheme.

“Retained Levy Payments” – Levy payments that would have been paid to the Government had the pool not existed.

“Safety Net Payments” – Payments received from the Government when retained business rates income falls below a threshold defined by the Government

1. Pool Title or Description

Greater Birmingham and Solihull Pool (“the Pool”)

2. Local Authorities Included in the 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 Pool will aim to:

- Build on and strengthen the working relationships of the GBS LEP;
- Adopt a strategic approach to promoting growth and job creation, that supports the delivery of the GBS LEP’s Strategy for Growth;
- Support a holistic approach to investment/inward investment;
- Align with GBS Finance Limited 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 Pool will support the delivery of the GBS LEP'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

- (a) The GBS Pool Leaders , 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.
- (b) The GBS Pool Leaders will ensure that each has full authority to execute all necessary legal agreements to give effect to the proposals contained in these governance arrangements.

5.2 Membership

Members of the Executive Body will be the Elected Leaders of each of the Pool Authorities.

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.

Where there is more than one dissenting vote the proposition will not be passed.

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

Whilst the Executive Body needs to establish the future years methodology to pooling, this would need to be formally mandated by each individual authority participating in the Pool as required under their individual governance practices.

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.

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 GBS LEP board and the Pool.

6. Accountable Body

Birmingham City Council will act as the Accountable Body on behalf of the Pool. The cost associated with this will be £65,000 per annum for 2013/14 and thereafter reviewed annually.

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 by Pool Authorities, interest will be charged at a rate of Bank of England Base Rate + 2% on a daily basis. The Pool Authorities that have not transferred funds in line with the specified timetable agree to pay this additional charge.
- 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.
- Individual Pool Authorities will carry out borrowing required for schemes approved by the Executive Body that will take place in their individual areas. The accountable body will reimburse those borrowing repayments incurred by these authorities out of pooled resources.
- Legal agreements for the Pool.

Each individual member of the Pool will, however, continue to operate its 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 without collaboration
- The amount of Pool levy payments retained
- The amount of safety net grant 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 any of the Pool Authorities falls 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 5.4, the most appropriate allocation strategy, subject to the approach taken to fund reduced safety net 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.
4. Retained levy payments will be transferred into the pool no later than the point at which they would otherwise have been paid to the Government had no pool existed. Where specific schemes have been approved by the Executive Body, retained levy payments may be transferred in advance of this, in line with the repayment profiles.

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 by one or more Pool members had the Pool not existed.

In recognition of this, initially 25%, or other such percentage as agreed by the Executive Body, 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 any safety net payments not received. The allocation of this funding is to be determined by the Executive Body. The remaining 75%, or other such percentage 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.

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 Pooled Authorities are less than they would have been had the Pool not existed then 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 the 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.

As discussed in section 5.3, any change to the methodology will be agreed where there is not more than one dissenting vote. If one authority does not

agree with the change it may be that, subsequently, that authority then chooses to serve notice to the Pool as per section 8.6.

8.5 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, as existing 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.
- their full acceptance of the CLG's Business rates retention scheme – pooling prospectus and any subsequent amendments to or iterations thereof.

8.6 Notice Period

Membership of the 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 in writing 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 taken by the Executive Body (see section 8.4) to change the resources that are to be pooled, then a minimum of 6 months notice, in writing, would be required with membership ending on 31 March following.

8.7 Scrutiny

Scrutiny of the work of the Executive Body and the Accountable Body may 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.

8.8 Over/Under Forecasts of Business Rates

All Pool Authorities will pay into the pool the levy payments that they would have been paid to the Government had no pool existed.

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, this should be manageable due to the Pool's policy on contingencies and limiting the extent of capital commitments. However, in the event of an in year deficit occurring due to under/over

forecasts, the deficit/surplus will be carried forward to be taken into account as part of the following year's budget process.

In order to reduce the risk associated with the forecasting of retained levy levels, not more than 50% of Pool retained levy payments will be used to fund capital repayments.

8.9 Financial Obligations

Pool Leaders will agree a profile of capital repayment costs and growth premium costs that will be repayable by the authority in which investment is made in the event they leave the pool. This will be agreed at the time the investment decision is made. When an authority serves notice to leave the pool it will make payments to the Pool in line with the outstanding balance of payments agreed in the investment decision.

8.10 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, Birmingham City Council will continue to charge the Pool authorities for these payments until the borrowing is repaid in full. This will be based on paragraph 8.9 for investment decisions, with the Executive Body agreeing how any further outstanding assets and liabilities are distributed across Pool members.

9. Review of Governance Arrangements

The Pool will formally review and approve its governance arrangements on an annual basis by no later than the end of June in each financial year.

10. Impact of the Pool on Other Authorities.

Consideration has been given to the impact of the formation of the Pool on other authorities, and this analysis can be found in Appendix A.

Impacts of Pooling and Mitigations

Ref	Impact	Mitigation
1.	Impact on potential for Business rates growth in neighbouring county areas.	<p>The Pool will look to maximise business growth so that growth levels are higher in all participating authority areas than if they operated individually. This can only have a positive effect on their neighbouring authorities. Of course, all participating districts will continue to have interaction on economic development matters with their county authorities, neighbouring districts and the other LEP bodies associated with their district. In any event, the county councils will continue to benefit by receiving 20% of the retained business rates from each of the districts within their boundaries, irrespective of whether or not they elect to join a LEP pool.</p>
2.	Impact on the effectiveness of other neighbouring LEPs	<p>The decision of the Pool districts to not join the other LEPs covering their areas might be argued to have an adverse impact on those LEPs. However, they will still be of sufficient scale to be effective organisations. As stated above, these districts will continue to be actively engaged with those other LEPs and the synergies should increase the overall level of strategic investment.</p> <p>It should also be noted that the governance arrangements being developed for the Pool allow for the admittance of new members and the departure of existing members if they wish. This provides future flexibilities to respond to changing geo-political scenarios.</p>

Appendix A

3.	Impact of Wyre Forest District Council being in the GBSLEP, but not in the Greater Birmingham and Solihull Pool	Wyre Forest District Council took part in all discussions around the possibility of pooling with the Greater Birmingham and Solihull Pool, but advised that it did not want to be involved in the Pool Expression of Interest. The scale of the residual Pool is such that it still maintains its critical mass.
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