

# Factsheet: Pooling and local growth zones (Clause 3 and Schedule 1)

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## **What does 100% business rates retention mean for pooling and local growth zones?**

The Government believes that local authorities can achieve greater impact when working together, especially when working over wider areas to achieve economic growth. For this reason, the Government wants to continue to encourage and reward pooling under the 100% business rates retention system. Local authorities coming together in a pooling arrangement (for example across a Combined Authority area, or a functional economic area) can achieve greater rewards in terms of economic growth for the area as a whole.

The Bill proposes that discretion to create and revoke pools will, in future, lie with the Secretary of State for Communities, subject to a statutory duty to consult all affected authorities. The Bill also provides a power for the Secretary of State for Communities to make regulations enabling the local authorities in a business rates pool to designate an area, or areas, as a local growth zone (within parameters set by central government). This will enable the local authorities in that business rates pool to keep a proportion of growth in business rates income outside the rates retention system for a specified number of years.

## **What is the policy hoping to achieve and where are we now?**

The current approach to pooling, under the 50% business rates retention scheme, allows local authorities to voluntarily come together and propose their own business rate pools. These pools are then treated as one entity in terms of levy payments and receiving safety net payments if required.

The current approach to pools does not work as well as it could, and does not help to achieve the potential benefits that more ambitious pooling arrangements could bring. The current voluntary approach can incentivise the wrong behaviours – leading in some areas to local authorities being excluded from pools due to their being perceived as ‘high risk’. In addition, the removal of the levy from the new 100% business rates retention system means that the rewards for pooling are reduced.

The Government is therefore taking a fresh approach to pooling under the 100% business rates retention system. The Government is proposing to broaden the ability of the Secretary of State to designate pools of authorities. By removing the requirement that all authorities must agree to being designated as a pool, we enable the Secretary of State to ensure that pools are created across functional economic areas that maximise the opportunities for growth. The Bill introduces a statutory duty to consult with areas on their pooling arrangements, and we will continue to encourage local authorities to come forward with their proposals for pooling.

The ability for pools of local authorities to set local growth zones will allow those authorities to benefit from any growth in business rates income in that area, receiving shared rewards for shared investment in economic growth.

## **Why is legislation needed?**

Legislation is needed to provide the Secretary of State for Communities with discretion to designate pools of authorities for the purposes of business rates retention, and provide for local growth zones within business rate pools.

Secondary legislation will set out the parameters that could be set around growth zones – for example in relation to the proportion of growth retained, the number of years for which a zone would exist, the purposes for which additional income could be used. Such parameters may not be the same for all growth zone areas, but would allow a flexible approach depending on local circumstances. We also expect the secondary legislation to include technical detail about the calculations that will need to be made in relation to growth zones, particularly around the retention of an additional amount of non-domestic rating income.

### **How do we see this working in practice?**

The Government will continue to expect authorities to approach Government with pooling proposals. Providing the Secretary of State with discretion to designate pools of local authorities will allow for an assessment to then take place to establish whether the pool covers a sensible area, such as a Combined Authority area, or a functional economic area. This power will also give the Secretary of State flexibility about the number and size of pools. This will be important should pools be given additional powers or abilities to retain growth.

We expect pools of authorities, as part of their discussions on pooling, to consider whether they could make good use of a local growth zone within the pool area. The enabling powers will allow the Government to discuss with pools of authorities what is required for their local growth zone(s), to enable us to tailor the parameters that are set to the specific needs of the areas involved.

### **How can I find out more?**

The Government intends to publish a consultation shortly on further detail of the design of the 100% business rates retention system, including how we anticipate that pooling will work.

We encourage all local authorities to continue to engage with their representatives on the joint LGA-DCLG Business Rates Retention Steering Group and Systems Design Working Group. Minutes of the meetings, along with all papers considered by the Steering and Working Groups, can be found at [www.local.gov.uk/business-rates](http://www.local.gov.uk/business-rates).

### **Key questions & answers:**

#### **How will pools of authorities be designated under 100% business rates retention?**

- The Government intends to work with local authorities about what constitutes a sensible geography for a business rate pool, taking into account local circumstances. We will be required to undertake a statutory consultation of all affected authorities before designating a pool. However, the final decision will rest with the Secretary of State.

#### **Is the power to designate local growth zones only available to pools of authorities?**

- The Government believes that pools of authorities are best placed to take decisions about economic growth across the wider geographical area that they cover.
- The ability to set local growth zones will reward those authorities working in partnership in ambitious pooling arrangements, and will not be open to other local authorities.

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