

dated 2020

**The Greater London Authority**  
and  
**The London Boroughs**  
and  
**City of London Corporation**  
**(together the Participating Authorities)**

## **Memorandum of understanding**

in relation to Extended London Business Rates Pool 2020/21

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## 1 **Background**

1.1 This Memorandum of Understanding (**MOU**) and the appendices which form part of the MOU sets out the basis on which the Participating Authorities have collectively agreed to continue to operate a Business Rates Pool across London and distribute the Financial Benefit. No provision within this MOU is intended to create any legal relations between the Participating Authorities.

1.2 The Participating Authorities agree to act collaboratively and to co-operate with each other in utmost good faith.

1.3 The Government designated a pan-London business rates pool in 2018-19, which piloted 100% retention in that year, and was revised to pilot 75% retention in 2019-20 (the Business Rates Pilots). It confirmed in September 2019 its intention not to renew the London pilot in 2020-21, and for London to revert back to the pre-existing 2017-18 67% retention scheme (which was a partial pilot, reflecting the incremental impact of the rolling in of the Greater London Authority's (**GLA**) Revenue Support Grant (**RSG**) and the Transport for London investment grant).

## 2 **Aim/Rationale of the Pool**

2.1 The Pool continues to aim to improve the well-being of the communities served by the Participating Authorities in London. By working together, they can retain a greater proportion of business rates Growth within London, providing additional resources to support local communities and strengthen financial resilience following a decade of significant funding reductions.

## 3 **Principles of the Pool**

3.1 The Participating Authorities hereby confirm their agreement to continue to participate in compliance with this MOU and confirm that they have resolved or intend to duly and

properly resolve to accept the Designation Order in satisfaction of Schedule 7B, Paragraph 34(2) of the Local Government Finance Act 1988 (**LGFA 1988**) and to enter into this MoU.

- 3.2 From 1 April 2020 the Participating Authorities shall retain 67% of their Non-Domestic Rating Income. The Participating Authorities shall also continue to receive Section 31 Grant from the Government in respect of changes to the business rates system. Section 31 Grant shall amount to 100% of the value of the lost income so will also be calculated on a 67% retention basis.
- 3.3 In returning to 67% rates retention, the Ministry of Housing, Communities and Local Government (**MHCLG**) will once again pay RSG to the Participating Authorities in 2020-21 with tariffs and top-ups reverting back to the levels calculated by government within the 2020-21 Local Government Finance Settlement that reflect the underlying 50% retention scheme, with a borough share of 30%. The GLA's tariff will be calculated based on its partial pilot of 37% retention, to reach the total 67% retention scheme.
- 3.4 The Safety Net level of the pool will be 92.5% of the aggregate Baseline Funding Level of the pool, and the Levy rate (reflecting the relative scale of the pool's aggregate Business Rates Baseline and Baseline Funding Level) is estimated to be 19 pence in the pound (the Final Local Government Finance Settlement will formally confirm the levy rate).
- 3.5 This Pool shall have no impact on Enterprise Zones or "designated areas" where the designations made by the Secretary of State came into force on or before 1 April 2020, along with other special arrangements, such as the statutory provision to reflect the unique circumstances of the City of London Corporation (**COLC**), as currently contained in Part II of Schedule 7 to the LGFA 1988 and paragraph 1(2) of Schedule 1 to the Non-Domestic Rating (Rates Retention) Regulations 2013/452.

#### 4 **Term of MOU**

4.1 Subject to clause 4.2, this MOU comes into effect for the Non-Domestic Rating Income on 1 April 2020 and terminates on 31 March 2021 (the **Term**), unless otherwise agreed in writing by all the Participating Authorities or unless terminated in accordance with paragraph 9 below ("Dissolution of the Pool") or extended on the same basis for 2021-22.

4.2 Notwithstanding termination or expiry of the MOU Participating Authorities will continue to implement / operate any outstanding Activities agreed for the Term till such time as the Activities are complete, the annual report is issued and the final Reconciliation Payments are settled by the Lead Authority.

#### 5 **Distribution of any Financial Benefit or Deficit**

5.1 This MOU shall constitute the agreement for the operation of the Pool in which:

5.1.1 Where there is sufficient retained income in the pool to guarantee it, each of the Participating Authorities shall receive at least as much from the Pool as they would have individually received under the non-pooled 67% retention scheme;

5.1.2 Any Financial Benefit will be distributed through the Redistribution Pots agreed by Participating Authorities in the former Business Rates Pilots. However, London Councils Leaders' Committee and the Mayor of London agreed to remove the Strategic Investment Pot (**SIP**) as a redistribution pot. The Financial Benefit will therefore be apportioned using the three remaining Redistribution Pots, in in the agreed proportions set out in clause 5.1.3 below

5.1.3 The distribution of Financial Benefit arising from the pooling arrangement will be allocated to Billing Authorities on the basis of the following proportions:

- (a) Incentives Pot: 18% of the Financial Benefit to incentivise Growth by allowing the Billing Authorities where Growth occurs to keep a proportion of the additional funds retained as a result of the Pool. The proportion shall reflect, for authorities with Growth, each Billing Authority's share of the total Growth prior to Levy;
- (b) Needs Pot: 41% of the Financial Benefit to reflect, as proxy for need, each Billing Authority's share of the total the Settlement Funding Assessment for the London Billing Authorities;
- (c) Population Pot: 41% of the Financial Benefit according to each Billing Authority's per capita formulation as calculated by the most recent available ONS projection for 2020 at the time of distribution.

5.1.4 The GLA will be included in the 2020-21 pool. However, the GLA shall not receive Financial Benefit arising from pooling (as discussed at the London Councils Leaders' Committee and with the Mayor of London in October 2019).

5.1.5 In the event of the Pool generating a Financial Deficit (being in a worse financial position than the aggregate position had Participating Authorities not agreed to pool), any Participating Authority who would have qualified for a Safety Net payment had they not been part of the Pool will be guaranteed to retain a level of business rates equal to their Safety Net level as calculated by government. The remaining net Financial Deficit will be shared among all Participating Authorities in accordance with approach agreed, with the GLA funding 36% of the Financial Deficit and the Billing

Authorities who would not have qualified for a Safety Net payment had they not been part of the Pool (the Remaining Billing Authorities) funding the remaining 64% of the Financial Deficit The distribution to the Remaining Billing Authorities of their 64% of a Financial Deficit will reflect the following proportions:

- (a) 50% of the Remaining Billing Authorities' share of a Financial Deficit according to each Remaining Billing Authority's share of the total Settlement Funding Assessment for the Remaining Billing Authorities (Needs Pot);
- (b) 50% of the Remaining Billing Authorities' share of a Financial Deficit according to each Remaining Billing Authority's per capita formulation as calculated by the most recent available ONS projection for 2020 at the time of distribution (Population Pot).

**6 Lead Authority**

6.1 COLC, as the Lead Authority, shall continue to act as the accountable body to Government and administer the Pool. The Participating Authorities hereby acknowledge that the Lead Authority is carrying out valuable services on behalf of the Participating Authorities, and that it is entitled to reimbursement of its reasonable costs and expenses in providing those services. This MOU makes provision for the reimbursement in the calculation of Financial Benefit.

6.2 The GLA shall provide transactional support to the Lead Authority, including administering and operating treasury management and making any monetary transfers between Participating Authorities in respect of the Pool on behalf of the Lead Authority including any sums due to the GLA.

6.3 These monetary transfers between Participating Authorities will be collected or paid by the GLA on the basis of a schedule of payments which will be determined by the GLA

in consultation with the COLC, reflecting the Government's Payment Requirements and scheduled instalment dates. which are prescribed in secondary legislation. (This reflects the fact that the GLA already has the systems in place to manage payment flows to and from Billing Authorities for the existing business rate retention scheme).

6.4 The GLA shall also transfer any sums required to COLC based on the schedule of instalments agreed with MHCLG so that COLC as Lead Authority can pay the net Tariff payment payable by the Pool as approved in the Local Government Finance Settlement.

6.5 COLC shall also transfer any sums COLC receives from MHCLG in Safety Net payments to the GLA so that the GLA can distribute this to Participating Authorities if applicable.

6.6 The Lead Authority's responsibilities shall include:

6.6.1 all accounting for the finances of the Pool and the balance of SIP funds remaining from prior years including payments to and from the Government;

6.6.2 management and administration of the Pool;

6.6.3 receiving payments from Participating Authorities and making payments to Government on behalf of Participating Authorities on time;

6.6.4 maintaining a cash account on behalf of the Pool and paying Interest on any credit balances;

6.6.5 liaising with and completing any formal Pool returns to central government;

6.6.6 administering the schedule of payments between Participating Authorities in respect of the financial transactions that form part of the Pool's resources;

- 6.6.7 providing the information required by Participating Authorities in preparing their annual statement of accounts in relation to the activities and resources of the Pool;
  - 6.6.8 leading on reporting to understand the Pool's position during and at the end of the financial year;
  - 6.6.9 responsibility for the Pool's net Tariff payment to Government as well as the Tariff and Top up payments to and from the Participating Authorities individually;
  - 6.6.10 all audit requirements in relation to the Pool;
  - 6.6.11 production of an annual report (**Annual Report**) of the Pool's Activities following final allocation of funds for the year, which along with any final reconciliation payments required, concludes the rights and obligations of the Participating Authorities under this MoU (unless it has been extended for a further financial year);
  - 6.6.12 the administration of the dissolution of the Pool;
  - 6.6.13 all communications with the MHCLG including year-end reconciliations;
  - 6.6.14 convening a Technical Group to advise the Lead Authority and Participating Authorities on the implications of the Pool and other proposed changes to business rates retention;
  - 6.6.15 the collation and submission of information required for planning and monitoring purposes.
- 6.7 The Lead Authority may resign from its role on 3 months' written notice to all the Participating Authorities (or longer if required by the Government or where another

Participating Authority is neither ready nor willing to assume the role of Lead Authority).

6.8 Transfers outside the pool relating to retained business rates (e.g. Section 31 Grant Payments, MHCLG's share of individual Billing Authority collection fund surpluses or deficits, MHCLG's share of business rates income and transitional protection payments) will continue to be made between MHCLG and Participating Authorities.

## 7 **Governance**

7.1 The Participating Authorities have resolved, if required, to delegate Administrative Functions in respect of their Powers in Relation to Business Rates Retention to COLC as the Lead Authority.

## 8 **Participating Authorities' responsibilities**

8.1 Each of the Participating Authorities shall promptly provide the Lead Authority with full and accurate relevant information (the "**Reporting Information**") in order to enable the Lead Authority to make payments to Government and to and from the Participating Authorities.

8.2 The Lead Authority shall request the Reporting Information and each Participating Authority shall provide timely Reporting Information to the Lead Authority.

8.3 Each Participating Authority shall make or receive payments to or from the Lead Authority based on the schedule of payments dates referred to in paragraph 6.2 and as required after the end of the financial year to settle any outstanding balances under this MOU.

## 9 **Dissolution of the Pool**

9.1 The pool is presumed to continue to operate for 2020-21 only in respect of which the Government Designation Order continues in force. These Designation Orders are made and remain in force until revoked.

- 9.2 Any Participating Authority seeking to leave the Pool should inform MHCLG and all other Participating Authorities as soon as possible. In the event of one or more Participating Authorities leaving the Pool, this Pool would cease to operate at the end of 31<sup>st</sup> March of that year and the Pool would be dissolved in accordance with the provisions of this MOU. Once the Pool has been established, any Participating Authority leaving the Pool must notify the other Participating Authorities by 30<sup>th</sup> September in any year, to allow the remaining Participating Authorities time to seek designation of a new pool for the following year.
- 9.3 The Lead Authority shall make the necessary calculations and submit the required returns associated with the dissolving of the Pool in accordance with paragraph 9.2.
- 9.4 In the event that the Pool is dissolved in accordance with paragraph 9.2, the Lead Authority shall distribute to the Participating Authorities any resources held on behalf of the Pool in accordance with the distribution formula set out at paragraph 5.1.2 above. The final balance of SIP funds shall be allocated in a further round, once the financial year of dissolution is completed and the amount finalised.
- 9.5 Subject to paragraph 6.7, COLC shall continue to act as Lead Authority for as long there are any outstanding responsibilities under this MoU.
- 9.6 The remaining Participating Authorities of the Pool may in their discretion agree to form a new pool and, if they wish, include new members for the following year (subject to a new Designation Order being made by the Secretary of State).
- 9.7 This MOU may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of the MOU.

## Appendix 1

### Glossary

<b>Activity/ies</b>	the activities and responsibilities of each of the Lead Authority and Participating Authorities as set out in this MOU.
<b>Administrative Functions</b>	the granting by one Participating Authority to another the authority to exercise its powers, pursuant to s101 Local Government Act 1972 or Section 9EA(1) of the Local Government Act 2000 where the Participating Authorities operate executive arrangements.
<b>Annual Report</b>	the annual report of the Participating Authorities' activities produced by the Lead Authority in accordance with clause 6.6.11.
<b>Baseline Funding Level</b>	the minimum funding level required for the relevant year in accordance with the Non-Domestic Rating (Levy and Safety Net) Regulations 2013 as amended.
<b>Billing Authorit(y/ies)</b>	the relevant billing authority, as defined by the Local Government Finance Act 1992 in London for a local area.
<b>Business Rates Baseline</b>	the anticipated business rates to be collected by an Participating Authority for the relevant year in accordance with the Non-Domestic Rating (Levy and Safety Net) Regulations 2013 as amended.
<b>Business Rates Pilot</b>	the pilot programme of Government aimed at increasing the level of business rates retained by local government.
<b>Business Rates Pool</b>	a collection of the combined business rates income and any growth by the Participating Authorities.
<b>COLC</b>	City of London Corporation.
<b>Designation Order</b>	an order made by the Secretary of State pursuant to paragraph 35, Part IX, Schedule 7B of The Local Government Finance Act 1988.

<b>Enterprise Zones</b>	areas designated by the Government across England (and for the purposes of this MOU in London specifically) that provide tax breaks and Government support.
<b>Financial Benefit or Deficit</b>	<p>is the total of:</p> <p>The Lead Authority's reasonable costs of supporting the Pool, accounted for on an accruals basis in accordance with the Code of Practice on Local Authority Accounting.</p> <p>The difference between the total of the Participating Authorities' retained rates income, calculated in accordance with the <i>Non-Domestic Rating (Levy and Safety Net) Regulations 2013 (as amended)</i> (the level they would have had had there been no Pool) and the total applicable to the Pool, similarly calculated.</p>
<b>GLA</b>	Greater London Authority.
<b>Government</b>	Her Majesty's Government in the United Kingdom.
<b>Growth</b>	the amount equal to the difference between a Participating Authority's retained rates income (as defined by the <i>Non-Domestic Rating (Levy and Safety Net) Regulations 2013 (as amended)</i> ) and its business rates baseline (as similarly defined).
<b>Interest</b>	interest at such rate as is achieved during the relevant period by the Lead Authority, operating according to the treasury management strategy set by its members.
<b>Lead Authority</b>	COLC or such authority as may succeed COLC following a resignation by COLC pursuant to 6.7.
<b>Levy</b>	the amount (up to 50%) of the Growth due to Government from an authority or pool, calculated according to the <i>Non-Domestic Rating (Rates Retention and Levy and Safety Net) Regulations 2013/737 as amended</i> , and at the rate determined therein.
<b>LGFA 1988</b>	the Local Government Finance Act 1988 (as

	amended).
<b>Local Government Finance Settlement</b>	the annual determination by the Government of funding to local government, published pursuant to Schedule 7B, paragraph 5 of LGFA 1988.
<b>Local Share</b>	as described in Schedule 7B of the LGFA 1988, is the amount of non-domestic rating income retained by billing and precepting authorities in a geographical area, as opposed to returned to MHCLG via the Central Share.
<b>MHCLG</b>	the Ministry of Housing, Communities and Local Government.
<b>Non-Domestic Rating Income</b>	the Participating Authority's business rates income for the purposes of calculating the Safety Net and Levy, as defined in the Non-Domestic Rating (Rates Retention) Regulations 2013 (SI2013/452) (as amended).
<b>Non-Domestic Rating Levy Regulations</b>	the Non-Domestic Rating (Rates Retention and Levy and Safety Net) Regulations 2013/737 as amended.
<b>Non-Domestic Rating (Rates Retention) Regulations 2013</b>	Non-Domestic Rating (Rates Retention) Regulations 2013/452 as amended.
<b>ONS</b>	Office for National Statistics.
<b>Participating Authorities</b>	all the Authorities that are party to this MOU.
<b>Payment Requirements</b>	the schedule of payments described in Regulation 15 to the Non-Domestic Rating (Rates Retention) Regulations 2013/452 (as amended) or agreed between Participating Authorities in accordance with those regulations.
<b>Pool</b>	the specific Business Rates Pool as set out in this MOU.
<b>Powers in Relation to Business Rates Retention</b>	for Billing Authorities, powers under the Non-Domestic Rating (Rates Retention) Regulations 2013 to COLC acting as the Lead Authority; and  for the GLA as a major precepting authority

## Reconciliation Payment

under s.39(1)(aa) of the Local Government Finance Act 1992.

such payments as are required to adjust the amounts paid based on the GLA schedule as set out in clause 6.3 and the final amounts shown in the Annual Report.

## Redistribution Pots

the four elements of the redistribution mechanism agreed between the Participating Authorities for the 2018-19 and 2019-20 Pilots:

- The **Incentives Pot** to incentivise growth by allowing the Billing Authorities where growth occurs to keep a proportion of the additional resources retained as a result of the Pool;
- The **Needs Pot** to reflect relative need for resources, using each Billing Authority's share of the total the Settlement Funding Assessment for the London Billing Authorities as a proxy;
- The **Population Pot** to reflect the size of the communities served by Participating Authorities.
- The **Strategic Investment Pot** to meet the commitment to Government to joint strategic investment by the Participating Authorities.

## Remaining Billing Authority

means those Billing Authorities who would not have received a Safety Net payment had they not been in the Pool as set out in clause 5.1.6.

## % Retention

is the proportion of non-domestic rating income retained under the *Non-Domestic Rating (Rates Retention) Regulations 2013 (as amended)*. At its outset, this allowed London Billing Authorities to retain 30% and the GLA, as preceptor, to retain 20%, a Local Share of 50%.

## Revenue Support Grant or RSG

Revenue Support Grant, pursuant to Part V of

**Safety Net**

the LGFA 1988.

the amount due from Government to an Authority or Pool, calculated according to the Non-Domestic Rating (Rates Retention and Levy and Safety Net) Regulations 2013/737 as amended, to ensure that the income of the Authority or Pool does not fall below the threshold determined, usually 92.5% of Baseline Funding Level.

**Section 31 Grant**

the additional funding available for local authorities towards expenditure pursuant to section 31 of the Local Government Act 2003.

**Settlement Funding Assessment**

the funding assessed as available to an individual authority by Government, published each year as part of the Local Government Finance Settlement.

**Strategic Investment**

is that which will contribute to the sustainable growth of London's economy or support the delivery of new infrastructure, housing or employment, which leverage funding from other public and private sources (e.g. the local authority, planning obligations etc), and lead directly to or are expected to facilitate an increase in London's overall business rates income.

**Strategic Investment Pot / SIP**

the pot of funds for Strategic Investment under previous Business Rates Pilots.

**Tariff or Top Up**

the amount due to or from an authority or pool determined (under Schedule 7B, Paragraph 12 of LGFA 1988) by the Secretary of State, and published in the Local Government Finance Settlement, being the difference between its Baseline Funding Level and its Business Rates Baseline for the year.

**Technical Group**

a group of primarily finance and revenues professionals, membership to be agreed by the Lead Authority in consultation with the Participating Authorities, convened by the Lead Authority to advise on the implications of the Pool and other proposed changes to business rates retention.

**Term**

The term of this MOU as set out in clause 4.1.

10 **Signatories for and on behalf of the Participating Authorities below in their official capacity**

Greater London Authority	Name..... Position.....
The Common Council of the City of London	Name..... Position.....

The following London Boroughs:

London Borough of Barking and Dagenham	Name..... Position.....
London Borough of Barnet	Name..... Position.....

London Borough of Bexley	Name..... Position.....
London Borough of Brent	Name..... Position.....
London Borough of Bromley	Name..... Position.....
London Borough of Camden	Name..... Position.....
London Borough of Croydon	Name..... Position.....
London Borough of Ealing	Name..... Position.....

London Borough of Enfield	Name..... Position.....
London Borough of Greenwich	Name..... Position.....
London Borough of Hackney	Name..... Position.....
London Borough of Hammersmith and Fulham	Name..... Position.....
London Borough of Haringey	Name..... Position.....
London Borough of Harrow	Name..... Position.....

London Borough of Havering	Name..... Position.....
London Borough of Hillingdon	Name..... Position.....
London Borough of Hounslow	Name..... Position.....
London Borough of Islington	Name..... Position.....
London Borough of Kensington and Chelsea	Name..... Position.....
London Borough of Kingston upon Thames	Name..... Position.....

London Borough of Lambeth	Name..... Position.....
London Borough of Lewisham	Name..... Position.....
London Borough of Merton	Name..... Position.....
London Borough of Newham	Name..... Position.....
London Borough of Redbridge	Name..... Position.....
London Borough of Richmond upon Thames	Name..... Position.....

London Borough of Southwark	Name..... Position.....
London Borough of Sutton	Name..... Position.....
London Borough of Tower Hamlets	Name..... Position.....
London Borough of Waltham Forest	Name..... Position.....
London Borough of Wandsworth	Name..... Position.....
City of Westminster	Name..... Position.....

