City Region Deal – Growth Incentive Background

Background

1 This note provides context for the budget and medium term plans. The impact does not start until 2014/15. Key decisions are not required until June and July 2013. At this stage the information is just for noting as it provides important context for the medium term plans especially intended investment in regeneration.

2 The City Deal offers potential additional financial benefits and investment as a result of a commitment to Growth. Extensive preparatory work is taking place to enable options to be put before councils. At this stage each of the 4 West of England Unitary Councils and Government have agreed in principle only.

3 The City Region Deal is an agreement between Government, the West of England authorities and the West of England Local Enterprise Partnership giving increased local financial flexibility and freedoms in exchange for a focussed programme of investment to enable the region to achieve its full economic growth potential.

4 The City Region Deal is made up of five key elements, most of these have already been agreed by the respective councils. The five elements are:

- A Growth Incentive Proposition
- A Transport Devolution Agreement
- A People and Skills Programme
- A City Growth Hub
- A Bristol Public Property Board (Bristol City Council Only)

5 This briefing note focuses on the first of these, the Growth Incentive proposition, which is still under development and negotiation between the partners and Government. It is intended that these negotiations will be completed by Easter, enabling formal decisions to be taken by each Council in July, with implementation starting from April 2014. Given the significant nature of this element of the deal approval will be required by Full Council.

6 The Growth Incentive deal will support the strategic objective of delivering accelerated economic growth by establishing and delivering a £1bn Economic Development Fund which will be targeted to projects that will maximise economic returns. It will also be used to manage local demographic and service pressures arising from economic growth. This proposition will be key to the delivery of some of the other elements of the City Region Deal (e.g. transport).

7 The deal looks to enable the four West of England Councils to keep a larger proportion of their business rates growth locally than would otherwise be the case (rather than passing this money back into the

national system) over the next 25 years. In return, the Authorities will agree to pool this additional business rate income, and invest it in part to support the £1 billion Economic Development Fund referenced above, and also in supporting any extra demographic pressures each council may face.

What does the Growth Incentive Deal mean in practice?

8 The new Local Government Finance system sees the launch from 2013/14 of the Business Rates Retention scheme as the principal form of local government funding. A council's overall funding will be dependent on it being able to meet its baseline level of business rate generation in any year. However, over and above this, councils will be able to keep up to c50% of any additional business rates they generate until the next national 'reset' date (currently 2020 then every 10 years), less where relevant for some council's the payment of a 'Levy'.

9 The Growth Incentive proposition seeks a 'licensed exemption' from certain elements of the national local government finance system (notably the 50% share, levy, and reset) for any growth delivered across the 5 West of England Enterprise Areas. The 5 Enterprise areas are:

- Avonmouth/Severnside
- Bath
- Weston Junction 21
- Filton
- Emersons Green

10 In practice this would mean any growth in business rate income across these enterprise areas from April 2014 would wholly be kept by the West of England for the next 25 years. For these areas the respective councils would not be required to pass back into the national system the 50%, would get to keep all growth for the full 25 years (not lose it at each national reset), and where relevant would not need to pay a Levy. The council's would however agree to pool this element of the business rates. It is important to note that this is only in respect of the Growth in business rates in these areas, any current business rates income being collected would still be subject to the national system.

11 Whilst detailed financial modelling work is currently still being undertaken, and therefore any figures should be treated with extreme caution, this could mean up to an additional £0.5 billion of income including the Enterprise Zone could be retained for investment within the West of England rather than being lost into a national system. This is clearly cumulative over 25 years, and builds more quickly in the latter years.

12 As referenced above, the income from the enterprise areas would need to be pooled across the 4 Unitary Councils into one business rates pool. The income from the Bristol Temple Gate Enterprise Zone would then be added alongside this pool to create a substantial investment pot.

13 The four councils would then, in consultation with the Local Enterprise Partnership, agree how this total pot, as outlined in 10 above, would be invested. It would have three primary calls upon it.

- To make sure, as far as is reasonably and practically possible, that no individual council is worse off under the growth incentive deal than they would be had it not taken place. To meet the costs of operating the pool and the growth incentive proposition.
- To invest in the £1 billion Economic Development Fund, and through it unlocking the infrastructure investment required to generate additional economic growth.
- To support each council's budget in meeting some of the additional demographical pressures growth may bring with it.

14 The exact list of investment to be delivered through the Economic Development Fund (EDF) and supported by the business rates pool is still under consideration, and is likely to evolve over time. This will be determined through the Local Enterprise Partnership following engagement and agreement with each of the Local Authorities. As the investment into the EDF will not be possible in the first place unless the business rates have either been generated (or there is a high likelihood they will be in the future), schemes supported by the pool and approved through the EDF are likely to be prioritised on the basis of:

- Critical infrastructure which unlocks enterprise sites which are entirely dependent on growth incentive funding.
- Bringing EA/EZ infrastructure schemes that are already funded forward in the programme to generate economic growth and business rates earlier in the cycle than would otherwise have been the case.
- Other infrastructure schemes within the EA/EZ areas which demonstrate a positive impact on the economy and business rates.
- Other economic development schemes within or outside the EA/EZ areas.

15 Whilst detailed financial modelling is still underway, the above programme does generate the option of borrowing in advance of business rate take to pump prime and release the investment in sites earlier than would otherwise have been the case. If this scenario is followed each council will want to assure itself of the potential financial risks (and rewards) this generates. This is likely to require each Local Authority being responsible for underwriting its own borrowing so that no Local Authority is responsible for another Council's borrowing, despite the pooling of extra business rates income should that income not be sufficient to meet the costs of repayment. The opportunities and parameters around this will be further developed over the next few months.

Conclusions

16 The Growth Incentive Proposal brings with it significant opportunity to secure additional funds for the West of England. Equally these opportunities do not come without risk. Much work is still required before final proposals can be put before members for decision in July. This will require significant negotiation not only between the unitary councils and the LEP, but also with central government.

17 A robust project governance structure is in place to ensure the project delivers to time and also negotiates the best possible deal for the West of England. More detailed proposals will be available for consultation in good time to enable firm recommendations are made during June for final decision by each Council in July.