WEST OF ENGLAND CITY REGION DEAL GROWTH INCENTIVE PROPOSALS

Purpose of Report

1. 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.

2. The City Region Deal Growth Incentive proposal provides a licensed exemption from the effects of the resets and levies of the local government finance system in five enterprise areas over 25 years, enabling the West of England (WoE) to retain 100% of growth in business rates against an agreed baseline in the EAs (and EZ).

3. The aim of the deal is to provide the West of England with a long term source of revenue linked to our economic fortunes, in order to incentivise investment and maximise economic growth in the West of England.

4. The Local Authorities will pool the business rates growth from the five Enterprise Areas, and the LEP will contribute the business rates growth from the Enterprise Zone into one West of England business rates pool, in order to make a contribution to an Economic Development Fund and funding to the local authorities to support the demographic and service pressures that follow.

5. The West of England Local Enterprise Partnership will facilitate the delivery of a programme of investment from the Economic Development Fund to unlock and accelerate economic growth in the West of England.

6. When the principles of the City Region Deal were agreed with Government, it was made clear that the Growth Incentive proposal would be subject to formal Council approval. It was agreed that if Council agreement was obtained from each UA, the Growth Incentive deal would come into effect from April 2014.

7. The purpose of this report is to seek Council approval to the formal adoption of the Growth Incentive proposals and the subsequent pooling of business rates across the West of England Enterprise Areas and Enterprise Zone. This could benefit the West of England to a sum of in excess of £600m over the next 25 years. Similar reports are being progressed by the other three West of England Unitary Authorities.

Background – City Region Deal

8. In July 2012 the principles of the Bristol and West of England City Region Deal were formally agreed between central government, the 4 Unitary Authorities, and the Local Enterprise Partnership. The City Region Deal (CRD) is made up of 5 main elements:

   - **The Growth Incentive** – creates a genuine incentive for the city region to invest in economic growth and job creation. It enables the West of England authorities to retain and pool 100% of business rates growth across its Enterprise Areas and Enterprise Zone for the next 25 years, with the additional business rates generated being used to support a £1 billion investment programme in economic growth and in managing the resultant local demographic and service pressures that arise.
   - **The Transport Devolution Agreement** – ensures the necessary powers are devolved alongside the investment in major transport schemes and the Greater Bristol Metro.
   - **The People and Skills programme** – is focussed on giving the business community real influence over skills provision in the West of England.
   - **The City Growth Hub** – will provide an enhanced investment and promotion service, pooling expertise and capacity across the West of England.
   - **The Bristol Public Property Board** – comprising all relevant Government departments and Bristol City Council will manage up to £1 billion of Bristol City Council assets and an estimated 180 land and property assets in the ownership of a range of other public sector parties. This element of the CRD is specific to Bristol City Council only.

9. In July 2012 it was made clear that the Growth Incentive proposal would be subject to future formal Council approval. It was agreed that this element, if confirmed, would come into effect from April 2014. The purpose of this report is to seek Council approval to the formal adoption of the Growth Incentive proposals as set out in the CRD and the subsequent pooling of business rates across the West of England for the Growth Incentive Area (GIA). The same approvals are being progressed by the other three West of England Unitary Authorities. Appendix 1 to this report extracts the relevant Growth Incentive proposal from the CRD signed in July 2012.

10. The delivery of the Growth Incentive proposals and resultant additional funding will be a critical element underpinning the other 4 parts of the CRD.

Background – National Local Government Funding System

11. The Growth Incentive proposal agrees certain licensed exemptions from the current local government finance system. This section explains at a very high level how the current local government finance system operates.

12. The business rate retention scheme (BRR) launched on the 1st April 2013 is now one of the primary forms of local government funding. The government has set the baseline level of business rates it expects each council to be able to generate in each year. If a council fails to deliver business rates to this base line it has to meet the shortfall from alternative council resources up to a ‘safety net’ figure, after this

the balance of the shortfall is met by national funds from a national safety net. It is important to note that this national safety net is funded by local government through the BRR via the payment of a ‘levy’ by some councils.

13. If a council exceeds its baseline in any one year, it is able to keep a share of that ‘growth’ locally. The growth is shared 49% (local authority) 1% (Fire authority) 50% (Central Government). Where that growth is deemed to be disproportionately large in the context of the council’s base budget, the local authority has to pay a further ‘levy’ on its share of the growth. As set out above, this levy is then pooled at a national level and will be held to fund any calls on the national safety net.

14. In addition to this, any growth in business rates is only maintained until the next reset period. At which time the national system is ‘reset’ and the process begins again. Exactly how this reset will work is currently unclear, however it is expected the first reset will happen in 2020 (7 years) and thereafter every 10 years, although this is not guaranteed.

15. As an example, if an authority had a baseline of £100, in year delivered growth of £10, and had a levy of 40% in simplistic terms it would keep £2.94 as follows:

	Council **£**	**Fire** **£**	**Govt** **£**	**Total** **£**
In year growth (49%, 1%, 50%)	4.90	0.10	5.00	10.00
Less levy to Govt (e.g. 40%)	-1.96	0	1.96	0.00
Total business rate retention	**2.94**	**0.10**	**6.96**	**10.00**

16. Further, this growth is only retained until the national reset happens. Therefore, if this growth happened in year 4, the authority would only keep that growth (£2.94p.a.) for 3 years, before it was lost back into the national system. However, if this £10 of growth were to happen in the WoE GIA the growth incentive proposals would enable the West of England to retain both the council and government elements (£9.90) of growth for investment locally for each of the 25 years of the deal.

17. The current ‘Levy’ rate for each of the West of England Authorities is:
    - South Gloucestershire – 47%
    - Bristol – 10%
    - BANES – 31%
    - North Somerset – 0%

18. The benefit to be gained for the West of England which would otherwise be lost into the national pot would therefore be the 50% national share, plus the above levy rates for each local authority, plus the gain on reset for the next 25 years. It is assumed the 1% share for the Fire Authority would continue to be paid to the Fire Authority to ensure they are no worse off compared to the local government finance system.

Growth Incentive proposals

19. The West of England local authorities will retain 100% of business rates growth in the five West of England Enterprise Areas, and will pool this revenue with that from the existing Temple Quarter Enterprise Zone. The pool will make a significant financial contribution of up to £500m into a West of England Economic Development Fund which will support an overall package of £1bn of investment in the local economy. Income will also be used to ensure no local authority will be worse off compared to the local government finance system, and to manage associated population growth and service pressures. A diagram depicting this is shown in appendix 2.

20. In summary the local authorities will commit to pooling the business rate growth from the five Enterprise Areas alongside the Enterprise Zone. They will commit to making a significant contribution (up to £500m over 25 years) from this pool in to an Economic Development Fund (EDF). This payment will only be made if the growth in business rates across the areas allow and will be on a proportionate basis (this is explained later in the report). They will also commit with the LEP:
    - That the EDF investments target projects that maximise economic returns.
    - That the councils ability to cover costs associated with growth is protected as far as possible, to mitigate local demographic and service pressures
    - That there is an equality and fairness of approach across all 6 Enterprise Zone/Areas for determining how allocations of business rate revenue to the EDF, and to each local authority for demographic and service pressures, are made.

21. In return, the Government will provide a licensed exemption from the effects of the resets and levies of the local government finance system in the five enterprise areas over 25 years, enabling the West of England to retain 100% of business rate growth in these areas to go into the Pool. The rest of the West of England area will not be subject to any licensed exemptions from the national local government funding system.

22. The West of England Local Enterprise Partnership (LEP) will oversee a £1bn programme of investment in the local economy, including the allocation of funding from the EDF to unlock and accelerate economic growth in the West of England. A single pot (EDF) will comprise business rate revenues, which will be used in conjunction with other Government funding streams to deliver an investment programme focussed around the Enterprise Zone and five Enterprise Areas. It will so far as is reasonably possible ensure an equity of delivery of schemes being mindful of where the funds originated and where the greatest benefit can be returned.

23. It is therefore important to note that the local authorities (and the core purpose of this report) primary commitment under the Growth Incentive proposals is to the pooling of business rate growth, and the 3 activities of ensuring no council is worse off, making a significant contribution to the EDF, and supporting the councils in respect of the impact of that growth. This is the purpose of this report and its recommendations.

24. Distinctly separate to this, the local authorities in their role as members of the Local Enterprise Partnership, will then have a responsibility in reviewing and making decisions around the allocation of the EDF to ensure it is used to unlock and accelerate economic growth. This will need to be confirmed as part of the governance arrangements within the LEP when receiving payments from the business rates pool (see later in report).

25. The LEP Board will agree to the Enterprise Zone growth being pooled within the business rates pool referred to above, in return for an overall contribution of up to £500m from the pool to the EDF over 25 years.

26. It is important to note that in respect of the Enterprise Areas, the exact boundaries for Growth Incentive purposes will differ slightly. Fiscal boundaries within the Enterprise Areas have been created which will be used for the purposes of business rate pooling arrangements. This is explained further under the financial implications section of this report.

Pooling Arrangements

27. The pooling arrangements will be in place for 25 years with effect from 1st April 2014 to the 31st March 2038. Primary legislation will be laid in the Autumn of 2013 to enable the councils to retain 100% of the business rates growth from the Enterprise Areas. As the Enterprise Zone started in April 2013, a year earlier than the Enterprise Areas, the income from this year (2013) will be held and paid into the pool on its commencement. As the 25 year period of Enterprise Zone rate retention starts a year earlier than the Enterprise Areas, it will also end one year earlier than the Enterprise Areas.

28. All business rate growth across the Enterprise Zone/Areas will be pooled in one business rates pool. South Gloucestershire Council will be the accountable body for that pool. The use of the pooled business rates will then be determined on the basis of 3 ‘tiers’ of activity over the 25 year period. The financial value of each will be dependent on the level of business rates growth actually generated. The pool will be operated in such a way as to ensure that any financial risk to the authorities is mitigated as far as is possible. This is explained in more detail later in the report.

29. **Tier 1 Payment** – ‘no worse off’ payment. As set out above, under the national local government finance system each Local Authority would get to retain locally 49% of any business rates growth above the base line, less any applicable Levy (the baseline in this context is explained further under the financial implications section). The first call on the pool will therefore be to ‘repay’ each local authority what it would have got under the national local government finance system. In this respect no local authority should be ‘worse off’ as a result of signing up to the Growth Incentive Deal. In respect of Bristol City Council, it will receive a tier 1 payment for the Enterprise Zone as if it had been a normal part of the national local government finance system rather than operating under Enterprise Zone legislation, reducing the amount that would otherwise be available for Tier 2 and Tier 3 contributions.

30. Tier 1 is an important element of ensuring that each council’s ability to cover costs associated with growth is continued to be protected as it would be under the national system. There should be minimal risk associated with this element of the

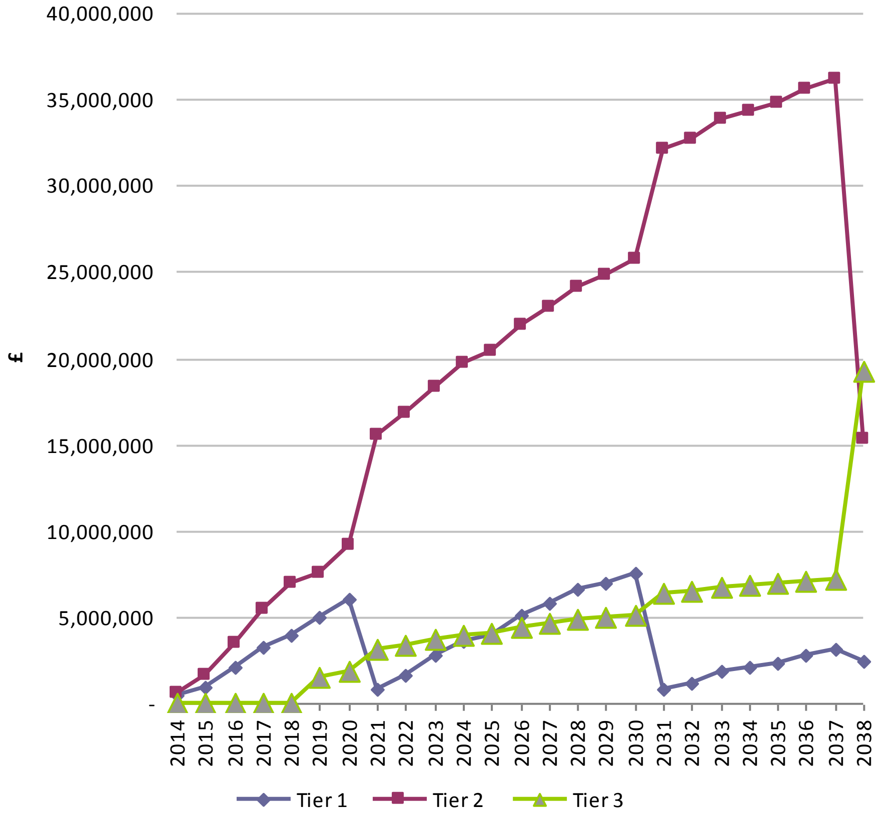
deal, as the growth has to be generated (and therefore the cash in the pool) before a Tier 1 payment would become due. In addition to this, Tier 1 will also include the setting aside of costs associated with the operation of the pool, and creating a contingency (similar to the national safety net) for meeting issues such as bad debts and revaluation appeals.

31. In calculating the tier 1 payment, an assumption has been made for projection purposes about the national reset impact, as guidance from central government about how this will work is not yet available. It has been assumed that growth up to each reset under the national local government finance system will be re-distributed by government based on need through RSG and not retained by Local Authorities. The actual mechanism for undertaking the reset could therefore impact on the split of funds in the future between Tier 1 and Tiers 2 and 3.

32. **Tier 2 Payment** – This will be the contribution from the pool to the EDF. Current forecasts have been worked on the assumption that this will be £500m over 25 years. This could be reviewed by the four local authorities in the future as necessary. This payment will only be made available to the LEP (EDF) if it is financially sustainable to do so (to the pool) having met Tier 1 costs and in proportion to the Tier 3 payments. Once again the cash needs to be generated before payments would be made, leaving minimal in year risk which would need to be accounted for as part of the tier 1 contingency sum. The costs associated with the programme management of the EDF and the development of scheme business cases through to delivery will be met by tier 2 (EDF) if supported by the LEP.

33. **Tier 3 Payment** – This will be a payment to each Unitary Authority to mitigate local demographic and service pressures arising from the additional growth impacting on the GIA. It is therefore important this payment grows in proportion to the level of growth being generated and a ratio of 5:1 has been assumed (for every £5 Tier 2 payment there will be a £1 Tier 3 payment). To support cash flow in the early years and prioritise investment in unlocking the growth sites earlier, it is proposed the Tier 3 payment will not be paid in the first 5 years of the deal. It will start in year 6 with the equivalent amounts due from years 1 to 5 being recovered over the following 5 years on top of the normal payments. Flexibility will be maintained by the pool to determine whether Tier 3 payments should begin earlier than year 5 once the detailed schemes and requirements of the EDF are more fully developed. Once the full Tier 2 payment has been made (£500m) any surplus sums over and above this will become a 100% Tier 3 payment to further mitigate the impact of growth. An exemplification of this is shown in the chart below.

EXAMPLE Tier 1, Tier 2 (Payments to EDF) and Tier 3 payments



Tier 1 shows the impact of the reset after years 7 and 17. The fall in the final year is as a result of the Enterprise Zone finishing in year 24. Tier 2 shows an increase to the full payment of the £500m being reached partly through the final year, and a similar proportionate (5:1) growth in Tier 3 payments. Over the 25 years this broadly totals payments of £500m to Tier 2 and £100m to Tier 3.This scenario therefore indicates no impact from additional investment resulting from the £500m EDF contribution to the LEP. It does however indicate how sensitive the projections are to the ability of achieving the full £500m EDF, and given this (together with uncertainties over issues such as the impact of the national reset), the LEP should focus its investment into the Enterprise Areas and Zone in order to confidently achieve the £500m contribution to the EDF.

34. The Tier 3 payment to each of the 4 Unitary Authorities will be split on the basis of a formula. 50% will be allocated to each council on the basis of what proportion of growth each Enterprise Area/Zone has contributed to the pool in each year (after Tier 1 payments). 50% will be allocated on the basis of housing growth seen in each whole council area on an annual basis. This latter element is to provide support to those areas which may be providing the housing related to the additional growth, but not necessarily the increase in business growth itself. It also acts as a proxy for population growth.

35. As the business rates pool is a local government funding stream, full accountability and discretion around decisions in relation to the pool will rest with the Local Authorities only. A business rates pool Board will be created made up of the 4 Council Section 151 Officers / Resource Directors (or substitutes), with an invitee representing the LEP and the Environment Directors. This will be a technical Board to monitor and administer the pool. It will operate within the parameters agreed by

Members as set out above. Any changes to the policy in which the Board operates will require member approval by the 4 authorities. Regular reports on the operation, monitoring and performance of the pool will be made to each Council and the LEP.

Economic Development Modelling

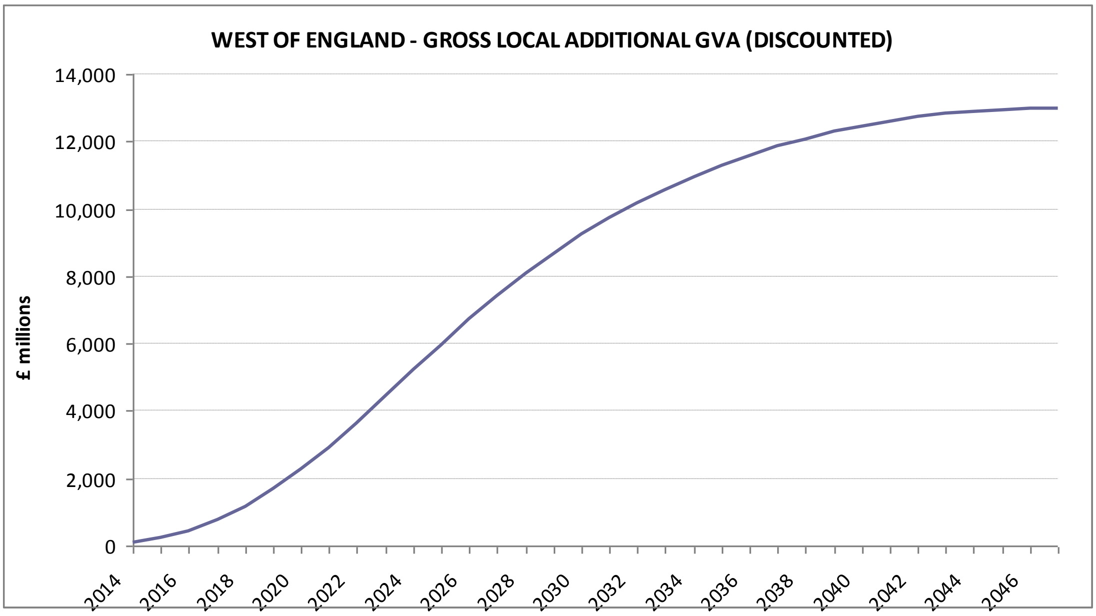
36. To provide an exemplification of the potential growth from each Enterprise Area/Zone that could be generated over the next 25 years, an external specialist company (Amion) was commissioned. As has been demonstrated above, broadly speaking any growth across the area should prove beneficial to the West of England under the Growth Incentive proposals as it will retain within the West of England an element that would otherwise be lost nationally. This work was undertaken for two primary purposes. Firstly to demonstrate the potential ability of the areas to generate enough growth to be able to make the £500m contribution to the LEP/EDF, and secondly to look at the broad phasing of when that growth may come on stream, and resultant cash-flows to the pool and subsequent Tier 2 and 3 payments.

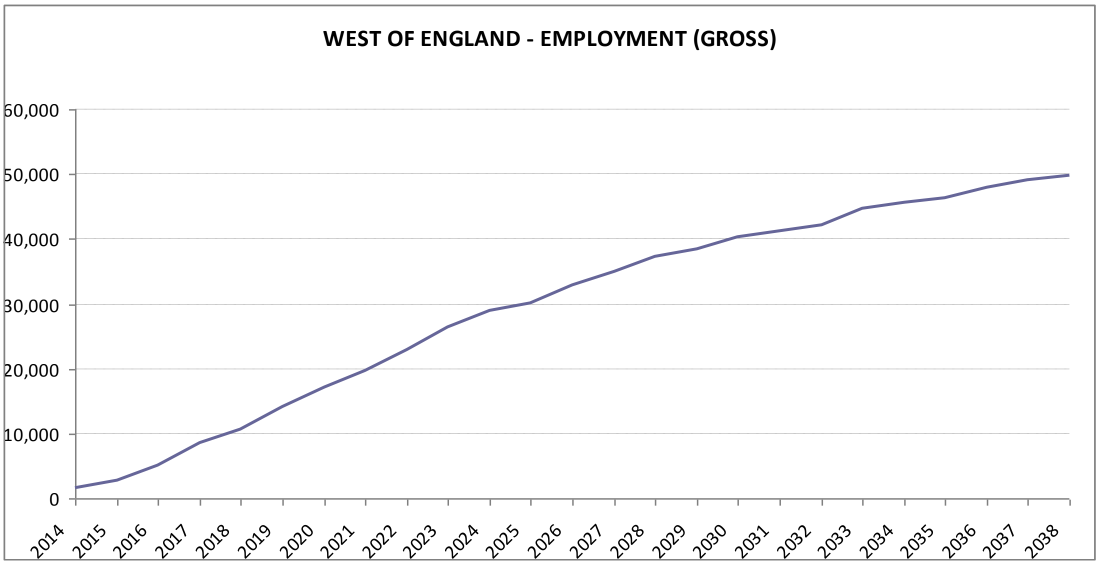
37. Amion consulting worked with officers from each council, talked with businesses and land owners, used past experience locally as well as national guidance, and tested their assumptions against an independent property specialist and specialist chartered surveyors. This has led to a series of assumptions and projections for each enterprise area and zone. Clearly trying to project forward the economy over 25 years is inherently difficult, in both totality and phasing terms. Therefore a base scenario, a pessimistic scenario, and an optimistic scenario were created, with relative probabilities attached.

38. The model shows that over the next 25 years the potential growth resulting from the GIA is £842m (baseline scenario), with a pessimistic assessment of £653m, and an optimistic assessment of £957m. To allow for risk, the ‘weighted average’ of these scenarios (£811m) has been taken into the financial modelling assessment outlined in the next section of this report. The results of this assessment are shown in appendix 3.

39. It is important to note that this is only one exemplification, and shows an indication of the potential growth achievable. This is broken down further by Enterprise Area and Zone in Appendix 4 of this report. Should this level of growth materialise over the next 25 years the net benefit to the West of England of signing up to the growth incentive proposals (i.e. after allowing for the Tier 1 payment which would have been retained locally under the national local government finance system anyway) could range between £492m and £720m.

40. In addition to the retained business rates benefit, the modelling shows additional benefits in terms of GVA uplift, and jobs creation over the 25 years as shown in the charts below.





41. Assuming the LEP further invests an element of the EDF in areas which benefit growth in the Enterprise Zone or Areas, this will further increase the level of business rate and GVA uplift over an above that shown above.

Financing Implications and Projections from Modelling

42. The Amion growth assumptions have been taken into a financial model for the purposes of projecting forward potential cash flows in respect of Tier 1, 2 and 3 payments based on a reference case. This reference case assumes no impact from the additional investment resulting from the £500m EDF contribution to the LEP (assuming this size of EDF is achieved). Intervention models can then be created in the future as part of determining the impact of different investment decisions resulting from the £500m EDF on this reference model (and maximising the likely achievement of £500m). Therefore as set out above, investment from the £500m

EDF (assuming it relates to the EAs/EZ) should only further enhance the level of growth resulting from the Growth Incentive proposals, having a positive impact on the cash-flows into the business rates pool.

43. As set out earlier in the report, Fiscal Boundaries within the Enterprise Areas have been created to financially de-risk the pool from future potential business rate falls as far as is possible. These are shown in Appendix 5. The boundary for the Enterprise Zone has already been set as part of its formation in April 2013 and cannot be amended as it is already set in primary legislation. Fiscal boundaries have been created as the Enterprise Areas already have businesses within them paying business rates. If a current business is included within the growth incentive proposals then its current level of business rates will form a baseline. It is only when this figure is met (i.e. only growth above this level after an annual inflationary uplift) that the growth incentive proposals come into effect.

44. The expected baselines for each Area and Zone are set out in the table below:

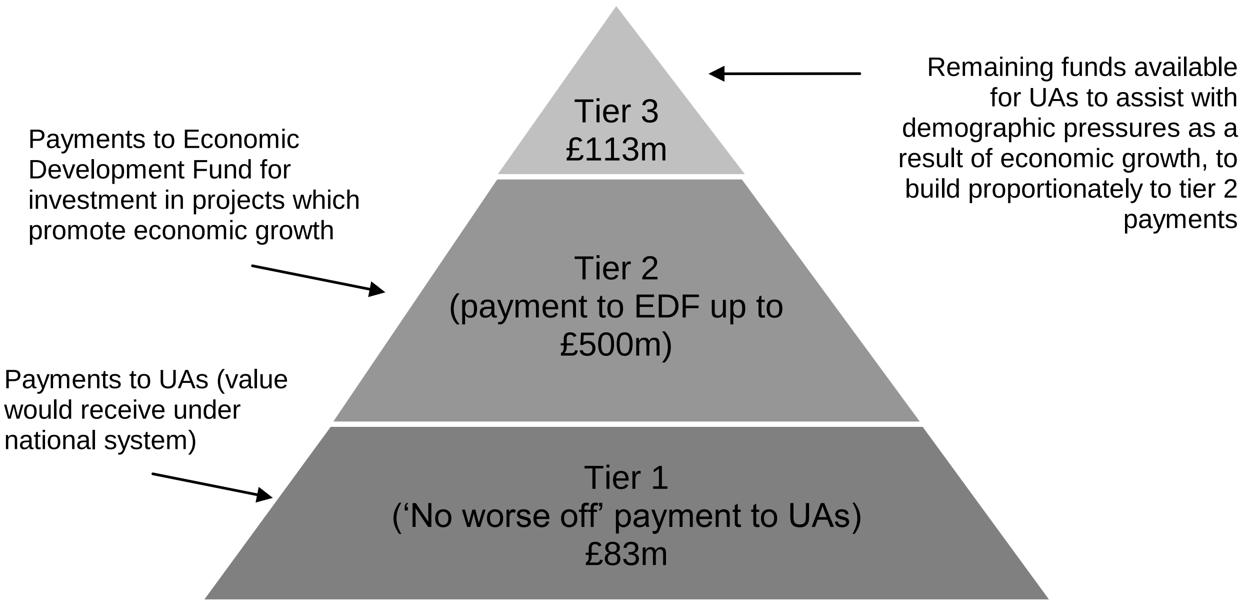
Enterprise Area	**Net Charge on 14 September 2012 (£)**
J21	191,247
Bath City of Ideas	4,703,086
Filton	523,000
Emerson's Green	0
Severnside	185,660
Avonmouth	6,245,175
Total EA	**11,848,168**
Temple Quarter*	12,413,482
Total	**24,261,650**

*based on 31st December 2011. For purposes of the legislation, the baselines and fiscal boundary maps will be presented by local authority rather than by Enterprise Areas. Each UA will be responsible for meeting its own baseline level of rates including valuations appeal risk within the baseline, which if necessary will be dealt with under the tier 1 payment.

45. It has been agreed with the Department for Communities and Local Government that the EA baseline is based on data as of September 2012, and therefore any growth in business rates since that date (after allowing for an inflationary uplift on the baseline) will benefit this deal.

46. As explained above, the local authorities will not be paying a levy on any growth in the GIA. Under the national local government finance system this levy funds the national safety net. In this respect the GIA will not have access to the national safety net. This should not pose a significant risk to the pool so long as each UA is underwriting their respective baselines, and the pool only commits funding on an annual basis in line with its expected cash flow projections. The main risk to the pool in this circumstance will come from rating appeals lodged with the valuation office, especially those that are backdated in nature, which will need to be mitigated by the holding of a Tier 1 contingency as referenced earlier (appeals relating to baseline properties will remain the responsibility of the respective local authority).

47. Taking the weighted average Amion projection outlined above, and after allowing for a general contingency and provisions for bad debts, this leads to projected growth figures in the region of £696m. Based on a series of assumptions this would lead to provisional indicative Tier 1, 2 and 3 splits over 25 years for exemplification purposes only as shown below:



48. Over 25 years this would show an annual cash flow growing by tier as previously demonstrated under paragraph 33. This clearly shows that in the early years of the scheme cash is limited for investment and return, with the benefits starting to grow proportionately as the new businesses come on stream over the 25 years.

49. A simplified example of the impact of the proposal compared to the national local government finance system over 25 years (for growth in the GIA) is summarised below:

National local government finance system		**Growth Incentive proposal**	
Assumed growth	£703m	Assumed growth	£703m
Amount retained by Fire	£ 7m	Amount retained by Fire	£ 7m
Remaining National/Local	£696m	Remaining National/Local	£696m
Amount retained by councils:	£83m	Amount retained by councils (Tier 1)	£83m
		Amount invested in WoE Tier 2)	£500m
		Amount returned to councils (Tier 3)	£113m
Amount lost nationally:	£613m	Amount lost nationally:	£0

Next Steps

50. Government departments have confirmed that they are fully committed to the principles of the proposal, and are completing their due-diligence against the potential cost of these proposals for government departments which may impact on some of the detail set out in this report. This work is expected to be completed by mid July. It is recommended that the Chief Executive, in consultation with the Group Leaders, have delegated authority to agree the final detail of the proposals, if necessary, following the completion of central government due-diligence.

51. Once each council has approved its pooling of business rates under the Growth Incentive proposals a number of detailed agreements will be drawn up between the partners setting out the more specific arrangements reflecting the contents of this report. A legal agreement between the pool and the LEP will also need to be agreed.

52. A letter of comfort between the West of England and the Cabinet Office will also be entered into setting out the more detailed arrangements of the scheme, and specifically how it will operate in respect of the national local government finance system.

53. Significant work will then need to be undertaken in respect of setting up the pool and the detailed accounting and cash flow procedures that will need to be put in place. The preliminary costs of this will need to be reimbursed from the pool once live.

54. The incentive will come into operation from April 2014.

55. Proper governance will need to be in place by the LEP for the management of the EDF, and the accountable body will need to be satisfied with these arrangements as set out below. It is currently intended that the governance for this will be similar to that currently in place for the Revolving Infrastructure Fund, as outlined in Appendix 6.

Economic Development Fund

56. Payments will be made into the EDF on the Tier 2 pooling basis set out above. This means the EDF will only receive funds on the basis of cash actually being generated into the pool. On this basis the cash flows will be small in the early years. BANES will be the accountable body for the EDF in line with its current responsibilities around support to the LEP and WoE Office.

57. The LEP (comprising the 4 Local Authorities and 4 business representatives) will need to set the priorities against which the EDF will be spent in promoting and accelerating economic growth.

58. The relevant Unitary Authority (or Authorities) will need to sponsor schemes in their own area(s) and underwrite the financial implications prior to approval by the LEP Board. It will be a requirement of the UAs on agreeing the proposals that investments by the LEP from the EDF will not be made on schemes that could negatively impact on the reference case and pool. Further, given the sensitivity of

the projection, early spend from the EDF should be focussed on unlocking and accelerating growth within the Enterprise Areas and Zone.

59. The EDF will only be able to commit on an annual basis up to the sums it receives from the pool. On this basis should the LEP decide it wants to pump prime schemes by borrowing in advance of cash flows being generated, this would require the approval of the sponsoring local authority/ies, who would also be required to undertake (and therefore underwrite) that borrowing. This will need to be determined by each local authority at the time of approving each scheme, following a full business case and risk assessment on a case by case basis. The financing costs of any borrowing would need to be borne by the EDF, and similarly underwritten. Project management costs and risks would remain with the sponsoring local authority and are not at any time transferred to the EDF.

60. Protections have been sought, as far as is possible, from the Department of Communities and Local Government and Treasury in respect of mitigating the risk to future cash flows arising from changes at a national level impacting on the Growth Incentive proposals and any borrowing undertaken underwritten against future cash flows. These include the licensed exemption from the national system being laid in primary legislation, and the CLG confirming that whilst in existence the 'New Burdens Principle' (NBP) will apply to the details of this deal. The NBP is a Whitehall doctrine that requires all government departments to justify why new duties, powers, targets and other bureaucratic burdens should be placed on local authorities, as well as how much they will cost, and how the relevant government department will fully fund the net additional cost. Its aim is to ensure that the pressure on council tax is kept down. These will both be included in the letter of comfort referenced above.

61. In addition to this, negotiations are ongoing with Treasury to confirm that the LEP PWLB preferential borrowing rate for one scheme (up to £39m) can be applied to a package of schemes in respect of the WoE LEP and used for this purpose (on the basis the LEP can agree a package that meets scheme criteria). Further, discussions are ongoing around a package of works also being included within the Treasury's loan guarantee scheme if funded through the PWLB. Other routes of financing are also being investigated.

62. The LEP and Local Authorities have initiated a piece of work identifying those schemes that could be critical to the unlocking or accelerating of growth across Enterprise Areas, or would be priority schemes in the promotion of the GIA. Subject to more detailed business cases being required for many of these, they should form the first phase(s) of work funded by the EDF. If all schemes were to be funded at the earliest opportunity this would require borrowing to support.

Options

63. That the council does not sign up to the Growth Incentive Deal as part of the West of England City Region Deal. This option has the potential of causing reputational damage to the West of England. The council would not benefit from additional growth retained locally for as long as the deal was in operation. Specifically it would be unlikely to benefit from any investment originating from the LEP in respect of this element of EDF, and would not receive a Tier 3 payment to support demographic and service pressures should the remaining councils agree to move forward with the Deal. Funding will be lost into the national local government finance system rather than being retained within the West of England for local benefit.

Legal Implications

64. The statutory basis for the Local Retention of Business Rates Scheme is the Local Government Finance Act 2012.

65. The Government's exemption for the West of England's City Region Deal Agreement will apply for 25 years from its effective date of 2014, and will be laid in primary legislation.

66. In order to implement the Growth Incentive proposals and benefit from the freedoms and flexibilities that the scheme is intended to deliver, each UA will 'voluntarily' enter into binding agreements (4 party - between the 4UAs and 5 party – between the 4 UAs & Local Enterprise Partnership) These Agreements will address the detailed pooling/accounting arrangements for the business rate growth across the West of England as well as risk, governance, review, liabilities and indemnities and procedures for determining investment and spending priorities.

67. These Agreements will have a maximum term of 25 years to reflect the Government's licensed exemption period but will be terminable earlier subject to agreed provisions in the Agreements.

68. Lawyers for the 4 UAs are working to develop the detail of these Agreements to ensure that they are robust and that they comprehensively operate in the best interests of each UA whilst fully utilising the principles of the Scheme to the benefit of the West of England region.

69. In addition to these Agreements, the West of England will enter into a written letter of assurance with the Government (a letter of comfort) concerning the operational arrangements that have been agreed by the 4 UAs and LEP under the Growth Incentive proposals and the expectations of the WoE from Government into the future. (G Sinclair, x3039)

Human Resource Implications

70. There are no direct human resource implications arising from this report. The accountable body will be required to administer the business rates pool, and prepare monitoring reports for the LEP and Unitary Authorities. This will require additional staffing resource which will need to be met as part of the Tier 1 payments referenced earlier in the report. For the purposes of the projections, this has been estimated at £50,000 per annum.

71. Extra resource will be required for the management and governance arrangements for the EDF and these costs will be met from the Tier 2 payments.

Equality and Sustainability Implications

72. There are no direct equalities impact issues arising directly from this report

73. The Council will be facing significant additional economic and service pressures over the next 25 years. The additional funding that these proposals generate could help to alleviate some of those pressures, through both the provision of critical local infrastructure to support the economy, and through Tier 3 payments in respect of mitigating service and demographic pressures.

Consultation

74. In July 2012, the principles of the deal were formally agreed between central government, the 4 unitary authorities and the Local Enterprise Partnership, with the growth incentive proposals subject to future formal council approval.

75. The West of England Joint Scrutiny Committee received a report of the Growth Incentive proposals at their meeting on the 7th June 2013. The committee discussed the proposals and specifically issues around future governance, audit, decision making and pooling principles. The committee has asked to receive annual reports on the performance of the pool in the future.

76. Environment Directors and Resource Directors from each Local Authority have been involved in the development of the growth incentive proposals and the contents of this report. The LEP Board has also been engaged in the development of the proposals.

77. Ongoing engagement with HM Treasury, the Cabinet Office and Communities and Local Government has been undertaken during the development of these proposals.

Other Risk Implications

78. A key risk is that the business rates growth does not materialise as projected. This is highly likely given the difficulties of trying to project forward the economy and its impact on a specific area for the next 25 years. Should this level of growth not materialise then this would lead to less funding being available to the pool, resulting in lower Tier 2 and Tier 3 payments. Potentially leading to a lower overall payment to the EDF. So long as the pool does not pre-commit future funding streams the financial risk to the local authorities and the pool of this is minimal.

79. This risk will differ across the EA and EZ locations. Some do not currently have approved comprehensive planning concept statements, whilst others have elements subject to approved development guidelines and/or planning consents. This risk will need to be monitored and managed as sites become more certain, and the projections changed accordingly.

80. The operation of the pool will include the creation of a contingency which will need to grow over time and remain proportionate to the size of the financial risk faced. The projections included within this report are based on a weighted average likelihood of economic growth occurring, and have then been further reduced to account for bad debts and a general contingency.

81. A further risk comes as a result of changes that may happen over the next 25 years at a national level which could impact on the proposals. Examples of this might include a future government stopping or amending the scheme through primary legislation, or changes to the national business rate system which then impacts on the projected level of income.

82. Once again these risks can be mitigated by ensuring the pool does not pre-commit future cash flows. The proposals are laid in primary legislation, and the new burdens principle could apply where relevant. Should the scheme be ended early, then the West of England would have gained the additional benefit for as long as the proposals had been in operation. Should the national local government finance system be changed in such away as to make it more beneficial nationally to local authorities then this would need to be accounted for locally as part of the Tier 1 payment structure.

83. As discussed earlier in the report there could be a risk to local authorities who have borrowed via the EDF based on expected future income streams. This will need to be considered on a case by case basis when the local authority comes to support decisions around specific infrastructure / investments. Potential mitigating actions to this were outlined earlier in the report.

84. The letter of comfort between the West of England and the Cabinet Office will also seek, in so far as is possible, to mitigate any unforeseen risks that could occur when the national system is reset (currently expected in 2020 and thereafter every 10 years). An assumption has been made in the modelling about the impact of a reset in year 7 and 17. This impacts on the proportion of funding available to the local authorities in tier 1 and 3, although the total will remain the same.

85. The highest risk to cash flow will be in the early years of the scheme, although this should be mitigated through each UA underwriting its base line position to the pool, and the setting aside of a contingency for new growth. Expectations will need to be managed locally in the early years as to the level and availability of funding.

86. Audit of the pool will form part of the normal internal and external audit arrangements of the accountable body, and will be reported to each council's Section 151 officer as part of the monitoring arrangements.

RECOMMENDATIONS

1. That Council:

    - Approves the pooling of business rates across the 4 West of England Authorities for the designated fiscal boundaries of the Enterprise Areas (together with the Enterprise Zone) for 25 years, as set out in the report on the basis of the Growth Incentive proposals.

    - Approves the operation of the business rates pool and funding arrangements on the basis of the Tier 1, 2 and 3 parameters as set out in this report.

    - Delegates to the Chief Executive, in consultation with the Group Leaders, authority to finalise the detail of the proposals, following central government due-diligence.

    - Delegates to the Director of Finance (S151) in consultation with the Monitoring Officer and Resource Lead Members, authority to finalise the detailed elements and operation of the pooling arrangements and associated elements of the Growth Incentive proposal including the necessary legal documentation.

Appendix 1 – Extract from West of England City Region Deal

3.1 Growth Incentive

The West of England local authorities will retain 100% of business rates growth in the five West of England Enterprise Areas, and will pool this revenue with that from the existing Temple Quarter Enterprise Zone, generating a significant financial contribution for the £1bn West of England Development Fund. Income will also be used to manage local demographic and service pressures arising from economic growth. There will be a legally binding commitment to ensure that all investment through the Economic Development Fund is targeted to projects that will maximise economic returns. The Government will commit to a review of the scope for rolling out a growth incentive scheme to cover the entire West of England area at the next Spending Review.

The West of England local authorities will:

- Pool the business rate growth from these five Enterprise Areas alongside that from the existing Enterprise Zone, generating a significant financial contribution to the £1bn West of England Economic Development Fund.
- Agree a legally binding commitment between the four West of England local authorities and the LEP that: a) Economic Development Fund investments target projects that will maximise economic returns; b) the Council's ability to cover costs associated with growth is protected, to mitigate local demographic and service pressures; and c) there is an equality of approach across all 6 Enterprise Zone/Areas for determining how allocations of business rate revenues to the Economic Development Fund are made.

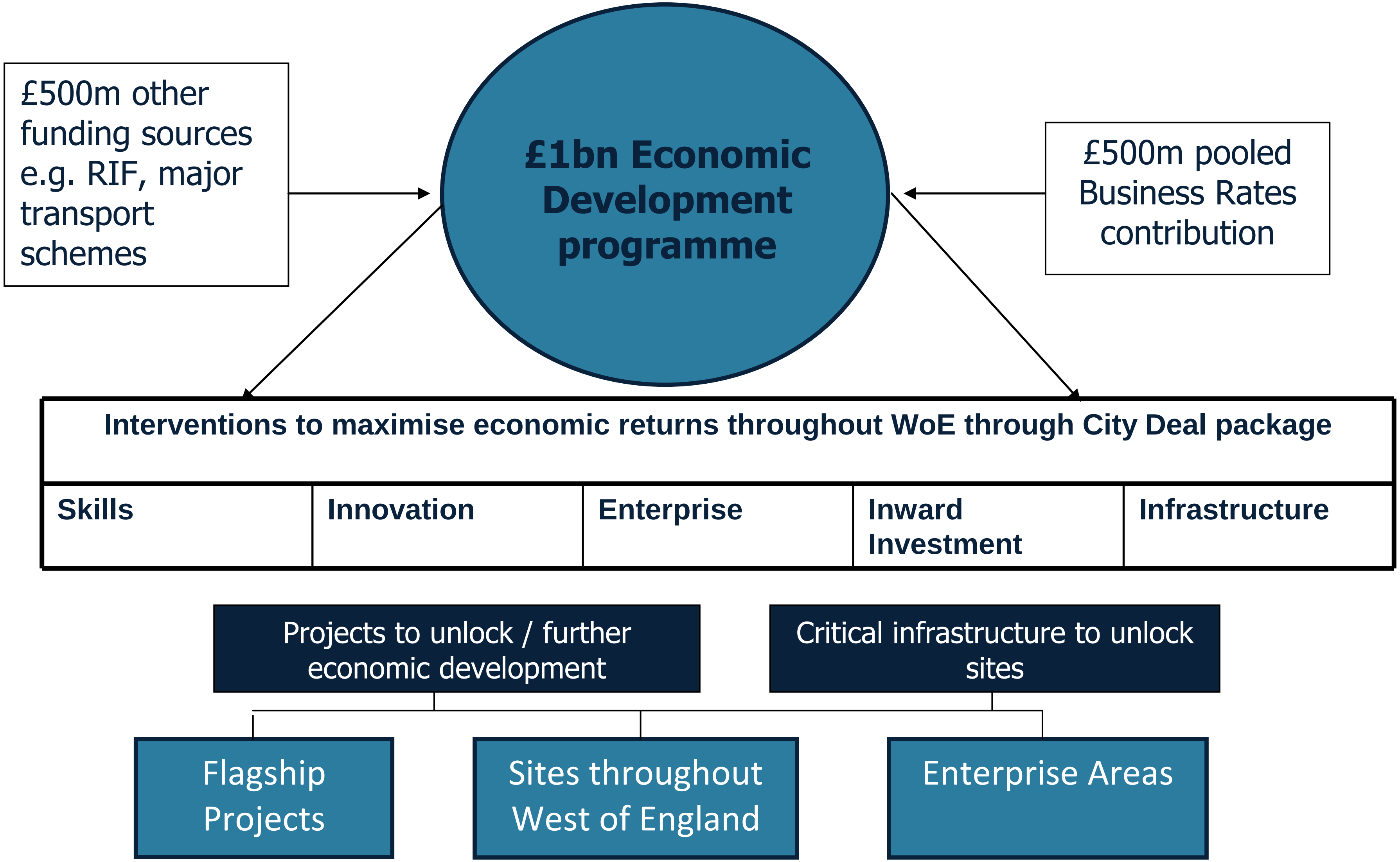
The Government will:

- Provide a licensed exemption from the effects of the resets and levies of the local government finance system in five Enterprise Areas over 25 years, enabling the West of England to retain 100% of business rates growth in these areas.
- The rest of the West of England area will not be subject to any licensed exemptions from the national local government funding system. Government will commit to a review of the scope for rolling out a growth incentive scheme to cover the entire West of England area, at the next Spending Review, providing the West of England local authorities agree to pool their business rates.
- Agree with the West of England LEP a consistent set of contractual obligations, programme level monitoring and governance arrangements (in line with arrangements for the Growing Places Fund) for existing and all future economic development funding from Government, to support the local management of economic development resources as a single pot.

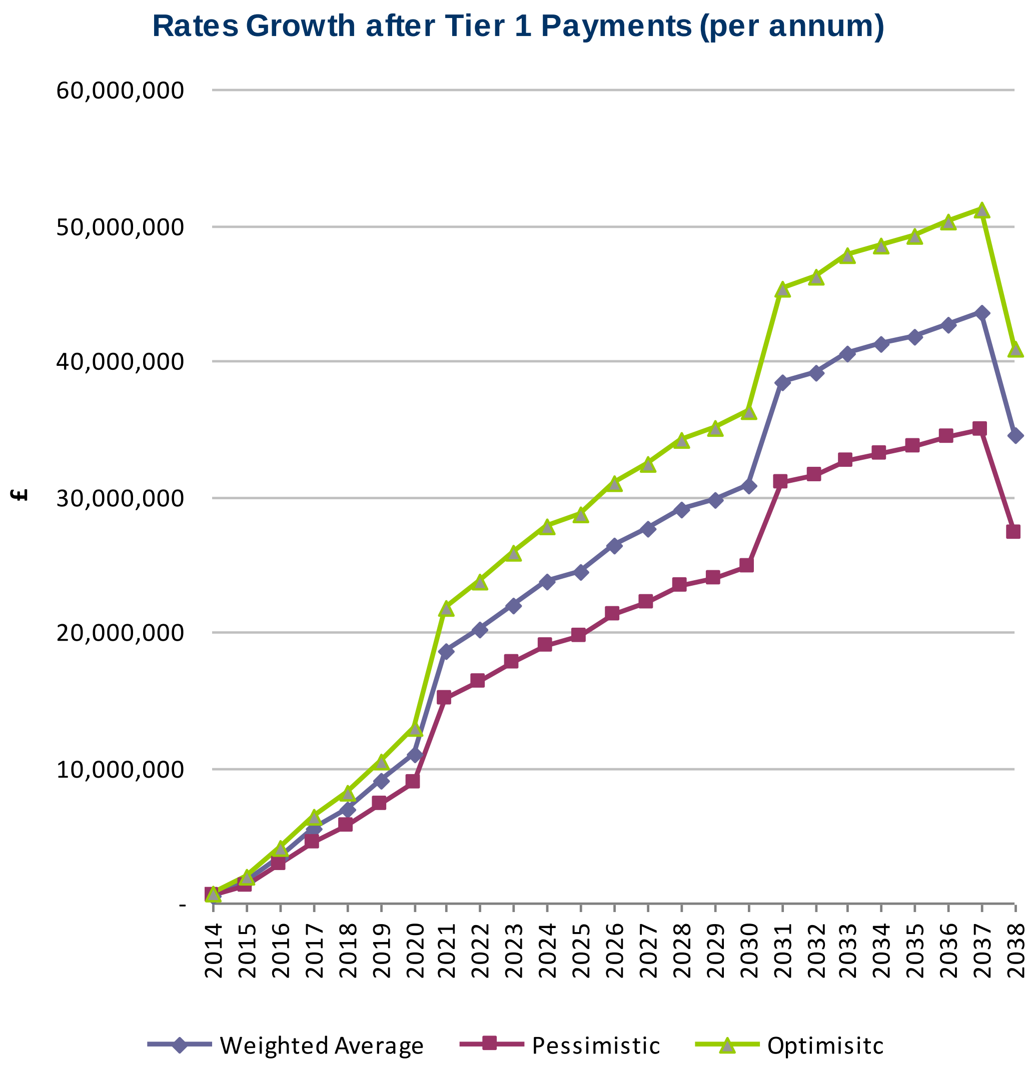
The West of England local enterprise partnership will:

- Deliver a £1bn programme of investment from the Economic Development Fund to unlock and accelerate economic growth in the West of England. This single pot will comprise business rate revenues, used in conjunction with Government funding streams to deliver an investment programme focussed on the Enterprise Zone and five Enterprise Areas. An independent financial sounding-board, including banking and financial experts from the private sector, will support the programme in an advisory capacity.

Appendix 2 – Economic Development programme



Appendix 3 – Base case, Pessimistic and Optimistic business rate growth (after tier 1 payment)



Fall in final year represents impact of Enterprise Zone finishing in year 24.

Appendix 4 – EZ and EA growth breakdown over 25 years