

Report Title:	Berkshire Business Rates Pilot Application
Contains Confidential or Exempt Information?	NO - Part I
Member reporting:	Cllr Saunders, Lead Member, Finance
Meeting and Date:	Council – 12 December 2017
Responsible Officer(s):	Russell O'Keefe – Executive Director and Rob Stubbs – Deputy Director and Head of Finance
Wards affected:	All

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REPORT SUMMARY

- 1 The six Berkshire unitary authorities are submitting a proposal in response to the invitation to all local authorities in England to apply to be a 100% business rates pilot in 2018-19, having previously written to the Secretary of State on this matter earlier in the year, and been encouraged by his response to submit a proposal. The lead authority will be Bracknell Forest Borough Council.
- 2 Inclusion in the pilot could potentially unlock approximately £25 million of investment for the Thames Valley Local Enterprise Partnership (LEP) into local transport corridors with further potential to increase transport capacity.
- 3 The pilot would also provide additional funding to the Berkshire unitary authorities forecast to be approximately £10 million for the 2018/19 financial year.
- 4 Central government requested applications to become a business rate pilot for the financial year 2018/19 only. If accepted the proposal will provide additional funding for the pilot area. The application will be assessed based on proposals being formed across functional economic areas, promotion of financial sustainability and evidence how any pooled income from growth will be spent.
- 5 The proposed membership of the pilot is the six unitary authorities. The case for investment is based on 70% of any financial gain being invested through the LEP into local transport corridors, this is estimated to be around £25 million.
- 6 The remaining 30% will be allocated across the local authorities with a minimum funding level of £1 million planned for each authority to be used to deal with potential emerging pressures.

1 DETAILS OF RECOMMENDATION

RECOMMENDATION: That Council notes the report and:

- i) **Support the application set out in appendix A.**

2 REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 This proposal has the support of the Leaders of all the Berkshire Unitary Authorities and has been developed by their Chief Executives and Chief Financial Officers.

- 2.2 A 100% business rates pilot will give the Berkshire unitaries the financial incentives to pool their business rates gain in a more strategic and integrated way than in the current 50% regime.

3 KEY IMPLICATIONS

- 3.1 If selected the additional funding will be used for strategic investment by the LEP and also provide a financial contribution to local services.
- 3.2 The pilot will be for one year only, 2018/19.
- 3.3 The outcome of the proposal is awaited and further announcement is expected around budget time with more detail around the local government financial settlement announcements.

4 FINANCIAL DETAILS / VALUE FOR MONEY

- 4.1 If approved the pilot will generate approximately £35 million across Berkshire. The intention is for 70% to be placed with the LEP with the remaining 30% shared with the six unitary Councils.

5 LEGAL IMPLICATIONS

- 5.1 If approved the pilot will come with guidance from the Department for communities and local government. Governance of any pilot will be approved by Leaders, Chief Executives and Chief Finance Officers.

6 RISK MANAGEMENT

- 6.1 The inclusion of a no-detriment clause makes this a low level risk in terms of the pooling opportunity and governance arrangements outline the role of leaders, chief executives and chief financial officers through the pilot period.

7 POTENTIAL IMPACTS

- 7.1 If successful this could add in excess of £1 million to the Council's resources to be used to deal with potential future pressures.

8 TIMETABLE FOR IMPLEMENTATION

- 8.1 The outcome of the bid is awaited and if successful will be in place for the 2018/19 financial year.

9 APPENDICES

- 9.1 Appendix A – Bid submission

10 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date sent	Commented & returned
Cllr Saunders	Lead Member	4/12/17	4/12/17
Alison Alexander	Managing Director	4/12/17	4/12/17
Russell O'Keefe	Executive Director	4/12/17	
Andy Jeffs	Executive Director	4/12/17	4/12/17
Terry Baldwin	Head of HR	4/12/17	4/12/17
Mary Kilner	Head of Law and Governance	4/12/17	
Louisa Dean	Communications and Marketing Manager	4/12/17	4/12/17

REPORT HISTORY

Decision type: For information	Urgency item? No
Report Author: Rob Stubbs, Deputy Director and Head of Finance, 01628 796222	

Berkshire Unitary Authorities

Application for 100% Business Rate Pilots 2018-19

Introduction

The six Berkshire unitary authorities are submitting this proposal in response to the invitation to all local authorities in England to apply to be a 100% business rates pilot in 2018-19, having previously written to the Secretary of State on this matter earlier in the year, and been encouraged by his response to submit a proposal. The lead authority will be Bracknell Forest Council.

Collectively, the Berkshire authorities represent a coherent economic area with a strong track-record of working together. With the Thames Valley Berkshire LEP, the Berkshire unitary authorities have already invested in a wide range of strategic programmes and developed ambitious plans for further investment. Planned investment will support the LEP's goal of a net Gross Value Added (GVA) uplift of well over £700m by 2021 and will help to sustain the area's status as one of the most productive sub-regions in the UK. Delivering growth at this scale will translate into an average growth rate for the sub-region – in real terms – of around 3% per annum.

In this submission, the Berkshire authorities are collectively building on this success, and are bringing forward clear and focussed investment proposals that would significantly benefit the sub-regional economy. Berkshire's 100% pilot will invest around £25m in strategic infrastructure, delivering plans that are already well developed, and thereby unlocking wider economic development and further housing growth.

They already have buy-in from the key partners across the county, including the Thames Valley Berkshire LEP, which has played a key role in developing the proposal.

Proposed membership

The proposal for a 100% pilot includes all six of the unitary authorities in Berkshire:

- Bracknell Forest Council
- Reading Borough Council
- Slough Borough Council
- West Berkshire Council
- Royal Borough of Windsor & Maidenhead
- Wokingham Borough Council

The county's LEP covers the area of the six unitary authorities and will be responsible for delivering the infrastructure investment.

Nature of the Pilot Area

Berkshire has a strong tradition of working together, and it has retained many of the close links and integrated working that were inherited following the creation of unitary authorities in the county nearly 20 years ago. A variety of shared service arrangements are in place between different groups of authorities, including for Public Health, Waste Disposal and Childcare Lawyers. A collaborative approach to developing and implementing integrated transport solutions across the County has been instrumental in securing the successful economic and housing growth that has been seen in recent years.

Within Berkshire there is the diversity and variety in the tax base that DCLG is looking for in the next phase of pilots. The county covers both rural and urban areas, each with distinctive characteristics. It has very high-growth areas and provides access to and resources for Greater London and Heathrow airport, both of which are on the eastern boundary of the County. At the other end of the County, much of West Berkshire sits within the North Wessex Downs Area of Natural Beauty. This mix of characteristics is different from the current 100% pilots, which are almost entirely authorities within a large urban conurbation.

The range of businesses within the area is equally diverse. Berkshire has the highest proportion of foreign-owned companies among the 38 LEP areas. Slough has many businesses that support the operation of the adjacent Heathrow Airport as well as Europe's largest trading estate under single ownership, the home of Mars and the iconic Horlicks factory. The County is also home to many national headquarters, such as Microsoft UK and Oracle UK in Wokingham Borough, Waitrose HQ in Bracknell and Vodafone in Newbury. However, it is also recognised that in parts of the County, especially further to the west, there are many rural businesses which face economic challenges of a very different nature.

Economic case for the Berkshire Pilot

A 100% business rates pilot will give the Berkshire unitaries the financial incentives to pool their business rates gains in a more strategic and integrated way than in the current 50% regime.

Thames Valley Berkshire is one of the most productive sub-regions in the UK, and strong economic growth across the County has translated into growth in the business rate taxbase. We are proposing to invest 70% of the additional gain from being a pilot area through a strategic fund, managed by the LEP. Based on latest income assumptions, this will provide £25m for infrastructure investment.

Our plans for investment from the 100% pilot have therefore been developed using evidence about the strategic needs of the County. The plans will make a strategic impact on the sub-regional economy rather than simply re-distributing money to the six unitary authorities. The investment identified in our programme will deliver some of the infrastructure that is required to maintain and enhance current growth in a sub-region that, given the nature of its business ownership, is arguably more exposed than any other to the possible medium-term impact of Brexit. It is growth that is important locally and also to the health and confidence of the wider UK economy.

The Thames Valley Berkshire LEP has supported the development of this bid and identified that the greatest leverage in both housing (regeneration) and infrastructure can be achieved by investing in local transport corridors. Transport corridors can offer priority to public transport and recent research by Professor David Begg indicates that not only do bus priority measures tackle congestion, they can generate up to £7 of net economic benefit for every £1 invested (KPMG, 2015). Where investment has been made in such corridors, this has resulted in a significant impact on wider Housing Market Areas, e.g. 10,000 new homes across four Strategic Development Locations in Wokingham and 2,200 new houses at Warfield, Bracknell.

Specifically, we will invest around £25m in the Slough Transit Network and Reading Mass Rapid Transit Network. These are essential investments to improve the wider transport corridors in the Central Berkshire Functional Economic Market Area (FEMA) and Eastern Berkshire FEMA. Initial estimates are that these two schemes will realise a significant increase in the County's GVA, of up to £100m over a 60-year appraisal period.

Importantly, these are schemes for which plans are already in place. They can realistically be delivered within a short timescale. Investment will be phased, with the first instalments released during the 2018-19 financial year, as the benefit of actual business rates growth is secured. Funding from the pilot will be delegated to the Thames Valley Berkshire LEP, who will have full authority to determine how it is allocated, within the objectives of this submission. Local authority representatives on the LEP will help ensure that the funding is released quickly in order to accelerate the economic gains to the sub region.

Other strategic interventions have also been considered and will be brought-forward either in 2018-19 (if funds allow) or in later years (if the pilot were to be extended). These are part of the Strategic Economic Plan for Berkshire, against which the LEP has already secured £142m of Local Growth Funds. A significant proportion of this - £58.5m – has been invested directly into infrastructure that will unlock housing growth and £5m has been invested directly into regeneration schemes, alongside a further £4.6m in Growing Places Fund loans.

Financial arrangements

Each Berkshire unitary would increase its rate-retention share from 49% in the current system to 99% in the 100% pilot. Royal Berkshire Fire & Rescue Service would continue with its current 1% share.

Baseline Funding Levels (BFL) for each unitary would be increased by the transfer of Revenue Support Grant (RSG). None of the Berkshire authorities are in receipt of Rural Services Delivery Grant (RSDG).

Collectively the Berkshire authorities have reviewed the financial arrangements and risk associated with the 100% pilot. Arrangements have been designed to accommodate both the most-likely and worst-case scenarios. Common assumptions have been made for appeals and risk, and assumptions for potential growth have been shared.

Based on our modelling, we have agreed that the proposed safety net (at 97% of BFL) is sufficient to cover risk within the pilot. Therefore, the Berkshire authorities are able and willing to proceed without the support of a “no detriment” provision.

Recognising that such an approach is only possible with a clear approach to sharing risk and reward, the Berkshire unitaries have agreed the following rules for the use of the additional resources generated by the pilot, subject to sufficient resources being available overall:

- *No authority can gain from being a pilot until all authorities have at least the level of resources that would have been received under the 50% scheme;*
- *Of the additional gains from the business rate pilot, 70% would be allocated to a strategic investment fund (estimated at £25m), with contributions pro rata to each authority's gains; and*
- *Any remaining gains would be distributed pro rata to individual authority gains, subject to a minimum gain for any individual authority being £1m (to be funded if necessary pro rata to each other authority's gains, subject to there being sufficient gain overall, with all authorities taking the same cash gain if not).*

Our proposal offers effectively a local “no detriment” arrangement, minimising the financial risk for individual authorities by sharing risk across the pilot area. After this, we have prioritised strategic economic investment, which will be the first call on gains after any individual losses have been managed. The vast majority of any gains will be invested strategically. Finally, the pilot members are keen to ensure that there is still an incentive for individual authorities to grow their own business rate tax base.

Governance

This proposal has the support of the Leaders of all the Berkshire unitary Authorities and has been developed by their Chief Executives and Chief Financial Officers.

Given the tight timescale to develop and submit proposals, each of the Berkshire authorities will make their own arrangements for approving the decision to apply for 100% pilot status in 2018-19 as soon as practicable.

Decisions about the strategic investment fund will be made by the LEP, subject to the conditions agreed as part of this submission.

Thereafter, the governance structure will consist of three levels:

- Leaders – Strategic direction and oversight, ensuring focus on collectively agreed outcomes.
- Chief Executives – Strategic management and resource allocation in accordance with governance arrangements which will include agreeing key decisions with Leaders.
- Chief Finance Officers – Advise Chief Executives in line with strategic duties, as well as managing the day-to-day running of the pilot.

Leaders and Chief Executives will meet at least every quarter, more frequently if necessary. The pilot will operate on the basis of one-member, one-vote.

Pooled funds will only include monies distributed through the Business Rate Retention System, and will not include RSG, other grants or council tax.

Governance arrangements will remain in place until the pilot is fully dissolved.

The pilot will be formed for a single financial year (2018-19) and the arrangements will be renewed if the pilot is allowed to continue to operate into 2019-20. Each authority will be able to leave the pilot at that point.

On completion of the pilot, any residual receipts directed into the LEP-driven Strategic Investment Fund will remain available for allocation by the LEP. Any further residual benefits or liabilities will be allocated pro rata to individual authority gains during the pilot.