

CABINET - 13TH SEPTEMBER 2018**Report of the Director of Corporate Services****Lead Member: Councillor Barkley****Part A****ITEM PROSPECTIVE PILOT SCHEME PARTICIPATION - 75% BUSINESS RATES RETENTION****Purpose of Report**

This report sets out the case for the Council's participation in a pilot scheme in which a substantial element of government funding would be received by retaining '75%' of business rates collected. The pilot scheme would operate on a sub-regional basis that would include all local authorities within the Leicester and Leicestershire Economic Partnership area. The report asks that Cabinet agree to the principles of the pilot scheme envisaged by member local authorities and requests that delegated authority be given to the Strategic Director of Corporate Services, in conjunction with the Lead Member, to agree the detailed elements of the Leicester and Leicestershire application on behalf of the Council, and to undertake any required administrative arrangements.

Recommendations

1. That Cabinet approve the Council's application to participate in a pilot scheme allowing 75% Business Rate Retention in 2018/19 in accordance with the principles set out in Part B of this report, as part of a Leicestershire-wide proposal.
2. That Cabinet give delegated authority to the Strategic Director of Corporate Services, in conjunction with the Cabinet Lead Member for Finance and Revenues and Benefits and the Chief Executive, to agree on behalf of the Council and with other Leicester and Leicestershire local authorities, the detail contained within the Leicestershire-wide application to participate in a 75% business rate retention pilot scheme.
3. That Cabinet note that, as the Chair of the Scrutiny Management Board agrees that the decision to be taken is both urgent and reasonable and delay caused by the Call-in process would not be in the interests of the Council or the public, the Call-in procedure is suspended in respect of this decision in accordance with Scrutiny Committee Procedure 11.9 of the Council's Constitution.

Reasons

1. To enable the Council to be part of a prospective wider Leicestershire pilot scheme with a view to increasing the funding available to the Council and across Leicestershire.

2. To enable the Council to provide its assent to the Leicester and Leicestershire application submission on a timely basis.
3. The Chair of the Scrutiny Management Board has agreed to the exemption from Call-in because the notice given of this opportunity and the timetable for applications is very tight, such that the effect of any call-in would be to prevent Charnwood participating in the scheme and, given that the application will be on a combined Leicestershire basis, could remove the opportunity for all Leicestershire Authorities to participate.

Policy Justification and Previous Decisions

Participation in the pilot offers the potential to increase the amount of funding available for the Council and/or other partners in Leicestershire (including Leicestershire County Council and the Leicestershire Local Enterprise Partnership). It would also help prepare the Council for the mooted change in local government funding envisaged for 2020. In terms of the Corporate Plan, participation in the pilot scheme can be justified under the objective of Delivering Excellent Services.

It may be noted that Cabinet agreed to participate in an application for the 2018/19 '100%' business rate retention pilot, as part of a wider Leicestershire bid in a report presented on 19 October 2017. This application subsequently proved unsuccessful.

Implementation Timetable including Future Decisions and Scrutiny

The deadline for applications is 25 September 2018. Under this timetable it would not be possible to 'call-in' this report for additional scrutiny and given the circumstances, the Chair of the Scrutiny Management Board has accepted that this report be exempt from call-in.

The report will be available for scrutiny by the Overview Scrutiny Group should they so wish.

The pilot scheme has an initial duration of one year and would commence on 1 April 2019, to run contiguously with the financial year ending on 31 March 2020. It is envisaged that this scheme will run for just one year.

Report Implications

The following implications have been identified for this report.

Financial Implications

It is envisaged that participation in this scheme will be financially beneficial to the Council, or at least will not result in any detriment. There is however a risk (considered very low) that should business rate collections across Leicestershire fail to reach projected levels then the Council could be worse off than had it not participated in the pilot scheme.

More detail of the financial implications is provided in Part B of this report. The risk associated with this decision are summarised below.

Risk Management

The risks associated with the decision Cabinet is asked to make and proposed actions to mitigate those risks are set out in the table below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Risk Management Actions Planned</i>
Business rate collections across Leicestershire fall to levels such that local authorities are worse off than they would have been if not part of the pilot scheme.	2 (Unlikely)	4 (Major – losses could exceed £100,000 in a very negative scenario)	<ul style="list-style-type: none"> • Pre-decision modelling by Leicestershire Treasurers group suggests risks are low • Ongoing monitoring arrangements at Leicestershire level are in place (existing pool arrangements) • An internal ‘safety net’ provision will be created from existing surpluses generated by the existing business rate pool

Key Decision: Yes

Background Papers: ‘Business rates retention – how it works’
 Cabinet report 15 February 2015 – ‘Business rate pooling’
 Cabinet report 19 October 2017 - Prospective Pilot Scheme Participation - 100% Business Rates Retention

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Part B

Background

1. The Ministry of Housing, Communities & Local Government (MHCLG) issued an invitation to Local Authorities in England to 'aid understanding of how we transition into a reformed business rates retention system in April 2020'. The invitation was issued at the end of July 2018 and requires completed applications to be submitted by midnight on 25 September 2018. The pilot will run for one year from 1 April 2019; given the planned inception of a reformed business rates retention system from April 2020 it seems unlikely that the pilot would be extended.
2. The invitation from the MHCLG states that the Government 'is interested in exploring how 75% rates retention can operate across more than one authority to promote financial sustainability and to support coherent strategic decision making across functional economic areas'. There is a clear expectation that any pilot application will be underpinned by a business rate pool.
3. The Government 'expects to learn' from pilot schemes with a view to the design and implementation of a national scheme of rates retention. The introduction of such a scheme has been mooted for the 2020/21 financial year but the timetable for this remains fluid.

Current arrangements for Business Rate retention

4. Until 31 March 2013, local authorities acted as collectors of business rates for central government with cash simply passported to HM Treasury.
5. The business rate collection regime changed from 1 April 2013 initiated by the local government finance settlement covering that financial year. The changes did not affect businesses, who saw no changes in the way that rates were calculated or billed, but did introduce a significant new dimension to local government funding.
6. Although headlined as '50% retention' for local government the calculations are somewhat complex in practice being based on a system of baselines, top-ups, tariffs, levies and safety nets. In Charnwood, the outcome of these calculations has been that whilst the Council collects around £46m of business rates annually, it can retain only about £4m (9% of the total collected) for its own funding. Additionally, the change in regime now means that the Council bears an element of business rate collection risk, stemming from both bad debts (where occupants refuse or are unable to settle their bills) and changes to the business rate 'listing' (the rateable values assigned to properties). The latter risk is particularly significant as the Council bears the risk of valuation appeals which may be both substantial in value and backdated for several years.
7. One of the features of the current regime is the ability to create a 'business rate pool' amongst neighbouring local authorities. Leicestershire local authorities formed such a pool which although creating a slight increase in financial risk, offers

the ability to retain levy payments within Leicestershire¹ which would otherwise have been payable over to central government. Latest forecasts for the current financial year suggest that around £6-7m will be retained in Leicestershire as a result of these pooling arrangements, with a further £9m projected for 2019/20.

8. Further detail on the calculations for business rate retention and the Leicestershire business rates pool are provided as background papers to this report:

- 'Business rates retention – how it works'
- Cabinet report of 15 February 2015 – 'Business rate pooling'

75% business rate retention - pilot scheme prospectus

9. Applications to pilot 75% business rate retention are required by midnight on Tuesday 25 September 2018. The rules of the pilot application process require that the s151 officers of all participating authorities sign off the pilot proposal (this would be enabled by approval of Recommendation 2 of this report).

10. Key features within the application prospectus issued by the MHCLG include:

- The overall objective to focus on the learning necessary for transition into the proposed new scheme from 2020/21
- An objective to develop a set of measures to support the smooth transition of funding for public health services from grant funding to retained business rates²
- An expectation that applicants set out how risk and reward will be managed at a strategic level; inter alia, in contrast to previous pilots where authorities were offered a 'no detriment' assurance current pilot rules include the possibility that authorities could be worse off
- That groups of local authorities applying to participate in the pilot would be expected to operate as a business rates pool
- That participating authorities would agree to forego Revenue Support Grant (RSG) and Rural Services Grant³ (as per the previous pilot scheme)
- In two-tier areas (such as Leicestershire) pilot applications will need to propose a 'tier split'

10. As Leicestershire is a two-tier area with a pre-existing business rates pool linked to the Leicester and Leicestershire Enterprise Partnership (LLEP) there appears to be a good basis for an application from Leicestershire local authorities.

¹ Leicestershire pooling arrangements are that surpluses are transferred to the Leicester and Leicestershire Enterprise Partnership, subject to retention of a provision to mitigate against financial shortfalls within the Pool in future years.

² Not directly applicable to Charnwood but a factor in developing a Leicestershire-wide pilot proposal

³ Not applicable to Charnwood

Principles of the envisaged Leicester and Leicestershire bid under the proposed 75% pilot scheme

11. The Council would be a participant in the pilot scheme as part of a wider Leicestershire pooled arrangement. In summary the arrangements would be:

- All business rates collected would flow into the Leicestershire pool
- In return (as noted above), the government would require participating authorities to forego certain grants
- Each local authority would be initially funded to a level equivalent to the retained business rates and grants receivable had they not been participants in the scheme (ie. this will include any grants foregone)
- It is also envisaged that funding that would have been generated through the pre-existing business rate pool arrangements will be maintained
- Any surplus generated over and above these initial 'calls' would allocated in accordance with an agreed protocol as outlined in paragraphs 14 to 16 below)
- Should retained business rates not cover funding requirements then losses would be shared amongst participants in accordance with an agreed formula akin to that applied in respect of the existing business rate pool

12. Funding that the Council would forego in the event that the Leicestershire pilot application was accepted would be:

	2019/20 £000	Comments
Retained business rates (current formula)	5,260	<ul style="list-style-type: none">• Estimate based on 2018/19 NNDR1• Varies based on actual collection
Revenue Support Grant	165	<ul style="list-style-type: none">• Settled figure
TOTAL	5,425	

13. As noted above, the Council is required to forego Revenue Support Grant. Modelling strongly suggests that this funding (along with that of other participating Leicestershire authorities) could be more than replaced under pilot scheme rules.

14. Latest modelling of the financial impact of the pilot scheme shows that a surplus in the order of £13.8m⁴ would be generated in 2019/20. The emerging proposals for the allocation of such a surplus are based on the allocations developed for the previous pilot bid but having regard to feedback from the MHCLG in relation to previously successful bids.

⁴ Estimated at 6 August 2018; verbal update to Cabinet will be offered at the meeting if any material variation

15. Allocations *based on the previous bid* would suggest the following:

- £5m⁵ would be allocated for transport and energy infrastructure with a view to encouraging growth in the sub-region: A range of illustrative schemes could be identified including road junctions within Loughborough, and infrastructure required to deliver the Enterprise Zone in the Borough
- £2.2m would be allocated to the City Council for public realm works
- A similar amount would be allocated amongst districts for public realm works within market towns: Illustrative schemes could include re-development of Bedford Square/ Wards End and Devonshire Square within Loughborough and improvements to the public realm in the Bull Ring at Shepshed
- Around £3.6m would then be allocated for ‘spend to save’ initiatives: This allocation could be a source of funding for the Council’s customer service and digitalisation initiatives
- Approximately £0.5m – would then be shared amongst pilot participants to support revenue budgets (ie. assist in ‘financial sustainability’)

16. Recent MHCLG feedback on previous successful pilot bids⁶ suggests that ‘financial sustainability’ is likely to be a key element of new proposals (along with references to appropriate governance structures and partnership working). Therefore, whilst retaining the basis of allocations outlined above (as discussed amongst District Leaders), the final version of the 2019/20 Leicestershire bid is likely to emphasise this aspect of the proposals. An implication of this is that the allocations described above will be prioritised in order to retain the importance of the ‘financial sustainability’ element (so would almost certainly be fulfilled in full) whilst the funding for infrastructure would be more at risk, in that any overall shortfall in business rate receipts would reduce funding for these projects⁷.

17. Given the timescales involved in preparing the application it is unlikely that detailed assurances on the funding of specific projects in Charnwood could be obtained prior to the submission date. The decision as to whether to participate in the pilot will therefore need to be taken on the basis of the principles outlined above.

Assessment of financial risk

18. Financial modelling undertaken amongst Leicestershire treasurers indicate that the financial risks of entering into a pilot scheme would be low based on comparisons between expected business rate collection baselines and latest forecasts of actual business rate collections.

19. The pilot scheme mechanism within the prospectus includes a ‘safety net’ element that would ensure participating local authorities receive at least 95% of their

⁵ All allocations are indicative / estimated

⁶ Based on successful 2018/19 Kent bid; event held 3 September 2018

⁷ Conversely, this would imply any surplus receipts would allow additional projects to be funded

collective baseline funding need. This would equate to an amount in the order of £10m. This would be mitigated by creating a provision within the pilot scheme from unallocated surpluses built up by the current Leicestershire business rates pool, thereby significantly reducing the exposure of individual authorities.

19. In the event that financial losses did arise these would be shared amongst authorities on a similar basis to that agreed in respect of the existing Leicestershire business rates pool with losses being shared in proportion to relative funding baselines⁸.

Summary: Prospective benefits of being a pilot authority

20. The principal benefit of participation in the pilot scheme is the additional funding that would flow into the Leicestershire sub-region. Modelling the potential benefit to the sub-region based on these parameters suggests that additional funding in the order of £13.8m⁹ would be generated in 2019/20.

21. A national scheme of 75% business rates retention seems likely to be introduced from the 2020/21 financial year. Participation in the pilot would therefore provide useful experience in advance of national implementation.

Recommendation

22. Based on the information available, the potential benefits to both the Council and wider Leicestershire sub-region of participation in the pilot scheme outweigh the inherent risks. Cabinet are therefore asked to approve the Council's application to participate in a pilot scheme allowing 75% Business Rate Retention in 2018/19 in accordance with the principles set out above and provide delegations to the Strategic Director of Corporate Services, in conjunction with the Lead Member for Finance and the Chief Executive, to make the necessary arrangements.

⁸ The Charnwood share of any loss might be in the order of 3% of the total; implied maximum would be ~£0.3m

⁹ As noted previously; amount estimated at 6 August 2018

Decision under Delegated Powers

Officer Making the Decision

Strategic Director of Corporate Services

Recommendation

That the Council's application to participate in a pilot scheme as part of a Leicestershire-wide proposal allowing 75% Business Rate Retention in 2019/20 in accordance with the principles set out below be approved:

- All business rates collected would flow into the Leicestershire pool;
- Participating local authorities would be required to forego certain grants (as set out in Part B of the report of the Strategic Director of Corporate Services);
- Each local authority would be initially funded to a level equivalent to the retained business rates and grants receivable had they not been participants in the scheme including any grants foregone;
- Funding for the Local Enterprise Partnership that would have been generated through the pre-existing business rate pool arrangements will be maintained;
- Any surplus generated over and above these initial 'calls' would be allocated in accordance with an agreed protocol which will be collectively agreed by the Leaders of Leicestershire District Councils;
- Should retained business rates not cover funding requirements then losses would be shared amongst participants in accordance with an agreed formula akin to that applied in respect of the existing business rate pool

Reason

To enable the Council to be part of a prospective wider Leicestershire pilot scheme with a view to increasing the funding available to the Council and across Leicestershire.

Authority for Decision

Authority for this decision derives from the Cabinet report PROSPECTIVE PILOT SCHEME PARTICIPATION - 75% BUSINESS RATES RETENTION of 13 September 2018 that agreed (Minute 33) that delegated authority be given to the Strategic Director of Corporate Services, in conjunction with the Cabinet Lead Member for Finance and Property Services and the Chief Executive, to agree on behalf of the Council and with other Leicester and Leicestershire local authorities, the detail contained within the Leicestershire-wide application to participate in a 75% business rate retention pilot scheme.

Decision and Date

DECISION TAKEN



25 SEPT 2018

Background

The background is described in the Cabinet report of 13 September 2018 entitled 'PROSPECTIVE PILOT SCHEME PARTICIPATION - 75% BUSINESS RATES RETENTION'

[http://intranet.charnwood.local/papers/cabinet/20180913/Published%20Items/Cab%2013%20September%202018%20Agenda%20Pack%20\(modern.gov\).pdf](http://intranet.charnwood.local/papers/cabinet/20180913/Published%20Items/Cab%2013%20September%202018%20Agenda%20Pack%20(modern.gov).pdf)

As required by the delegation, consultation with the Cabinet Lead Member for Finance and Property Services and the Chief Executive has taken place and they have approved this decision.

The final Bid document is annexed with this decision for information.

Financial Implications

As set out in the Cabinet report referred to above, it is envisaged that participation in this scheme will be financially beneficial to the Council, or at least will not result in any detriment. There is however a risk (considered very low) that should business rate collections across Leicestershire fail to reach projected levels then the Council could be worse off than had it not participated in the pilot scheme.

Risk Management

The risks associated with this decision and proposed actions to mitigate those risks are set out in the table below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Risk Management Actions Planned</i>
Business rate collections across Leicestershire fall to levels such that local authorities are worse off than they would have been if not part of the pilot scheme.	2 (Unlikely)	4 (Major – losses could exceed £100,000 in a very negative scenario)	<ul style="list-style-type: none">• Pre-decision modelling by Leicestershire Treasurers group suggests risks are low• Ongoing monitoring arrangements at Leicestershire level are in place (existing pool arrangements)• An internal 'safety net' provision will be created from existing surpluses generated by the existing business rate pool

Key Decision:

No

Background Papers:

Cabinet report PROSPECTIVE PILOT
SCHEME PARTICIPATION - 75%
BUSINESS RATES RETENTION



Business Rates Pilot Scheme 2019/20

Application Form

This application form will be used to assess your application to pilot 75% business rates retention in 2019/20. Where relevant, further evidence to support points raised in this form may be included as an annex. Please note that authorities cannot apply to pilot 75% business rates retention as part of more than one application.

Information provided in response to this application may be published or disclosed in accordance with the access to information regimes – these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the EU General Data Protection Regulation, and the Environmental Information Regulations 2004).

The personal data you provide as part of this application will be held on a secure government system in line with the department's [personal data charter](#). Contact details will only be used for contacting you about your application or to update you on our work relating to local government finance reforms.

For any questions relating to the application process, please email:
Businessratespilots@communities.gsi.gov.uk.

FAQs relating to applications will be published on the Government publications website at <https://www.gov.uk/government/publications/75-business-rates-retention-pilots-2019-to-2020-prospectus>

1. Application Contact Details

Please include details of the lead pilot authority and lead official responsible for responding to any departmental queries relating to the pilot application.

a. Name of lead pilot authority	Leicestershire County Council
b. Name of lead official	Declan Keegan
c. Lead official job title	Assistant Director (Strategic Finance and Property)
d. Lead official email address	Declan.Keegan@leics.gov.uk
e. Lead official contact phone number	0116 3057668

2. Membership of the Proposed Pool

Please list all authorities belonging to the proposed pilot pool below. The application cannot be considered valid unless all of the listed members have endorsed all parts of the application (see Annex A). You can insert/delete lines as needed.

For the authority type box, please write down one of the following options for each participating authority: (1) Fire; (2) London Borough; (3) Metropolitan district; (4) County; (5) Shire District; (6) Greater London Authority; (7) Unitary Authority.

Authority name	Authority Type
Blaby	(5) Shire District
Charnwood	(5) Shire District
Harborough	(5) Shire District
Hinckley & Bosworth	(5) Shire District
Melton	(5) Shire District
North West Leicestershire	(5) Shire District
Oadby & Wigston	(5) Shire District
Leicestershire	(4) County
Leicester	(7) Unitary
Leicester, Leicestershire and Rutland Combined Fire Authority	(1) Fire

3. Membership details and pooling arrangements

Please answer all of the questions below using short and concise answers. Section 4 will allow you to outline your pilot proposal in more detail.

<p>a. Have all members included in the pilot area endorsed all parts of this application?</p> <p><i>(Please ensure that Annex A is signed by s.151 officer of each area and returned as part of the application to evidence this.)</i></p>	<p>Select one:</p> <p>(1) Yes (2) No</p>
<p>b. Do any members of the proposed pool belong to any other current pool?</p> <p><i>(If 'no', please move to question 3.d.)</i></p>	<p>Select one:</p> <p>(1) Yes (2) No</p>
<p>c. If any members of the proposed pool belong to any other current pool, have other members of such pool been informed that the authority is applying to become a pilot as part of a different pool?</p>	<p>Select one:</p> <p>(1) Yes (2) No (3) N/A</p>
<p>d. Are there any precepting authorities that are not part of the proposed pilot area?</p> <p><i>(If 'yes', please move to question 3.e.)</i></p>	<p>Select one:</p> <p>(1) Yes (2) No</p>
<p>e. If there are any precepting authorities that are not part of the proposed pilot area, are these precepting authorities aware of this proposal?</p>	<p>Select one:</p> <p>(1) Yes (2) No (3) N/A</p>
<p>f. Are all members of the proposed pilot area willing to collaborate with MHCLG officials on system design of the new business rates retention system, sharing additional data and information, as required?</p>	<p>Select one:</p> <p>(1) Yes (2) No</p>

g. How does the pilot pool propose to split non-domestic rating income in two-tier areas?*

(F.ex. the pilot pool could propose to split the shares as in the current 50% business rates retention, or propose to test different kinds of tier split arrangements as part of the pilot.)

*(*The department will use this information in regulations to designate a tier split for the pooled pilot area. In practice, the pilot pool will be given one overall tariff or top-up, and the members of the pool can agree to change the headline tier split.)*

The pilot pool proposes to split non-domestic rates income on the following basis. In the county area:

- 1.0% to the Combined Fire Authority;
- 36.5% to the County Council;
- 37.5% to the District Councils.

In the city area:

- 1.0% to the Combined Fire Authority;
- 74.0% to the City Council.

The tier splits to be piloted will enable both the Government and the authorities to learn by experience, and the authorities will wish to share their views with the Government as this one-year pilot progresses

This split will allow the Government to make the necessary regulations. However, in reality the split will take place locally:

- (a) First to put each authority in the position they would have been in under 50% retention;
- (b) Secondly, to split any monies over and above “stand still” in accordance with principles described below.

The estimated eventual distribution of the additional monies (disregarding the Fire Authority) is:

- (a) City Council: 30%; county area: 70% (reflecting the split of business numbers);
- (b) Within the County area, County Council: 70%; district councils: 30%;
- (c) Within the district councils: an agreed methodology will be deployed based on a number of factors including population size, business rate baselines, fixed amounts per authority and growth delivered and also future growth aspirations set out in Leicester and Leicestershire’s Strategic Growth Plan.

In practice, our consensual approach to targeting monies to meet areas of real need means the investment programme for growth could lead to variations in this estimate.

<p>h. Do you propose to retain any of the additional 25% of retained business rates in an investment pot or similar and distribute this after 2019/20?</p> <p><i>(If 'no', please move to question 3.j.)</i></p>	<p><i>Select one:</i></p> <p>(1) Yes (2) No</p>
<p>i. If any of the additional 25% of retained business rates are kept in an investment pot or similar, how will this be distributed after 2019/20?</p>	<p>N/A</p>
<p>j. What is the anticipated income above baseline funding level for the pilot pool over 2019/20 (in £)?</p>	<p>We estimate that the total income to the area in 19/20 would be £14m greater than would be achieved if the bid is unsuccessful. We are willing to share our calculations with MHCLG.</p>

k. What is the business rates base of the proposed pilot area like and what is its relevance to the economic geography of the area?

(F.ex. you could describe the size and types of hereditaments in the area, business sectors relevant to the area, or the size of your business rates base in relation to baseline funding levels.)

As at 1st April 2018, the total RV of the pool area was £944m, and the authorities estimated that £366m of rates income would be generated in 18/19 (local authorities' share is 50% of this).

There are 42,000 businesses in the area, of which 72% are in the county area. By sector, the largest industries in terms of businesses in the area are:

- Professional, scientific and technical;
- Construction;
- Manufacturing;
- Retail;
- Business support;

Compared to England as a whole, the area is over-represented in terms of:

- Manufacturing (especially the city, which has double the national average);
- Financial and Insurance;
- Transport and Storage;
- Wholesale.

In terms of size, 89% of businesses have less than ten employees, which is consistent with the national picture. The city is over-represented in terms of businesses with 10 to 49 employees. The area as a whole has a higher than average number of businesses with a turnover of less than £50,000, while 0.2% of businesses have turnover in excess of £50m. The area as a whole is not overly-dependent on the viability of a few high value hereditaments, with 65 businesses having a total turnover of £50 million and over. A small handful of businesses pay rates in excess of £2m per year.

In terms of number of employees, the largest industries in the LLEP area are:

- Manufacturing;
- Health;
- Education;
- Retail.

Significant rates growth is anticipated at a number of large development sites and the area's two enterprise zones.

However, outstanding appeals remain a concern for all billing authorities in the pilot, specifically, a number of large supermarkets have lodged appeals against valuations. In addition, continued conversion of schools to academy status represents a risk to the rates base in the city.

The risks in the pilot year are manageable.

<p>I. What pooling arrangements would the members of the pilot like to see if their application to become a pilot is unsuccessful?</p>	<p>Continuation of the current Leicester and Leicestershire Pool.</p>
<p>m. How would the pilot area deal with residual benefits/liabilities once the pilot ends?</p>	<p>The only residual benefits anticipated are sums of money that have been allocated to initiatives, but remain unspent at March 2020. This funding will be carried forward to be used in line with the original purpose.</p> <p>Should the pilot have a deficit to fund after putting everyone in a “stand still” position, our agreement provides how it will be shared (see section 4c below). Adjustments made after the conclusion of the pilot will be managed on the same basis.</p> <p>All benefits/liabilities arising from the investments enabled by the pilot will be managed by the authority that made the investment.</p> <p>Area wide governance arrangements will be maintained after March 2020.</p>

4. Details of the pilot proposal

Please explain how your proposal fulfills each of the below criteria for becoming a 75% business rates retention pilot in 2019/20 (as outlined in 3.2 of the 'Invitation to Local Authorities in England to pilot 75% Business Rates Retention in 2019/20'). If relevant, you may reference answers provided in section 3 of this application form and use this section to provide more detail on the responses. Although there is no formal word limit for answers provided in this section, please be as concise as possible.

a. How does the proposed pilot operate across a functional economic area?

Leicester and Leicestershire is a functioning economic sub region with one million residents and 42,000 businesses. The geography of the pilot bid is coterminous with the Leicester and Leicestershire Enterprise Partnership (LLEP), and the pilot includes all the authorities in the sub-region. The LLEP will continue to play an important role in the business rates retention pool and pilot.

Travel to work self-containment in the LLEP area is high, with 70% of the population living and working in the area. Leicester City Council experiences the highest rate of self-containment, with almost 80% of the population living and working in the city.

Gross Value Added per head in the LLEP area has been rising steadily since 1997 and in 2015 stood at almost £22,500. This is considerably lower than the GVA per head figure for both England (£27,000) and the UK (£26,600), but higher than the figure for the East Midlands (£21,500). Through development of our Local Industrial Strategy we aim to drive up productivity and close this gap.

We want to be at the forefront, driving economic growth and are working closely with the LLEP and Government to develop a Local Industrial Strategy. We're the only area of the East Midlands invited by the Government to do so. This important plan will provide a long-term vision for boosting our economy and supporting companies, enhancing Leicester and Leicestershire's reputation as a great place to do business.

b. How does the pilot area propose to distribute and use the additional 25% of retained business rates growth across the pilot area?

In the first instance, all authorities and the current business rate pool will be put in the position that they would have been in, under 50% retention. Any surplus (estimated at £14m) will be distributed as described below.

1% will be paid to the Combined Fire Authority. It is recognised that the service is different from the other authorities, and is not in a position to influence rates growth. The service will nonetheless contribute to the overall governance of the pilot.

The proposal is to use the remaining surplus in three tranches:

- (a) The first £7m to promote financial sustainability;
- (b) The balance to boost housing and economic growth (our "growth fund");
- (c) Any "super profits" -where the surplus exceeds the highest of our range of estimates – to be shared by means of an agreed formula and used to support financial sustainability.

This approach reflects our priorities – maintaining the ability of the authorities to continue delivering services the public expects is our top priority, so the "first cut" is to deliver our invest to save programme. Only if sufficient funding remains will money be made available to support the growth fund. However, if rates growth exceeds expectations, the growth fund will exceed current estimates

in a “virtuous circle.” Should the “virtuous circle” result in a surplus that exceeds 120% of the estimated pilot benefit financial sustainability will again become the beneficiary of the additional funding.

The authorities have agreed the basis on which the tranches will be shared between the City Council and county area; and (within the county area) between the County Council and District Councils.

Financial Sustainability

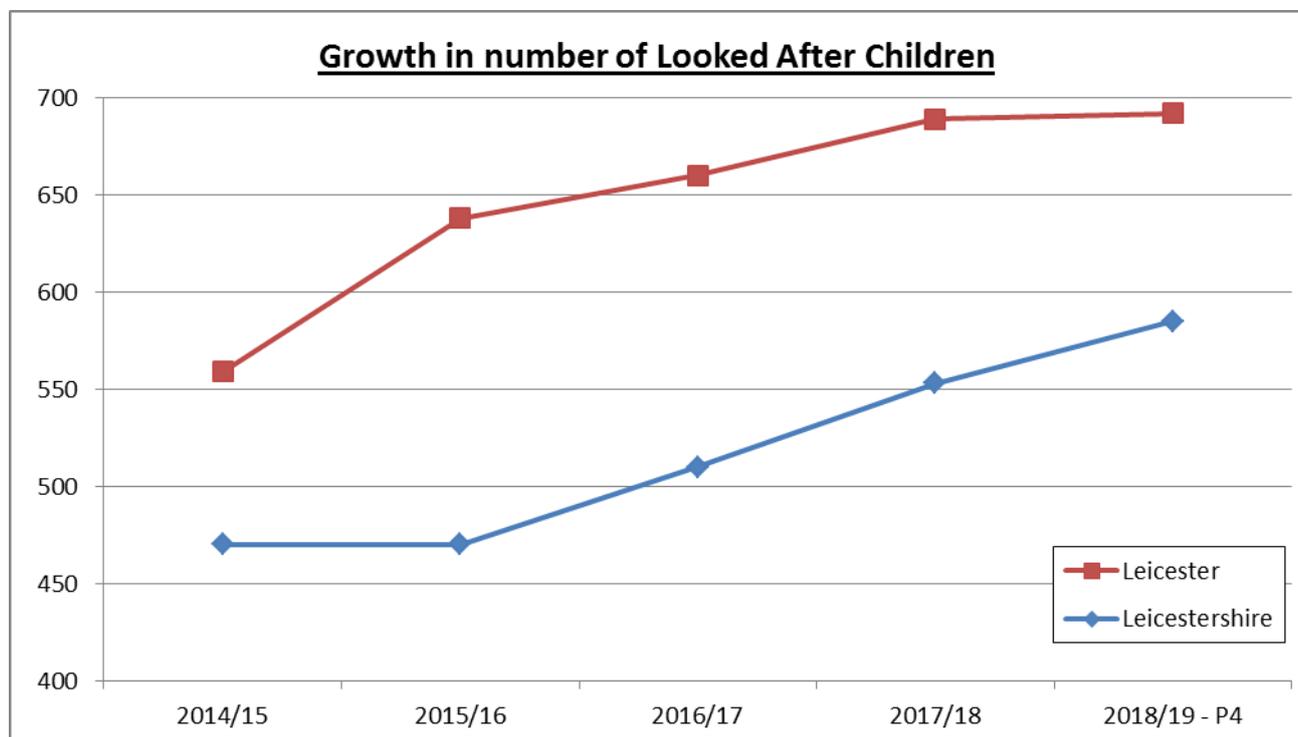
All authorities are facing an increasingly tough financial outlook, resulting from a combination of reducing resources and rising demand. It is, however, recognised that any surplus will be one off, and a significant proportion of the benefit therefore needs to be used to promote subsequent sustainability. The first £7m is therefore intended to address some of the pressures on a spend to save basis, with the majority directed towards the upper tier who have the most significant problems. All the authorities recognise the significant problems in this priority area. This investment will include:

- Measures to reduce demand for children’s social care, which is now the upper tier authorities’ greatest pressure;
- Measures to provide lower cost intervention in children’s social care;
- Cost reduction activity to allow a greater proportion of council tax to be directed to front line services.
- Tackling the rising cost of homelessness
- Develop and extend our existing shared counter-fraud work

The partners do not rule out some of the funding being used to meet unanticipated in-year pressures, subject to evidence that long term remedial action is being taken.

Children’s social care demand reduction

The increasing pressures on children’s social care services nationally have been well documented, and the experience of Leicester and Leicestershire is typical of the country as a whole. Our experience is illustrated by the chart below:



Growth in the number of looked after children, over the last 4 years, has been 24% compared to a population increase of just 4%. This level of excessive growth is clearly not financially sustainable when the average placement costs £40,000 per annum and can be as high as £300,000 per annum. The rapid growth in looked after children has resulted in more placements being made above the average cost that would be the case if more suitable options were available.

To reduce demand, the City Council is proposing investment in further therapeutic intervention teams following the success of the Multi-Systemic Therapy teams tackling childhood neglect and abuse. The new investment will be in another Multi- Systemic Therapy team, and also in a Functional Family Therapy team for child welfare which is also aimed at those children suffering abuse and neglect including those under 5 years. The County Council is seeking a partner to develop a “Children’s Innovation Partnership” (CIP) to design and deliver creative service models, which provide cost effective outcome focused solutions. A key element of this will be supporting looked after children to live more independently from social care services. This will be through additional capacity that enhances edge of care services, which may include the delivery of evidence based approaches to avoid entry into care and stabilise family based placements.

Keeping children out of care not only provides benefits to public services it also provides a better outcome for the child. The City and County Councils will share best practice lessons from this investment.

Lower cost intervention in children’s social care

To reduce the cost of individual placements, both social care authorities are investing substantially to increase our numbers of internal foster carers. This includes incentives, a marketing campaign and consideration of targeted increases in payment rates. It costs £12,500 more per child every year that they are placed through a fostering agency. The City Council will also look to invest in more supported accommodation for those looked after children who are transitioning into adulthood, and for those older children for whom the only alternative has been unsuitable residential care.

The County Council’s CIP will promote co-design of services to develop good quality cost effective residential care for looked after children, local to the young person’s networks, to meet the needs of individuals with complex behaviours and disabilities to prepare them for transition to family based placements.

The cost benefit of these initiatives could be significant. The cost differential between internal foster care and a residential placement is £150k per place: if growth in residential care were halted a saving of up to £10m would accrue.

Cost reduction activity

All authorities will seek to pursue:

- Investment in digital development and adoption of more innovative service models to improve customer services and productivity, and to reduce cost;
- Front line service redesign with a focus on improved efficiency;
- Evaluate co-location opportunities, and use of business rates monies to match fund contributions from “One Public Estate”.

Rising Cost of Homelessness

The increased demand to provide temporary accommodation is a national trend also being experienced here, in the East Midlands, with some councils seeing a 400% increase in costs over the last five years. Whilst this puts financial pressure on the District Councils, behind these figures are residents that may be highly vulnerable, some with disabilities and others that may be working people that are unable to afford rising housing costs.

The authorities will seek to curb the escalating costs of temporary accommodation by looking to provide alternative arrangements that are more cost effective yet provide a more stable environment for our homeless to rebuild their lives. Funds from the pilot bid may be utilised both to support the financial pressures caused by the rising demand but also to invest in cost saving initiatives to find alternative arrangements.

Counter Fraud

The partners also propose to invest a £100,000 allocation to extend the current, successful sub-regional fraud function; using data matching to prevent false Right to Buy purchases, combat illegal sublets and tenancy fraud, and to investigate small business relief claims.

Investment in growth (the Growth Fund)

All nine Leicester and Leicestershire local authorities and the Leicester and Leicestershire Enterprise Partnership (LLEP) are working together to plan strategically for future housing provision and economic growth. This autumn we hope to jointly adopt our Strategic Growth Plan which will set out our aspirations for jointly managing housing growth up to 2050. The Plan identifies the need to build 187,000 homes by 2050 (96,500 by 2031). These homes will be delivered in strategic locations enabling us to develop new communities with excellent connectivity, and good access to employment, schools, health services, shops and open space.

A transport strategy will underpin the Growth Plan to ensure we invest in infrastructure to meet short term need, unlocking housing and employment growth; and that we plan longer term to deliver significant infrastructure projects bringing wider benefit to the Midlands region and the UK as a whole.

It has recently been announced that the sub-region will be in the Government's second wave of Local Industrial Strategies to be developed. This will provide a robust platform for coordinated growth across housing, transport and the economy, and will shape and guide the allocation of additional funding to support growth.

Planned investment and pipeline development projects in Leicester anticipate enhanced performance in manufacturing (including textiles and food), finance, education and tourism. In Leicestershire major development schemes are being delivered, including MIRA Technology Park, East Midlands Gateway Strategic Rail Freight Interchange and a number of other major distribution schemes in both North West Leicestershire and Blaby. There is potential for growth in scientific and pharmaceutical activities through committed investment associated with the Loughborough and Leicester Enterprise Zones (in both city and county).

Business optimism in Leicester and Leicestershire is high with 65% businesses aiming to grow over the next 12 months, 71% expecting to increase profits and 44% looking to recruit more staff. Whilst some companies are looking to relocate predominantly due to expansion, 84% of these hope to remain within Leicester and Leicestershire.

To support and enable the strategic growth planned, inward investment opportunities (especially through the Enterprise Zones) and growth of existing businesses, it is essential that we invest rapidly in the supporting infrastructure and the 'place' as a whole.

A pilot would support the authorities to develop and deliver essential infrastructure for growth. There is increasing need to invest in a pipeline of schemes in order to prepare for competitive bidding opportunities, and inform dialogue with developers; and to match fund prospective developments.

Examples of priority schemes this investment could contribute to include:

- Business case development of a new strategic junction on the M1 (J20a) – this could unlock major strategic housing and employment growth (generating an extra £262m GVA) as well as improving journey time reliability and connectivity in the wider area;
- Investment in essential highway, landscaping and flood prevention infrastructure at the Ashton Green urban extension and Waterside/Abbey Meadows regeneration areas in the city, which between them could deliver up to 9,000 homes;
- Development of an evidenced-based, prioritised pipeline of possible candidate schemes for the County's and City's Major Road Network (MRN), in line with government policy;
- Sustainable city transport solutions including bus corridor improvements on Leicester's main radial routes serving growth areas to the north and west, extension of high quality cycleways from the city centre to local neighbourhoods and improvements to the city's main bus and rail hubs.
- A511 Coalville Growth Corridor which has the potential to deliver 10,400 homes and 5,600 jobs, development that would otherwise remain constrained by poor transport infrastructure. Estimated increase in GVA is £35.3m;
- Market Harborough road and sustainable travel improvements to support delivery of 2,700 new dwellings as part of Harborough District Council's Local Plan, including 1,500 dwellings in a Strategic Development Area to the town's west. Estimated increase in GVA is £26m;
- Business case development and costs associated with accelerating local authority owned housing opportunities e.g. Lutterworth East SDA 2,750 dwellings;
- Forward funding of infrastructure to unlock housing and business growth. The Melton Mowbray Distributor Road has a significant funding requirement in addition to the DfT grant. An innovative tax incremental financing scheme is being developed between the County Council and Melton Borough Council to fund the scheme in advance of developer contributions being received. The pilot funding will lower the risk and allow funding to be recycled more quickly to other schemes;
- Funding to support the development of transport strategies across the county.

City and town centres

The Strategic Growth Plan and the recent Local Industrial Strategy prospectus recognises the important role of Leicester as the major urban centre for the sub-region providing office workspace, shopping, arts, culture and two excellent universities. The surrounding towns have strong functional and economic ties to the city, but they are economically buoyant in their own right and provide jobs and services to local residents and the surrounding rural areas.

It is crucial that these urban centres have the right infrastructure, facilities and appeal for the rising population, and are able to accommodate business growth whilst attracting investment to the area. Conversely, continued growth in the residential population of the city centre (which has grown by over 50% since 2011) is crucial to its long term vitality and to the strength of its retail sector.

To enable delivery of the 63,000 homes in the county and 18,000 homes in the city up to 2031, many of which will be focussed around our town/city centres, we plan to invest in the following schemes:

- Improving connectivity within Leicester city centre to complement the recently completed Highcross development, and attract more people to the historic centre. We have definite proposals and investors who wish to work with us;
- Site assembly and development of grade A office workspace in the city centre to support new inward investors and company growth. Increasing density of employment in the city centre is crucial to economic vitality and to support growth of new housing demand, particularly for private rented schemes.
- Improving accessibility of town centres and sustainable travel options e.g. Hinckley, Coalville and Market Harborough;
- Enhancing the appeal, heritage and public realm of our towns to increase the dwell time for tourism, leisure, shopping and attractiveness to encourage business investment e.g. city centre, Hinckley, Wigston and Blaby;
- Supporting implementation of town centre masterplans to provide outdoor meeting places for events, businesses and dining e.g. Loughborough, Coalville, Melton Mowbray;

Further allocation for financial sustainability

Should the surplus exceed 120% of our current estimates, the balance will be used for financial sustainability. The methodology for sharing this will be the same as the methodology for sharing any deficits (i.e. if the pilot does very well or very badly, the risk and benefit will predominantly fall to the upper tier authorities who can best bear risk). This is as follows:

- City Council 30%;
- County area 70%

In the County area, the 70% will be split between the districts (17%) and the County Council (83%) (this split being based upon net budgets).

c. How does the pilot area propose to arrange its governance for strategic decision-making around the management of risk and reward? How do the governance arrangements support proposed pooling arrangements?

Leicester and Leicestershire have a well-established governance model that oversees the current business rate pool. £14m has been administered through these arrangements to date, with another £6m expected in 2018/19. These arrangements have given the participants in the pilot several years' experience of managing the risk and reward from a business rate funded investment scheme.

A funding allocation agreement is in place between all the authorities submitting this bid, to ensure that the administration of the funding and associated risks is clear from the outset. The key principles of the allocation agreement are described above (3g). The agreement sets out in detail the mechanism through which the funding will be distributed.

The local authorities of Leicester and Leicestershire have a strong track record of directing funding to the areas that have greatest need/benefit. The current use of the funding generated through the business rate pool is a good example of this: unlike many pools which return surpluses to the authorities, in our pool the Local Enterprise Partnership plays a central role in allocating funding to specific schemes. The pool will continue in 2019/20, should the pilot bid be successful, as a stand-alone entity: and the awarding of funding to economic priorities will still be managed through the LLEP.

Risk share

The pilot bid members accept that there is not a "no detriment" clause. This is the arrangement with the existing pool, and all members are comfortable with the risks. In the event that the pilot generates a deficit after putting all authorities in a standstill position, the deficit will be met as follows:

- City Council 30%;
- County area 70%

In the County area, the 70% will be split between the districts (17%) and the County Council (83%) (this split being based upon net budgets).

A full range of financial scenarios has been modelled so that all of the participants to the pilot application are aware of the financial consequences of different levels of business rate generation. The risk share recognises the greater ability of both the City and County Councils to carry the risk of up to £5m if business rates were to fall (when compared to current arrangements). The partners are willing to remove the fire service from the risk share arrangement given they have no levers they can use to help stimulate economic growth.

The districts' risk share will be split on the same basis as surpluses.

Administration

The sub region has an active Treasurers' Group which meets regularly and works collaboratively on a range of initiatives including business rates. The pilot bid provides an opportunity to further deepen these links. If successful, we will:

- Investigate a joint business rate relief scheme to attract new investment into the sub region;

- Further integrate accounting and administration (and in particular, we are prepared to support the Government by trialling a unified approach to appeals);
- Improve forecasting with the aim to improve process, reduce fraud and increase collection;
- Develop and extend our existing shared counter-fraud work, as discussed above.

The Treasurers' Group will also oversee the allocation and use of the funding. The meeting of the group will allow regular progress updates on the investments and the beneficial outcomes achieved that can be shared between the different organisations. The established nature of this group will ensure that the benefits of the pilot will continue beyond 2019/20.

5. Submitting your application

Please return this form and Annex A with signatures of all s.151 officers from proposed pilot pool's member areas by the deadline of 25 September 2018. Where relevant, further evidence of points raised in this form may be included as an annex.

Please submit your completed application to:

businessratespilots@communities.gsi.gov.uk

or

Business Rates Reform; Local Government Finance; Fry Building, 2 Marsham St, Westminster, London SW1P 4DF.



Annex A – Evidence of authorisation

a. Name of lead pilot authority	Leicestershire County Council
b. Name of lead official	Declan Keegan
c. Lead official job title	Assistant Director (Strategic Finance and Property)
d. Lead official email address	Declan.Keegan@leics.gov.uk
e. Lead official contact phone number	0116 3057668

Please include the signatures of each member area's s.151 officer to evidence that all parts of your application have been fully endorsed by authorities listed in section 2 of the pilot application form. You can insert/delete lines as needed.

Authority name	Name of s.151 officer	Signature
Blaby District Council	Sarah Pennelli	
Charnwood Borough Council	Simon Jackson	
Harborough District Council	Simon Riley	
Hinckley & Bosworth Borough Council	Ashley Wilson	
Melton Borough Council	Dawn Garton	
North West Leicestershire District Council	Tracy Bingham	
Oadby & Wigston Borough Council	Stephen Hinds	
Leicestershire County Council	Chris Tambini	
Leicester City Council	Alison Greenhill	
Leicester, Leicestershire and Rutland Combined Fire Authority	Alison Greenhill	