

# Somerset Business Rates Pilot Business Case

October 2017

## Contents

1. Membership Details/Housekeeping.....	1
2. Governance Arrangements .....	1
3. Additional Supporting Evidence .....	2

### Supporting Information:

Appendix A – Proposed Pilot Area

Appendix B – Signatures from the Somerset authorities

Appendix C – Use of the additional resources

Appendix D – Rurality

Appendix E – Economic Activity

Appendix F – Business Rates Base Profile

### As separate documents:

Annex A – Governance Arrangements for a Somerset Pool

Annex B – Governance Arrangements for a Somerset Pilot

## Introduction

The Somerset county area is pleased to present its business case for 100% business rates retention pilot status for 2018/19. Our business case follows the structure set out in DCLG's invitation of 1 September 2017.

### 1. Membership Details/Housekeeping

- (i) **Membership.** Our proposal is for a Somerset pilot consisting of Somerset County Council, Mendip DC, Sedgemoor DC, South Somerset DC, Taunton Deane BC and West Somerset Council, as shown in **Appendix A**. It is therefore representative of all authorities in the Somerset two tier county area, allowing the pilot to take advantage of existing working relationships between the authorities and act in the best economic and wider interests of the area as a whole.
- (ii) **Support.** **Appendix B** sets out the supporting signatures from each of the applicant authorities.
- (iii) **Alternative pooling arrangements.** If the application for a Somerset pilot was unsuccessful, a pool consisting of the same membership is requested to be put in place for 2018/19. This pool would use the pooling governance arrangements as set out in **Annex A**.
- (iv) **No detriment.** It is Somerset's understanding that all of the new pilots for 2018/19 will now receive this protection.
- (v) **Lead authority.** Mendip District Council would act as the lead authority.
- (vi) **Preceptors.** The Devon and Somerset Fire and Rescue Service would remain at a 1% local share and operate outside of the pilot.

### 2. Governance Arrangements

- (vii) **Governance agreement.** The key points from the proposed pilot governance arrangements (see **Annex B** for the full document) are set out below.
  - Districts will increase their share to 50% and the county will increase its share to 49%. This would allow existing budget commitments to be met, whilst providing additional resources for additional local priorities.
  - Providing that there are sufficient resources, no authority shall receive less than if it was operating under the current 50% scheme.
  - In the highly unlikely event that the pilot makes an overall net loss, or the pilot has outstanding liabilities, this will be pro rata'd across all authorities, taking into account resource levels, had the pilot not been in operation.
- (viii) **Longer term pool operation.** Within the current spending review period there are limitations as to what can be achieved in terms of pooling gains and losses, given authorities have budget plans in place. However, beyond this period, a single county business rates baseline, meaning risks and rewards would be shared across the county area would be possible. This type of approach would

reduce the volatility to individual authorities of business rates collected (e.g. due to appeals) and also events such as future resets (and the subjective way in which NNDR Baselines will need to be determined). Whilst all authorities would hope for a favourable revised baseline following a reset, in reality it is just as likely that they could receive a baseline that would not provide sufficient resources to reach their Baseline Need figure (under a full reset). Therefore, a single NNDR Baseline across the larger area would smooth potential winners and losers and provide a more stable funding system.

The creation of a Somerset Pilot would help begin the process towards this longer term view, by establishing the necessary working practices, such as consistent approaches to forecasting and appeals.

Whilst the guidance states that pilots would be for 2018/19 only, if permitted, Somerset would seek to continue the arrangements in 2019/20. This would allow the forecast benefits to continue for a further year, providing greater scope for improvement and investment locally and allowing further progress in a joined-up approach to the collection and use of business rates income.

- (ix) **Sharing additional growth.** Pilot status would be used to promote financial stability and sustainability, through: (i) providing resources for a local productivity and infrastructure fund, (ii) providing additional resources to invest in service areas to improve budget sustainability and reduce future years' budget pressures and (iii) increasing the resources available for investment in economic regeneration schemes.

Further details of how the additional resources are to be used is provided in **Appendix C**, these include:

- Using the Local productivity and Infrastructure Fund to finance strategic investment that supports economic growth and increased prosperity in Somerset;
- A range of projects to support further economic growth and prosperity across the districts areas;
- Supporting transformational activity to improve services to customers, modernise ways of working and providing cost efficiencies to support financial stability and sustainability

### 3. Additional Supporting Evidence

- (x) **Benefits to the area, wider national benefits and financial case.** As with all the existing pilot areas and those that will apply for 2018/19, local forecasts suggest that Somerset will benefit financially from becoming a pilot area. Latest business rates income projections suggest a Somerset Pilot in 2018/19 will provide at least an additional £10m for the area.

As set out above, it is expected that a Somerset pilot will bring a number of local benefits. A summary of the local benefits and wider benefits to DCLG and the Treasury are listed below:

### Increased economic prosperity in the area/nationally

- Reduced worklessness (and benefit payments)
- Increasing tax revenue (personal and corporation)
- Increased business rates revenues

### Learning points for the business rates retention scheme

- Trial of a 50% district and 49% county split of business rates revenues
- Identifying the potential to manage appeals' risk at a county-wide level, including determining appeals' provision and apportioning losses evenly
- The establishment of a technical working group to improve the administration of business rates locally
- Regular contact/meetings with DCLG by the working group to discuss identified local best practice, including learning points and how the pool is dealing with emerging issues relating to both the pilot and any national issues e.g. policy changes/appeal trends

### Additional resources for Somerset

- Higher levels of investment in economic regeneration, leading to future gains under the business rates retention scheme
- Greater financial stability and confidence, through shared working practices and increased local knowledge.

(xi) **Two-tier areas.** Somerset supports government in recognising the need for pools to act and be structured differently to how they largely operate at the moment. It also proposes to amend the local split to reduce gearing (i.e. the ratio of baseline need to NNDR baseline), in order to reduce windfall gains and the potential to hit the safety net.

However, a key aim of a Somerset pool would be to consider how to begin to share risks and rewards across all authorities, thereby making the level of business rates income between individual billing authorities and their preceptor of lesser importance.

Somerset therefore proposes a 50% district and 49% county split for the two-tier area. This approach therefore reflect the fact that the current system creates too highly geared district councils and does not provide sufficient growth to county councils, whilst recognising that in the short term, existing budget commitments need to be met.

(xii) **Somerset characteristics and business rates base.** The proposed pool is highly rural. West Somerset and Mendip are classified as 'mainly rural', South Somerset and Sedgemoor as 'largely rural', and Taunton Deane as 'urban with significant rural'. Further details are provided in **Appendix D**.

**Appendix E** sets out the economic profile of the area. It shows that Somerset is characterised by relatively sparse clusters of business activity. The areas of most dense employment correspond to the largest population settlements, notably the towns of Taunton, Yeovil and Bridgwater.

The proposed pool is a largely self-contained labour market, with 85% of employed

residents within the county also working within the county.

Some of the districts are reliant on other pool members as a key source of employment: for example, 18% of Sedgemoor's employed residents, and 16% of West Somerset's employed residents, commute to work in other authorities in the proposed pool. The main commuter destination for both these districts is Taunton Deane. In turn, 11% of employed residents in Taunton Deane commute to other pool authorities, the main destinations being Sedgemoor and South Somerset. Mendip's economic activity is also heavily interdependent with Bristol, Bath and Wiltshire, in addition to the rest of Somerset. This indicates the labour market extends beyond the administrative boundaries of these individual districts, and that there are interdependencies that would incentivise a joined-up approach to economic development. These incentives for coordinated development could be greatly reinforced by pooling.

**Appendix F** provides evidence of particular business rates taxbase characteristics for Somerset which includes:

### **Power station**

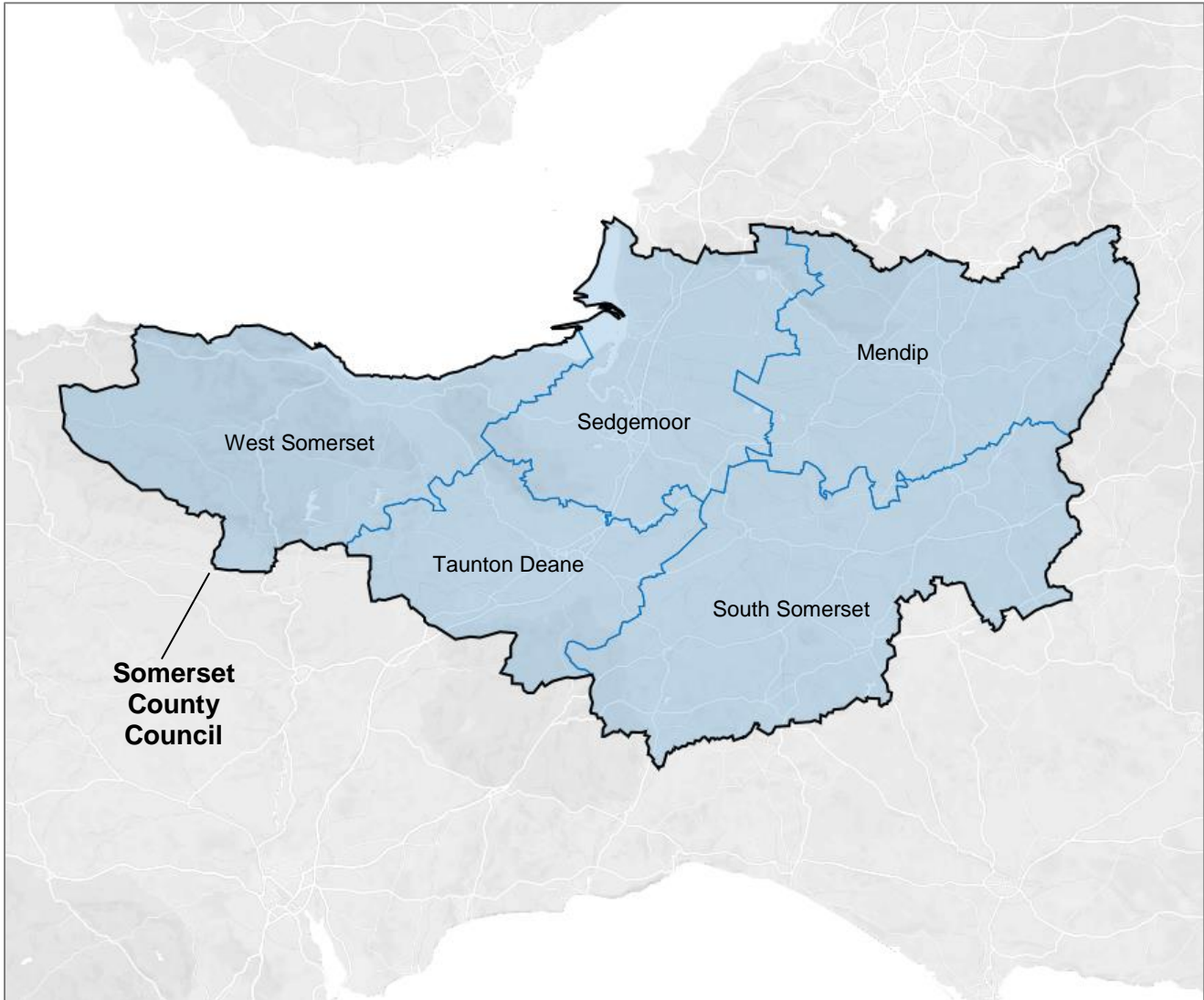
Somerset is home to three generations of nuclear power stations located in the district of West Somerset: Hinkley Point A (HPA), Hinkley Point B (HPB), and Hinkley Point (HPC). The decommissioning of HPA commenced in 2000. HPB is currently the only operating power station at Hinkley Point. Commissioned in 1976, it has a net electrical output of 0.87GW and is currently operating below maximum capacity. The station was due to be decommissioned in 2016, but its life has been extended until 2023. HPC will be the first new nuclear power station in the UK for a generation, capable of generating 7% of the UK's total energy requirement.

### **Enterprise Zone**

Sedgemoor is hosting a government supported Enterprise Zone based on Huntspill Energy Park. Expansion, infrastructure and development is required to deliver this site.

## Appendix A – Local Authority Pilot Membership

**Figure 1 – Map of proposed pilot area**

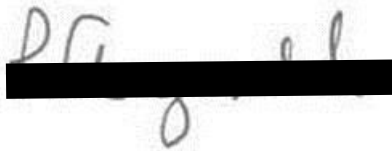


## Appendix B – Signatures

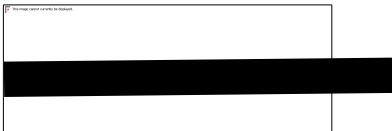
The relevant signatures from all of the Somerset authorities in support of this business case and a 2018/19 Somerset Business Rates Pilot are provided below.



Alison Turner  
Group Manager – Finance and s151 Officer  
Sedgemoor District Council



Paul Fitzgerald  
Assistant Director – Strategic Finance and S151  
Officer of Taunton Deane Borough Council and West  
Somerset Council and S151 Officer of South  
Somerset District Council



Paul Deal  
Corporate Financial Advisor (S151 Officer)  
Mendip District Council



Kevin Nacey  
Director of Finance and S151 Officer  
Somerset County Council





## Appendix C – Use of the additional resources

### Local Productivity and Infrastructure Fund

Of the additional 50% additional resources received under pilot status, it is proposed that a proportion of the resources will be used for a local productivity and infrastructure fund to finance strategic investment that supports economic growth and increased prosperity in Somerset.

A programme of investment via the fund would be commissioned with the overall aim of raising productivity in the Somerset economy in line with the objectives of the Heart of the South West Productivity Strategy and the Somerset Growth Plan.

This programme of investment will be aligned with the three thematic objectives from the Productivity Strategy:

- Leadership and knowledge (i.e. supporting business growth and innovation; improving management practices and performance across the economy);
- Connectivity and infrastructure (i.e. developing a more resilient and better connected infrastructure); and
- Working and learning (i.e. developing skills and employability across the workforce).

The six authorities will be able to identify individual schemes for the programme, with encouragement given to the promotion of schemes jointly by authorities in partnership. The Somerset Growth Board will act as a joint advisory body, recommending investment priorities arising from this in line with these three overall objectives from the Productivity Strategy.

The Somerset Growth Board's membership comprises representation from each of the six Somerset local authorities (cabinet member for ED typically), plus Exmoor National Park Authority, a FE sector representative and business representation (Somerset Chamber and FSB to represent small business and Leonardo and Yeo Valley to provide large business voices).

#### Alignment with Heart of the South West Joint Committee

Groupings of both the Somerset and the Devon local authorities are developing proposals for the second wave of business retention pilots and are considering alignment with our shared Productivity Strategy. In the limited time available for submissions there is realistically not the scope to establish a plan area approach to the allocation of part of retained sums to delivery of the Productivity Strategy. However once the proposed Joint Committee is established there may be scope to negotiate a common top slicing arrangement thus extending the local productivity and infrastructure fund across the Heart of the South West area.

We are really keen to work with colleagues in Devon in future years. There was insufficient time to co-ordinate a single bid but we want to convey to you our desire to work within the LEP boundaries as we see the need for increased collaboration in order to gain the maximum advantage. This is something into which Somerset is committed to invest resources and funding.

### Alignment with National Funds

The local productivity and infrastructure fund provides a mechanism for Somerset partners to leverage funds from the proposed UK Shared Prosperity Fund (Government’s successor to EU Funds) and national programmes linked to the developing UK Industrial Strategy.

### **Local Authority Schemes**

In addition to the local fund, the Somerset authorities have also identified how they will use their own share of the gains from pilot status.

Authority	Scheme
Mendip	<p>Mendip District Council has undergone a strategic programme of transformation and renewal over past years, and is now seeking to drive further economic growth and prosperity across its key market towns including Frome, Glastonbury, Shepton Mallet, Street and the City of Wells. Planned growth across the district is equivalent to 9,400 jobs and 9,635 homes over the period 2006-2029.</p> <p>The local economy has significant self-employment and numbers of micro businesses, as well as key strengths in agri-food/tech and tourism, yet, it also home to the £1.7bn global company, Clarks International, Clarks Village (4.3m visitors in 2016) Mulberry, the iconic Glastonbury Festival and a growing cluster of creative, IT and high-tech companies.</p> <p>Increased economic funding would be targeted towards:</p> <ul style="list-style-type: none"> <li>• Unlocking and investing in key employment, mixed use and/or regeneration sites to accelerate growth and future investment (e.g. Bath &amp; West Food Enterprise Zone, Frome Saxonvale, and Shepton Mallet)</li> <li>• Supporting innovation, incubation and ‘grow-on’ workspace initiatives to drive leadership, growth and business investment</li> <li>• Investing further in digital and mobile infrastructure; developing digital and cyber skills, and supporting businesses exploring investment in automation and robotics to increase productivity.</li> </ul>
Sedgemoor	<p>Sedgemoor District Council will continue to encourage growth, which links clearly into the Corporate Strategy as well as the external strategies such as the Somerset Growth Plan and the LEP Productivity Plan. The 100% Business Rates Retention pilot offers opportunities to plan for the delivery of long term economic growth centred on our economic development strategy which seeks to drive up the value and productivity of our economic sectors and diversify into new sectors. In terms of delivering a medium term sustainable budget Sedgemoor is developing a Commercial Investment Strategy which will focus on generating additional income from new initiatives.</p>

Authority	Scheme
Sedgemoor (cont.)	<p>The new nuclear power station project (Hinkley C) has already created opportunities driven through our planning performance agreement and section 106 mitigation packages to transform the educational infrastructure in our locality and to focus on upskilling of individuals and businesses to participate in the supply chain. This aims to build potential for future business and avoid a construction boom and bust. We see opportunities into the future to support the wider regional economy in the Great West as well as in the Heart of the SW LEP area and see Sedgemoor being an important player in the delivery of the Productivity Plan / Industrial Strategy.</p> <p>We are part of the Hinkley Housing Zone along with Taunton Deane and West Somerset Councils but this has capacity pressures. Approved plans exceeding national OAN are in place with high delivery rates. However housing delivery will hit a barrier due to road and schools capacity. Sound infrastructure delivery plans are in place but current funding models often don't enable infrastructure delivery before housing occupation. Low land values cause viability &amp; cash-flow issues. HIF &amp; match funding will accelerate delivery of 17600 homes by forward funding essential highways, transport, schools &amp; flood infrastructure which will otherwise become a break on development enabling recycled funds for further delivery. Delivery mechanisms include direct delivery and a range of tenures e.g. custom-build, self-build and homes for rent.</p> <p>The Business Rates Retention Pilot will generate additional resources for delivering priorities which include;</p> <ul style="list-style-type: none"> <li>• The Parrett Barrier - funding contribution to match CIL receipts and EA FDG to deliver scheme in next 7 years - priority</li> <li>• Public realm and town centre regeneration initiatives such as the Celebration Mile, Bridgwater</li> <li>• Enhanced local accessibility e.g. rail station accessibility and walking and cycling 'gap' schemes to complete networks and routes to reduce base traffic off the network- Bridgwater</li> <li>• Dunball Roundabout improvements</li> <li>• Junction 24 improvements on the M5 to enable new a commercial area at Huntworth</li> <li>• Economic development incentives to accelerate growth and secure inward investment</li> <li>• M5 corridor improvements</li> <li>• Transport schemes, including schemes to East and West of Bridgwater to deliver planned growth on the A38 corridor / J 22 linked to the expansion and development of housing growth. Also our duty to cooperate with N Somerset and the expansion of Bristol airport, and transport investment in Cheddar to support housing</li> </ul>

Authority	Scheme
	<p style="text-align: center;">growth and minerals extraction. Review complete Summer 2018</p> <hr/> <p>South Somerset</p> <p>The Council is implementing a significant transformation programme which is improving our services to customers, modernising how we work and providing cost efficiencies to support financial sustainability. We plan to use some of the pooling gain towards the funding of this programme.</p> <p>Yeovil is the principal growth point for South Somerset, serving around 165,000 people and providing a wide range of jobs and services . The council wish to encourage growth and diversification in the economy based upon the current strength in aerospace and advanced manufacturing. The adopted Local Plan and Economic Strategy promise District-wide growth of 11,249 jobs and 15,950 homes over the period 2006 -2028; around 5,513 of those jobs and 7,441 of those homes are to be provided in Yeovil. Projects that we are looking to support are:</p> <ul style="list-style-type: none"> <li>• Yeovil - Access improvements to the town centre to open up a number of brownfield regeneration sites for employment, mixed use and housing development.</li> <li>• Yeovil - Creation of a public service and business hub and associated mixed uses.</li> <li>• A 303 Corridor Wincanton and Ilminster - employment land - acquisition and development.</li> </ul>
<p>Taunton Deane &amp; West Somerset</p>	<p>Taunton Deane Borough Council and West Somerset Council have ambitious plans for growth, productivity and prosperity. West Somerset is hosting the construction of the first new nuclear power station in a generation, at Hinkley Point, and has set a priority to maximise the economic legacy from the project, while managing the impacts of the construction on our communities. Taunton has recently been designated as a Garden Town, the first in the South West, in recognition of the Council's commitment to delivering transformational levels of housing and economic growth. The Hinkley Housing Zone covers both authority areas, as well as the neighbouring Sedgemoor district.</p> <p>Whilst both authorities are already investing significant available funding, including New Homes Bonus and use of borrowing powers, there remains a significant funding gap to achieve our growth ambitions and address community concerns.</p> <p>Becoming pilot areas for business rates retention would enable both authorities to accelerate delivery of a range of schemes, creating homes, jobs and prosperity. Examples of schemes that we envisage as benefitting from such funding include:</p>

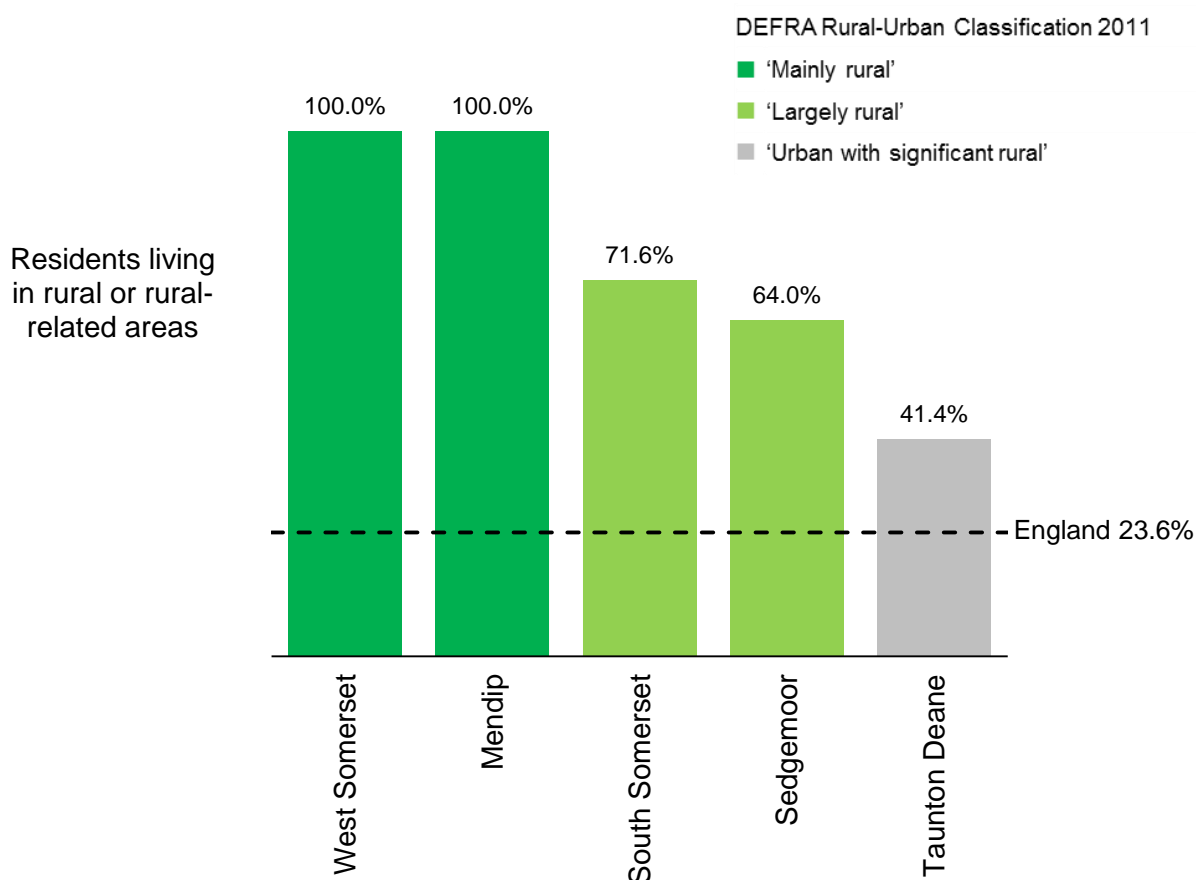
Authority	Scheme
Taunton Deane & West Somerset (cont.)	<ul style="list-style-type: none"> <li>• Essential transport and flood relief infrastructure to unlock key housing and employment sites.</li> <li>• New business incubation and innovation space and support for start-up businesses to locate, collaborate and grow.</li> <li>• Sustainable transport initiatives, supporting growth and introducing smart solutions to problems of congestion, air pollution and related health problems.</li> <li>• Transforming and regenerating our town centres.</li> <li>• Skills development initiatives to boost productivity, address social mobility issues and meet the needs of local businesses.</li> </ul>
Somerset County Council	<p>Somerset County Council faces two very specific budget pressures at present in Adult Social Care and in Children’s Social Care. Government funding permissions with regard to the ASC precept and the allocation of the improved Better Care Fund have addressed ASC pressures significantly. However, the improved Better Care Fund reduces in the years ahead and some of our pilot gain would be set aside to mitigate this for 2018/19. A proportion would also be allocated to Children’s Social Care placement budgets as we continue on our journey towards a Good Ofsted rating. There is an ever increasing need to secure additional foster carers and the pilot gain will again help to keep our service costs closer to the placement budget.</p>

## Appendix D – Rurality

The proposed pool is highly rural. West Somerset and Mendip are classified as ‘mainly rural’, South Somerset and Sedgemoor as ‘largely rural’, and Taunton Deane as ‘urban with significant rural’. These classifications, produced by Defra, are based on the population living in rural areas plus the rural-related population. The latter includes residents living in hub towns that can be centres of service provision for surrounding rural area (but excludes larger market towns).

The percentage of residents living in rural or rural-related areas is illustrated below. For West Somerset and Mendip, 100% of residents are classified as living in these areas, while for the most ‘urban’ authority, Taunton Deane, the percentage is 41%, which is still significantly higher than the England average.

**Figure 2 – Somerset authorities’ Rural–Urban classification**



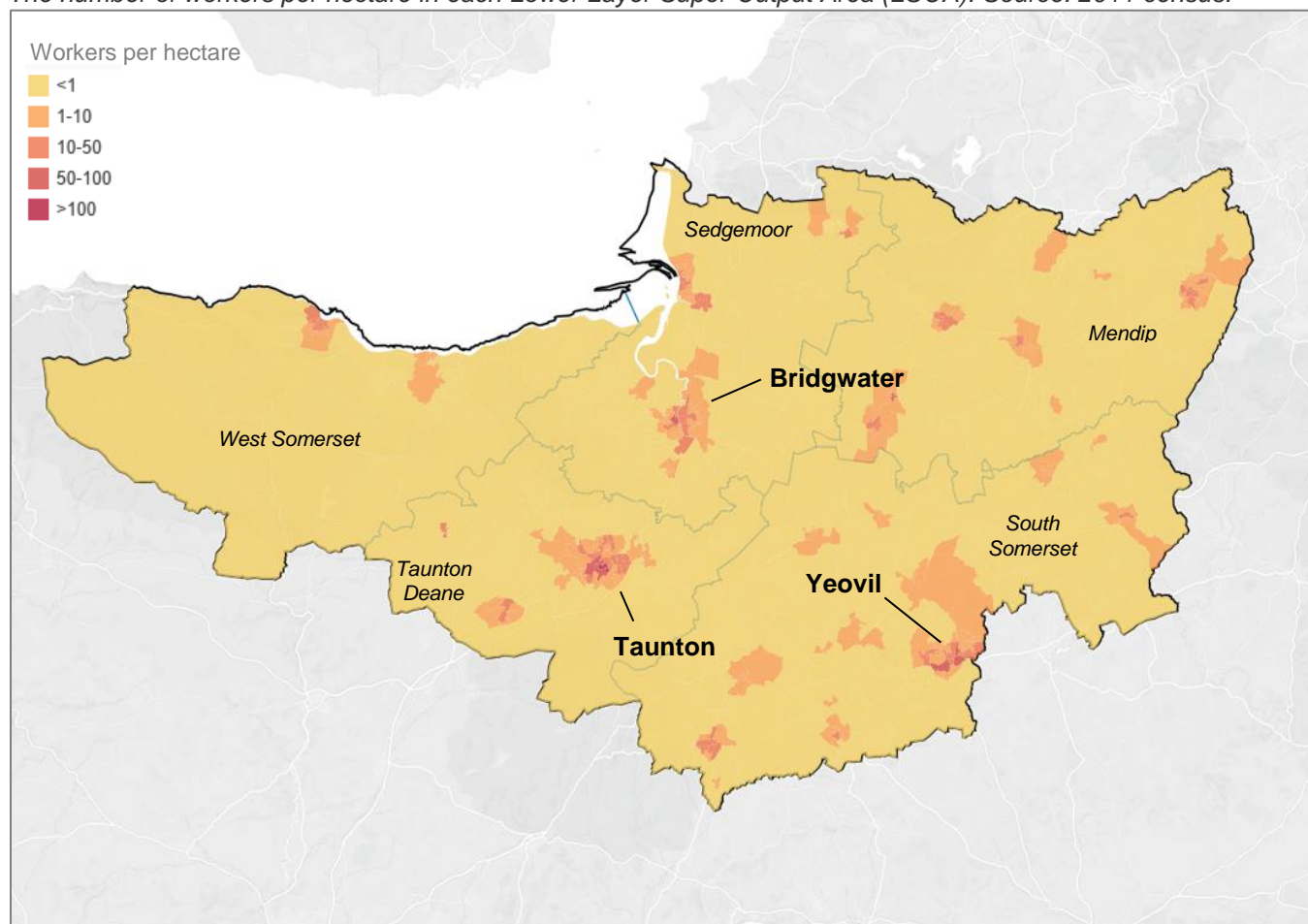
## Appendix E – Economic Activity

This appendix provides a brief overview of the economic geography of the proposed pool. Data on businesses' rateable value is not published below the local authority level, so workplace population (from the 2011 census) has been used as a proxy for business activity at a more detailed geographic scale. This is illustrated below.

Based on this proxy measure, Somerset is characterised by relatively sparse clusters of business activity. The areas of most dense employment correspond to the largest population settlements, notably the towns of Taunton, Yeovil and Bridgwater. These three towns are the only built-up areas in the county that have more than 40,000 residents, as of the 2011 census (the remainder have 26,000 or residents or less). Given the size of these built-up areas, pooling could enable investment in economic development projects, at a minimally efficient scale, that was not otherwise available at the district level.

### Figure 3 - Map of workplace density

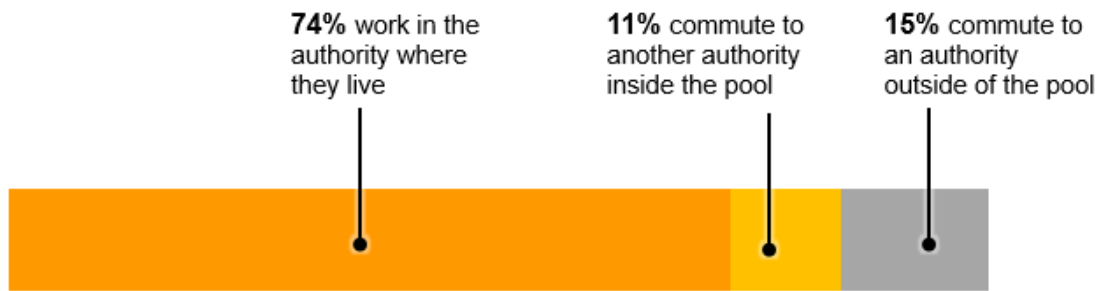
The number of workers per hectare in each Lower Layer Super Output Area (LSOA). Source: 2011 census.



The proposed pool is a largely self-contained labour market, with 85% of employed residents within the county also working within the county – in other words, only 15% of employed residents commuted outside the administrative boundaries of the pool (this analysis only includes residents with a fixed location of work). This is illustrated in the chart below.

**Figure 4 – Commuter patterns in the proposed Somerset pool**

*Excludes residents with 'no fixed location' of work. Source: 2011 census.*



Some of the districts are reliant on other pool members as a key source of employment: for example, 18% of Sedgemoor’s employed residents, and 16% of West Somerset’s employed residents, commute to work in other authorities in the proposed pool. The main commuter destination for both these districts is Taunton Deane. In turn, 11% of employed residents in Taunton Deane commute to other pool authorities, the main destinations being Sedgemoor and South Somerset. Mendip’s economic activity is also heavily interdependent with Bristol, Bath and Wiltshire, in addition to the rest of Somerset. This indicates the labour market extends beyond the administrative boundaries of these individual districts, and that there are interdependencies that would incentivise a joined-up approach to economic development. These incentives for coordinated development could be greatly reinforced by pooling.



## Appendix F – Business Rates Base Profile

- Somerset is home to three generations of nuclear power stations located in the district of West Somerset: Hinkley Point A (HPA), Hinkley Point B (HPB), and Hinkley Point (HPC). The decommissioning of HPA commenced in 2000. HPB is currently the only operating power station at Hinkley Point. Commissioned in 1976, it has a net electrical output of 0.87GW and is currently operating below maximum capacity. The station was due to be decommissioned in 2016, but its life has been extended until 2023. HPC will be the first new nuclear power station in the UK for a generation, capable of generating 7% of the UK's total energy requirement.
- Sedgemoor is hosting a government supported Enterprise Zone based on Huntspill Energy Park. Expansion, infrastructure and development is required to deliver this site.