



## Leaders' Committee and the Mayor of London

### Business Rates Retention Pilot: Strategic Investment Pot Outcome

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<b>Summary</b>	<p>This report informs the Leaders' Committee and the Mayor of London of the outcome of the Strategic Investment Pot (SIP) decision-making process, part of the London Business Rates Retention Pilot Pool.</p> <p>From April 2018 London's boroughs, the City of London and the GLA agreed with Government to establish a 100% business rate retention pilot pool. Of the estimated net financial benefit, 15% (£52m) is set aside for a Strategic Investment Pot (SIP).</p> <p>22 bids for SIP funding were received from 15 accountable boroughs for a total of £123.4m, with all authorities represented. London Councils and the Lead Authority (City of London Corporation) convened a Panel of Chief Officers from across London to evaluate the bids, and a recommendation was made to award funding to eight bids, totalling £46.83m. The Lead Authority consulted on the recommendation over the summer, achieving the broad support required to allocate funds. The report details this outcome and the funding decision.</p> <p>The report also includes the next steps for the SIP, which include the provision of feedback to bidders, the financial administration arrangements, preparations for a future bidding round, and the lessons to be learnt from this first pilot year.</p>
<b>Recommendations</b>	Leaders' Committee and the Mayor of London are asked to note the report.

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# Business Rates Retention Pilot: Strategic Investment Pot Outcome

## Background

1. This is the second year that London has piloted additional business rates retention, following an initial pilot for the GLA in 2017-18, in 2018-19 this has been extended to all 34 London authorities, who together are retaining 100% of business rates (adjusted for redistributive measures based on baselines set in 2013-14), which replace Revenue Support Grant (RSG) and the TfL Capital Grant. The operating principles of the pilot pool are detailed in a Memorandum of Understanding (MOU).
2. The MOU expands on the enhanced safety net from Government which means that London as a whole cannot lose more than 3% of its business rates income with an agreement that no authority will be worse off than under the previous arrangements. The overall budgeted additional benefit to London is estimated to be approximately £349m, and subsequent monitoring activity suggests this is broadly on target. However, the final figure will not be known until after the financial year has ended and accounts have been audited.
3. Under the agreed terms of the London pilot, 15% of the net financial benefit of pooling – currently estimated at approximately £52m – is reserved for the Strategic Investment Pot (SIP), to be spent on projects that:
  - i. contribute to the sustainable growth of London's economy and an increase in business rates income either directly or as a result of the wider economic benefits anticipated;
  - ii. leverage additional investment funding from other private or public sources; and
  - iii. have broad support across London government in accordance with the agreed governance process.

In addition, the Mayor of London has committed to spending the GLA's share of the additional net financial benefit from the pilot on strategic investment priorities. The allocation process for this fund (estimated at £112m) is currently underway, and the Mayor is expected to make decisions shortly.

4. The Government will carry out a qualitative evaluation of the pilot with a particular focus on the governance mechanism and decision-making process, and the resources dedicated to strategic investment.

## Overview

5. As Lead Authority, the City of London Corporation wrote to all London Borough Leaders inviting bids to the SIP. 22 SIP bids were received from 15 accountable boroughs for a total of £123.4m. All boroughs were represented on at least one bid, and bids were received from across London.
6. Following agreement by London Councils' elected officers, the invitation to bid highlighted the following further guidance to bidders on the evaluation criteria, and the need to identify a package of proposals that would strike an appropriate balance between them:
  - i. **Contribution of anticipated outputs to key economic growth priorities:** e.g. housing and planning; transport and infrastructure (including digital infrastructure); skills, employment and business support. This could be evidenced, for example, by quantification of anticipated outputs (increase in homes, commercial floor space, jobs, etc.) and by alignment with existing regional, sub-regional and local strategies.
  - ii. **The anticipated scale of economic benefit**, both in absolute terms and, where appropriate, expressed as a ratio of anticipated return to investment required.
  - iii. **The breadth of geographic impact** – with a presumption that the broader the area of impact the better. Whilst strong local bids will be considered under other criteria, there will be a preference for joint proposals, including but not necessarily limited to those from existing sub-regional partnerships, or which to apply to the whole of London.
  - iv. **The scale of match funding**, both in absolute terms and expressed as a ratio of funding from other public or private sources to SIP investment required. The presumption will be that – all other things being equal – proposals that command a greater level of match funding will be preferred.
  - v. **Delivery timescales:** No strict cut-off point is defined; however, delivery timescales will be considered within the overall evaluation, with a presumption in favour of earlier completion (and therefore earlier economic returns) but ensuring an appropriate mix of recommended proposals between “oven-ready” schemes and longer-term investment projects.
7. A Panel of Chief Officers from across the London authorities and London Councils was convened to advise and assist the Lead Authority in reviewing and evaluating the bids. The Panel sought to identify a package of proposals that drew an appropriate balance between the agreed criteria, with the outcome of an initial, high level review reported to the

Congress of Leaders in July. Following that, the SIP Panel evaluated the bids in detail, supported by a working group.

8. As the exact size of the fund will not be finalised until the 2018-19 accounts are closed, two bidding and allocation rounds have been planned: this first round being reported in October 2018, and a second following the end of the financial year. If the pilot is extended by agreement the balance of 2018-19 funds (including any underspends) will be allocated along with the funds for 2019-20.
9. The process agreed for decision-making for SIP funds in establishing the pilot pool reflects the absence of a mechanism for joint decision-making by the 33 billing authorities and the Mayor of London. The formal decision must therefore be taken by the Members of the Lead Authority, subject to consultation with all of the participating authorities who decide whether or not to support based on their own decision-making processes. The MOU specifies the consultation requirements as:
  - i. the Mayor of London and the majority (two-thirds) of the 33 billing authorities agree,
  - ii. if all authorities in a sub-region do not recommend the project, it shall not be agreed.
10. The SIP Panel's report aimed to allocate the majority of the 2018-19 funds, and recommended eight bids totalling £46.83m for funding. This was issued to the 33 billing authorities and the GLA for consultation, and is attached at appendix 1. The deadline was Friday, 14 September 2018.
11. Consultation responses supporting the recommendation were received from the Mayor of London, from all of the sub-regions identified in the MOU, and from the following boroughs:

i. Barking & Dagenham	ii. Barnet	iii. Bexley
iv. Brent	v. Camden	vi. Croydon
vii. Ealing	viii. Enfield	ix. Greenwich
x. Hackney	xi. Hammersmith & Fulham	xii. Haringey
xiii. Harrow	xiv. Havering	xv. Hillingdon
xvi. Hounslow	xvii. Islington	xviii. Kensington & Chelsea
xix. Kingston upon Thames	xx. Lambeth	xxi. Merton
xxii. Newham	xxiii. Redbridge	xxiv. Richmond upon Thames
xxv. Southwark	xxvi. Sutton	xxvii. Tower Hamlets
xxviii. Waltham Forest	xxix. Wandsworth	

The threshold of two-thirds therefore supported the recommendations, and the funding decision will be taken by the Lead Authority in early October.

12. Westminster, Enfield and Lewisham have not yet taken the formal decision, although Officers have confirmed that their recommendation is to support the recommendation of the SIP Panel. Bromley have indicated that they will not be able to support the recommendation. The City of London Corporation's Members will consider their consultation response on 4 October along with making the formal decision, as administrator of the pilot, to allocate the funds in accordance with the consultation outcome.

13. The funding will therefore be awarded as per the recommendation:	<b>£m</b>
• South Dock Bridge	7.00
• Productive Valley:	5.75
○ South Tottenham Employment Area	
○ Investment Fund	
○ Rigg Approach	
• South London Innovation Corridor	8.00
• Open Data Standard for Planning	0.25
• Euston Recruitment Hub	3.00
• West London Alliance:	11.13
○ Skills & Productivity	
○ Investment in Digital	
• Local London Investment in Fibre	7.70
• South London Multi-Purpose Internet of Things Platform	4.00
<b>Total Recommended Package</b>	<b>46.83</b>

### **Feedback from the consultation, lessons learnt, and next steps**

14. The financial administration arrangements are being prepared by the Lead Authority and will be recommended to its Members shortly. As requested in consultation responses and by the SIP Panel, these will aim to balance the conflicting objectives to minimise administrative burden on participating authorities whilst ensuring that bidders are accountable for delivering match funding, outputs and outcomes described in their bid documents. The current proposal is for this to be via a written commitment to the contents of the bid and phased release of cash based on two or three light touch monitoring returns through the project duration. For the avoidance of doubt, funds will be allocated as per the recommendation, and it is expected that these will be recognised in full in each authority's accounts as soon as the relevant agreement is signed.

15. Some projects have been allocated a lower amount of funding than in their bid, and consultation responses commented that outputs and outcomes will need to be revised by agreement between the Lead Authority and accountable borough. These discussions will

be carried out and documented as part of the administration and will aim to maximise delivery of outcomes despite reduced funding.

16. Other comments received in response to the consultation related to the timescales for projects to be completed and treasury management benefits associated with holding funds in the interim. As laid out in the bidding guidance and MOU, the aim of the SIP was to increase the level of business rates through a mix of direct intervention (i.e. construction) and other enabling activity (e.g. employment, skills and digital projects), so by nature these projects are generally longer term. The treasury management benefits will be allocated to the pool as per the MOU. In relation to the SIP, this will be on an estimated basis when the accounts are finalised.
17. A number of consultation responses referred to potential underspends in the projects allocated funding, or expressed concern that only 90% of estimated funds have been allocated. The total funds available in 2018-19 will not be known until after the accounts are closed and audited, so the funds being allocated are spent 'at risk' until this time (if between now and the end of the financial year there are significant write offs or valuation changes, there may not be sufficient funds in the pool to support the commitment made). However, monitoring activity to date suggests that this level of funding is likely to be achieved, and so this amount has been recommended for spending now. Any remaining or underspent funds will be allocated in 2019-20, along with that year's estimated SIP should the pilot be extended by agreement.
18. Consultation responses also referred to the next round of bidding, requested feedback, or suggested improvements to the bidding, assessment, and decision-making process. The Lead Authority will contact all bidders formally to thank them for their work in preparing bids, and to offer feedback on their bid by a member of the SIP Panel. A timetable for the 2019-20 bidding round will be prepared and circulated once the outcome of the 2019-20 pilot negotiation is known, and lessons will be learnt on the process based on the feedback received. There will also be further consideration given to potential changes to the decision-making process (such as reserve lists) to facilitate quicker decision-making and swifter access to funds for suitable projects.

## **Recommendations**

19. Leaders' Committee and the Mayor of London are asked to note the report.

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### **Financial Implications for London Councils**

None

### **Legal Implications for London Councils**

None

### **Equalities Implications for London Councils**

None