CAMBRIDGESHIRE
& PETERBOROUGH
COMBINED AUTHORITY

CAMBRIDGESHIRE AND PETERBOROUGH COMBINED AUTHORITY BOARD	AGENDA ITEM No: 2.5
26 SEPTEMBER 2018	PUBLIC REPORT

BUSINESS RATE PILOT

1.0 PURPOSE

1.1 This report seeks ratification of the one year business rates retention pilot bid submitted to the Ministry of Housing, Communities and Local Government (MHCLG) on 25 September 2018.

1.2 It confirms the position that all councils will be compensated for their expected business rates for the year i.e. no council will suffer detriment as a result of this pilot and how any additionally retained growth above this level will be distributed.

DECISION REQUIRED	
Lead Member:	**James Palmer - Mayor**
Lead Officer:	**Karl Fenlon, Interim Chief Finance Director**
Forward Plan Ref: 2018/031	**Key Decision: Yes**
The Combined Authority Board is recommended to: (a) Ratify the Cambridgeshire and Peterborough 2019-20 Business Rates pilot bid submitted to MHCLG on the 25th September 2018.	**Voting arrangements** Simple majority of all Members

2.0 BACKGROUND

2.1. In July 2018, the Government published an invitation to local authorities to pilot 75% business rates retention in 2019 to 2020.

2.2. Proposals have to be submitted by 25th September 2018. It is expected that the announcement of successful pilots will be made at the time of the local government finance settlement.

2.3. Due to the timeframes set out by MHCLG the Cambridgeshire and Peterborough bid has been submitted prior to Board approval, if the Board does not agree to ratify the submitted bid it will be withdrawn.

The 75% Business Rates Retention Pilots

2.4. Over the last two years, the Government launched 15 pilots of 100% business rates retention. The first wave were granted to five areas with ratified devolution deals, the second wave were awareded to 10 groups of local authorities (and the greater london area) and were awarded based on a competative process.

2.5. These pilots retain 100% of business rates income and forego some existing grants. Over the pilot period they will retain all of their growth in business rates income.

2.6. The Government is now looking to create a third wave of pilot schemes, this time with 75% local growth retention to reflect the level of local growth retention in the planned national reform of the business rates system in 2020-21. The Government sees an opportunity for local authorities to work together as pools covering functional economic areas to make coherent strategic decisions about the wider area and to jointly manage risk and reward.

2.7. The pilots are also expected to test authorities' administration, technical planning for implementation, and to look at how the accounting, data collection and IT systems will work. The Government expects to learn from the pilots' experiences to inform the design of the national system of business rates retention.

2.8. Arrangements would also need to reflect the position of precepting authorities, such as Fire and Rescue authorities.

2.9. The Government has asked for pooled areas to propose a split for sharing additional growth and to see additional growth being used to either boost further growth, promote the financial stability of the pooled area or a combination of both.

2.10. Unlike the previous two waves the Government has not agreed a 'no detriment' clause for the 2019/20 pilots. While this presents the possibility of a Constituent Council being worse off, for this to occur in practice Busness Rates income would have to be c. £55m lower than forecast: this would represent a drop of over 20% of the total rates income across the Combined Authority area and thus is considered a minimal risk; it is nonethelss dealt with in the proposal.

2.11. Authorities selected as pilots for 2019/20 will be expected to forego Revenue Support Grant (RSG) and Rural Services Grant. The value of the grant foregone will be taken into account in setting revised tariffs and top-ups, which will be used to ensure that the changes are cost neutral, except for the value of any additional growth retained and the removal of the levy on growth.

2.12. It is expected that successful applications will be announced before or alongside the publication of the draft local government finance settlement.

2.13. The 2019/20 pilot programmes will last for one year only at which point they will be replaced with the new national scheme

Additional Business rates share calculations

2.14. Independent modelling of the financial benefits, carried out by Pixel, predict that the benefits of a pilot to the Combined Authority area would be an additional £20m being retained locally.

The Cambridgeshire and Peterborough area submission

2.15. The submission for our area included the seven constituent councils to the Cambridgeshire and Peterborough Combined Authority (CPCA) with Cambridgeshrie County Council being the lead authority. The Lead Authority would be responsible for adminsitering the scheme

2.16. The principles already set out in the pilot submission are that additional funds retained by the local area will be apportioned as follows:

- If any individual authority is worse off as a result of being in the pilot, they will receive funding to put them back to the level they would have been in had they not participated in the pilot including any forgone grant from central govenrment (an internal no-detriment clause) underwritten by the Combined Authority.
- Costs related to the running of the pilot will be retained by the lead authority.
- 10% (c. £2m) of the remaining funds will be ringfenced to create a Business Growth Fund, held by the Combined Authority to promote further growth across the area.

- 10% (c. £2m) will be split between the two Social Care Authorities (Cambridgeshire County Council and Peterborough City Council) in recognition that the costs of growth fall disproportionately on these authorities.
- The remaining 80% will be distributed per capita across all constituent authorities as set out below, using a 50:50 split between Districts and County in Cambridgeshire:

80% of additionally retained growth	£15.989m
Total population of CA area	849,035
Retained growth per capita	£18.83
50% of per capita for 2 tier areas	£9.42

Local Authority	Population	Lower Tier Allocation to Authority (£'000)	Upper Tier Allocation# (£'000)
Cambridge City	131,799	1,241	1,241
East Cambridgeshire	87,825	827	827
Fenland	100,182	943	943
Huntingdonshire	175,666	1,654	1,654
South Cambridgeshire	156,468	1,473	1,473
Peterborough City*	197,095	3,712	

* Peterborough CC uses the full per capita allocation as it is a unitary

\# For the 5 Cambridgeshire Districts the upper tier allocation is paid to Cambridgeshire County, totalling £6.14m

2.17. Given the strategic role of the Combined Authority, which covers the whole of the pilot geography, and the close alignment between the Business Growth Fund's aims and those of the Combined Authority and its Business Board this fund will be held and administered by the Combined Authority with projects seeking funding following the assurance and governance frameworks already in place within the Combined Authority.

2.18. As part of the bid it is required to set out what, if any, pooling arrangements are desired were a pilot not awarded. Based on modelling of the area's business rates top-ups and tariffs there is no benefit to creating a whole area business rates pool thus there will be no business rates pool created if the bid is not successful in securing a pilot.

3.0 FINANCIAL IMPLICATIONS

3.1. There are no matters to bring to the Board's attention other than those highlighted in the report.

4.0 LEGAL IMPLICATIONS

4.1. In designating a pool for 2019/20, the Ministry for Housing, Communities and Local Government (MHCLG) will attach conditions to the designation in accordance with paragraph 35(1) of Schedule 7B to the Local Government Finance Act 1988 by appointing a lead authority and requiring the authority to take the steps set out in its application in the event that the pool is dissolved.

4.2. MHCLG also reserves the right to attach such other conditions as it sees fit, in accordance with paragraph 35(2) of Schedule 7B.

5.0 SIGNIFICATE IMPLICATIONS

5.1. There are no other significant implications.

6.0 APPENDICES

6.1. Appendix 1 – The Cambridgeshire and Peterborough 75% business rates pilot bid.

Source Documents	**Location**
List background papers:	
MHCLG invitation to bid	***https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf***
Cambridgeshire and Peterborough 75% Business Rates Pilot Bid	**To Follow**

Ministry of Housing,
Communities &
Local Government

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	Cambridgeshire County Council
b. Name of lead official	Tom Kelly
c. Lead official job title	Head of Finance
d. Lead official email address	Tom.kelly@cambridgeshire.gov.uk
e. Lead official contact phone number	01223 703599

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**
Cambridge City Council	Shire District
Cambridgeshire County Council	County
Cambridgeshire and Peterborough Combined Authority	Mayoral Combined Authority
East Cambridgeshire District Council	Shire District
Fenland District Council	Shire District
Huntingdonshire District Council	Shire District
Peterborough City Council	Unitary Authority
South Cambridgeshire District Council	Shire District

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.

a. **Have all members included in the pilot area endorsed all parts of this application?** *(Please ensure that Annex A is signed by s.151 officer of each area and returned as part of the application to evidence this.)*	*Select one:* *(1) Yes;* ~~*(2) No*~~
b. **Do any members of the proposed pool belong to any other current pool?** *(If 'no', please move to question 3.d.)*	*Select one:* ~~*(1) Yes*~~ *(2) No*
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?**	*Select one:* ~~*(1) Yes*~~ ~~*(2) No*~~ *(3) N/A*
d. **Are there any precepting authorities that are not part of the proposed pilot area?** *(If 'yes', please move to question 3.e.)*	*Select one:* *(1) Yes (The Cambridgeshire Fire and Rescue Service)* ~~*(2) No*~~
e. **If there are any precepting authorities that are not part of the proposed pilot area, are these precepting authorities aware of this proposal?**	*Select one:* *(1) Yes* ~~*(2) No*~~ ~~*(3) N/A*~~
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?**	*Select one:* *(1) Yes* ~~*(2) No*~~

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.)*	In the two-tier section of the area (Cambridgeshire) a 50:50 tier split will be used. This tier split only applies to the 80% of additionally retained rates which are shared between all the constituent authorities. This 80% is allocated on a per-capita basis across the area. This per-person allocation this is shared 50% to upper tier and 50% to lower tier (Peterborough City Council is a unitary and thus retains the full amount) – this is shown in detail in section 4b.
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? *(If 'no', please move to question 3.j.)*	*Select one:* *(1) Yes* ~~*(2) No*~~
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?	10% of additional growth will be allocated to a business growth fund. This fund will be held by the Combined Authority; project sponsors will propose bids for funding to the Cambridgeshire and Peterborough Business Board (the area's LEP). These proposals must have clear benefits to local businesses and contribute to the growth of GVA and business rates in the area. Using the existing Business Board ensures that funds will be allocated with appropriate oversight in accordance with the local and national LEP assurance frameworks.
j. What is the anticipated income above baseline funding level for the pilot pool over 2019/20 (in £)?	Independent modelling based on NNDR1s suggest the income above baseline for the pool would be £36.059m in 2019/20.

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.)*	The area has recently commissioned an independent review of the Cambridgeshire and Peterborough economy which is published at www.cpier.org.uk. This analysis finds that recent employment growth is 3.3% per annum, rather than the 2.4% suggested by ONS calculations. The review finds evidence of sector strengths and specialisms in; • Manufacturing, Advanced Manufacturing and Materials • Life Sciences • IT and Digital • Logistics and Distribution • Education • Professional Services • Agri-tech
l. What pooling arrangements would the members of the pilot like to see if their application to become a pilot is unsuccessful?	If the application to become a pilot is unsuccessful we would not like to see any pooling arrangements. A whole area pool would retain a large net tariff and a 41% levy rate thus there is no financial benefit to entering into a pool outside of a pilot. While there are potentially beneficial pools including a subset of the Authorities this approach is not considered compatible with the joint working ethos prized in the area.
m. How would the pilot area deal with residual benefits/liabilities once the pilot ends?	All residual benefits or liabilities will be distributed in line with the sharing of additional growth during the pilot period i.e. Cambridge City – 6.2% Cambridgeshire – 38.4% Cambridgeshire and Peterborough CA (Business growth fund) – 10.0% East Cambridgeshire – 4.1% Fenland – 4.7% Huntingdonshire – 8.3% Peterborough City – 20.9% South Cambridgeshire – 7.4%

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?

The Independent Economic Review referenced in box k concludes that there are three functional economic areas within Cambridgeshire and Peterborough. These three economies have unique characteristics and features, as well as important connectivity between one another. They are; Greater Cambridge, Greater Peterborough and the Fens. There are parts of Cambridgeshire and Peterborough (such as East Cambridgeshire and Huntingdonshire) which look to more than one of these economies.

The review draws data from commuting patterns, housing markets and supply chains to define these functional economic areas, which were then published in an interim report and tested through stakeholder consultation. This engagement found local recognition of the three-economy depiction, and value in terms of developing policy responses tailored to the unique needs of each.

As would be expected, these functional economic areas do not stop at the Cambridgeshire and Peterborough border. They extend out to surrounding communities and along strategic corridors to the North, South, East and West of the area.

Crucially, the review finds that the future of these three economies will and should involve them becoming closer and closer over time. For example, with the northern parts of the Fen economy establishing stronger links with Peterborough, and the southern parts becoming more connected to the Cambridge economy.

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

The first call on the pooled rates income will be to ensure all authorities are in the same financial position that they would have been in had they still been in the 50% scheme (an internal no-detriment clause) underwritten by the Combined Authority.

The costs incurred by the Lead Authority in administering the scheme will then be reimbursed.

10% of the retained growth above this will be split between Cambridgeshire County Council and Peterborough City Council based on a per-capita allocation in recognition that the costs of growth fall disproportionately on upper tier authorities in the form of increased Social Care and Highways maintenance costs.

10% is to be allocated to the creation of a Business Growth Fund. As described above, this will be held by the Combined Authority, ringfenced to projects which promote economic growth in the area and all decisions on the use of this funding will require recommendation from the Business Board (the area's Local Enterprise Partnership).
Examples of projects which have been awarded funding by the LEP to promote economic growth to date include grant funding for the Cambridge Biomedical Innovation Centre and the provision of financing the purchase and refurbishment of Ashwell Business Park which, as of December 2017, had 104 tenants creating employment for 239 people.

The remaining 80% will be split between the constituent authorities based on population, using a 50:50 tier split in Cambridgeshire as shown below:

80% of total additionally retained growth = £15.989m
Total population of Combined Authority Area = 849,035
Retained growth per capita allocation = £18.83
50% of per-capita for 2 tier areas = £9.42

Local Authority	Population (ONS)	Lower Tier Allocation to Authority (£'000)	Upper Tier Allocation# (£'000)
Cambridge City	131,799	1,241	1,241
East Cambridgeshire	87,825	827	827
Fenland	100,182	943	943
Huntingdonshire	175,666	1,654	1,654
South Cambridgeshire	156,468	1,473	1,473
Peterborough City*	197,095	3,712	

* Peterborough CC uses the full per capita allocation as it is a unitary
\# For the 5 Cambridgeshire Districts the upper tier allocation is paid to Cambridgeshire County, totaling £6.14m

The funding allocated directly to constituent authorities will be utilised to promote financial sustainability, below are examples of how one of the Districts (Fenland) and one Upper Tier authority (Cambridgeshire) will do this:

Fenland
Fenland District Council covers approximately 200 square miles within the County of Cambridgeshire. It is a rural and sparsely populated district with many diverse communities, each with very different needs.

The Cambridgeshire and Peterborough Independent Economic Review (CPIER) report identifies three different economies in the Cambridgeshire and Peterborough Combined Authority Area.

These are;

- The "Greater Cambridge" area – Cambridge, South Cambridgeshire, and parts of Huntingdonshire and East Cambridgeshire.
- The "Greater Peterborough" Area
- The Fens: mainly agricultural and rural Market Towns.

The Fens are considered the most challenged economically of the three, particularly in respect of the socio-economic makeup of the market towns and the specific pressures on the agricultural sector with steep reductions in price of agricultural output and high reliance on low cost labour which has been met by migrants, leaving the sector with a challenge as Brexit approaches.

The Council's Medium Term Financial Plan sets out savings totaling £3.1million between 2016 and 2020. This creates a challenging financial climate to continue to provide a high standard of service to the residents and businesses in the district especially with the uncertainty in respect of the outcome of the Fair Funding Review and the future Local Government Finance system from 2020/21. Due to the rurality and geography of the Fens the cost of providing statutory services such as refuse collection, environmental health, parks and recreational services, is proportionally higher than those experienced in compact areas.

Fenland District Council does face challenges. The Council recognises that deprivation (80th out of 326 most deprived areas in the country) brings unique challenges, particularly around education and health. With the extra funding and working with partners, the Council will be able to continue to deliver projects that improve the quality of life for local people.

The share of additional retained business rates from the pilot will allow the Council to fund some of the 'invest to save' projects on its transformation journey and also to be able to work with partners to support the work on the Market Towns and linking it up with the Local Industrial Strategy.

The additional funding to the council from the retained 75% business rates pilot will provide it with the means to create the medium term financial stability for continued provision of the high quality services and also put it in a position to work with the Cambridgeshire and Peterborough Combined Authority and Cambridgeshire County Council, on the growth and infrastructure plans and implementation in the Fens.

Cambridgeshire
The financial challenges facing local authorities with care responsibilities are well documented nationally. However those within Cambridgeshire are exacerbated by a set of circumstances that is unique to this County. Without any changes to RSG the County Council will be in a negative RSG position of £7m in 2019/20 and until recently was in receipt of the worst funding for its schools in the country. Whilst areas of the county have less deprivation than many other parts of the country this does hide the issues of rural isolation and deprivation seen in the Fens. We also have one of the most challenged health economies in the country and this places significant pressures on the relationship between the health and care sectors.

This position is exacerbated by the fact that Cambridgeshire is one of the fastest growing counties in the country. Whilst the county undoubtedly benefits economically from this growth it does place a significant burden on all local authorities in general but significantly more so on the county council. Be it highway infrastructure, to ensure that the growing workforce is able to move around the county; or the provision of new schools, to help educate the children of the inward migration of families; or simply managing the growth in demand for care services the County Council can no longer deliver all of these services. It is therefore faced with some very stark options if no other support mechanisms are put in place. To put this in to context only a few years ago the County Council received £114m of RSG but in 2019 this becomes negative RSG of £7m.

This reduction of £121m funding is during a period where the demand for services has significantly increased and has therefore had a serious impact on service delivery. We have done all we can to minimize this impact. We have delivered significant transformation of services, we have developed a commercial approach and strategy and we have implemented many alternative service delivery vehicles. However we are reaching the end of the road and now we must turn to serious service cuts. We are currently facing an unfunded budget gap of in excess of £20m for next year in addition to all the savings that have already been built in to the base budget. Without help the current service delivery levels are unsustainable and we will have to cut some key services to our communities. Things like early intervention, household recycling centres, winter gritting are all being considered.

As a net contributor to national GVA our residents deserve better. To ensure that Cambridgeshire continues to support the Governments growth agenda it is imperative that basic public sector services are retained. Without our ability to provide these services the 'offer' that has attracted so much commercial inward investment in to Cambridgeshire will naturally chose other more favorable international option.

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?

Cambridgeshire County Council will handle the day to day administration of the pool.

There is a pre-existing quarterly meeting of the region's CFOs, including all the authorities involved in this bid, as well as the Fire Authority. A standing item regarding the pool's finances will be added to the agenda at which the County Council will present an update on the pool's financial position and the required transfers between LAs will be agreed. This will also be the forum for highlighting any emerging changes to the risks and rewards within the pilot.

The Business Growth Fund will be held by the Combined Authority as Accountable Body for the Business Board and accounted for separately to their own funds. This fund will be ringfenced for projects which accelerate or increase the growth of business rates in the area and proposals for funding will follow the Business Board's pre-existing assurance framework, ensuring that value for money and transparency are achieved and maintained.

As the area is a Mayoral Combined Authority, the Combined Authority Board is perfectly positioned to provide public scrutiny, and political oversight, of the pilot. The Board is made up of the Leaders of all the authorities involved in the bids as well as the Chair of the Business Board thus it provides representation

for all the key stakeholders in the pool. The quarterly report on pilot finances from the CFOs meeting and recommendations for project funding from the Business Board will be presented to the CPCA Board.

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.

Ministry of Housing,
Communities &
Local Government

Annex A – Evidence of authorisation

a. Name of lead pilot authority	Cambridgeshire County Council
b. Name of lead official	Tom Kelly
c. Lead official job title	Head of Finance
d. Lead official email address	Tom.kelly@cambridgeshire.gov.uk
e. Lead official contact phone number	01223 703599

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**
Cambridge City Council	Caroline Ryba	
Cambridgeshire County Council	Chris Malyon	
Cambridgeshire and Peterborough Combined Authority	Karl Fenlon	
East Cambridgeshire District Council	Ian Smith	
Fenland District Council	Kamal Mehta	
Huntingdonshire District Council	Clive Mason	
Peterborough City Council	Peter Carpenter	
South Cambridgeshire District Council	Alex Colyer	