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| 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 1 year business rates retention pilot bid submitted to MHCLG on 25 September.
- 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.

| <u>DECISION REQUIRED</u> | |
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| 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 25 th 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bid has been submitted prior to Board approval, if the Board does not agree to ratify the submitted bid it will be withdrawn.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 awarded to 10 groups of local authorities (and the greater london area) and were awarded based on a competitive 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 Business 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 nonetheless 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 Cambridgeshire County Council being the lead authority. The Lead Authority would be responsible for administering 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 government (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:

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|-------------------------------------|----------|
| 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.

| <u>Source Documents</u> | <u>Location</u> |
|--|---|
| 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 |