

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	POLICY COMMITTEE		
DATE:	27 NOVEMBER 2017	AGENDA ITEM:	11
TITLE:	BUSINESS RATES BERKSHIRE PILOT & POOL		
LEAD COUNCILLOR:	COUNCILLOR LOVELOCK	PORTFOLIO:	LEADERSHIP
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report asks the committee to endorse the joint Berkshire Pilot Bid for 100% Business Rates Pooling. A successful bid is forecast to bring additional resources to the Council and generally to the Berkshire area in 2018/19.
- 1.2 The Committee is also asked to approve Reading being part of a Berkshire Business Rates Pool as part of the pilot, and authorise the Director of Finance to take decisions about whether to pool in other circumstances and agree the arrangements for the pool with the pool partners after consultation with the Leader and Chair of Audit & Governance Committee.

2. RECOMMENDED ACTION

- 2.1 That Policy Committee endorses the joint Berkshire Pilot Bid for 100% Business Rates Pooling and agree to be part of the linked Berkshire Business Rates Pool and authorise the Director of Finance to take decisions about whether to pool in other circumstances and agree the arrangements for the pool with the pool partners after consultation with the Leader of the Council and Chair of Audit & Governance Committee (in all future circumstances where we propose joining a business rates pool, subject to reporting to the next available Policy Committee).

3. POLICY CONTEXT

- 3.1 The main relevant Policy is that linked to ensuring financial stability of the Council. A successful business rates pilot bid is forecast to generate additional resources in 2018/19.

4. THE PROPOSAL

- 4.1 Early in 2017 Berkshire Leaders wrote to DCLG asking for a Berkshire pilot following the introduction of 100% business rates pilots in 2017/18 and a Government announcement that there were likely to be additional pilots from 2018/19. A letter of support from then Berkshire MPs was also sent. The response the Secretary of State to MPS said "My department will shortly publish more information on the process and

criteria for authorities that are interested in applying to become a pilot. I look forward to your application”

4.2 The General Election and its aftermath delayed that publication until the end of September, with bids then being invited for a 2018/19 year only pilot by Friday 27 October. Pilots were required to “help explore options ... for the design of future local government finance reforms” and the prospectus clearly states that the Government “expects some retained income from growth to be invested to encourage further growth across the area” .

4.3 Other key requirements of pilots included

- (i) Pilot areas need to operate as a business rates pool (and have to indicate whether they wish to pool if the pilot bid is not successful)
- (ii) Pilots were initially asked to indicate whether they were willing to proceed without a “no detriment” clause (as all 2017/18 pilots had benefitted from this, so those pilot are “risk free”). Two days before the bid deadline, the Government withdrew this requirement.
- (iii) Successful pilots have a pool safety net at 97% of (pool) baseline, rather than the 92.5% of individual authority baseline
- (iv) Pilots have to forego revenue support grant (RSG), (but this is adjusted for in the tariff calculation on a pound for pound basis)
- (v) Pilots do not pay a levy on growth above baseline

4.4 Berkshire Response

Chief Finance Officers of the Berkshire unitaries enlisted the help of the LEP and a nationally recognised consultancy working in LA grant distribution issues to help consider the merits of, and develop a Berkshire bid. The LEP provided the information in the draft bid around local growth priorities to generate more growth and the consultants the financial modelling and general advice about the bid.

4.5 What happens if our bid is successful?

Currently, 50% of the rates we collect goes to government as their basic share, 1% to the Fire authority, and from the 49% retained share all Berkshire authorities pay a tariff that is up to 24%, so for example in Reading’s case we only retain 25% of collected rates at baseline levels. We, and some of the other Berkshire authorities also receive some (much reduced in recent years) RSG. At the year end there is calculation that compares the actual rates received to a government baseline level, and all authorities pay a levy on the growth that results in the above effective split. As a consequence, Reading loses half its growth above baseline to the levy.

4.6 Pilots will see their tariff adjusted by the Government’s 50% share less any RSG they receive on a pound for pound basis, so whilst the “retained share” will rise from 49% to 99%, on a cash basis the tariff will also rise by the baseline amount. However, all Berkshire authorities actually collect more than the baseline amount, so by piloting the County area will retain

- (i) All the growth in the Government’s 50% share above baseline (without a pilot), and
- (ii) pilots will not have to pay the year end levy calculation

Our consultant estimated that over the six Berkshire authorities the sum of the amounts in 2018/19 is estimated at up to £35m. However they also advised that a significant proportion of this gain should be used to generate local growth and therefore the bid proposed that 70% is set aside for that purpose. The strategic pot so

created will be run by the LEP who have identified the Reading-Wokingham MRT as one of two priorities for investment, the Slough Transit Network being the other.

4.7 What are the risks and what else happens?

The bid also says that everyone will be protected at the same level they would get if there were not a pilot. After that the 30% LA share (above what we could get without a pilot) would be initially be shared equally until everyone gets £1m, then shares are essentially pro rata gains. The intention and expectation is that if everyone's gain is above £1m, we keep our individual gains less the 70% LEP share. On the basis of the calculations in the bid, Reading's additional retained share should be just over £2m in 2018/19, which will help reduce the budget gap in that year.

4.8 As indicated above, Government originally asked if pilots would proceed without a "no detriment clause". Our consultant modelled the impact of a single authority losing a lot of rates so the whole pilot lost and losses of 20-40% were needed, significantly higher than anyone in Berkshire has ever experienced, or can reasonably conceive doing, so the risk is considered to be very low. All but one Berkshire authority (including Reading) are currently significantly above baseline, and have a very low risk of falling below baseline. The authority that is not in this position does not pose a significant risk to the overall position.

4.9 How is Government going to judge the bids it gets and when will we hear?

Approximately 20 bids have been submitted, and other than the criteria mentioned above we do not know how government will decide. However, we know that Civil Servants recognise that there was a cost to Government, and the considerations are understood to be linked to the Chancellor's budget and that subsequent Local Government Finance Settlement. We expect the announcements no later than when that is published in December.

4.10 Why is this Approval being sought now?

Given the tight timescale to develop and submit proposals, no other authority had the chance to have the proposal formally approved through a Cabinet/Committee/Council process. The bid stated that "each of the Berkshire authorities will make their own arrangements for approving the decision to apply for 100% pilot status in 2018-19 as soon as practicable".

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 A pilot will primarily contribute to the aim of remaining financially sustainable to deliver these service priorities. However, as indicated above it will also provide infrastructure to support the economy. The additional resources will contribute indirectly to other aims too.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.2 *Not applicable to the submission of this proposal*

7. EQUALITY IMPACT ASSESSMENT

7.1 *Not directly applicable to the submission of this proposal*

8. LEGAL IMPLICATIONS

8.1 *Business Rate Pilots are being proposed under existing legislation, as the Government is not currently planning to introduce new legislation.*

9. **FINANCIAL IMPLICATIONS**

9.1 *As indicated above*

10. **BACKGROUND PAPERS**

10.1 *Bidding prospectus from DCLG*

10.2 Berkshire Pilot Bid of 27/10/17