

WEST OXFORDSHIRE DISTRICT COUNCIL
FINANCE AND MANAGEMENT OVERVIEW & SCRUTINY COMMITTEE
WEDNESDAY 4 OCTOBER 2017
PROPOSAL TO SUBMIT A BID FOR OXFORDSHIRE TO BECOME A 100%
BUSINESS RATES RETENTION POOL PILOT
REPORT OF JENNY POOLE, GROUP MANAGER GO SHARED SERVICES
(Contact: Jenny Poole, Tel: (01285) 623313)

(The decision on this matter will be a resolution.)

1. PURPOSE

To provide Members with an opportunity to consider proposals for the Oxfordshire local authorities to submit an application to become a 100% Business Rates Retention Pool pilot in 2018/19. The views of the Committee will be considered by Cabinet later in the month.

2. RECOMMENDATION

That the Committee considers the report and makes such recommendations to the Cabinet as are considered appropriate.

3. BACKGROUND

- 3.1. The Department for Communities and Local Government has recently published *“Invitation to Local Authorities in England to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models.”*
- 3.2. On 1st April 2017 the Government launched five pilots of 100% business rates retention, which Ministers granted to areas with ratified devolution deals (Greater Manchester, Liverpool City Region, The West Midlands, Cornwall and The West of England). These pilots will 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.
- 3.3. The Government has decided to proceed with the expansion of the pilot programme for 100% business rates retention for 2018/19. These will run alongside the five current 100% pilots which have been in operation since 1 April 2017. The 2018/19 pilots are an opportunity for the Department to test more technical aspects of the 100% business rates retention system, such as tier-splits. This will provide the opportunity to evaluate how collaboration between local authorities works in practice.
- 3.4. The Government would like to see authorities form pools and, with agreement in place from all authorities, to apply jointly for pilot status. The Government is promoting the opportunity to work together as a pool across a functional economic area to allow authorities to make coherent strategic decisions about the wider area and to jointly manage risk and reward.
- 3.5. Applications are invited from authorities in England. The government is encouraging applications from groups of authorities (either on existing, or revised pool boundaries)

which comprise in particular, county council(s) and all relevant district councils; groups of unitary authorities; or groups of county councils, all their districts and unitaries. The Government is particularly interested in piloting two-tier areas and rural areas (given the majority of 2017 pilots are in urban areas). **To be accepted as a pilot for 2018/19, agreement must be secured locally from all relevant authorities.**

- 3.6. Applicants will need to propose a split for sharing additional growth. The government particularly want to see additional growth being used to promote the financial stability and sustainability of the pooled area. In addition, it is expected that some retained income from growth will be invested to encourage further growth across the area.
- 3.7. For the 2017/18 pilots the Government has agreed a 'no detriment' clause, guaranteeing that these areas will not be worse off as a result of participating in the pilot. However, proposals for the 2018/19 pilots should include details of how authorities will work together to manage risk in line with their proposed pooling arrangements in the event that the 2018/19 pilots programme does not include a 'no detriment' clause. **Applications should make it clear whether or not they would be willing to become a 100% BRR pilot if the 2018/19 pilots were expected to operate without the benefit of 'no detriment'.**
- 3.8. Authorities selected as pilots for 2018/19 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 growth retained.
- 3.9. Pilot areas will be expected to operate under the arrangements that currently determine safety net payments for pools. In other words, each "pool" will have a single safety net threshold determined on the basis of the pool's overall baseline funding level and business rates baseline. However, the pool's safety net threshold will be set at 97% of its baseline funding level, instead of 92.5%, to reflect the additional risk of greater retention. Pilots will operate with a "zero levy", as is the case for the current 2017/18 pilot areas.
- 3.10. Local authorities that are part of existing pools need to consider what pooling arrangements should apply if their application to become a 100% pilot pool is not successful. Applications to retain or change existing pools will need to be submitted alongside applications for 100% pilots.
- 3.11. A proposal from Oxfordshire to become a pilot for 2018/19 would fit the criteria the Government are looking for in terms of a rural two-tier system of local government. The proposal would also fit well with the Oxfordshire Place Based Sustainable Growth Package.
- 3.12. However, there are some significant risks associated with becoming a pilot at this time due to the existing high levels of appeals within the business rates system dating back to 2010. There is also the potential for appeals on the new 2017 list to be higher than the Council (and indeed government) have anticipated. Under the pilot scheme, the risk up to the safety net threshold will fall with the Oxfordshire authorities. The safety net level has been changed from the pool having to fund the first 7.5% of losses to the first 3% of losses. For Oxfordshire the first £2.3 million of losses would fall upon the pool.

4. FINANCIAL IMPLICATIONS

- 4.1. The North Oxfordshire pool currently comprises of Cherwell District Council, West Oxfordshire District Council and Oxfordshire County Council. The pool operates

under the principle that composition of the pool for any financial year should be made up of only the authorities that maximise the overall returns for the County. For 2017/18, the pool levy is 0.7% (as opposed to 50% outside of the pool).

- 4.2. A distribution group has been in operation from 2015-16, meaning that any authorities who have stayed out of the pooled arrangements for the overall good of Oxfordshire would see some return for doing so, if they were also prepared to take a share of the risks associated with pooling.
- 4.3. Oxford City and South Oxfordshire agreed to join the distribution group for 2016-2017 and participate in a wider sharing arrangement.
- 4.4. The benefit from Pooling (excluding administration) since the inception of Pool in 2014-15 is shown below:

Authority	14/15	15/16	16/17	17/18 at Jul	Total
	£'000	£'000	£'000	£'000	£'000
Oxfordshire	65	197	245	331	838
Cherwell	200	1315	1016	1314	3,845
Oxford City	0	0	467	823	1,290
South Oxfordshire	0	0	83	268	351
Vale of White Horse	0	0	0	0	0
West Oxfordshire	596	463	642	573	2,274
Total	861	1,975	2,453	3,309	8,598

- 4.5. For 2017/18, the current pool benefit is estimated to be £3.3 million, this Council's share of the gain being estimated at £573,000.
- 4.6. In terms of the 50% Business Rate Retention Scheme, the Oxfordshire Treasurers Association are proposing to retain the existing pool composition (Cherwell District Council, West Oxfordshire District Council and Oxfordshire County Council) for 2018/19
- 4.7. Using the July 2017 data to model the impact of a 100% Business Rate Retention Pool including all Oxfordshire authorities, the pool gain increases by £2.6 million to £5.9 million. This is largely due to the saving of the 50% levy payable in respect of Oxford City, Vale of White Horse and South Oxfordshire Councils. For West Oxfordshire District Council the estimated share of the gain is much lower at £21,000 as the Council already benefits from the lower levy of 0.7%.
- 4.8. Officers recommend that any pilot pool seeks to adopt a 'no detriment' clause and this should apply both at overall pool level and individual authority level (so the Council would receive as a minimum the amount it would have received under the existing North Oxfordshire pool arrangement).
- 4.9. The Chief Finance Officers, representing the six Oxfordshire authorities, are modelling the financial implications of an Oxfordshire wide 100% business rates pool for 2018/19 taking into account predicted growth in the business tax base and the estimated level of appeal risk in the system

5. RISKS

- 5.1. The key risks relate to the value of business rate appeals in the system (as per paragraph 4.2).
- 5.2. To mitigate these risks, the Oxfordshire pilot proposal could be conditional upon the inclusion of a “no detriment” clause within the pilot deal which would limit any losses to those currently at risk under the existing North Oxfordshire pool.

6. REASONS

To enable the Committee to discuss and form a view upon the issues set out in the paper. For those views to be provided to the Cabinet when considering this matter later in October.

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Background Papers:

None