



Understanding the implications of the 2018/19
Provisional Local Government Finance Settlement
and the Fair Funding Consultation

Outline for the briefing today

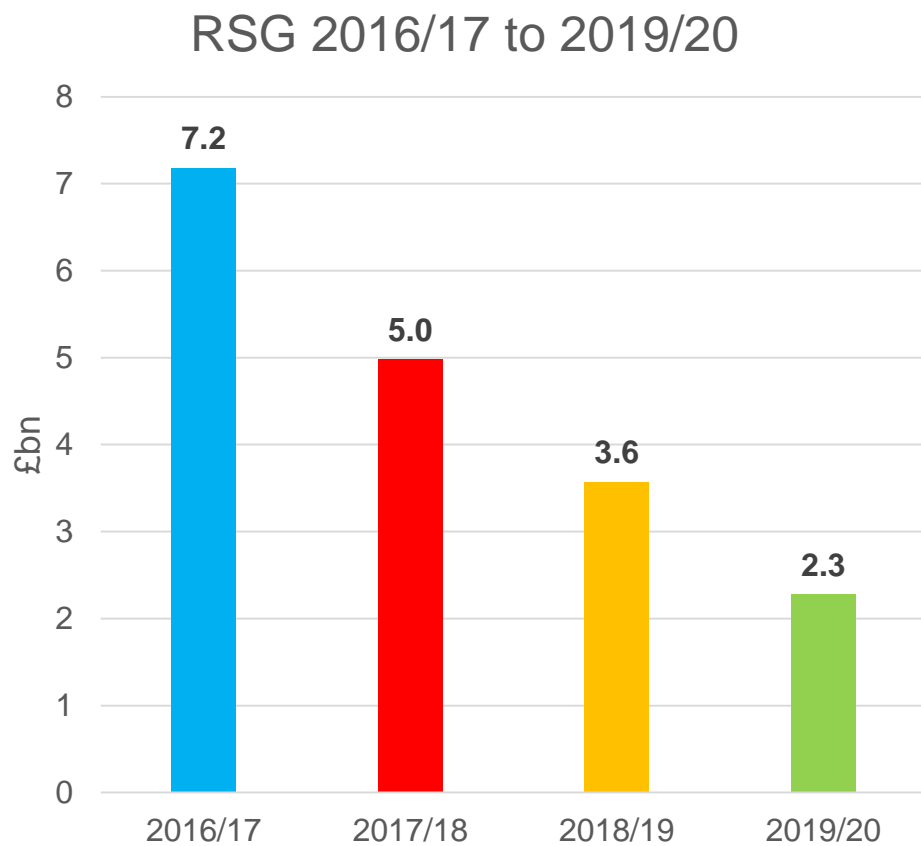
- 2018/19 Provisional Settlement and NNDR1 2018/19
- Funding Reform
 - Plans for Business Rates Retention
 - Fair Funding: the detail of the consultation

2018/19 Provisional Settlement and NNDR1 2018/19

Provisional Settlement 2018/19

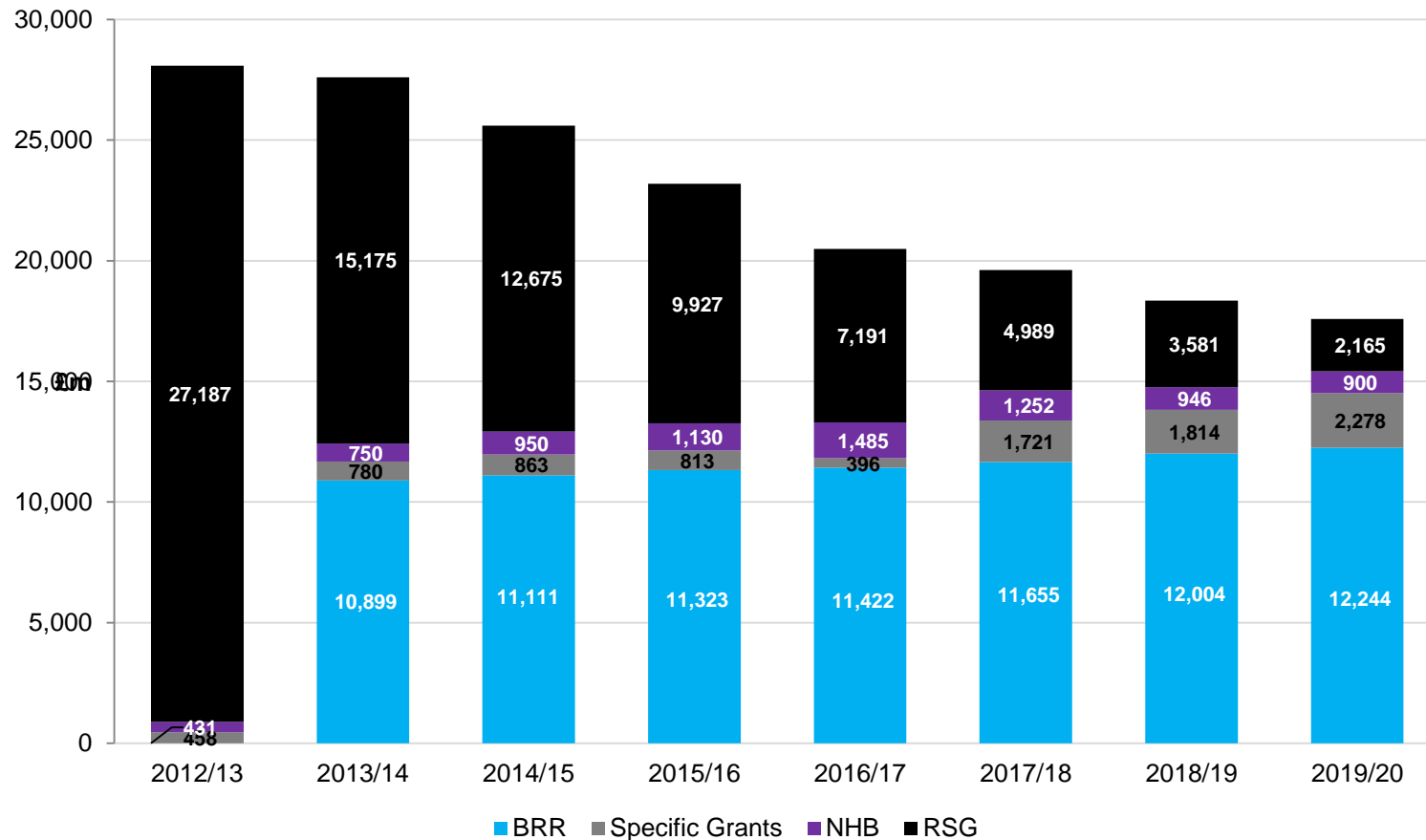
- Announced on 19 December 2017
 - 2018/19 provisional
 - 2019/20 indicative
- Confirmation of continuing cuts to RSG
- Updated Core Spending Power
- Adjusted business rates baselines and tariff / top ups
- Consultation in spring on negative RSG in 19/20
- Projections of council tax income increased to include extra 1% added to Referendum limit for 2018/19 & 2019/20
- NHB framework unchanged for 2018/19

The biggest missing headline - confirmation of continuing large cuts to RSG



- Continued major reductions to RSG – as pre-announced easy to forget this is **the** major story!
- A cut of £1.4bn or 28% 2017/18 to 2018/19
- A confirmed cut of £4.9bn or 68% 2016/17 to 2019/20
- BUT now hidden by changes made for 100% BRR pilots (in 17/18 and 18/19)

Funding 2012/13 to 2019/20



- Funding reduced from £28.1bn to £17.6bn over the period (37%)

Change in SFA funding

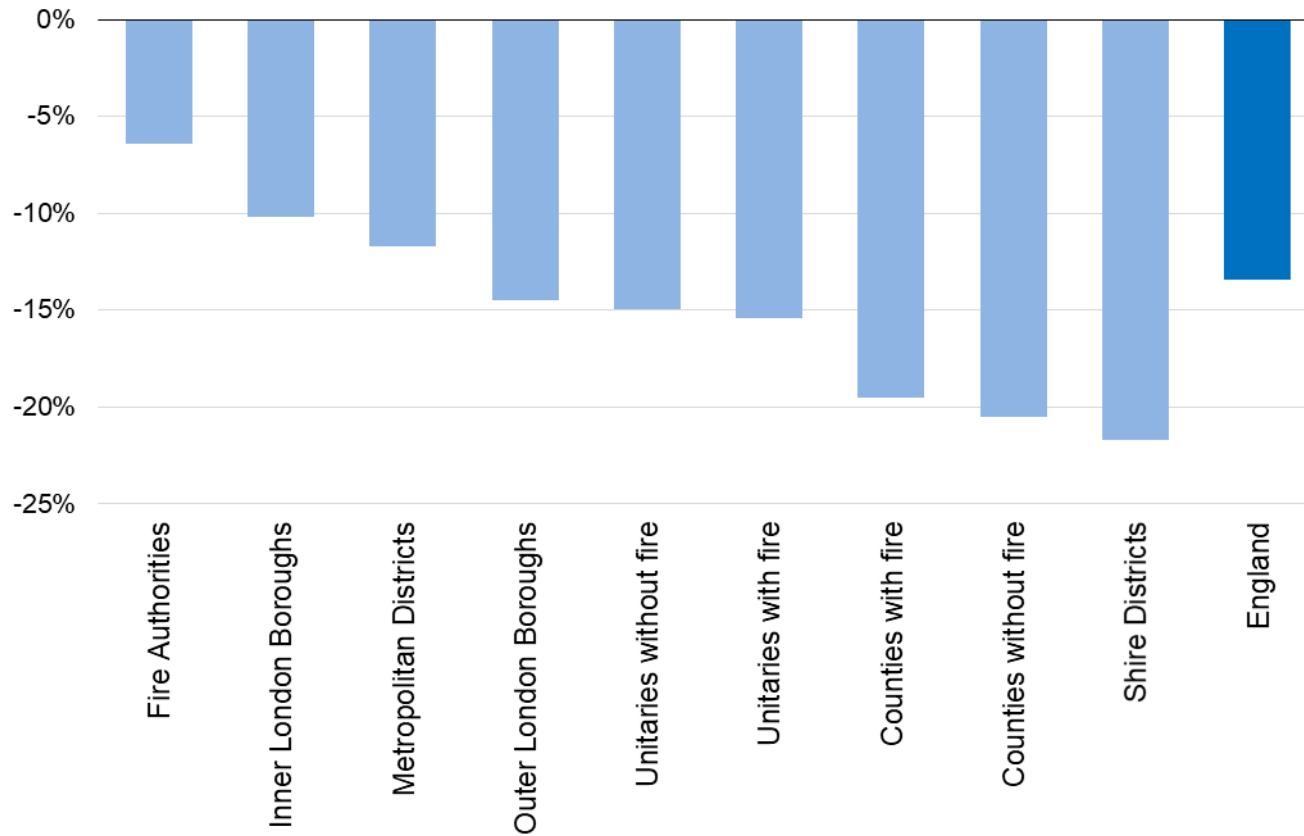
- A feature of the settlement has been the continued shift in funding from lower to upper tier services.

Authority group	Services			Change in SFA from previous year		Cumulative change between 2017/18 and 2019/20
	Lower tier	Upper tier	Fire	2018/19	2019/20	
Unitaries without fire	✓	✓		-7.1%	-8.5%	-15.0%
Metropolitan Districts	✓	✓		-5.6%	-6.5%	-11.7%
Inner London Boroughs	✓	✓		-4.8%	-5.7%	-10.2%
Outer London Boroughs	✓	✓		-6.8%	-8.3%	-14.5%
Unitaries with fire	✓	✓	✓	-7.5%	-8.5%	-15.4%
Counties with fire		✓	✓	-9.8%	-10.8%	-19.5%
Counties without fire		✓		-10.0%	-11.7%	-20.5%
Shire Districts	✓			-7.9%	-14.9%	-21.7%
Fire Authorities			✓	-4.1%	-2.4%	-6.4%
England				-6.4%	-7.6%	-13.4%

Change in SFA funding

Cumulative change in SFA by class of authority

Cumulative change between 2017/18 and 2019/20



Information provided by DCLG

- Updated Core Spending Power including split by grant source
- Key Information for local authorities i.e. SFA split
- Calculator for NHB, SFA and Revaluation calculation Model
- Council Tax referendum limits and rules
- Funding allocations outside of Settlement
- Fair Funding Consultation

Core Spending Power: England

- Firstly 2016/17 Provisional Settlement
 - RSG cuts took into account taxbase and tax rate locally (i.e. ability to raise money locally)
 - Top Up / Tariff Adjustment introduced. Nothing to do with the business rates system (does not grow with RPI, alter the safety net or impact on the levy calculation) = Negative RSG
 - Top Up / Tariff Adjustment. Occurs when funding needs to be cut and there is no RSG left i.e. Baseline Need = SFA. To start in 2017/18 with increased numbers of authorities affected by an increasing amount by 2019/20
 - NHB Consultation launched
 - Improved Better Care Fund launched (and funded mostly by cutting NHB)
 - Social Care CT Precept launched – up to 2% per annum for the next four years
 - Up to £5 increase in CT for districts in the lower quartile for CT rate
 - A four year offer around stability (of some kind) launched

Core Spending Power: England

And then . . .

- 2016/17 Final Settlement
 - Transition Grant introduced to protect authorities worst affected by the new method to cut RSG in 2016/17 and 2017/18
 - Top Up / Tariff Adjustment abandoned for 2017/18 and 2018/19. No changes for 2019/20 (as it is hoped the new system will remove the problem! And the associated cost of financing a U-Turn)
 - Up to £5 increase in CT extended to all districts

Core Spending Power: England

- 2017/18 Provisional and Final Settlement
 - NHB Consultation Outcome
 - Top Up / Tariff Adjustment still in place for 19/20
 - Increased freedoms on the Social Care Precept
 - Funding Reduction for NHB in 2017/18
 - New funding source – 2017/18 Adult Social Care Support Grant
 - Top Ups / Tariff amounts adjusted for Revaluation 2017

Core Spending Power: England

- 2018/19 Provisional Settlement
 - Fair Funding Paper
 - 2020/21 – New formulae to be introduced
 - 2020/21 – 75% Business Rates Retention & a Reset
 - Council Tax – 3% Referendum Limit
 - 10 New Business Rates Pilots
 - No Changes to the NHB methodology
 - RSDG +£15m for 2018/19
 - Top Up / Tariff Adj 2019/20 (Negative RSG) – Spring 2018 consultation
 - Revaluation 2017 – Final changes to top up / tariff amounts

Core Spending Power: England

		2015-16	2016-17	2017-18	2018-19	2019-20
		£m	£m	£m	£m	£m
Settlement Funding Assessment	Inflation decrease	21,250	18,601	16,632	15,574	14,398
Multiplier Cap / Early use of CPI	Now included	165	165	150	250	376
Council Tax	Tax rate Assumptions	22,036	23,247	24,666	26,600	28,047
Improved Better Care Fund	Budget 2017 Changes	-	-	1,115	1,499	1,837
New Homes Bonus	Slight Increase	1,200	1,485	1,252	946	900
Rural Services Delivery Grant	Slight Increase	16	81	65	65	65
Transition Grant	No change	0	150	150	0	0
The 2017-18 Adult Social Care Support Grant	No change	0	0	241	0	0
Core Spending Power		44,666	43,729	44,271	44,934	45,623
Change %			-2.1%	1.2%	1.5%	1.5%
Cumulative change %			-2.1%	-0.9%	0.6%	2.1%

Core Spending Power: England

	2017-18	2018-19	2019-20
	£m	£m	£m
Settlement Funding Assessment	0	(25)	(186)
S31 Grant – Multiplier Cap	150	250	376
Council Tax	43	518	418
Improved Better Care Fund	1,010	674	337
New Homes Bonus	0	8	0
Rural Services Delivery Grant	0	15	0
Transition Grant	0	0	0
Adult Social Care Support Grant	0	0	0
Core Spending Power	1,203	1,441	945

RPI to CPI & -ve RSG

RPI @ 3.9%

Assumed higher tax rates

Increased Funding

Increased Funding

Core Spending Power: England

	2017-18	2018-19	2019-20
	£m	£m	£m
Settlement Funding Assessment	0	(25)	(186)
S31 Grant – Multiplier Cap	0	100	226
Council Tax	43	518	418
Improved Better Care Fund	0	0	0
New Homes Bonus	0	8	0
Rural Services Delivery Grant	0	15	0
Transition Grant	0	0	0
Adult Social Care Support Grant	0	0	0
Core Spending Power	43	617	458

How has SFA changed?

- There are two changes to the SFA figures
- Firstly, as per the previous slide, the £153m –ve RSG has been added for 2019/20
- The second is linked to (i) assumed RPI vs actual RPI and (ii) the subsequent move to CPI
- For (i) the 2017/18 assumption for RPI was 3.2%. The actual RPI rate was 3.9%, which should have meant a gain of 0.7% or **£75m** for local government (through higher business rates income)
- However, the move to ii) CPI (@3.0%) resulted in a **£25m loss**
- But, DCLG are refunding local authorities in full (i.e. for the equivalent of the 3.9%). This is shown in the New Line on the Core Spending Power i.e. £250m in 2018/19 (i.e. **+£100m** for the year)
- For **2019/20**, there is a further assumed loss from using CPI of **£33m**, but increased S31 grants of **£126m** i.e. a net gain of **£93m**

Top Up / Tariff adjustment

- Now in the Core Spending Power figures (previously hidden in the Key Information workbook)
- Came about as a result of taking into account tax raising powers locally when making the SR 2015 reductions
 - $SFA = \text{Baseline Need} + RSG$
- For an increasing number of authorities, there was no RSG to reduce funding by, so the Baseline Need of SFA was reduced
- The reductions were not made in 2017/18 and 2018/19, thereby benefitting those authorities that were due reductions (i.e. a lower reduction in CSP than authorities with smaller taxbases / lower tax rates)
- Still in place for 2019/20, £153m to be reduced over 168 authorities
- Sec. of State announced a Spring consultation planned: “*my department will be looking at fair and affordable options for dealing with Negative RSG*”
- But unless they find £153m or redistribute the reduction, some or all of the reduction will be seen to funding for some/ all of the authorities

How has SFA changed?

Change in SFA	2018/19	2019/20
Gain from RPI at 3.9% (and not 3.2%)	75	193
Loss due to move to CPI	(100)	(226)
Negative RSG included		(153)
Net Change	(25)	(186)

New CSP Line for S31 Grant	2018/19	2019/20
S31 Grant for loss due to CPI	100	226

- So the net gain is really +£75m in 2018/19 and projected +£193m in 2019/20
- As business rates income loss is made up by S31 grant gain and the -ve RSG was announced previously

Business Rates Revaluation

- Effective April 2017
- Supposed to be revenue neutral for local government
- Provisional top up / tariff adjustment made in 17/18
- Final adjustment made for 18/19 plus the one off adjustment for 17/18
- Adjustment methodology changed at the settlement – appeals adjustment now reversed out (giving a higher outturn if adding to the provision)

- Provisional Adjustment – 17/18 Settlement
 - September 16 RV X 15/16 NNDR3

- Final Adjustment – 18/19 Settlement
 - March 2017 RV x 16/17 NNDR3 **Minus** Change in Appeal Provision

Revaluation 2017 - Example

- NNDR Baseline (and therefore Tariff and Top Up was adjusted in 17/18 provisionally) – using 15/16 NNDR3. So £49.970 in the table below.
- This was found to be £2.112m too low – using the 16/17 NNDR3.
- 2018/19 NNDR Baseline = (£18.959 + £2.112) x CPI = £21.705m
- But there is still £2.112m owed from 17/18, so this is added to the Tariff as a one off adjustment for 2018/19 only.
- 2019/20 NNDR Baseline = £21.705 x CPI

Element	2017/18	2018/19	2019/20
Baseline Funding Level	31.011	31.943	32.651
Less NNDR Baseline	49.970	53.647	54.837
Equals Tariff / Top Up	(18.959)	(21.705)	(22.186)
Plus Revaluation 2017 one-off adjustment		(2.112)	
Equals Actual Tariff / Top Up	(18.959)	(23.817)	(22.186)

Revaluation 2017 - Example

- However, in terms of the levy / safety net calculation, the £2.112m is added to the 2017/18 figure.

- Pre settlement – levy rate going down as the NDR Baseline had reduced following the provisional adj

	2016/17	2017/18	2018/19	2019/20
Baseline Funding Level	30.391	31.011	31.941	32.580
Less NNDR Baseline	54.256	49.970	51.470	52.499
Equals Tariff / Top Up	(23.866)	(18.959)	(19.528)	(19.919)
Plus Rev 2017 one-off adj				
Equals Actual Tariff / Top Up	(23.866)	(18.959)	(19.528)	(19.919)
Levy Rate	44%	38%	38%	38%

- Post Settlement – the addition of the £2.112m (plus inflation for future years) increases the tariff and levy each year.

	2016/17	2017/18	2018/19	2019/20
Baseline Funding Level	30.391	31.011	31.945	32.608
Less NNDR Baseline	54.256	49.970	51.470	52.499
Equals Tariff / Top Up	(23.866)	(18.959)	(19.530)	(19.936)
Plus Rev 2017 one-off adj		(2.112)	(2.176)	(2.251)
Equals Actual Tariff / Top Up	(23.866)	(21.071)	(21.706)	(22.186)
Levy Rate	44%	40%	40%	40%

Council Tax Referendum Limits

- Government has increased the limit by 1% to 3%. So:
 - Upper tier authorities 2.99% plus (potentially 3%) can be made without a referendum
 - Lower tier authorities increases of less than 3% or £5 (whichever is the higher) can be made without a referendum
- For both 2018/19 and 2019/20 but the latter is indicative only:
 - “Conservatives usher biggest council tax rise for 14 years”
 - “New tax blow for millions”
 - “Merry Xmas! Council tax bills up £100”
- Average variance of referendum limit to RPI
 - Pickles: average -0.25% p/a 2011/12 to 2015/16
 - Clarke / Javid: average 1.75% p/a 2016/17 to 2018/19 (at maximum SC precept)
 - And 3% 2019/20 would be only 0.2% above projected RPI for 2019/20
- Town and Parish councils – deferred setting of referendum principles for town and parish councils for three years

Council Tax – the creeping change to the balance of funding

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn
Government funding (including SFA)	22.6	20.5	19.6	18.3	17.6
Council tax	22.0	23.2	24.7	26.6	28.0
Council Tax as a Proportion of Total	49%	53%	56%	59%	62%

- National funding has reduced by £5bn over 5 years, a 22% decline (note some rolling in of Public Health grant)
- Council tax projected CSP funding has increased by £6bn over 5 years, a 27% increase
- Council tax will fund 61.5% of all CSP by 2019/20 compared to 49.3% in 2015

Council Taxbase Growth Assumptions – CLG inconsistency, but reduced

- CLG have made following assumptions for changes in the taxbase
 - Average annual growth 2013-14 to 2017-18 up to 2019/20
 - Increases in line with maximum use of new referendum limits
- Estimated growth in council tax base
 - CLG approximately 1.8% per annum (2.1% previously)
 - OBR approximately 1.3% per annum (1.1% previously)
- CLG method increases Spending Power by:
 - 2018/19: £0.1bn (£0.4bn previously)
 - 2019/20: £0.3bn (£0.7bn previously)

Social Care Precept remains as was

The precept

- Was originally 2% per annum for 4 years
- For remaining 3 years 2% per annum or up to 3% per annum for 2 years (0% in year 3)

The process

- Guidance at 2016/17 Settlement
- Additional guidance at 2017/18 Settlement and subsequent

Other issues

- New Homes Bonus – no change on previous method set out
 - Move to 4 years allocation only
 - 0.4% baseline maintained
 - Remember 2019/20 figures for NHB are illustrative only
- Additional RSDG – no reduction in 2018/19 as planned (gain of £15m)
- £35m set aside for BR safety net

The Four Year Offer – reminder

- 97% accepted the offer
- What was the practical effect – so far none
- “Will the SoS confirm the position for the small group of councils that refused to publish an efficiency plan? Will they be rewarded for their failure, or will they be penalised in the funding they receive under this settlement?” Bob Blackman (Harrow East) (Con)
- Now have a two year settlement - each year certainty reduces as the four years progress
- You have now passed the moment of greatest certainty ... it is downhill from here, and very fast for 2020/21!!

Funding additional to the settlement (1)

Housing benefit subsidy administration

- The Housing Benefit Administration Grant subsidy for 2017/18 was detailed in the [Housing Benefit Circular S13/2017](#) which was released on 20 December 2017
- DWP issued indicative 2018/19 Housing Benefit administration subsidy allocations because the Autumn Budget 2017 and Universal Credit announcements impact upon the final 2018/19 Housing Benefit administration subsidy allocations – final announcement early 2018
- Circular S13/2017 was briefer than in previous years and simply stated that English local authorities would receive an estimated £182.24m in 2018/19. This represented a reduction of £19.3m on 2017/18. However the DWP did not indicate how much of this was due to any efficiency flat rate reduction and how much related to declines in claimant numbers
- However the indicative allocations represent a cumulative reduction of £88.5m or 33% on the 2015/16 level of funding of £270.7m (26% at 2017/18)

Funding additional to the settlement (2)

Public Health Grant

- The total amount of £3.215bn (£3.219bn with agreed local adjustment) is in line with what had previously been announced as part of SR2015, which represents a cash reduction of - 2.6%.
- With current CPI of 3.1% the reduction for 2018/19 is -5.5% in real terms; rising to -6.2% in real terms if the current RPI used.
- The ring-fence for the use of this funding continues as does the option for authorities who do not spend their allocation in-year to use a Public Health reserve to carry forward funding for use in the subsequent year
- The 2018/19 grant will be paid in quarterly instalments
- Local authorities in Greater Manchester do not receive this grant directly as they have retained funding as part of a business rate retention pilot.
- Details are also provided for 2019/20 allocations including funding per head of population.

Funding additional to the settlement (3)

- Also announced Dedicated School Grant 2018/19 at:

<https://www.gov.uk/government/publications/dedicated-schools-grant-dsg-2018-to-2019>

Completing NNDR1 2018/19

2018/19 NNDR1

- Need to submitted by 31 January 2018
- SBRR Consultation issued at the same time – Closing Date 17 January 2018
- Main changes to the form:
 - Changes to local splits for the pilot authorities
 - S31 Grant Calculation for SBRR reflects the proposed new threshold factors
 - Additional S31 Discretionary relief lines for Supporting Small Business Relief, Discretionary Scheme Relief & Pub Relief

2018/19 NNDR1 - Appeals

- No update on the previous announcement that appeals would be nationalised
- Whilst this would appear to suggest it is not going to happen (at least in the short term), it does offer an opportunity still to use a top down approach to determining the appeals allowance
- 2010 List
 - Does additional resources need to be taken from 17/18 income for previous years?
- 2017 List
 - Feedback suggest very little information / activity
 - How was the 17/18 provision determined?
 - Does this need updating? With part 4
 - How will the 18/19 provision be determined? (same as 17/18?)
 - Do areas expecting higher appeals go above 4.7%?

2018/19 NNDR1 – S31 Grant

- Section 1C
- 2018/19 NNDR1 attempts to deal with the complex issue of the increase in thresholds for SBRR – for S31 grant purposes
- Also an increase to the allowance for the multiplier cap

	£	£	£	£
Multiplier Cap				
27. Cost of cap on 2014-15, 2015-16 and 2018-19 small business rates multiplier	-723	-181	0	-904
Small Business Rate Relief				
28. Cost of doubling SBRR & threshold changes for 2018-19	0	0	0	0
29. Cost to authorities of maintaining relief on "first" property	0	0	0	0
Rural Rate Relief				
30. Cost to authorities of providing 100% rural rate relief	0	0	0	0
Local Newspaper Temporary Relief				
31. Cost to authorities of providing relief	0	0	0	0
Supporting Small Businesses Relief				
32. Cost to authorities of providing relief	0	0	0	0
Discretionary Scheme				
33. Cost to authorities of providing relief	0	0	0	0
Pub Relief (<£100k RV)				
34. Cost to authorities of providing relief	0	0	0	0
Designated Areas qualifying relief in 100% pilot areas				
35. Cost to authorities of providing relief	0	0	0	0
TOTAL FOR THE YEAR				
36. Amount of Section 31 grant due to authorities to compensate for reliefs	-723	-181	0	-904

There is still a need to apply the allowance for the multiplier cap to your tariff / top up separately



NB To determine the amount of S31 grant due to it, the authority will have to add / deduct from the amount shown in line 36, a sum to reflect the adjustment to tariffs / top-ups in respect of the multiplier cap (See notes for Line 36)

NNDR3 2016/17, NNDR1 2017/18

- Collection Fund balances 2016/17
- Balances on appeals 2016/17
- Levels of budgeted repayments 2017/18 NNDR1

2016/17 NNDR3: Collection Fund balances

	2013/14 £bn	2014/15 £bn	2015/16 £bn	2016/17 £bn	2017/18 £bn
Rates overpaid	1.2	0.8	0.7	-0.1	n/a
Deficit distributed		0.5	0.5	1.3	0.5

Main messages

- In 2016/17 there was the first surplus on the collection fund, of £0.1bn
- There were overpayments of business rates revenues of £1.2bn in 2013/14, £0.8bn in 2014/15 and £0.7bn in 2015/16. These totalled £2.7bn over the three years
- Estimated deficits have been distributed between 2013/14 and 2017/18 of £2.8bn which means there is an outstanding surplus to distribute in 2018/19 of £0.2bn

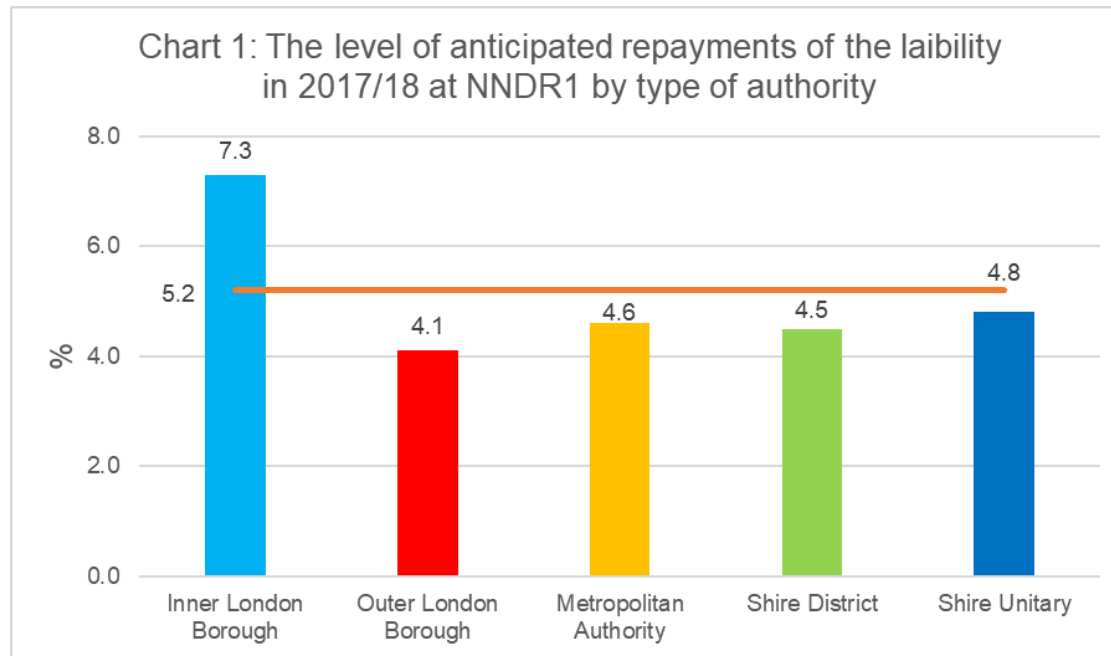
Appeals analysis at NNDR3 – balance at year end

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
All England	1,744	2,515	2,806	2,639
Westminster	163	297	393	248
England excluding Westminster	1,581	2,218	2,413	2,391

Main messages

- All England balances reduced by 6% between March 2016 and March 2017 (although only 1% reduction outside of Westminster 37% reduction)
- Although declining still a **huge potential variable even before Revaluation 2017**
- Westminster makes up 9% of the year end balances at end March 2017 (14% March 2016)
- Decrease of 1% suggests could take long time to clear balances although
 - Outstanding challenges at March 2017 275k vs 305k March 2016 (200k end Sept 2017)
 - The proportion of challenges leading to a change to end Sept 2016 was 29%; of those challenges settled in next 12 months, 28% leading to a change

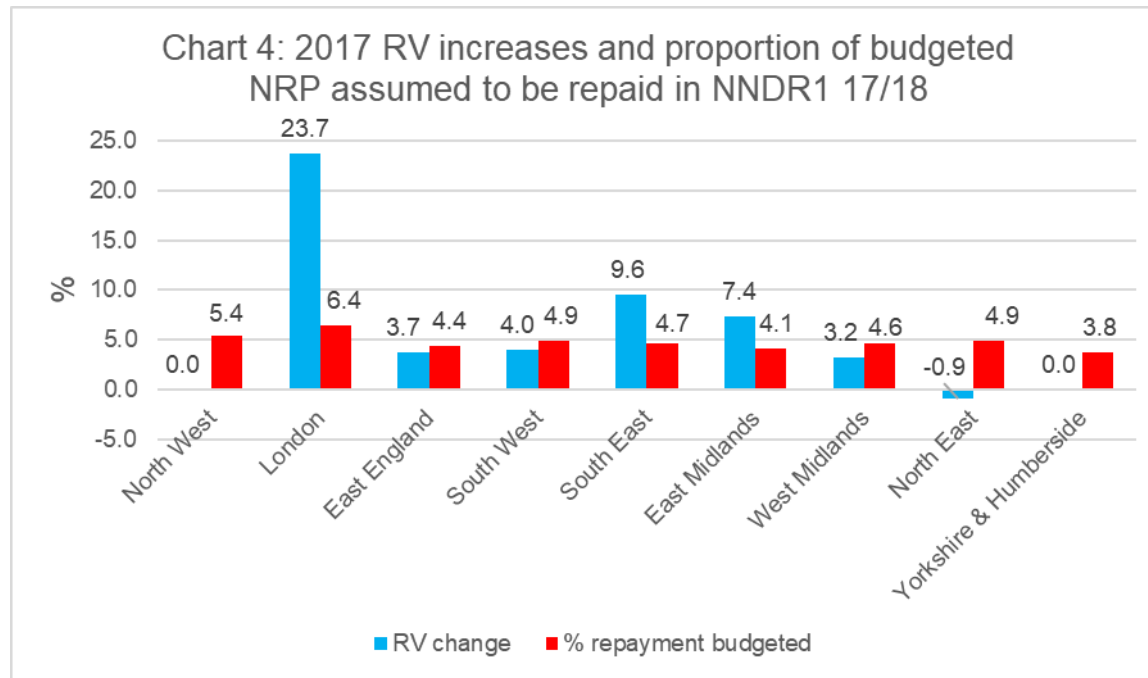
2017/18 NNDR1: Budgeted repayments (1)



Main messages

- Inner London Boroughs had the highest percentage (7.3%) of Net Rates Payable assumed at part 3 line 3 of any type of authority;
- This varies most compared to the average for Outer London Boroughs (4.1%)
- All other types of authority are much closer to Outer London Authorities than Inner London Boroughs

2017/18 NNDR1: Budgeted repayments (2)



Main messages

- Highest budgeted repayments of 6.4% in London where highest RV increases of 23.7%
- But next highest budgeted repayments in North West of 5.4% where second lowest RV increases of 0.0%
- Lowest budgeted repayments in Yorkshire & Humber of 3.8% where second lowest RV increases of 0.0%

Summary for session 1

- Most complex possible year 3 of a 4 year Settlement
- NNDR1 2018/19 – not a lot of additional information for budgeting for repayments compared to NNDR1 2017/18

Reform of Local Government Funding

Covering

- Latest from Steering Group and sub-groups
 - Ongoing through and after consultation
- The options for government moving forward on 100% BRR and the latest details on government plans, including a potential reset of the business rates baseline
- Implications for existing local business rates income, including through pools and pilots
- Fair Funding
 - The timetable for reform and the latest Autumn consultation

Steering Groups – some latest highlights

- DCLG have taken legal advice and the assessment is that setting the central share to 0% would be a misuse of the provision. There may be opportunities to raise the local share above 50% but not to 100%
- There is interest in developing a sensible set of principles going forward, continuing the plan for a reset and new baselines while learning from pilots and to look at what can be done immediately and in the longer term
- CLG proposed the Working Group initially focusses on elements of the system which can be modified using secondary legislation and so are suitable for a short term reform package. Once this work is completed it could consider longer term options for reform through primary legislation
- Forward work plans highlighted across working groups – significant work volumes in 2018
- On resources the discussion recognised merits of an approach based on notional council tax levels and which considered whether it would be appropriate to combine this with some measure of actual council tax levels - the group acknowledged that local council tax support is a key issue and should have a place in the new system along with several other potential adjustments to the tax base

100% Business Rates Retention (maybe one day..)

What we know	Unknowns
CPI increases (no S31 compensation from 2020/21)	<ul style="list-style-type: none">• Will CPI increases be retained, or offset by funding reductions / net Tariff nationally
75% BRR by 2020/21....	<ul style="list-style-type: none">• All at 75% or an average• Split of 75% in multi tier areas
Public Health Grant & RSG to be rolled in	<ul style="list-style-type: none">• Other Grants???
Reset in 2020/21	<ul style="list-style-type: none">• How determined – data and years• Period between resets• Fixed vs Partial• Winners & Losers• Revaluation in 2022/23

The Reset

- Within the current Fair Funding / 100% BRR agenda, the reset will be perhaps the most significant event in terms of funding re-distribution
- 100% BRR – revenue neutral (theoretically)
- Fair Funding – will be damped (likely to be over 4 years)
- The Reset – an authority could go from above the baseline to below it overnight
- Given some authorities receive more than double baseline need, potentially the most significant event for individual authorities
- Reasonable Forecast...
 - Business rates income = Baseline Need
 - For upper tier, baseline need may increase if growth put in social care (likely?)
 - Revised splits become less of an issue, if assuming income at Baseline Need anyway

Business Rates Pilots

- **What we know ...**
 - A further 10 Pilot areas created for 2018/19 plus London extended
 - Total cost to HMT of pilot status for 2018/19 forecast at over £0.5bn
 - Announced as 1 year only
- **Unknowns ...**
 - Initially for one year at 100%, but how likely is it that a new pilot area will be
 - 50% in 2017/18
 - 100% in 2018/19
 - 50% in 2019/20
 - 75% in 2020/21
 - Are the 2017/18 Pilots to stay at 100% until 2020/21?
 - What about London?
 - Maybe the pilot areas could become early adopters, at 75% for 2019/20?
 - What is the offer for 2019/20 (and when will it be announced)?
- Whist they did not obviously want to show their hand on the 75% 20/21 announcement, it might have made more sense to have the new pilots at 75%!

Business Rates Pools

- A combination of existing pools that did not bid for pilot status and areas that bid for pilot status, where plan B was to pool
- Remains to be seen what the pilot offering will be for 2019/20, how many will be allowed?
- Presumably linked to cost? As over 20 new pilots could have been formed for 2018/19
- A potential lobby point for pools maybe to remove the levy for all pools from 2019/20 – this would allow large taxbase county areas to include more / all districts, rather than have to only choose a limited number

Fair Funding Review: a review of needs and resources – technical consultation on relative need

- Published 19 December with 12 week consultation period, closing 12 March
- Follows Call for Evidence in July 2016
- Overall Fair Funding – terms of reference
 - Set new baseline funding allocations
 - Examine relative resources
 - Initial focus on services currently funded through finance settlement
 - Technical papers including careful consideration of transitional arrangements
- Focus of the Review
 - Relative Need (this consultation)
 - Relative Resources (resources raised locally)
 - Transitional Arrangements (damping)

Fair Funding Review: a review of needs and resources – technical consultation on relative need

‘Balancing needs and resources was introduced to ensure that "we are all in this together" and to prevent the immiseration of poorer areas. Former Labour leader George Lansbury went to prison to establish this principle, and it is one to which all governments prior to this have signed up (even if sometimes to varying degrees)’ (Guardian letters page, 2012)

‘Those in poorer areas will be forced to pay more for less, while those in richer areas will pay less for more’.

Timetable

- Potentially introduced 2020/21
- Set funding baselines and finalise transitional arrangements Oct 2019 – January 2020
- Large amount of technical work in short period of time and political decision making to be made
- Experience of the review of Police Formula Funding
 - July 2015 Home Office launched consultation on reform of police funding arrangements
 - Review paused due to use of incorrect data
 - Re-launched September 2016
 - December 2017 proposed changes abandoned to be revisited at the next Spending Review

This consultation

- Focuses on Relative Need
- High level principles for system design
- Questions focus on these principles, not the detail
- Future technical papers on
 - Structure of formulas for specific cost drivers
 - The assessment of relative resources
 - Transitioning to the new funding distribution

Structure of consultation

- Measuring Need – overview of previous approaches and structure for a new approach
- Common Cost Drivers – an outline of government proposed ‘starting point’
- Service Specific Cost Drivers – why the need for and the main service areas with unique cost drivers
- Weighting Funding Formulas and Cost Drivers – view on how weightings should be decided upon

Measuring Need

- Current formula lacks transparency and is hard to understand
- Therefore only most important cost drivers should be used
- Criteria to select include:
 - Relevant
 - Objective
 - Distinct
 - Stable
 - Future proof
- Options for simplification highlighted:
 - Individual funding formula for each duty
 - Grouping services into blocks
 - **Simple foundation formula**

Measuring Need - question

1): What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?

Common Cost Drivers

- Population
 - Focus on age profile
 - Use of population projections over specified funding period (no change for actuals)
- Rurality
 - Specific challenges for rural areas
 - Further exploration needed
- Deprivation
 - Important costs driver
 - Changing patterns not reflected just by 'current income'
 - Alternative measures
- Other costs drivers for a foundation level?
- Area Cost Adjustments
- Significant services but only for the few – how to deal with these

Common Cost Drivers - questions

2): Do you agree that the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities?

3): Do you agree that these population projections should not be updated until the relative needs assessment is refreshed?

4): Do you agree that rurality should be included in the relative needs assessment as a common cost driver?

5): How do you think we should measure the impact of rurality on local authorities' 'need to spend'? Should the relative needs assessment continue to use a measure of sparsity or are there alternative approaches that should be considered?

6): Do you agree that deprivation should be included in the relative needs assessment as a common cost driver?

Common Cost Drivers – questions (cont.)

7): How do you think we should measure the impact of deprivation on ‘need to spend’? Should the relative needs assessment use the Index of Multiple Deprivation or are there alternative measures that should be considered?

8): Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?

9): Do you have views on the approach the Government should take to Area Cost Adjustments?

10a): Do you have views on the approach that the Government should take when considering areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities?

10b): Which services do you think are most significant here?

Service Specific Cost Drivers

- Why some specific formula may be required
- The main services areas to be covered
 - Adult Social Care: key cost drivers so far – number by age group; income and wealth and the means test; number with higher levels of impairment; number living alone; sparsity
 - Children’s Services: key cost drivers so far – number of children; number whose parents receive DLA; deprivation; distance to schools
 - Highways / public transport: key cost drivers so far – road length; traffic flow; forecast snow/grit days; concessionary bus boardings
 - Waste disposal and collection: key cost drivers so far – number of households; types of property; travel times; deprivation
 - Fire and Rescue: key cost drivers so far – projected population; adjustments; ACA;
 - Legacy Capital Finance – outstanding debt and interest rates pre Prudential Borrowing
- Other Service Areas

Service Specific Cost Drivers - questions

11a): Do you agree the cost drivers set out above are the key cost drivers affecting adult social care services?

11b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting adult social care services?

12a): Do you agree that these are the key cost drivers affecting children's services?

12b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting children's services?

13a): Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?

13b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?

14a): Do you have views on what the most suitable cost drivers for local bus support are?

14b): Do you have views on what the most suitable data sets are to measure the cost drivers for local bus support?

Service Specific Cost Drivers – questions (cont.)

15a): Do you agree that these are the key cost drivers affecting waste collection and disposal services?

15b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting waste collection and disposal services?

16a): Do you agree these remain the key drivers affecting the cost of delivering fire and rescue services?

16b): Do you have views on which other data sets might be more suitable to measure the cost drivers for fire and rescue services?

17a): Do you agree these are the key cost drivers affecting the cost of legacy capital financing?

17b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting legacy capital financing?

18a): Are there other service areas you think require a more specific funding formula?

18b): Do you have views on what the key cost drivers are for these areas, and what the most suitable data sets are to measure these cost drivers?

Weighting Funding Formulas and Cost Drivers

- Identifies concerns regarding use of judgement for weightings
- Use of statistical techniques to assist deriving weightings

Weighting Funding Formulas and Cost Drivers - questions

19): How do you think the Government should decide on the weights of different funding formulas?

20): Do you have views about which statistical techniques the Government should consider when deciding how to weight individual cost drivers?

21): Do you have any comments at this stage on the potential impact of the options outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Fair Funding Review - Summary

- The paper is high level. It is still concerned with the structure / design of the approach, rather than weightings
- The paper does not cover Resources (i.e. council tax raised + other) or Transitional arrangements (i.e. damping)
- Aside from methodology changes, it is important to remember that overall gains / losses will be also determined by:
 - i. The overall amount i.e. if that is going down, than the issue is how much each LA is losing, rather than winners and losers
 - ii. The split between lower and upper tier services
 - iii. If the growth from business rates is put into baseline need, changes in Baseline Need will be offset against changes to business rates gains / losses
 - iv. The impact of damping from 13/14 will alter the funding from the current distribution
 - v. Changes in data since 2012/13 mean even if the same formulae were used, there would still be a significant shift in funding

Fair Funding Review - Summary

- Potential conclusions that could be drawn from the paper....
 - They are still a long way off from providing formulae
 - Stability is favoured over accuracy (e.g. using forecasts and not adjusting)
 - A simplified approach is likely, at least presentationally. However, there is likely to be complex formulae underneath to underpin certain formulae.
 - There is an emphasis on rurality (cost driver and ACA)
 - There is likely to be a number of “add ons” to the main simplified approach to cover specialist funding areas such as flood defence
 - Changing data sources (due to the availability / suitability of data sets) is going to change distributions

Potential Implications.....

- There is the potential for individual authorities to see significant gains/losses in Resources (once damping is unwound). Every authority needs to consider its profile against the possible changes; for example....
- Rural county with high population growth and low business rates growth previously.....
 - Gains from increasing population (greater than national average)
 - Gains from methodology changes
 - Gains from growth from business rates nationally added to upper tier services
- Urban district with currently significant gains from business rates income but lower than average population growth.....
 - Losses from below average population growth
 - Losses due to methodology changes
 - Losses from business rates growth being taken and added to upper tier services

Summary - session 2

- Steering Groups papers provide could foretaste of CLG thinking
- Phased move to 100% BRR possible, with 75% at 2020/21 a milestone
- Business Rates Baseline Reset a critical upcoming change, first information late spring at earliest
- Fair Funding Consultation only one part of Fair Funding Review and only a re-starter for 10 with lots of detail to follow
- Key question – where is the balance of financial risk to your authority from the many reforms for the future?

A foretaste of the MTFP challenge – 2020/21 and beyond

SR2019	➔	SFA	←	Fair Funding Review
Appeals reform	➔	BRB	←	The Reset
Split of local shares	➔	BRB Growth	←	Annual performance
Local and national performance	➔	NHB	←	Government reform



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