



Funding Focus 2020: The Provisional Settlement and beyond

Outline for the briefing today

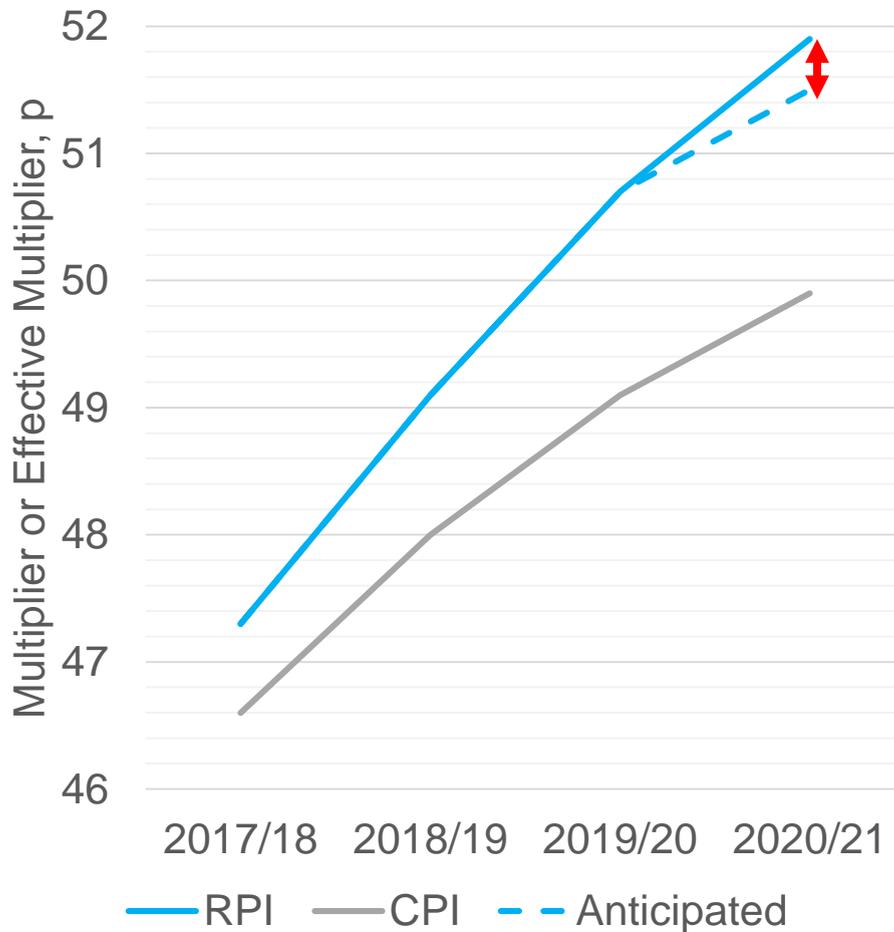
- 2020/21 Provisional Settlement
- NNDR1 2020/21
- Funding Reform 'State of Play'

Session 1: 2020/21 Provisional Settlement

Provisional Settlement 2020/21

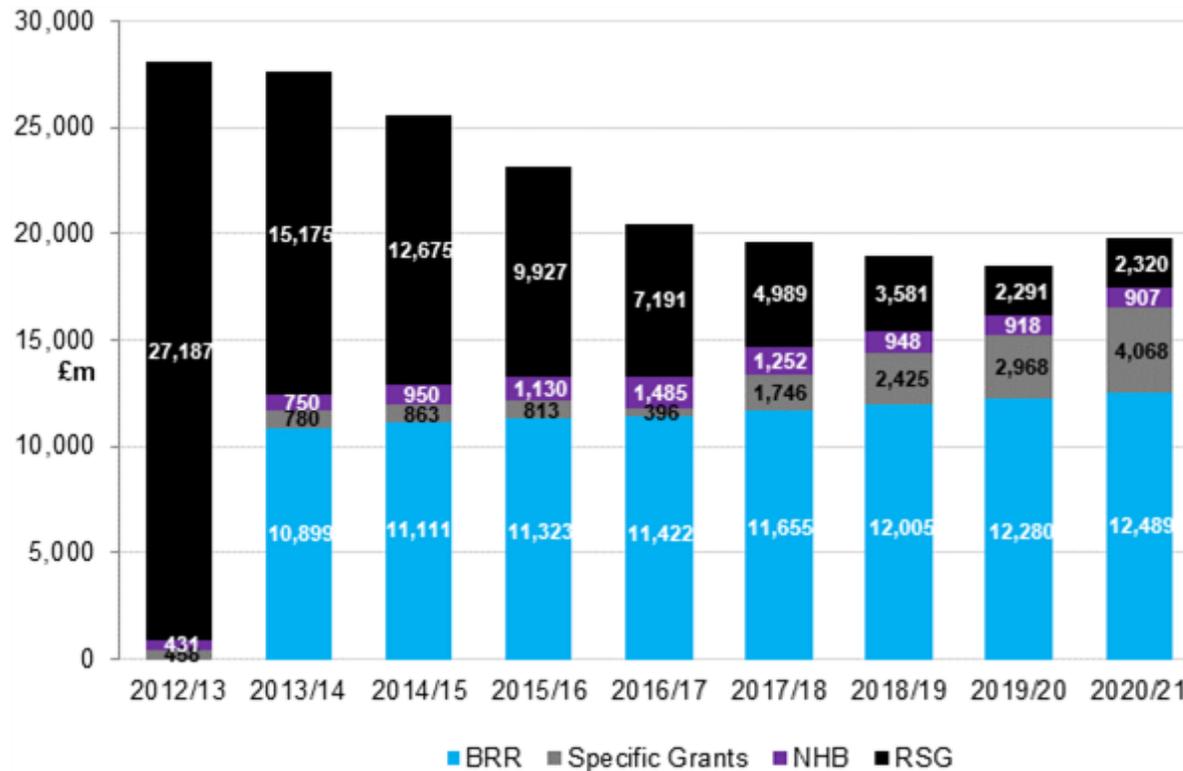
- Announced on 20 December 2019 – provided the 2020/21 Core Spending Power figures
- Confirmation of areas announced in the 2019 Spending Round / Technical Consultation:
 - RSG increased by inflation
 - Removal of Negative RSG
 - All but 2017/18 business rates pilots ended
 - Increased Social Care Funding and allocation methodology
 - New Homes Bonus in year and legacy funding for receipt in 2020/21
- No announcements relating to:
 - The allocation of funds from the BRR levy account
- Reduction to Council Tax referenda principles (Police not yet confirmed) and extension of 2% p.a. Social Care Precept

The biggest missing headline – extension of RPI compensation for business rates uplift



- (But not that big)
- At SR2015 it was announced that from 2020 business rates would be increased by CPI not RPI
- The lower increases began earlier than planned, and a s31 grant was provided to compensate authorities
- In 2020/21, Government have extended this compensation grant, meaning authorities receive an additional £75m nationally

Funding 2012/13 to 2020/21

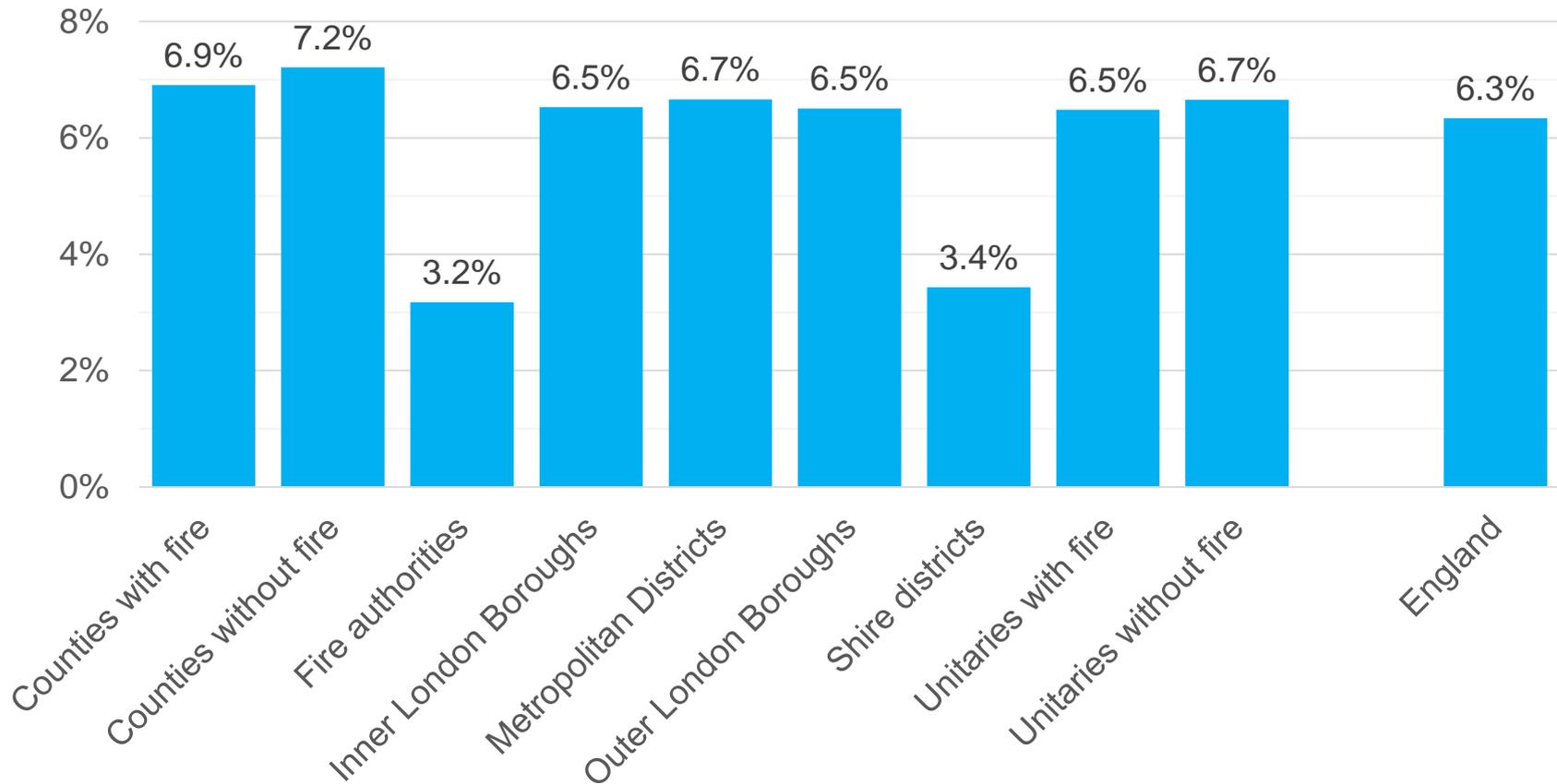


- Funding reduced from £28.1bn to £18.5bn (34%) to 2019/20
- Additional £1.3bn in 2020/24, reducing overall cut from £28.1bn to £19.8bn (29%)

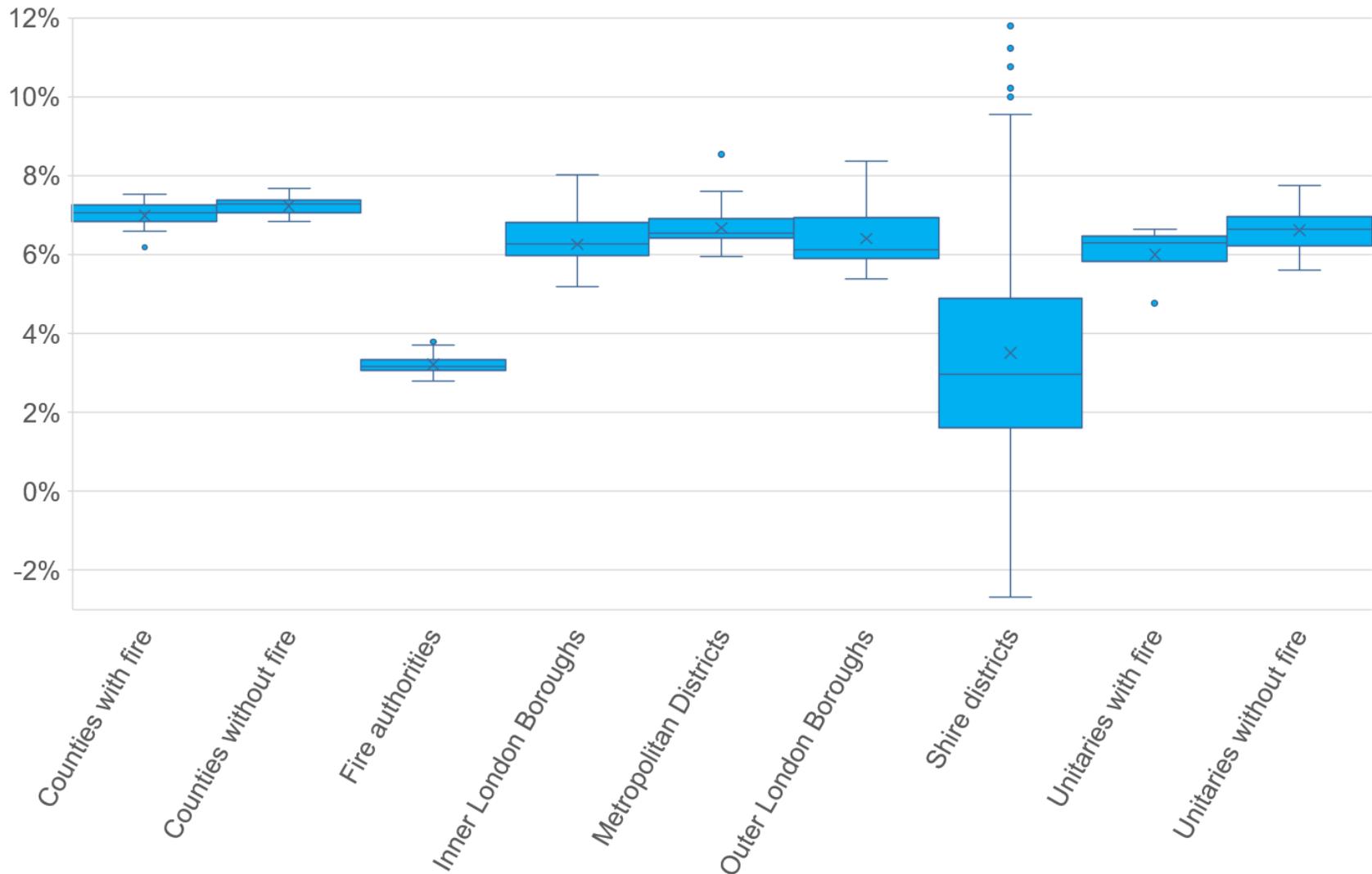
Change in CSP funding

Cumulative change in CSP by class of authority

Cumulative change between 2019/20 and 2020/21

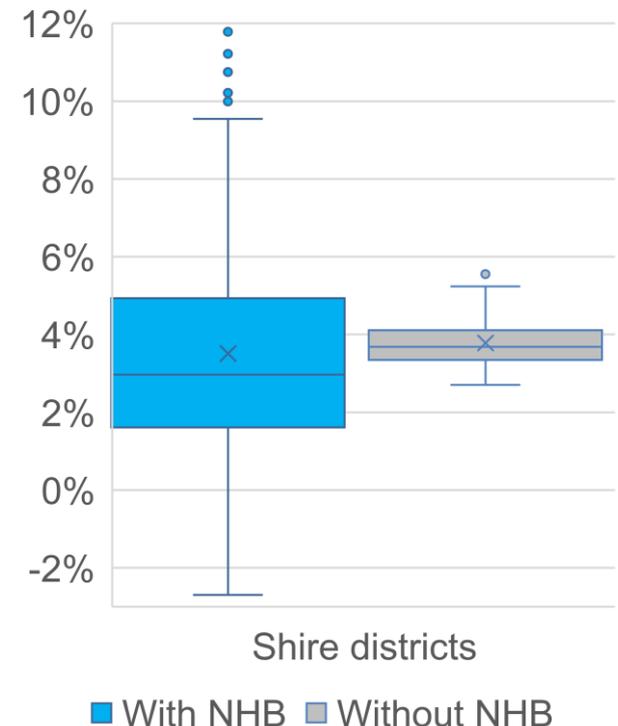


Change in CSP funding within classes



What causes variations from class averages?

- **Districts and Unitaries:**
 - New Homes Bonus
 - £5 flexibility on Council Tax
- **Upper tier authorities:**
 - Local allocations of Social Care funding
- **All Authorities:**
 - Council Tax data and assumptions, including:
 - Historic tax base movement (as the CSP Council Tax figures are based on averages)
 - Historic local decisions on Council Tax (as the 2% is applied to your band D)



Information provided by MHCLG

- Updated Core Spending Power including split by grant source
- Key Information for local authorities (and Pilots) i.e. SFA split
- Calculator for NHB
- SFA calculation Model
- Council Tax referendum limits and rules
- Funding allocations outside of Core Spending Power
 - Social Care
- Technical Consultation response

Core Spending Power: England

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m	£m
SFA Inflation	21,250	18,602	16,633	15,574	14,560	14,797
Under indexation grant Slight Increase	165	165	175	275	400	500
Council Tax Tax rate assumptions	22,036	23,247	24,666	26,332	27,768	29,370
Improved Better Care Fund Includes Winter Pressures			1,115	1,499	1,837	2,077
New Homes Bonus Same basis	1,200	1,485	1,252	947	918	907
Rural Services Delivery Grant No change	16	81	65	81	81	81
Transition Grant		150	150			
Adult Social Care Support Grant			241	150		
Winter Pressures Grant Rolled into iBCF				240	240	
Social Care Support Grant SR 2019 Change					410	1,410
Core Spending Power	44,666	43,730	44,296	45,098	46,213	49,142

Core Spending Power: England, change to 2020/21

		2020/21
		£m
SFA	Inflation	+237
Under indexation grant	Slight Increase	+100
Council Tax	Tax rate assumptions	+1,602
Improved Better Care Fund	Includes Winter Pressures	+240
New Homes Bonus	Same basis	-11
Rural Services Delivery Grant	No change	0
Transition Grant		
Adult Social Care Support Grant		
Winter Pressures Grant	Rolled into iBCF	-240
Social Care Support Grant	SR 2019 Change	+1,000
Core Spending Power		2,928

What is missing from CSP?

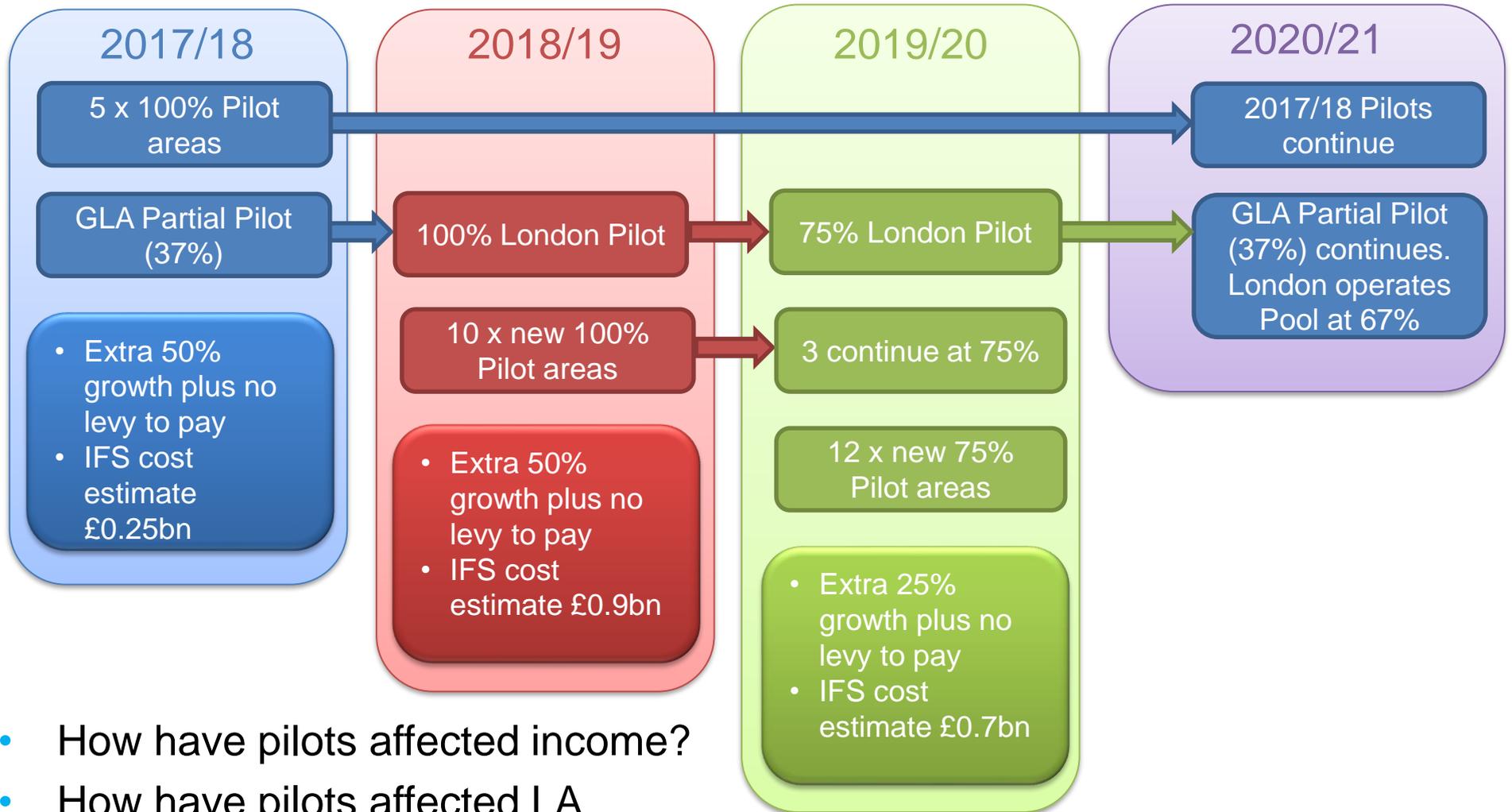
Completely excluded:

- Funding outside of the Local Government Finance Settlement, for example:
 - Homelessness Prevention Grant and Homelessness Flexible Support Grant
 - Levy account surplus distribution shares

Partially excluded:

- Funding subject to local conditions and decision-making, namely:
 - Council Tax – estimated using maximum rises and historic tax base data
 - Business Rates – excluding any local growth (or decline)
- Council tax forms 60% and SFA (Business Rates) forms 30% of total CSP

Business Rates Pilots



- How have pilots affected income?
- How have pilots affected LA decisions at NNDR1 and NNDR3?

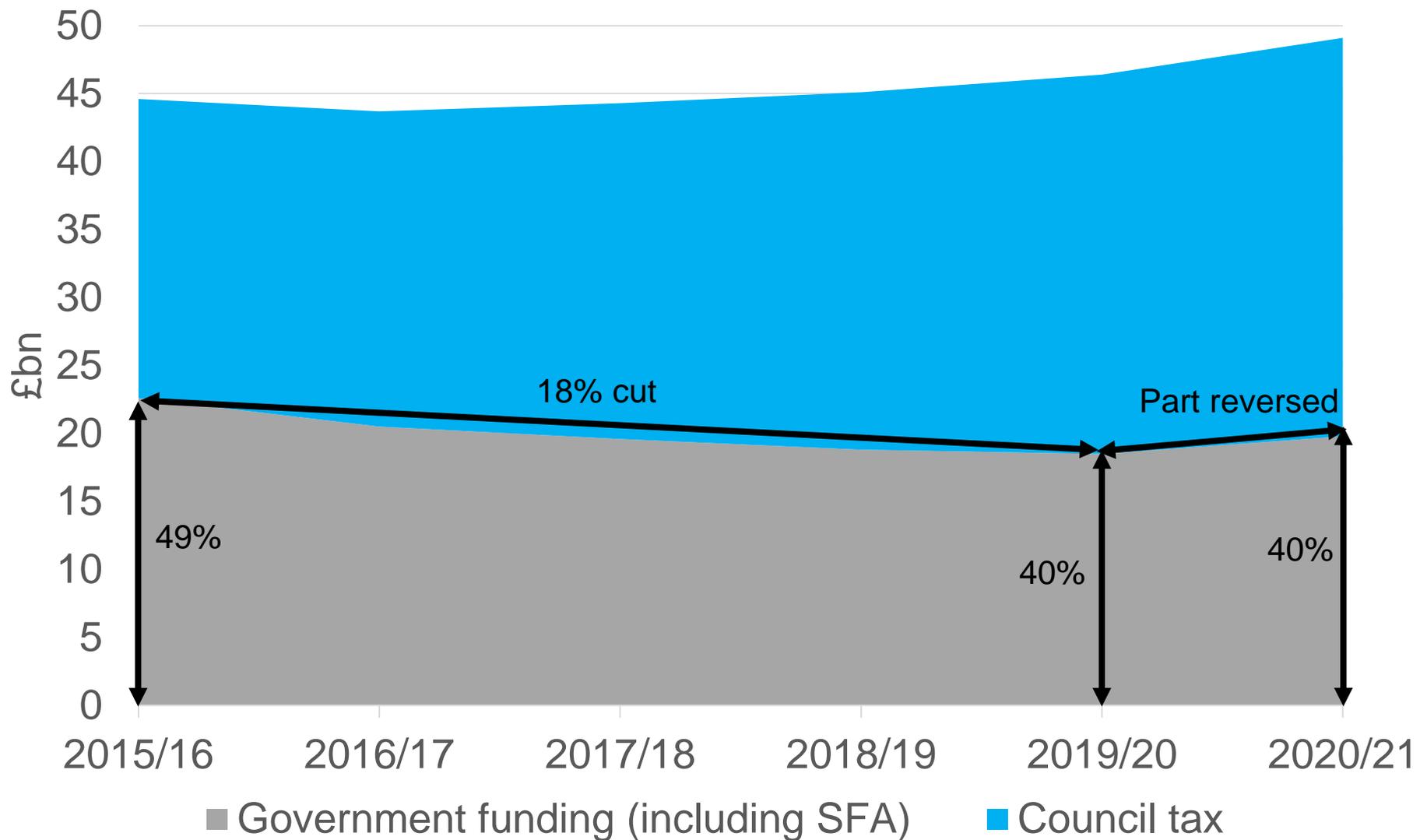
Business Rates Pools

- A combination of existing pools and areas that were previously pilots
- Usual 28 days to decide whether to remain as a pool or not (all or nothing) – same as the pilots
- It remains to be seen if MHCLG can make pooling worthwhile under the 75% scheme from 2021/22. Whilst a levy is proposed, will not (under the proposals) impact on most authorities, therefore what other incentives can there be to pool?
 - Higher safety net?
 - Keep growth for longer?

Council Tax Referendum Limits

- Government has reduced the referendum limit, but extended the social care precept. So:
 - Upper tier authorities 2% plus social care precept up to 2% can be made without a referendum
 - Shire District authorities increases of less than 2% or £5 (whichever is the higher) can be made without a referendum
- Social Care Precept effectively a one-year extension of previous 2% p.a.
- Mayoral Combined Authorities, Town and Parish councils – deferred setting of referendum principles
- Limits for PCCs will be included with the Police Funding Settlement

Council Tax – changing average balance of funding



Other issues

- **New Homes Bonus** – no change on previous method set out, extra funding (only £7m in 2020/21) averting the possible need to increase to the deadweight for 2020/21. No legacy payments to be made on 2020/21 allocations, so future numbers only showing 2018/19 and 2019/20 legacy amounts. Spring Consultation planned on future of the scheme
- **Levy Account** - LG Futures expect the majority of the £58m balance (£45m approx.) will be released from the BRR levy account. However, the Provisional Settlement makes no mention of allocating this; so.....
 - Will it remain in the account?
 - Or be allocated at Final Settlement, or in year? And if so, how will it be allocated? potentially using the same approach as previously?
- The payment made last year was not included in the CSP, so does not affect MHCLG's comparisons of funding between 2019/20 and 2020/21 (to note – the payment announced alongside the 2019/20 settlement was paid in the 2018/19 financial year)

Other issues (2)

- **Homelessness Prevention:** Government do not yet appear to have allocated all £422m SR19 resource funding for homelessness prevention
 - **Homelessness Prevention Grant:** introduced as New Burdens funding to allow authorities to fulfil their duties under the Homelessness Reduction Act 2017, which required authorities to intervene at earlier stages to prevent homelessness in their areas
 - In 2020/21, £62.9m has been allocated, a £38m increase on 2019/20.
 - £47.9m was allocated in accordance with the original Homelessness Reduction Act New Burdens formula, updated for 2017/18 RO outturn data and homelessness statistics
 - The remaining £15m has been distributed partly regionally and partly using stage 2 of the New Burdens formula
 - **Flexible Homelessness Support Grant** – replaced the Temporary Accommodation Management Fee for authorities
 - In 2020/21, Government has committed £200m so **authorities will receive the same amount as in 2019/20**

Session 2: Completing NNDR1 2020/21

2020/21 NNDR1

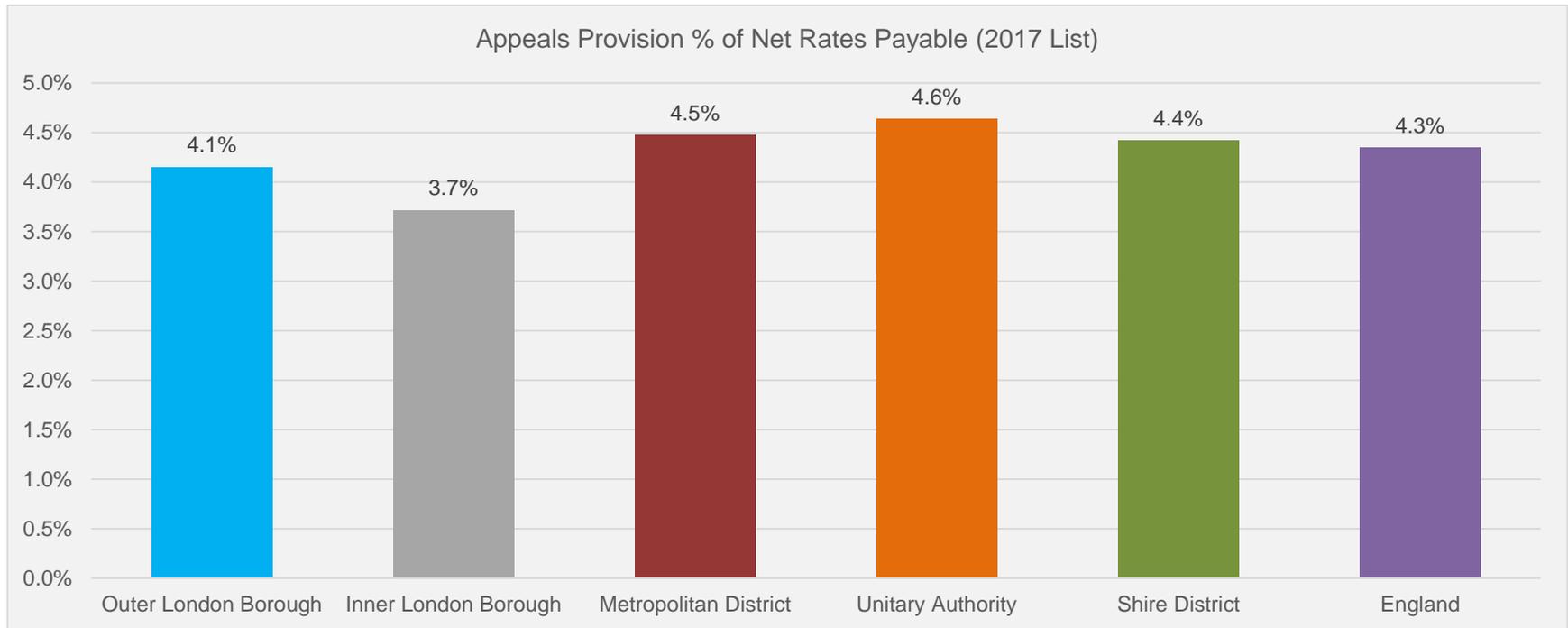
- Main changes:
 - Changes to local splits for those no longer pilots
 - S31 Grant Calculation updated for 2020/21 factor (20/499)
 - Changes to discretionary reliefs reflected (e.g. removing Local Newspaper Relief and moving Telecoms Relief to Mandatory Reliefs section)
- Changes anticipated later:
 - Retail discount relief to increase to 50% from existing 33%, a Conservative Manifesto commitment, which was included in the Queen's Speech
- Important for Pilot areas to understand any local governance arrangements and how they may alter the amounts from NNDR1
- Part 4 may see some areas change their attitude to the appeals provisions from the 2017 list

2020/21 NNDR1 - Appeals

- Not likely that appeals can be nationalised under the current system, but alternative 'simplification' (see later) effectively does nationalise appeals
- 2010 List
 - Any adjustment needed (more or less) to part 4
 - Increasing certainty as appeals are settled. Only 26% of appeals balance in 2018/19 related to the 2010 list
- 2017 List
 - Feedback suggests very little information / activity with different approaches being taken by authorities, including external rating agents, historic data, and the percentage MHCLG allowed for appeals nationally (4.7%). Average 4.3% in 2018/19 NNDR3 data
 - Authorities already have ...
 - Made a forecast for 2019/20 (in 2019/20 NNDR1)
 - Put aside amounts for 2017/18 and 2018/19 in NNDR3s

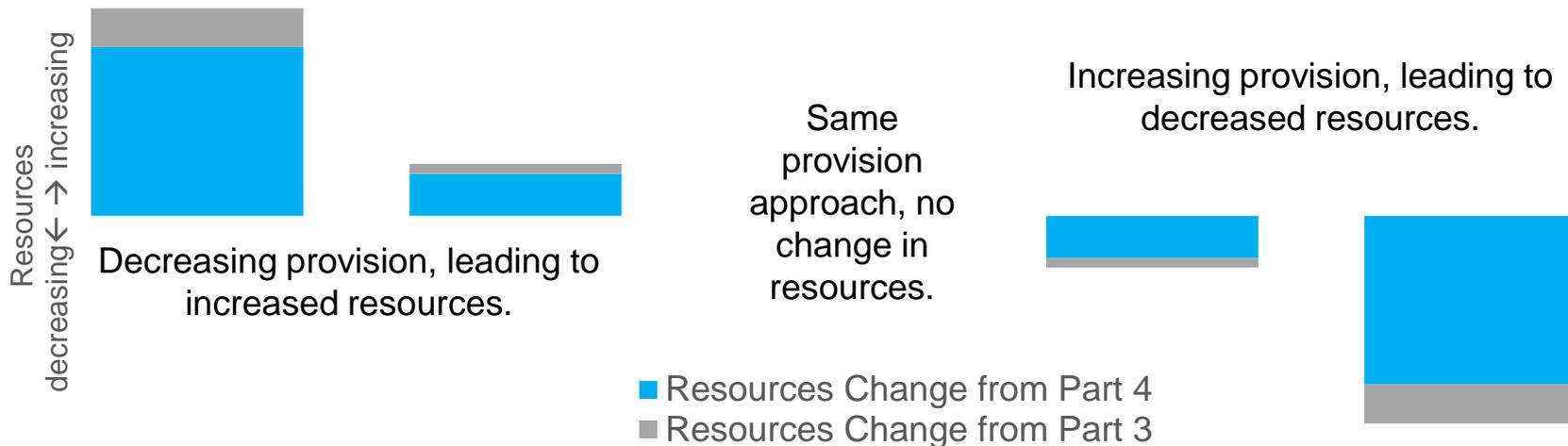
2020/21 NNDR1 - Appeals

- Benchmarking for 2017 list per NNDR3 2018/19:



2020/21 NNDR1 - Appeals

- Is the amount set aside in 2018/19 NNDR3 still the best estimate?
- If so, it needs repeating in part 4 for 2019/20 and including in Part 3 for 2020/21
- If not, (depending on whether a similar approach was taken in 2019/20 NNDR1) there could be a significant one-off change in resources in 2020/21 and potentially an ongoing change in future years



2020/21 NNDR1 - Appeals

Potential example

- District (40% local share) £40m business rates income - £16m local share
- Put aside 5% in 2017/18 and 2018/19, and forecast 5% in 2019/20 NNDR1

	Scenario A	Scenario B
Change to approach	None – 5%	Reduce provision to 0%
2020/21 – enter in part 3	5% x £40m = £-2m so £38m net rates	0% x £40m = £0m so £40m net rates
Local share 2020/21 and future years	£38m x 40% = £15.2m	£40m x 40% = £16m
2019/20 – enter in part 4	5% x £40m = £2m so £38m net rates	0% x £40m = £0m Plus reverse the £-2m for 2017/18 and 2018/19 = £4m so £44m net rates
Local share 2019/20	£38m x 40% = £15.2m	£44m x 40% = £17.6m

2020/21 NNDR1 - Appeals

Issues

- What percentage / approach to use for the 2017 list?
- What did your auditor say in 2018/19?
- Pilot / pooling considerations
- The future of business rates retention

Risks to consider

- Not having sufficient / too much appeals provision
- Changing local share putting aside a provision for others to gain!
- Appeals being nationalised (and needing maybe 4.7% + backdated)
- Recognising the one-off nature of any gain
- Not qualifying for the safety net
- Mis-alignment with 2019/20 NNDR3 creating even greater timing differences between resources “received” and those “earned”

2020/21 NNDR1 - Appeals

LG Futures Support

- LG Futures have produced a tool to support local authorities in completing the appeals provision elements of the 2020/21 NNDR1 form
- This provides:
 - a methodical approach to arriving at the amounts to enter into the NNDR1 form
 - benchmarking data against nearest neighbours, by class, region, and against the national average
 - the change in income, as laid out in the scenarios above, that will be available locally based on higher and lower appeals provision amounts
 - the potential implications for authorities that will no longer be pilots in 2020/21 of altering their appeals approach
- Authorities purchasing the service will receive a Tool for their authority and a report setting out the information and the potential implications for safety net and levy payments, and local arrangements such as pilots and pools

2018/19 NNDR3: Collection Fund balances

	13/14 £bn	14/15 £bn	15/16 £bn	16/17 £bn	17/18 £bn	18/19 £bn	19/20 £bn
Rates overpaid	1.2	0.7	0.7	-0.1	0.1	0.2	
Surplus / (Deficit) distributed		-0.5	-0.4	-1.3	-0.5	0.2	0.1
General Fund Impact in year	1.2	0.2	0.3	-1.4	-0.4	0.4	0.1

Main messages

- In 2016/17 there was the first surplus on the collection fund, of £0.1bn
- Overpayments of business rates revenues to date have totalled £2.9bn over five years
- Estimated deficits have been distributed between 2013/14 and 2018/19 of £2.5bn which means there is an outstanding deficit to distribute in 2020/21 of £0.4bn

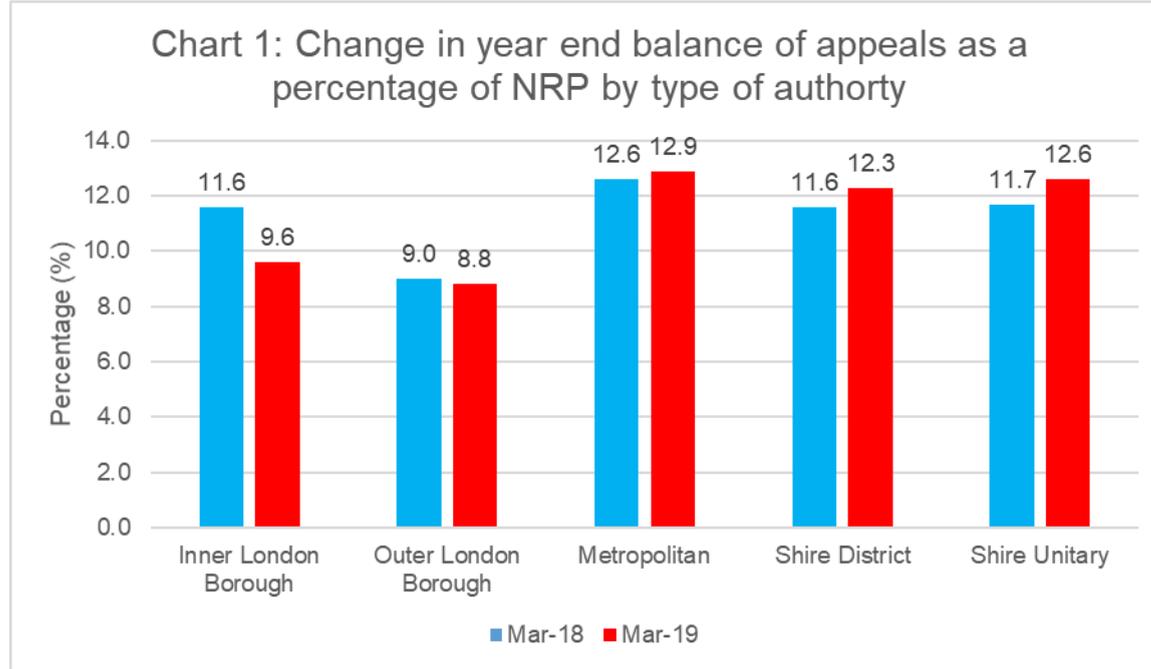
Appeals analysis at NNDR3 – balance at year end

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	Change 17/18 to 18/19, £m
All England	1,744	2,515	2,806	2,639	2,813	2,934	121
<i>Of which:</i>							
2010 list				2,639	1,242	775	(467)
2017 list				0	1,571	2,159	588

Main messages

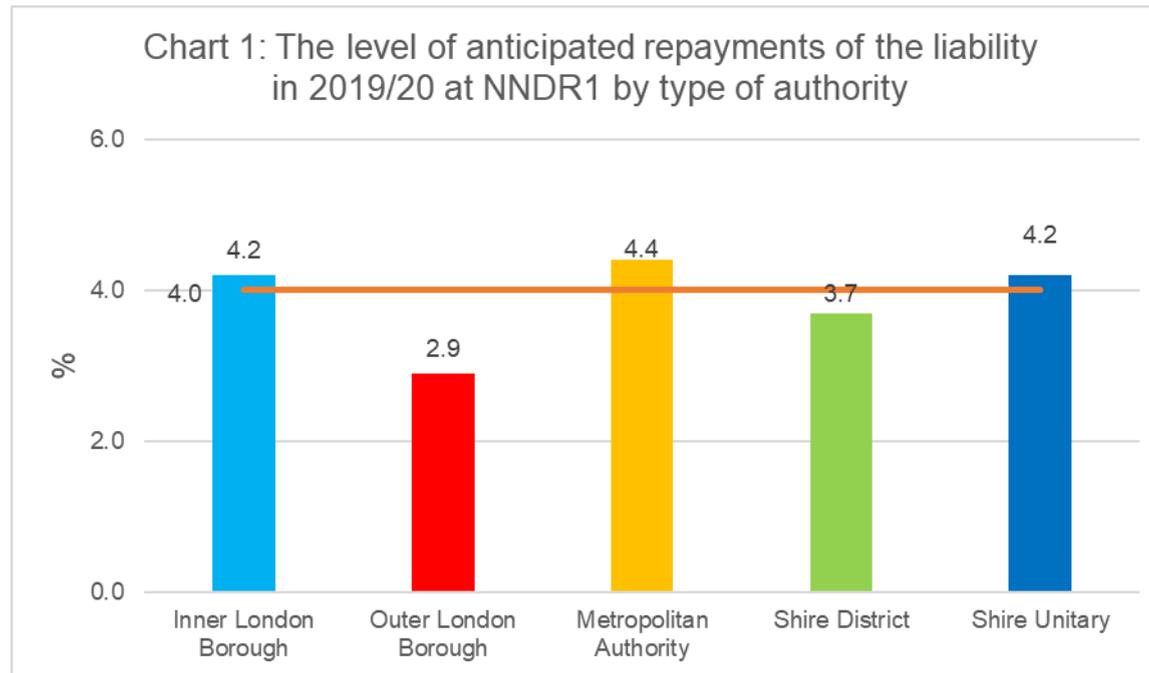
- All England balances up to a high as 31 March 2019 – now added in two years for 2017 List
- Additional 2017 List additions exceeded reductions to 2010 List (and 2005 List). Will this continue?

2018/19 NNDR3: Balances on appeals



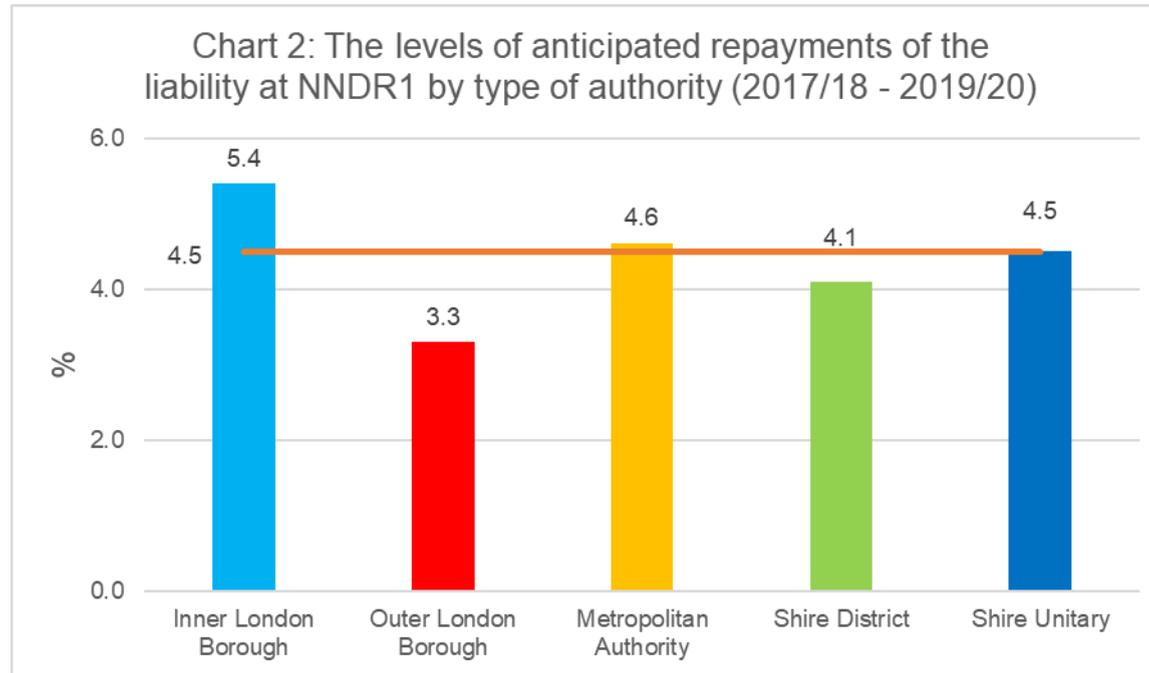
- There was a mixed picture of movement between 2017/18 and 2018/19 with declines in Inner and Outer London but increases in the other types of authority
- There was a reduction of 2% in the proportion of NRP set aside in appeals for Inner London, which compares to increases in Shire Unitaries of 0.9%
- At the end of 2018/19 it is Metropolitan Authorities who on average have the highest proportion of NRP set aside in appeals at year end

NNDR1: Budgeted repayments for 2017 List



- Chart 1 shows that local authorities across England have quantified the amount due as repayments from reductions to valuation at 4.0% of Net Rates Payable
- Metropolitan Authorities (4.4%) have the highest and Outer London Boroughs (2.9%) the lowest total
- No groups have a 4.7% level of cumulative repayments shown at NNDR1, which was the level assumed by CLG at Revaluation 2017

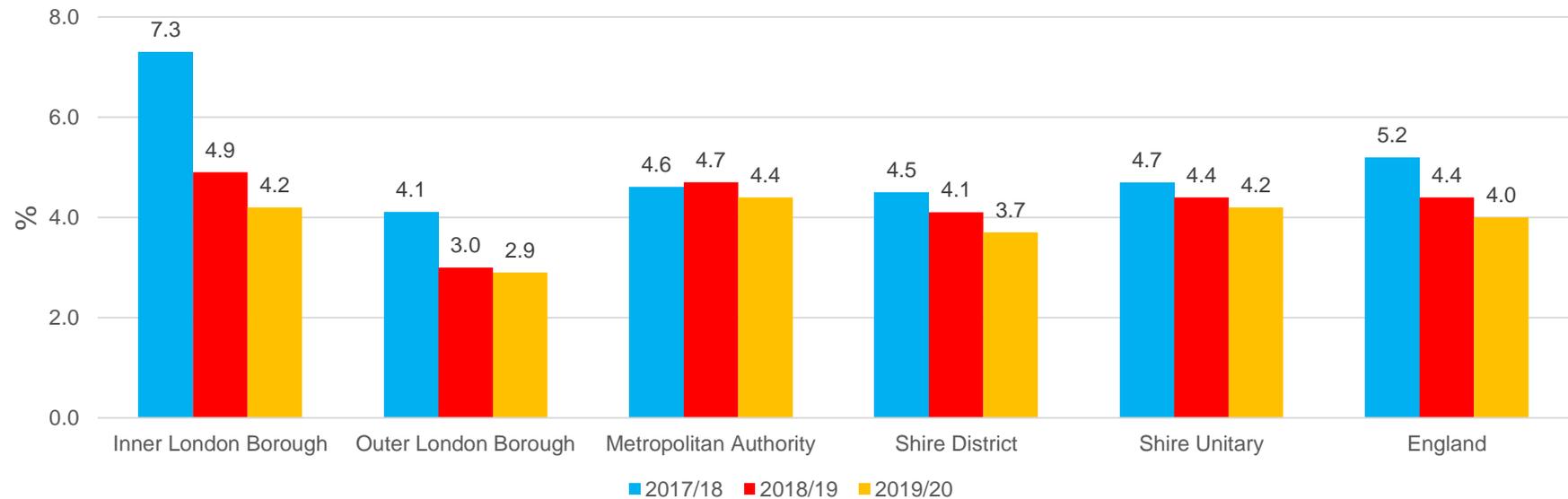
NNDR1: Budgeted repayments for 2017 List



- Chart 2 shows that over the three years, local authorities across England have quantified the amount due as repayments from reductions to valuation at 4.5% of Net Rates Payable. A reduction from 4.8% last year
- All authority types put in less than their cumulative average in 2019/20. Inner London Boroughs the biggest variance at 1.2%, Metropolitan Authorities the lowest at 0.2%
- No groups have a 4.7% level of cumulative repayments shown at NNDR1, which was the level assumed by CLG at Revaluation 2017

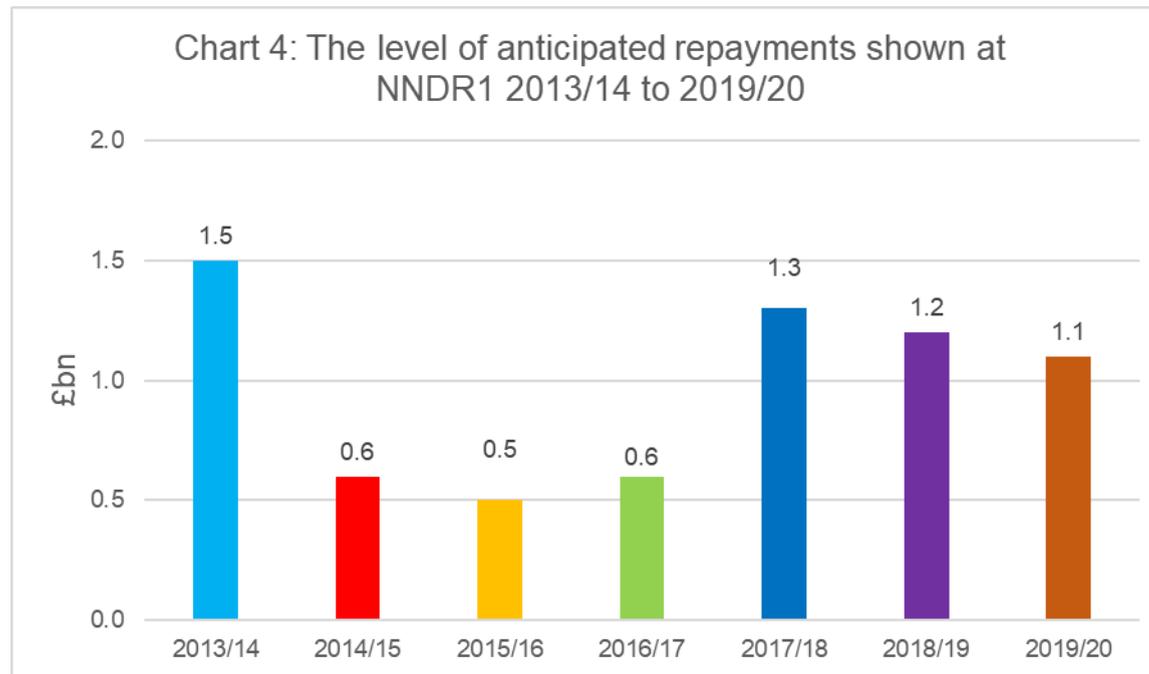
NNDR1: Budgeted repayments for 2017 List

Chart 3: Comparative levels of anticipated repayments of the liability at NNDR1 by type of authority



- Chart 3 shows the change over the three years' data published
- All authorities have reduced their level of budgeted repayments in each year, except Metropolitan Authorities which increased in the second year and then fell
- The England level has never been the same as CLG's 4.7% assumption

NNDR1: Budgeted repayments for 2017 List



- Chart 4 shows that since the business rates retention scheme was introduced, budgeted repayments have fluctuated. However, the chart shows a more consistent trend in assumptions in relation to the 2017 list than previously.
- In 2017, the England total RV increased by 9.6%, but estimated repayments have increased more significantly

Summary for session 1 and 2

- Provisional Settlement 2020/21:
 - Broadly as expected following the Spending Round, though lower Council tax referendum principles have slowed the change to balance of funding
 - The uncertainty for 2020/21 has now shifted on to 2021/22
 - Remains to be seen what Government will do with any surplus in levy account
- NNDR1 2020/21 – only a small amount of additional information for budgeting for repayments compared to NNDR1 2017/18 & 2018/19 but how will appeals provisions figure for future BRR from 2020/21?
- LG Futures can support authorities determining their appeals provision %; with a bespoke tool and report to inform the decision. This has already been provided to LG Futures' supported non-London pilot authorities and can be purchased by authorities for £1,495 plus VAT for district councils and £1,995 plus VAT for other authorities. An example report can also be viewed by [clicking here](#)

Session 3: Funding Reform State of Play

Terms of Reference

- Set new baseline funding allocations for local authorities
- Provide up-to-date assessment of the relative needs of local authorities
- Examine the relative resources of local authorities
- Focus initially on the services currently funded through the local government finance settlement
- Be developed through close collaboration with local government
 - alongside on-going formal consultation, publishing technical papers to ensure that local authorities are well sighted on progress

Main principles

- Simplicity – produce relative needs assessment that's as simple as practicable
- Transparency – so councils can understand what factors have influenced levels of funding received
- Contemporary – most up-to-date data that can be regularly updated at planned intervals
- Sustainability – factors which drive costs for local authorities today and in the future
- Robustness – best possible objective analysis
- Stability – should support predictable, long-term funding allocations, ideally as part of a multi-year settlement

Key elements of the review

- Measuring relative need
 - Developing a structure, agreeing simplified formulas, identifying main cost drivers, redesigning area cost adjustments, building weightings, moving away from regression analysis where possible
- Treatment of resources
 - Council tax: levels used, council tax base calculations, council tax support as the main discount
 - Fees and charges: whether in calculation and which
- Transitional arrangements
 - Agreeing the baseline calculation, funding streams to be measured, speed of transition, time to get to final destination, whether one system or different across types of councils

Timeline to date

- Announced – February 2016
- Call for Evidence – July 2016 (Clarke): 13 questions to establish some key principles
- Consultation – December 2017 (Javid): a technical consultation on relative need across 21 questions
- Consultation – December 2018 (Brokenshire): 15 questions covering greater detail on relative needs; relative resources with a clearer policy steer but lack of depth and principles outlined for Transition but no attempt at providing any depth of detail

So progress slow, hit significantly by political events – two General Elections, a Referendum and on fourth SoS since originally announced

Where are we now?

Measuring Relative Need

- A proposed structure for relative needs
- Foundation Formula – separate for upper and lower tier functions
- Service formulas outlined, but detail not yet consulted upon
- Focus on current *and* projected population, ACA methodology revised in draft and released, deprivation still being debated but currently in service formulas only

Quantifying Resources

- Council tax as the main source of income – general approach outlined but not for council tax support
- Possibly car parks income from sales, fees and charges

Transition

- Nothing other than principles on Transition

Relative Needs: Proposed structure

Table 1: Relative need formulas by class of authority

RELATIVE NEED FORMULAS		SHIRE AREAS			METROPOLITAN AREAS	LONDON	OTHER
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	Fire authorities ⁴
Foundation Formula	Upper tier	●	●		●	●	
	Lower tier	●		●	●	●	
1) Adult Social Care		●	●		●	●	
2) Children and Young People's Services		●	●		●	●	
3) Public Health		●	●		●	●	
4) Highways Maintenance		●	●		●	●	
5) Fire & Rescue ⁵		●	●				●
6) Legacy Capital Finance		●	●	●	●	●	●
7) Flood Defence and Coastal Protection		●		●	●	●	

Relative Needs: Foundation Formula

Upper or lower tier formula:	Separate upper and lower tier formulas																						
Cost drivers included in formula:	– Total population																						
Analytical technique used:	Per capita basis																						
Will an Area Cost Adjustment apply?:	Yes																						
Example service areas included in formula:	<table> <tr> <td>Upper tier:</td> <td>Waste disposal</td> </tr> <tr> <td></td> <td>Public transport</td> </tr> <tr> <td></td> <td>Libraries</td> </tr> <tr> <td></td> <td>Leisure</td> </tr> <tr> <td></td> <td>Planning</td> </tr> <tr> <td></td> <td>Central services</td> </tr> <tr> <td>Lower tier:</td> <td>Waste services</td> </tr> <tr> <td></td> <td>Environment</td> </tr> <tr> <td></td> <td>Homelessness</td> </tr> <tr> <td></td> <td>Sports and recreation</td> </tr> <tr> <td></td> <td>Central services</td> </tr> </table>	Upper tier:	Waste disposal		Public transport		Libraries		Leisure		Planning		Central services	Lower tier:	Waste services		Environment		Homelessness		Sports and recreation		Central services
Upper tier:	Waste disposal																						
	Public transport																						
	Libraries																						
	Leisure																						
	Planning																						
	Central services																						
Lower tier:	Waste services																						
	Environment																						
	Homelessness																						
	Sports and recreation																						
	Central services																						

Proposal for a Foundation Formula will be per capita, with population recognised as by far the main and therefore only cost driver to be used and then adjusted for an Area Cost Adjustment (inc. Rurality)

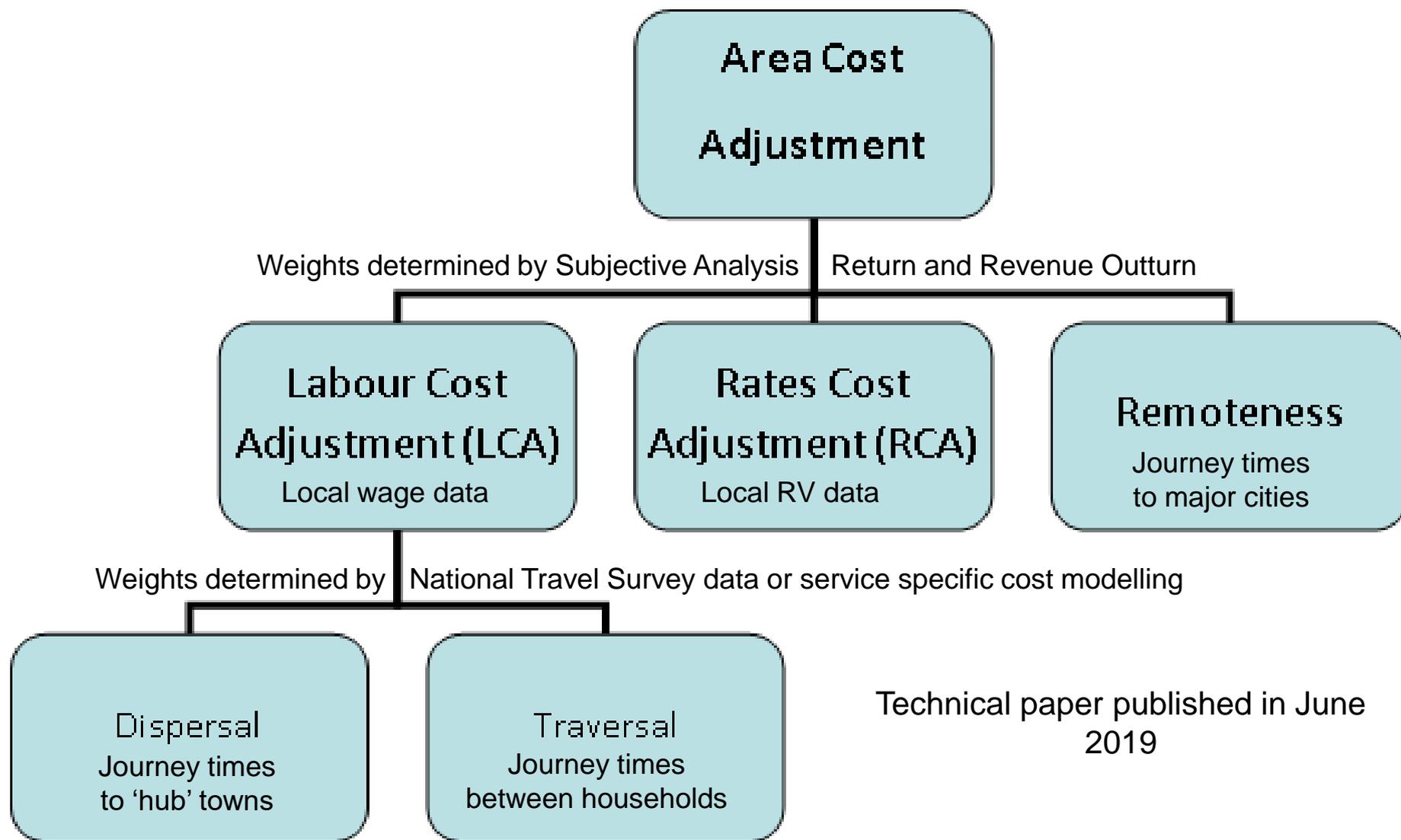
Relative Need: Service Formulas Summary

Service Formula	Method used	ACA
Adult	Small area modelling	Yes
Children's	Multi level modelling	Yes
Public Health	Formula 2015, subject to review	Yes
Highways	Length, traffic flow, regression	Yes
Fire and Rescue	Regression proposed	Yes
Legacy capital	Assumed debt and interest	No
Flood defence & Coastal Protection	Upper – within Foundation Lower – separate, regression	Yes

Relative Need: Population and population projections

- It is how you compare to:
 - Average increase since set for 2013; and
 - Projected (currently to 2026)
- 2016 population projections made to 2026 and published May 2018
- Within population projections there is an age split
- <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/bulletins/subnationalpopulationprojectionsforengland/2016based>

Relative Need: Area Cost Adjustment model



Technical paper published in June 2019

Relative Need: Area Cost Adjustment

- Detail policy paper published 25 June for Technical Working Group
- Not yet subject to consultation
- Provides potential ACA factors based on model devised
- <https://www.local.gov.uk/sites/default/files/documents/business%20rates%20hub%20-%20Needs%20and%20redistribution%20working%20group%2025%20June%202019%20-%20Area%20Cost%20Adjustment.pdf>

Relative Needs: Weightings

- There will be a need to determine funding weightings between tiers
- There will be a need to determine relative funding across multiple funding formulas
- There have been no proposals on how this will be determined
- What alternatives are there to current funding ratios? Highlighted in November 2017 by MHCLG but with no other suggestions

Relative Resources: Council Tax

Main points

- Notional council tax level to be used
- Taxbase calculation will include effect of non-discretionary discounts / exemptions in measuring tax base with an assumption-based approach to take account of the second homes discount, the empty homes discount and the empty homes premium in its measure of council tax base
- Government is looking to explore options on working age CTS – none yet published
- Collection rate: A uniform notional collection rate likely to be set
- Tier splits: government is minded to calculate average share in council tax receipts in multi-tier areas across the country
- Council tax in successive years: government is minded to fix a single measure of council tax resource over the period

Relative Resources: Sales, Fees and Charges

- Not previously been taken into account in a relative resources adjustment
- Consideration of whether appropriate to make more direct adjustment for sales, fees and charges income when assessing relative resources
- Decided mostly not to be taken into account
- Car parking income still possibly taken into account

Transitional Arrangements: so far

- Application: possibly introduced taking into consideration wider factors including business rates baseline reset, development of the business rates retention system and SR2020
- Principles
 - Stability: transition to new target allocations manageable and sustainable including in the context of wider changes to funding
 - Transparency: process clear and understandable to support financial planning and help explain the nature of transition to a wider audience
 - Time-limited: support for authorities with a reduction using deferred gains to enable target allocations to be reached as soon as practicable
 - Flexibility: the speed of change could vary across the sector to achieve greater efficiency
- Baseline for Transition: approach only finalised after local authorities' new funding baselines have been determined so SR2020 crucial

Fair Funding Review – top ten things we know

- i. Foundation Formula (FF) plus a 7 block Needs Model with Public Health a new block with associated implications
- ii. Use of small area modelling growing but MHCLG struggling to find agreed alternatives to ‘regression analysis’ in all formulas
- iii. ACA includes Labour and Business Rates costs and adjustment for accessibility (dispersal / traversal) and remoteness - journey times key driver
- iv. ACA weightings driven by SAR and RO
- v. Population Projections from ONS likely used, taken at the beginning of the FFR period (but could be updated)
- vi. Excess parking income only sales income still in play
- vii. Use of ‘notional’ council tax levels and collection rate and not using council tax base projections
- viii. Council tax working age claimants – model approach preferred
- ix. Transition methodology likely broader than in the past
- x. Transition framework late in the process

Fair Funding Review – top ten things outstanding

- i. How much funding there will be in the system for distribution
- ii. The final needs formula including an ACA consultation
- iii. Weightings within the needs formula
- iv. Approach to CTS for working age claimants and potential impact
- v. Whether car parking fees will be included in a resources calculation
- vi. A first pass of the resources block
- vii. A consultation of transition
- viii. The level of scaled transition from one year to the next
- ix. The timing of future technical and consultation papers
- x. First set of indicative numbers

Possible timetable if implementation April 2021

- Spring 2020: further consultations including on ACA, population methodology, detailed funding formulas
- Summer 2020: detail on final framework / outstanding issues
- Autumn 2020: indicative funding outcomes from SR and new framework for consultation
- Winter 2020: Settlement 2021/22 potentially within four year settlement

Business Rates Retention

- Original reforms
 - Move to 75% (originally 100%)
 - Reset (i.e. lose existing growth)
 - New safety net level
 - Revised levy arrangements
 - Revised Pooling
 - Attempt to revise appeals
 - New NNDR baseline
 - Transition
- Reformed administration, the alternative model
 - Move to 75%
 - Reset (i.e. lose existing growth)
 - New safety net level
 - Revised levy arrangements
 - Revised Pooling
 - Excludes appeals calculations
 - No new NNDR Baseline needed
 - Transition

Business Rates Retention

Three consultations to date

- July 2016
 - 100% BRR and rolling in of grants
 - Resets, growth, safety nets Fire funding, incentives, pooling
- February 2017
 - Partial resets
 - Local growth and safety nets
 - Pooling
 - Tier splits
 - Central List
- December 2018
 - Balancing risk and reward (technical reforms)
 - Simplifying the system (administrative reform to the actual system)
 - Resetting NNDR baselines

BRR Technical Reforms: Where did the 2018 Consultation leave us?

- I. Full reset at 2019/20 so all individual growth lost to FFR / SR: however postponed until 2020/21
- II. Future resets could be partial and / or phased
- III. Intermittent full reset planned
- IV. Safety net to continue, at a level to be set at the end of the process
- V. No levy, but a growth threshold (not yet determined) at which potentially 100% of gains lost
- VI. Tier splits – decisions and system long way off, but potential back stop for tier splits where sector cannot decide itself
- VII. Pooling system would need to be redefined and new incentives found
- VIII. Fire share likely staying at 1%
- IX. Review of central list within scope as originally expected
- X. System of appeals cannot be offset within current system of BRR

BRR: Administrative Reform

- Proposal by Local Government – summer 2018
- Intended to:
 - Simplify system
 - Remove problems associated with appeals
 - Negate need to reset business rates baselines
- December 2018 consultation
 - Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?
 - Significant majority support for administrative reforms from local government

BRR Reform: Simplifying the system

- Split out annual income from reward and risk (growth and decline)
- Floating top up and tariffs introduced so that NNDR1 can match Baseline Need each year
- NNDR1 to NNDR3 variances would also be reflected in the calculation of the floating top up and tariffs so Collection Fund surplus / deficits don't impact in-year either
- All before growth or decline is taken into account
- Any future changes to business rates reliefs could be reflected in adjustments in top-ups and tariffs in subsequent years, rather than relying on separate Section 31 grants (but not for growth or decline)

Redesigning business rates – the growth and decline

There are two main issues

- How is the gain or loss calculated?
 - Is it driven by your own adjusted NNDR3 data? If so, what are the adjustments?
 - Can an alternative be used – one based around rateable values (RV) is outlined, so how will this work?
- When will the gain or loss be realised?
 - When will MHCLG pay the reward or provide a safety net payment?
 - When will an authority be able to budget for the reward or loss?

Calculating the loss or decline

- Using NNDR3 data
 - Originally proposed
 - Pushes calculation of full growth (or decline) back two years
 - Complex calculations needed (as exemplified by MHCLG) – significant new software potentially required
 - Currently seems out of favour
- Using VOA data
 - VOA data for the RV on a local list at 1 April 2021
 - Published and available to authorities immediately before completing NNDR1s
 - The RV figure would be multiplied by the small business rating multiplier to establish a “notional” gross rates payable
 - The “notional” gross rates payable figure would then need to be multiplied by an adjustment factor in order to establish the growth baseline (at net rates payable)

The adjustment factor (AF)

- Needed to translate GRP into NRP
- Why necessary – to more practically measure growth in new BRR system
- The AF could be:
 - National vs Local
 - Pre-set or Variable
- MHCLG believes national AF would promote equal gain from growth in same size of property
- However local AF promotes more tailored approach
- Fixed AF – more stability, certainty and simplicity
- Government prefers national and fixed AF
- Measuring growth using VOA data in an unlagged system simplest if the adjustment factor were calculated at an individual authority level

How might national and fixed AF impact individual authority?

- Where individual AF recalculated yearly would give higher level of growth for local authorities:
 - Where reliefs as a proportion of their gross rates payable is lower compared to the national level
 - Where reliefs as a proportion of their gross rates payable is lower in any following year compared to the first year of the scheme
- National AF recalculated yearly would give higher level of growth for local authorities:
 - Where the individual AF is lower than the national factor, because their reliefs as a proportion of gross rates payable is higher than the national level
 - If national level of reliefs is lower in any following year compared to the first year of the scheme

BRR Administrative Reform: Where are we now?

- I. MHCLG wants alternative model of BRR adopting
- II. If local government does not adopt alternative model, baselines to be reset
- III. How is the gain or loss calculated – using NNDR or RV data sources?
- IV. When will the gain or loss be realised – lagged vs non lagged system of reward?
- V. Options create additional complexity to phases of calculations i.e. setting a baseline and measuring against a baseline
- VI. RV data use requires additional calculation of an adjustment factor i.e. translating gross rates payable to net rates payable
- VII. New administrative system will still require annual calculation of ‘levy’ and ‘safety net payments’
- VIII. MHCLG need to find new solutions to how the Collection Fund works
- IX. Large number of overlapping technical notes need consolidating into a technical consultation – but when?
- X. Transition from existing system to reformed administrative system e.g. Appeals, Collection Funds, growth reset not yet subject to technical papers

Summary session 3

- Fair Funding Review progressed and stalled – no TWG meeting since 25 June
- Significant number of ‘knowns’
- Critically important ‘unknowns’ remaining

- BRR reform subject to significant technical discussion
- Detail of technical reforms still largely to be resolved
- Don’t yet know the new administrative model

- Substantial consultations still required

- SR2020 critical in providing financial detail for indicative numbers



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