



# Countdown to Funding Reform – Assessing Funding Resilience in the Lead-up to Finance Reform

# Countdown to Funding Reform

## Main questions

- Do you fully understand the depth and breadth of reforms how they will be implemented and how the new system of business rates retention will operate?
- What are the financial implications for existing local funding streams, including funding baselines, revenue grants and business rates income?
- Where are the critical local financial risks from the wide range of funding reforms being implemented and how best can these be assessed?
- How will risk and reward for the future business rates retention scheme work after 2020?
- How will reform affect the existing local business rates pilot and pooling arrangements and what opportunities will there be for pooling in the future?
- **What to consider in assessing and judging the resilience of national and local funding?**



# Countdown to Funding Reform

## Our 'lead in' programme of events

- **June 2018** Resetting your MTFP 2019/20 to 2021/22
- **October 2018** Managing financial risk and resilience
- **January 2019** Settlement 2019/20 and the road ahead
- **May 2019** Funding reform and SR19: Preparing your MTFP 2020/21 to 2022/23
- **September 2019** Budgeting for 2020/21 – responding to the final consultation and managing the uncertainties
- **November 2019** Baseline funding and the impact of transitional arrangements
- **January 2020** Settlement 2020/21: Understanding your new funding streams and the implications arising
- **April 2020** Funding reform: what next and managing medium term uncertainty – building an MTFP fit for the new funding system



# Countdown to Funding Reform

## Resource Planning Hub

- New section titled 'Countdown to Funding Reform' goes live October 2018
- Keep up to date with all funding reform developments
- Analysis and impact on future projections
- Individual authority tools being developed on:
  - Revised balance of funding
  - Potential projections for sources of revenue including e.g. from S19; NHB; BRB
- Access to existing 120+ pages of advice and guidance and existing other 13 tools which will continue to be updated regularly
- Complimentary access to our events programme – closely aligned with the Hub itself



# Outline for the briefing today

- Countdown to reform – progress since June 2018 and summary on the state of the reform agenda **and to include details emerging from 16 October Steering Group meeting**
- Risk and resilience – helping you assess and judge the level of resilience of your local funding
- Building in more time for questions and discussions or, for once, an early finish!

# Countdown to funding reform – progress to date and the latest on the reform agenda

## Where we left off

- Autumn announcements – **none made**
- Latest from Steering Group and sub-groups
  - Designing reformed BRR: **lots**
  - Fair Funding Review: **lots**
  - Resetting Business Rates Baseline : **nothing new**
- Pilot deadline – September 25<sup>th</sup> **passed 30 +?**
- Budget 2018 – **set early for 29 October**
- Settlement Consultation **published**
- Provisional Settlement – late December? (W/c 10<sup>th</sup> / 17<sup>th</sup>)
- SR 19 – Summer 19
- April 2020 – 75% BRR, BRR Reset & Fair Funding Review

# Settlement Consultation 2019/20 – main proposals

- Referendum Limits
  - As per laid out at Final Settlement 2018/19 so ...
  - A 3% limit for county councils, unitary authorities, London boroughs, the GLA and fire and rescue authorities;
  - A continuation of the Adult Social Care Precept, with the additional 2% flexibility for 2019/20, subject to total increases not exceeding 6% between 2017/18 and 2019/20;
  - A 3% or £5 limit (whichever is higher) for district councils;
  - A £12 limit for Police and Crime Commissioners; and
  - No referendum limit for Mayoral combined authorities
- Negative RSG
  - Various options identified but the preferred government options is a repeat approach in 2017/18 and 2018/19 and simply not apply the reductions
- New Homes Bonus
  - Deadweight likely to change 2019/20, but government does not say by what
  - NHB as an incentive to be reviewed, probably as part of SR19

# Settlement Consultation 2019/20 – issues arising

- Referendum Limits
  - Confirms the trend to replace government funding reductions with council tax i.e. approximately £6bn of cuts to funding offset by projected increase of £6bn in council tax income
  - Currently 3% is between CPI and RPI; future years projected mid point about 2.5%
- Negative RSG
  - Should those who do not gain from this be concerned?
  - Will transitional protection (in 2020/21) be based on the higher funding figure also?
- New Homes Bonus
  - New build completions projected 7% higher in the year to October 2018 than a year earlier
  - So deadweight increasing to 0.43 or 0.44 might be expected which would:
    - Remove all of small payments made at a deadweight of up to 0.44;
    - Remove an ever reducing proportion for those at 0.44 and above – 1/2 of payment if at 0.48; 1/5 of payments if at 0.60; 1/10 of payment if at 0.80
    - Remember effect smallest in first year, accumulating if repeated in future years
  - Longer term reform: risk significant for those most heavily dependent on NHB currently

# Fair Funding Review – Main papers

- Discussion paper on divergence of relative need over time (TWG 18 May);
- Structure of the relative needs assessment and next steps for the review (SG, 23 July);
- Discussion paper on relative resources (SG 23 July);
- Discussion paper on Transitional Arrangements (TWG, 10 July) and Update on Transitional Arrangements (SDWG/IWG, 31 July);
- Discussion paper on Area Cost Adjustment (TWG, 10 July); and
- Legacy Capital Finance (TWG, 10 July).

## September meeting

- Concessionary Transport cost and funding
- Consideration of population concentration
- Discussion paper on Population Projections
- Proving the additional costs of rurality

# Summary of latest from Steering Group and sub-groups: Fair Funding Review (1)

- Foundation Formula based around population / small number other indicators - largest share of funding for lower tier authorities likely from this; probably third largest funding block for upper tier authorities
- *Area Cost Adjustment (ACA) will cover Labour Costs and Business Rates but also likely 'access' and 'remoteness' taking into account both rurality and density*
- MHCLG minded not to include cost driver in the Foundation Formula for Rurality to avoid 'double counting'
- *In calculating the Resources block, discounts relating to council tax support is a new complexity*
  - *Pensioner claimants could be mandatory reliefs and included in the calculation;*
  - *Actual levels of working age claimants could be discretionary relief and excluded*
- *Although views to be sought on the inclusion of Sales, Fees and Charges as part of Resources block, MHCLG recognise this income represents the recovery of expenditure, is highly volatile and including it would be complex and could introduce perverse incentives*

# Summary of latest from Steering Group and sub-groups: Fair Funding Review (2)

- *Transitional arrangements will be heavily influenced by the size of the changes the FFR introduces for individual local authorities; the basis for calculating the changes will be 'cash income' in 2019/20 which MHCLG has yet to define*
- *What MHCLG base the level of change on itself will be important i.e. will it be proportionate to Settlement Funding Assessment, Core Spending Power or some other measure?*
- Concessionary travel – local government thinking is it should maintain its own bespoke formula linked with boardings updated in due course; in response to MHCLG indicating might not continue;
- *MHCLG strongly minded to use ONS population projections for funding distributions*
- SIGOMA & Core Cities / CCN & RSN continuing to evidence sparsity and density
- The next phase of consultation should be in Autumn 2018

# Fair Funding Review – Area Cost Adjustments

- MHCLG propose to consult on ACA that continues to adjust for Labour and Business Rates costs but in addition includes adjustment for accessibility and remoteness
- Accessibility could relate both to downtime related to large distances travelled (i.e. in rural areas) and congestion associated with high density (i.e. in inner-city areas)
- Remoteness, where creates additional costs because an area is a large distance from major market providers, which results in reduced competition for services tendered
- With rurality potentially covered through both accessibility and remoteness, proposed that there would not be cost driver within the Foundation Formula to include rurality
- Service specific ACAs may be required for some or all services
- The ACA should be applied at District level geography
- How to weight the different criteria within the ACA will be key part of next consultation

# Fair Funding Review – Resources Block (1)

- All non-discretionary discounts and exemptions should be included in a measure of the taxbase - those areas with relatively more eligibility receive smaller downward adjustment
- An assumptions-based approach should be taken to discretionary discounts to avoid local authority policy directly affecting settlement income (i.e. granting more discounts to receive a higher allocation of funding)
- The largest single area to impact on the council taxbase is council tax support.
  - Support to pensioners non-discretionary - could be treated in line with other non-discretionary discounts (i.e. where higher numbers reduces the taxbase)
  - Support for working age discretionary - actual proportional loss not included in calculation of taxbase for purposes of Resources Block because of ‘perverse incentives’ it could encourage
  - An alternative would be to find an objective measure of the number of claimants multiplied by a standard relief scheme, but no such mechanism has yet been calculated or tested

## Fair Funding Review – Resources Block (2)

- Support for the use of a notional level, rather than the actual level, of council tax is widespread so those with similar taxbase / needs have roughly same entitlement to funding (i.e. so that authority with a higher level of council tax does not see an erosion in the level of resources it receives because it has increased council tax)
- Sales, Fees and Charges (SFC) income not captured as part of the current Resources Block calculation. MHCLG recognise this income represents the recovery of expenditure, is highly volatile and including it would be complex and could introduce perverse incentives. Therefore, the next phase of consultation will consult on the preferred treatment of SFC income - but MHCLG are recognising significant downsides to inclusion
- Next consultation on Fair Funding will include questions relating to all the above, and broader issues, including how to measure council tax over a multi-year settlement period

# Fair Funding Review – Transitional Arrangements

- Four guiding principles
  - Stability in the context of wider changes to local government finance
  - Clear and understandable
  - Support for relative losers using deferred gains from winners over a fixed time
  - Speed of change could be varied across authorities based upon revenue raising capacity, distances from final allocations and funding pressures
- Scale of transition required dependent upon baseline used, based on cash available in 2019/20 (may require adjusting to reflect grants rolled in, decisions on rolling in business rates growth at the next reset; and the final method for funding negative RSG). Members of TWG commented that this baseline should not include the benefits from being a business rates Pilot
- Baseline could be based on SFA or CSP or other measure. Could have significant impact upon eligibility for transitional support
- Projection of the ‘end’ position may include predicted changes to resources over time (e.g. perhaps after applying population projections). So, both gains and losses resulting from population changes could be deferred

# Fair Funding Review – Population Projections

- Inclusion of most accurate population measurement will have particular significance for the upper and lower tier Foundation Formulas, which are primarily based on population
- Using population projections at start of funding period allows RNF to reflect expected population changes and gives authorities certainty of income
- There is significant projected variation in the growth of population stock at local authority level to warrant the use of projections
- 90% of those who responded agreed that official population projections should be used
- ONS projections that could be used in the review would be the most recent version published in advance of the 2020-21 settlement - the 2016 version, published in 2018
- Alternatives include no future proof or use latest updates of projections (every 2 years)
- **Government considers that ONS sub-national population projections should be used as a measurement of population within the formulas**

# Key questions

## Fair Funding Review

- Quantum for distribution at least as important as Formula: when will this be known?
- Formula – ACA could look quite different to the past and how will it link to current distributions of RSDG?
- Council Tax Support and Resources – potential impact of options on different types of council and reductions in claimants to date; and how can it be made recession proof?
- How will cash income in 2019/20 be defined?
- Defining how to measure change e.g. SFA vs CSP critical; which best for your authority?
- What does Autumn 2018 for next consultation mean?

# Redesign of Business Rates Retention (BRR) – main papers

- Transitional Protection Payments and Levy Account balances (IWG, 18 June);
- Central List Criteria (SDWG 27 June and SG 23 July);
- Future Pooling arrangements (SDWG 27 June and SG 23 July); and
- Options for centralising appeals (SG 23 July).

## September meeting

- Options for reforming the levy

## October meeting

- Potential Reform: the simplification or ‘alternative model’
- Summary BRR policy proposals

# Summary of latest from Steering Group and sub-groups: Redesigning BRR (1)

## System simplification

- MHCLG has responded very positively to proposals from local government to simplify the system, that were submitted in July 2018 calling it **“an attractive proposition, viable way to address volatility caused by valuation change and removes the need for less than perfect methods to set baselines”**
- The simplification will:
  - Separate out mainstream payment of business rates to ensure income from business rates in the first instance matches Baseline Need for each financial year;
  - Have a separate reward system
- Leading potentially to longer term simplification **but** many elements of the current system would continue to be relevant e.g. resets, tier splits, safety net, levy

# Summary of latest from Steering Group and sub-groups: Redesigning BRR (2)

- Updating central list: MHCLG scoping whether inherently volatile hereditaments whose presence on the local list causes significant short-term disruption should be added to central list *Still relevant*
- Future Pooling: could Pools be incentivised after 2020/21 if they retained greater percentage of growth over a full or partial reset; and / or if a pool could retain a higher percentage of total growth achieved during a reset period *Still relevant*
- MHCLG exploring collaborative governance arrangements and strategic decision-making structures for a pool to be formed *Still relevant*
- Transitional Protection Payments (TPP): current system of stripping out the consequence of TPP after Revaluation does not perfectly strip out net gains or losses for rates retained - likely after 20/21 impact more significant, so system for measuring impact net of reliefs may be needed *Potentially less or not relevant*

# Summary of latest from Steering Group and sub-groups: Redesigning BRR (3)

- Levy Account: A decision needed on what to do with balance on Levy Account which is the national account which manages safety net and levy payments; at the end of 2017/18 it was £13m in credit *Still relevant*
- Centralised Appeals. MHCLG continuing to scope how this could work after 20/21 - includes potential for splitting the current line 6 in Part 2 of NNDR3 to separate out valuation changes and physical changes; also developing 'proxy' to determine the amount of backdated compensation that an authority may be entitled to for a valuation change *Will this still be relevant?*
- Levy can be reformed but not abolished, so options have been presented to achieve reform at 75% BRR *Still relevant*
- The next phase of consultation should be at the end of 2018

# Simplification of the BRR System – why?

- ‘The design and operation of the system has reached a point where it is arguably now unfathomable to anyone beyond the specialists and practitioners who work with the system on a day to day basis’
- Complexities include:
  - Appeals: No-one quite envisaged how much variability appeals would cause
  - Policy Announcements: A complex suite of s31 grants has been built
  - Revaluation: last revaluation highlighted how challenging it is to rebalance the system
  - Devolution: various deals on funding arrangements and the piloting of 100% BRR have added more complexity
- Further complexities from the redesign and reset of the system for April 2020 include:
  - Determining whether the system should be fully or partially reset and on what basis
  - The level at which levy and safety net thresholds should be set
  - How pooling can be incentivised in the absence of levies
  - How revaluation events (including TPP) should be accommodated within a reset
  - Data, analysis and measurement challenges associated with resetting baselines
- Represents an ‘evolution’ of the system since 2013

# Simplification of the BRR System - proposal

- **Separating out the mainstream payment of business rates to ensure income from business rates in the first instance matches Baseline Need for each financial year**
- To achieve, completion of NNDR1 brought forward to September / October each year so the outcomes of the NNDR1 can be reflected at Settlement
- Tariffs and Top ups would change each year to ensure the income retained locally in NNDR1 is adjusted to match the local level of Baseline Need
- Income from local growth in business rates be paid separately through a national calculation based on local performance across agreed suite of performance measures
- The payments relating to growth may be paid 'on account' in-year or one year in arrears
- The adoption of the proposed new simplified system would reduce many complexities that the current system exhibits, but there would be new complexities from adopting the proposals and agreement would be required to design the features of the new system

# Simplification of the BRR System - rewards

- Gains calculated quite separately from the mainstream payment
- This simplifies administration and provides an opportunity to design a better reward mechanism than exists at present. Could reflect:
  - Percentage growth in aggregate rateable value to reward growth in tax base/business activity within local area (growth will need defining)
  - Percentage growth in aggregate rateable value (multiplied by ratio of Baseline Funding Level to IABRB) to reward growth in tax base/business activity within local area
  - SqM of empty property brought back into use to reward growth in tax base/business activity within local area through the reuse of derelict property/ brownfield sites
  - Identification and correction of omissions from rating list to reward broadening of the tax base
  - % improvement in the collection rate to reward consistent improvements in collection efficiency
  - Growth in Business Rates derived from direct investment in local and national priorities (e.g. HS2, Broadband) to reward growth in tax base/business activity within local area
- Reward grant would be paid out of the tariffs collected when authorities achieve growth
- Would need to decide if payments were for one year or longer
- Reward grant would be paid in arrears or on account based on a half year forecast of performance measures

## Simplification - MHCLG response

- Very positive at October 16 ... “best option to mitigate the impact of appeals on local authorities”
- The rewards would need to match the local government share of growth of 75% of the total
- Preference of government likely for both growth and decline to be recognised so that there is some element of local risk albeit with a safety net
- Government favours a reward model to a behavioural model for distributing growth (i.e. outcome not process based)
- There would be no need for separate levy and safety net payments or s31 grants – only one number would vary – the level of annual tariff or top up each year (although the reward element would also vary each year)
- Rewarding growth would need to be on a lagged basis using NNDR3

## MHCLG also adds

- Resets – no resets, full resets and rolling resets should possibly be ruled out: under new system or at 2020/21?
- Safety net should continue to be expressed as percentage of BFL – funded most likely through a top slice (not a levy)
- Reforming the levy to address gearing should be ruled out, but not to address excessive growth
- Tier splits – a decision for later in the process, desirable to be sector led with fairness to those delivering same services – does MHCLG mean Upper Tied Authorities?
- Pooling incentives need considering if levy significantly reformed

# Simplification of the BRR System

## Pros

Removes issues on:

- The reset,
  - Centralised appeals; and
  - Revaluation
- 
- Far less complex – until you get to distributing growth

## Cons

- Another new system
- Subjective measures of growth needed – although current system subjective
- Unclear if it will be an incentive based scheme or reward based although MHCLG prefers former
- Is looking into it a distraction given how much work there is to be done for April 2020?
- Will authorities have confidence that growth will be rewarded?
- What about the focus on collection / maximising the taxbase – will this exist?

# Reforming the Levy

- Levy cannot be abolished as previously announced as requires legislation
- Reform of the levy cannot both target 'excessive growth' and allow more local authorities to keep all growth achieved in their areas and reduce impacts of gearing
- Raising the levy threshold to focus the levy on those authorities that gain disproportionately - implications for how any safety net is funded post-2020
- Targeting 'excessive growth' - a flat levy rate (of 50% or higher) could be applied on any growth above a new higher threshold. This would simplify how levy works too. The levy rate could be set at 100% and act as a cap on all growth above a certain level
- Highly geared authorities benefit more from growth than lowly geared authorities. Districts highly geared, in large part due to their higher tier split (80%). **Looks like no longer relevant**
- Possible interest in equalising opportunity to benefit from rates retention

# Redesign of BRR – Levy Account

- Should there be a “clean break” at introduction of 75% BRR, with any outstanding credit/debit on the Levy Account at the end of 2019/20 being “dealt with” under the current 50% scheme, or should final balance be c/fwd into the “new” world
- Some of the key issues relating to this include:
  - The balance on the account at the end of any year comprises payments to/from authorities in respect of two financial years
  - Closing balance was in debit in each year up to the end of 2016/17 (£112m in 2016/17) but was in credit at the end of 2017/18 by £13m and in the early years the government top sliced Settlement funding to pay toward the debit
  - Most transparent option would be to clear the balance on the account at the point that 50% rates retention becomes the “new” rates retention scheme. But this would necessitate determining how to clear any balance; and working out how to deal with the fact that some payments relating to 2019/20 will not be recognised in the levy account until 2020/21
  - What would be the most appropriate basis of distributing any credit (or debit) balance?

# Redesign of BRR – Central List criteria

- MHCLG indicate that Ministerial decisions are likely to be informed by the following criteria, which currently form the primary basis of consideration:
  - The nature and use of the property;
  - The size and geographical spread of the property; and
  - The suitability or otherwise for assessment of the property on local nondomestic rating lists
- Government highlights some large telecommunications networks might end up listed on central list, alongside transport infrastructure, such as the HS1. Also, small energy networks that fall in boundaries of single authorities or small numbers of authorities
- Because business rates baselines will need to be reset to reflect movement of hereditaments, any review of the non domestic rating lists' content will be actioned at a time when baselines adjusted, such as a reset of the business rates retention system
- Possible there will be additional criterion to consider suitability of a hereditament for listing on central list - the likelihood that a hereditament's presence on local list will cause significant short-term disruption - subject of further scoping by the MHCLG

# Redesign of BRR – Future Pooling

- MHCLG wish to consider two questions:
  - What are the potential incentives to encourage local authorities to form business rates pools? and
  - Should business rates retention pooling be reformed to encourage local authorities to collaborate even more closely and, if so, how?
- The current incentive to pool fiscally neutral and funded from within local government's share of the business rates quantum and this requirement needs consideration
- Possible incentives:
  - Additional 'Designated area'
  - Retaining greater percentage of growth over a full or partial reset; and / or retaining a higher percentage of total growth achieved during a reset period
- MHCLG will wish to explore whether certain requirements for collaborative governance arrangements and strategic decision-making structures should be in place for a pool and whether pools should provide further information on how additional income is used

# Options for Centralising Appeals Potentially unnecessary under simplification

- Remember potentially only at next Revaluation (e.g. 2021/22)
- Government remains committed to mitigating the impact of appeals and other valuation changes on the local government finance system and will continue to investigate the optimal technical way to implement this
- Various options under review but favoured is using 'line 6' of NNDR3 forms. Split out into 6A and 6B, allowing for a broad separation of valuation only changes (those backdated to the first day of the list) and physical changes (not backdated). MHCLG believe this should be a relatively straightforward change to IT systems
- Measuring compensation – not possible to directly measure compensation due to the many changes that can occur to a hereditament on the List. Therefore, a proxy will be developed to assess the change in the rateable value for which compensation is due; and then a second proxy would be used to measure the percentage change

# Key questions

## Redesigning BRR

- How future Pooling will be accessible for existing Pools?
- What gains could arise from future Pooling?
- How will a future 'levy' work and link to possible Pooling and simplification?
- Updating central list – implications for those affected diverse so hard to compromise

## Simplification

- How much will simplification 'simplify' the system? There will be added complexity migrating to a radically new framework e.g. potentially appeals
- What happens between last year of current system and new system if growth for 2020/21 is not paid until 2022/23?
- Will rewards be unlimited?

# The Reset 2020/21

- No new announcements or discussion papers
- Remains the most significant of the outstanding issues
  - How will growth link in to SR19 spending totals?
  - How will revised baselines be set?
  - Will there be transition to the new baselines?
- **BUT** if move to simplified system whole approach could change
  - There will still be implications of moving from current method of distributing growth to the new method for distributing growth
  - Surely to reward “growth” under simplified system will need some baseline against which to measure “growth” – what will this be?

# Funding Reform – State of Play (1)

## What we knew in June

- Foundation Formula, heavily determined by population will be a key feature of funding
- Government struggling to find agreed alternatives to ‘regression analysis’
- Information on key service areas and approach to service specific formulas
- A safety net should be maintained; continue to set relative to baseline funding levels possibly higher level for upper tier local authorities
- Safety net funded from a top-slice of business rates income most likely
- Both the government and the sector support the scrapping of the levy
- Changing levy to capture ‘excessive growth’ being considered
- In two tier areas what share of income will be received by the county and districts could be determined locally, with a backstop
- There should not be a move to centralising appeals until the next Revaluation in April 2021
- BRB discussions underway, large volume of technical issues to discuss
- Notional council tax is preferred option for use in calculation of resources

# Funding Reform – State of Play (2)

## What we know additionally now

- ACA that continues to adjust for Labour and Business Rates costs but in addition includes adjustment for accessibility and remoteness
- Population Projections from ONS likely to be used, taken at the beginning of the FFR period but could be updated
- Government has already identified why F & C income should not be included in the Resources Block
- Compared to previous calculations, CTS will be a major change in council tax revenue calculation
- Transitional Protection in moving to new FFR more complex than in the past
- All options for changing the way levy works are being considered
- Desire for having future Pools remains strong
- Central / Local List revamped for April 2020 and criterion could be changed
- Centralised Appeals likely based around revamped NNDR1 and NNDR3 and proxy indicators **but will this be necessary?**

## Key dates for Steering Group – most recent (unchanged)

Date	Issues
Oct 2018	Overall short term package and future reform; update on SR Potential consultation on BR Baseline Reset
Early 2019	Technical BRR consultation and links to FFR; SR emerging issues Potential consultation on BR Baseline Reset
Mid 2019	Results of consultations (hopefully); SR emerging issues
Later 2019	Indicative impact of systemic changes potentially this late

# Finding the latest information

- CLG/LGA groups

<https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention>

# Assessing Funding Resilience in the lead-up to Finance Reform

## Why look at funding resilience?

- Given ever increasing spending pressures how resilient are your sources of funding to ensure sudden and potentially large (additional) reductions to expenditure are not needed
- In advance of the funding reform 2020, to inform whether the reforms are likely to pose significant threat to critical funding or an opportunity to address potentially low resilience
- SR19 – how much of a threat will the outcomes be and how great are the uncertainties it is bringing for your funding?
- Recent plethora of stories about funding challenges (e.g. s114 notices; worryingly declining reserves for some)
- The launch of the Cipfa resilience index will potentially create local questions ... this might help you prepare responses

# What are we trying to provide you in the next hour?

- The factors to consider in assessing the resilience of your main sources of funding
- The questions you might want to ask of your authority
- The possible identifiers suggesting strong resilience across key sources of funding
- Assistance to help you identify the strength of your local funding resilience and what might be reducing your funding resilience
- An opportunity to discuss how you might assess your funding resilience locally
- The link to the Cipfa resilience index

# What we are not trying to provide you in the next hour?

- A precise definition of what funding resilience is
- A specific method for assessing funding resilience
- An assessment of whether an individual authority is resilient or not
- Resilience relative to your spending pressures

## Why?

- These have all got to be locally determined, based around local circumstances and upon your local knowledge and understanding

# What is the link to the Cipfa resilience index?

## **CIPFA resilience index**

- Broad e.g. covers Ofsted and children's social care
- Focus on expenditure (and proportion of)
- Not into too much detail on funding i.e. business rates income
- Provides a score
- Published

## **LG Futures**

- Funding based / focus
- Looking at the funding mix
- To assist your local review / analysis

# The starting point – your balance of funding ...

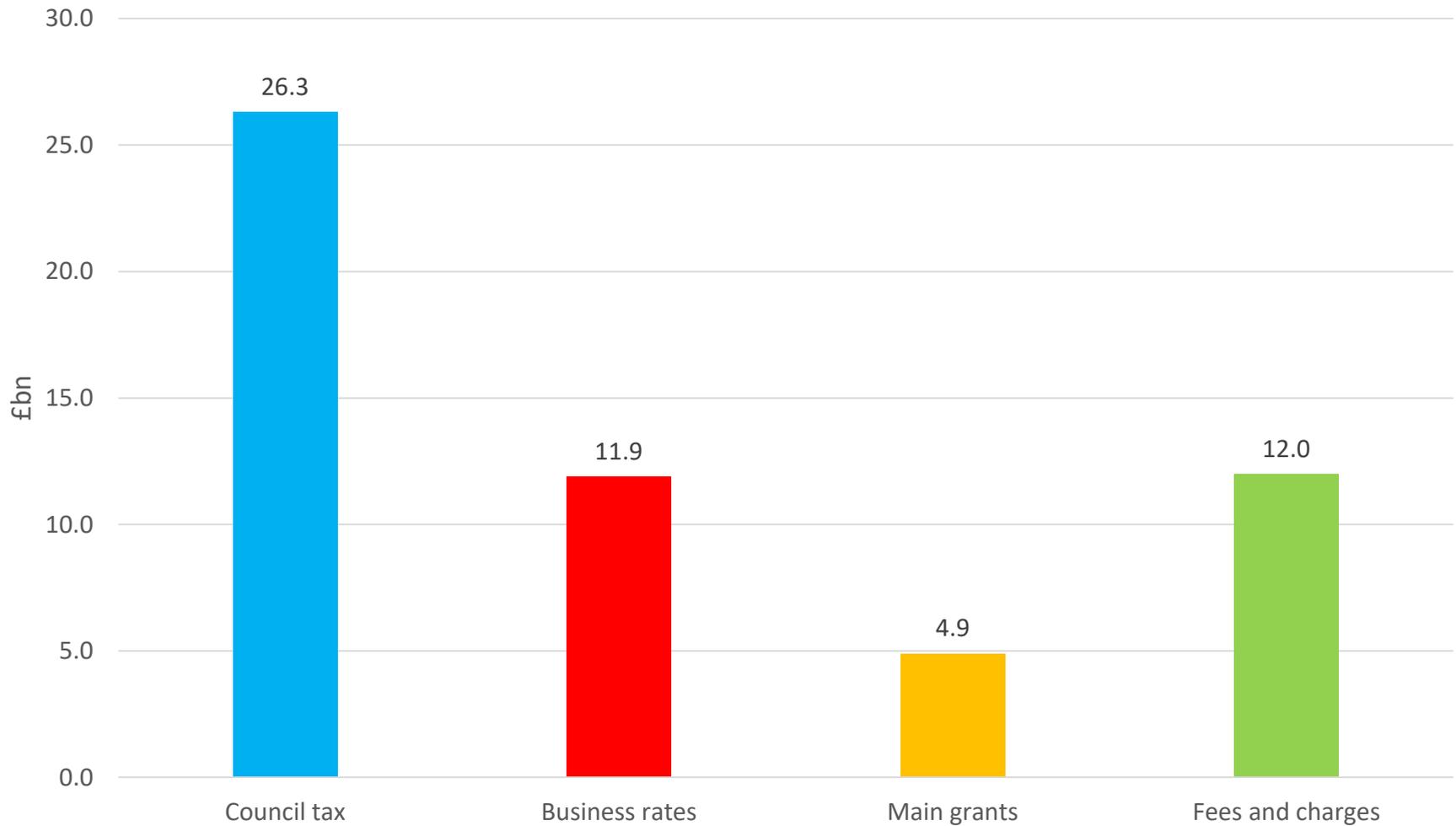
- Level of reliance on different sources of income (e.g. council tax, business rates, general grants, fees and charges)
- Frames the importance of threats to funding (e.g. which are most important and which are not)
- Provides focus for opportunities to improve resilience (e.g. might reform help address current inadequacies in resilience?)
- Drives the direction of your financial strategy – your focus on how to develop your funding to provide sustainable financing for the future
- Highlights the importance of existing policies relating to income – what policies could support the enhancement of your funding resilience?

# The national balance of funding

- No longer a simple exercise to assess
  - At 2013/14 it was quite simple
  - SR15 changed this
  - BRR has further complicated this
  - Impact of revaluation
- Multiple funding systems in place for local government
  - Some at 50% BRR, some at 100% BRR, some rolled in different grants
  - New grants keep being announced (e.g. additional £240m Social Care Funding 2 Oct 2018)
- Funding system even before 2020/21 is in flux
  - Some will change from 50% BRR, some will be reduced from BRR, won't know until Settlement
  - SR19 might highlight significant changes to current funding streams (e.g. NHB) irrespective of changing to the system of funding

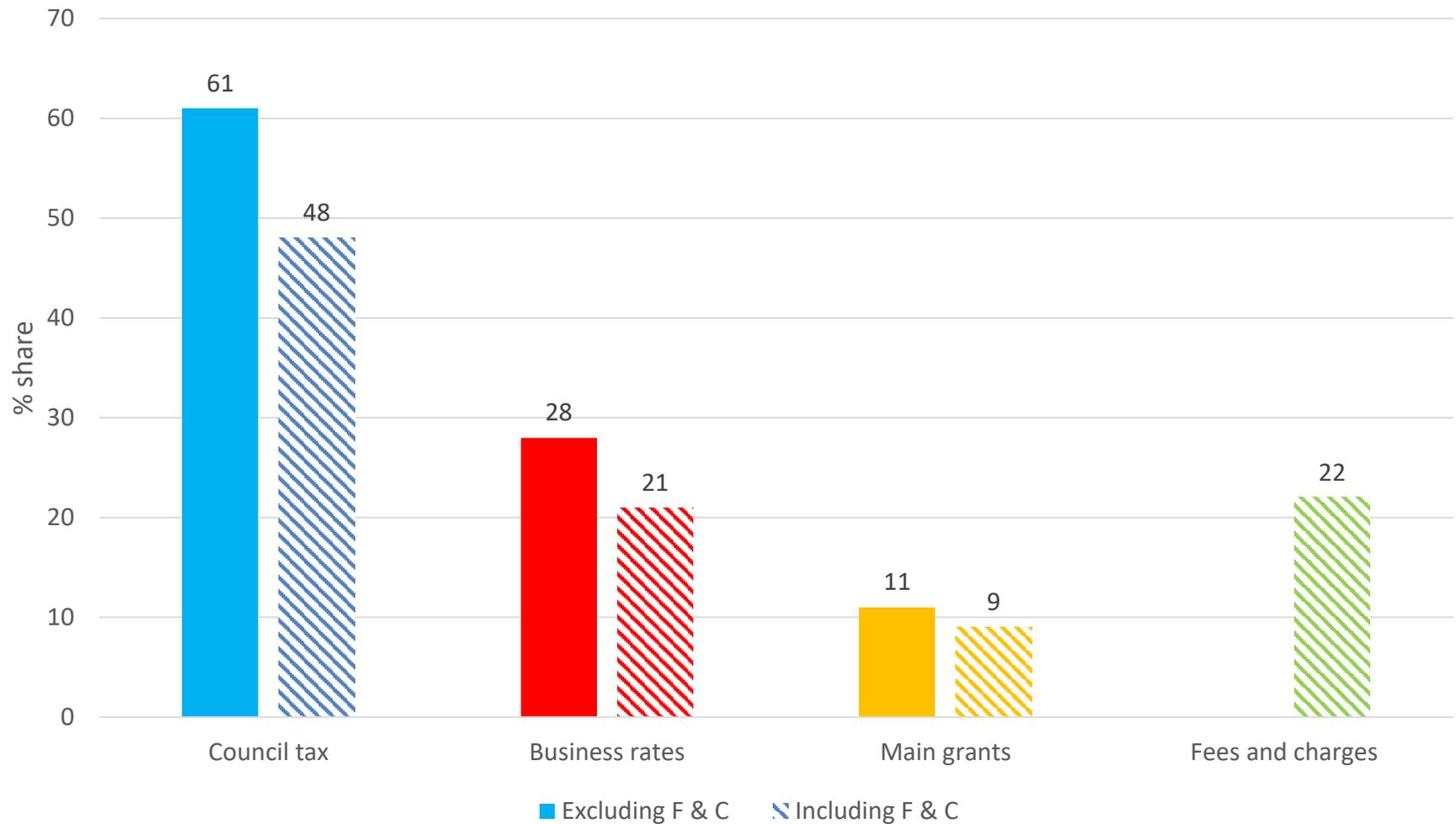
# The national balance of funding

Estimated level of relevant national funding 2018/19



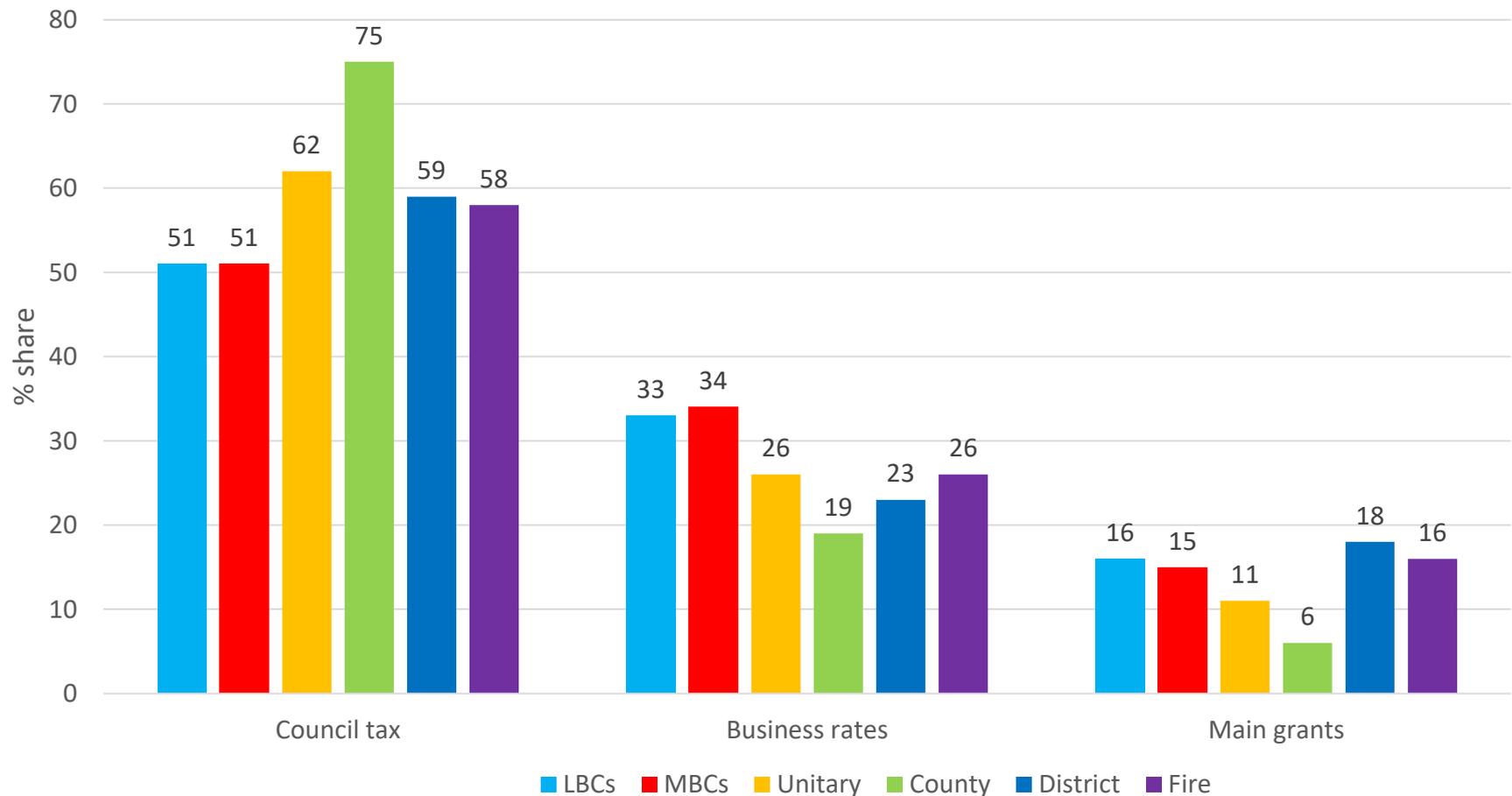
# The national balance of funding

Percentage share of overall national funding estimated for 2018/19



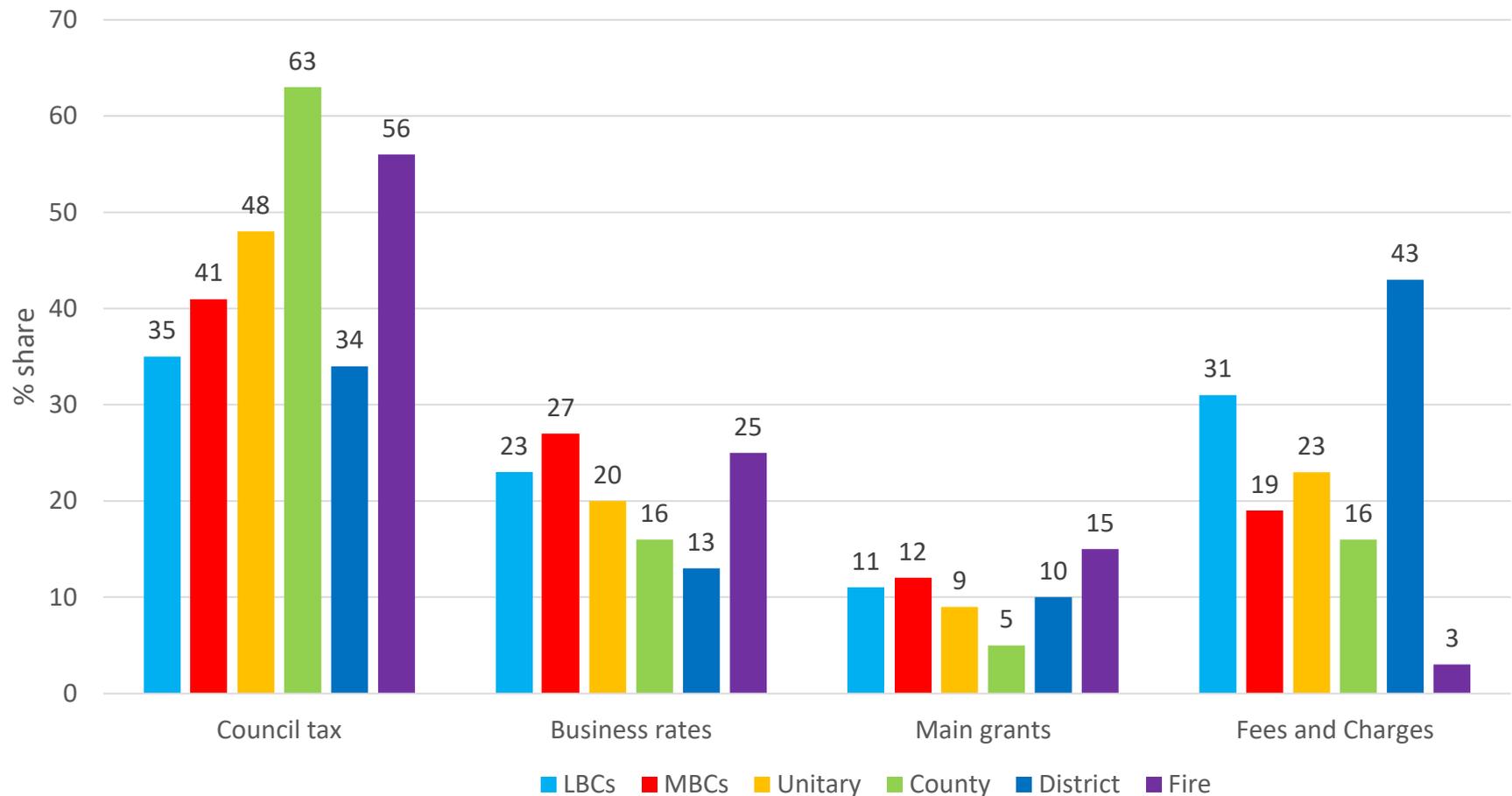
# Balance of Funding by authority type

Percentage share of overall funding estimated for 2018/19 –  
excluding F & C



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## How was this calculated?

- CTR 2018/19
- Business Rates Baselines (excluding growth – as shares so variable 2018/19)
- Grants per Final Settlement 2018/19 for RSG + NHB + RSDG (adjusted to remove effects of Pilots)
- Fees and Charges per RSX 2017/18 (no budgeted figures) and with no assumed increase to 2018/19

More likely medium term stability (but not guaranteed)

Greatest level of local determination (usually)

### Council tax

Most stable  
Most able to influence  
But - recession prone  
But – referendum limits

### Grants

Most reliant on gov't intervention  
Little ability to influence  
Subject to each SR  
Can be announced overnight

## Levels of local reserves

### Fees and charges

Least subject to gov't interference  
Mainly supports service expenditure  
Service based dependence

Most significant level of dependency on gov't

Highest level of local volatility likely

### Business rates

Least stable (except when it is)  
Highly dependent on baseline set  
Framework heavily influences gains  
Appeals highly influential

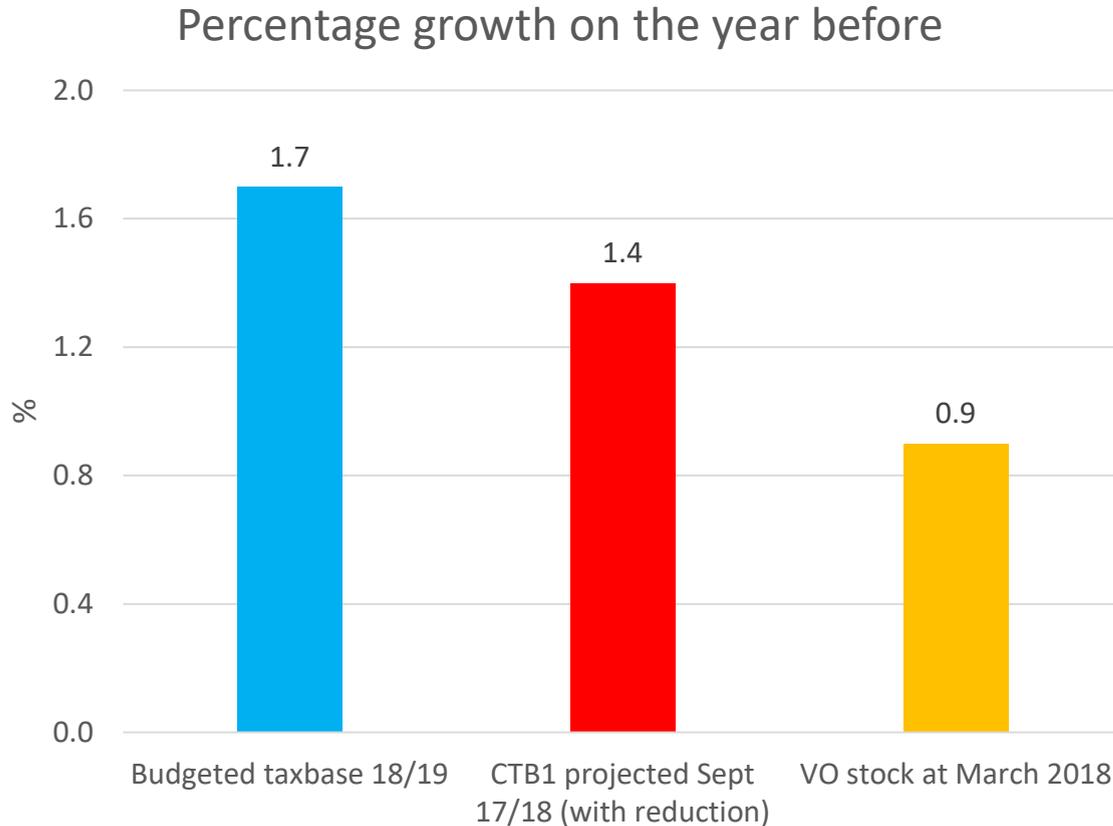
# Resilience of Council tax income – main factors

Main factors	Key questions
The relative balance of funding	How high is the proportion of total funding that relates to council tax?
Decisions on council tax levels	What decisions have been taken in the past about increasing council tax? What is the policy for future increases in council tax?
Taxbase changes and projections: Budgeted taxbase; CTB1 and VO statistics	What have the budgeted taxbase increases been since 2013/14? How much of the increase relates to one-offs vs property increases? How much does the budgeted taxbase understate the taxbase e.g. per CTB1?
CTS policy, movements on claimants, composition of claimants	Is there a policy on offering less than 100% CTS? How big a decline has there been in number of working age claimants? What is the balance between working and pensioner age claimants?
Collection rates and arrears	How high is the collection rate relative to national and type averages? Has the collection rate been getting better or worse in recent years? Are levels of arrears increasing / decreasing and how does this compare?
Collection Fund balances	Are there large Collection Fund balances? Are these consistent, distributed, budgeted for?

# Council tax income – sources of information

Question	Sources of information
Balance of funding	Local Balance of Funding analysis
Council tax levels	Local policy and history
Taxbase changes	Budgeted taxbase CTB1 VOA stock of properties
Council Tax Support	Local policy RO reporting of cost of claimants CLG live tables of CTS data
Collection rates and arrears	Collection rates, levels of arrears, in-year arrears arising
Collection Fund balances	Local figures

# For example: taxbase growth

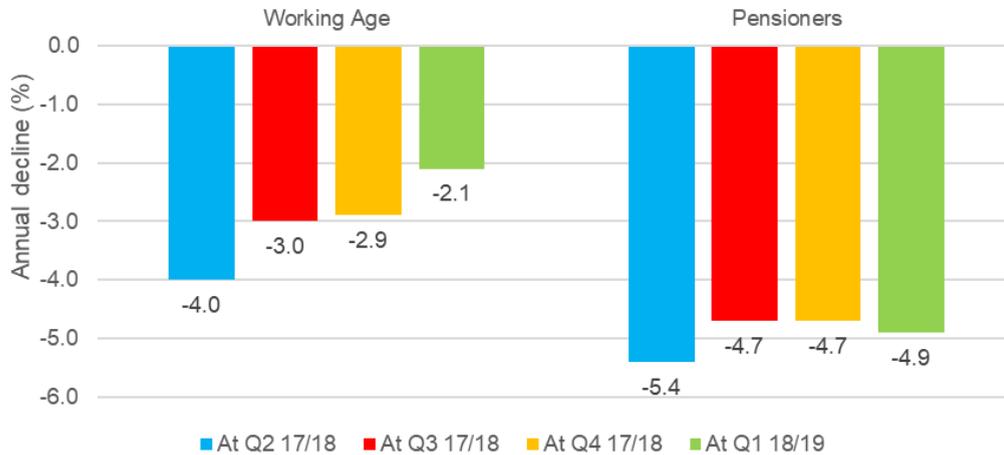


Indicating growth is:

- Property increases plus
- Property changes (e.g. empties) plus
- Past underestimate of taxbase now included
- So what is the composition of your growth?
- How much is underlying property increases and how much one-off adjustments?

# For example - CTS movements

Chart 1: Annual decline in numbers claiming CTS over the last 4 quarters



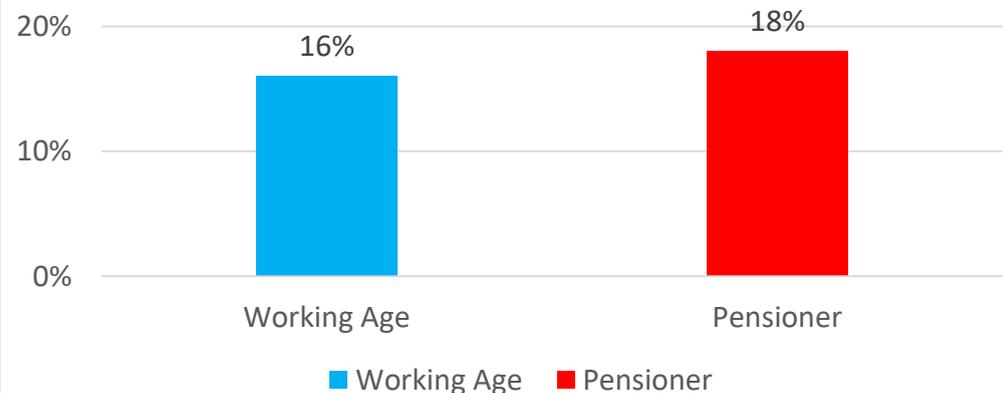
Indicating reductions are:

- Larger across pensioner age than working age
- More consistent across pensioner age
- But still significant declines in working age over time

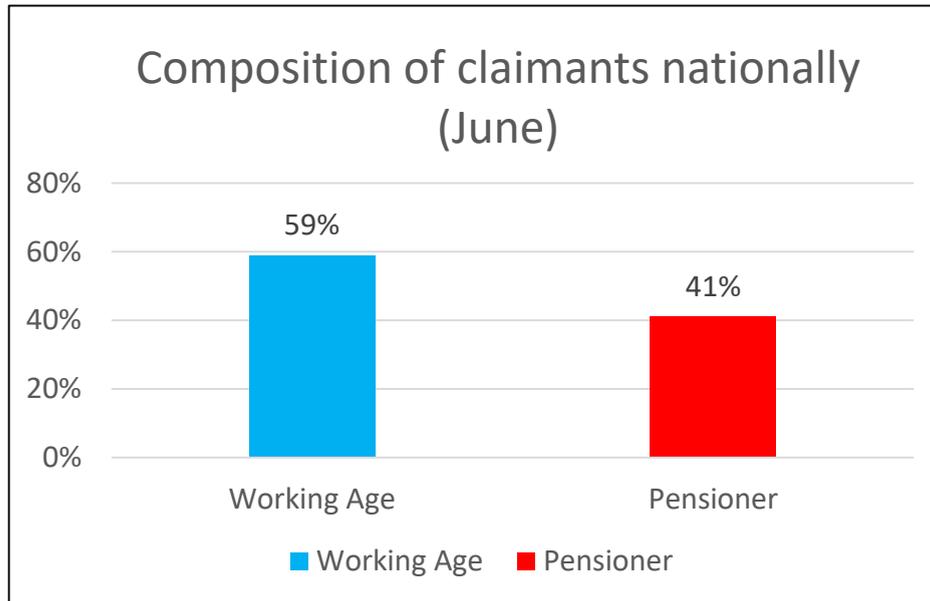
Indicating that:

- For some a reduction of 1/6<sup>th</sup> in cost of working age claimants – where higher is this more or less susceptible to future increase at recession?

Decline in the cost between 2013/14 and 2017/18



# For example - CTS claimant composition



- Indicating composition of claimants - working age are 6 in 10 of all claimants
- The pensioner numbers are declining at approximately 5% and working age at approximately 3%
- So the higher the proportion of claimants that are pensioners the better (when declining)

## Identifiers of resilience - Council tax

- High proportion of funding relates to council tax compared to national (61% or 48%) and authority type
- Local policy is supportive of council tax increases
- Taxbase increases consistently arise and are founded mostly on increases in property numbers
- CTS claimants – higher relative proportions of pensioner claimants and levels of reductions among working age have been significant since April 2013
- Levels of arrears stable and not increasing significantly
- Steady increase to and/or a high collection rate
- No C/F surpluses or where they do arise, they are consistent, distributed and budgeted for

# Resilience of Business Rates income – main factors

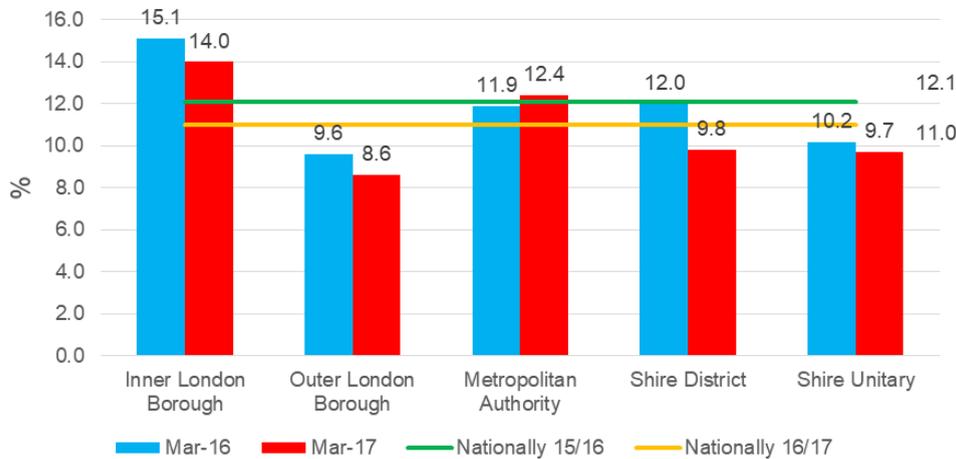
Main factors	Key questions
The relative balance of funding	How high is the proportion of total funding that relates to business rates?
Volatility including appeals	How much does rates retained income vary over time – is it predictable or unpredictable? How much of the volatility has been driven by appeals against the 2010 List?
Variability to baseline	How far from the baseline does the variability occur? Is it well above baseline or around the baseline?
Size of existing provisions, including relative to volatility	What is the current balance on provisions? How does this compare to past levels of volatility? What are current levels of appeals outstanding?
Collection rates	How high is the collection rate relative to national and type averages? Has the collection rate been getting better/worse in recent years or has it been stable?
Budgeting vs outturn	What level of rates retained income is budgeted for relative to actual outturn?
Composition of taxbase especially level of retail	What are the sectoral splits of the taxbase? And how much relates to retail? Has there been a consistent trend on number of properties?

# Business rates income – sources of information

Question	Sources of information
Balance of funding	Local Balance of Funding analysis
Volatility including appeals	NNDR3 over time; analysis of appeals provided for and repaid each year within NNDR3
Variability	Comparison between actual to Baseline
Provisions for appeals	Current size of provision at NNDR3 2017/18 plus forecast repayments at 2018/19; comparison with past volatility
Collection rates	Collection rates
Budgeting vs outturn	Own budgeting since 2013/14
Composition of taxbase	Valuation Office NNDR statistics

# For example: Appeals balances

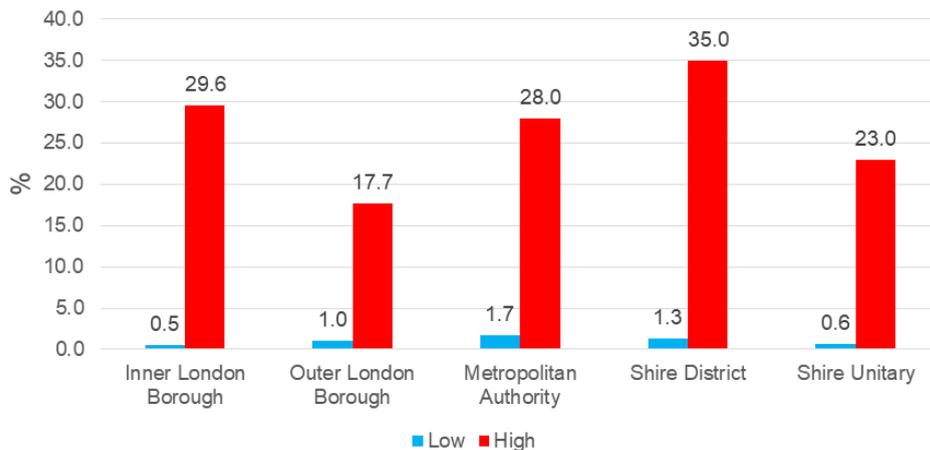
Chart 1: Year end balance of appeals as a percentage of NRP by type of authority with England average



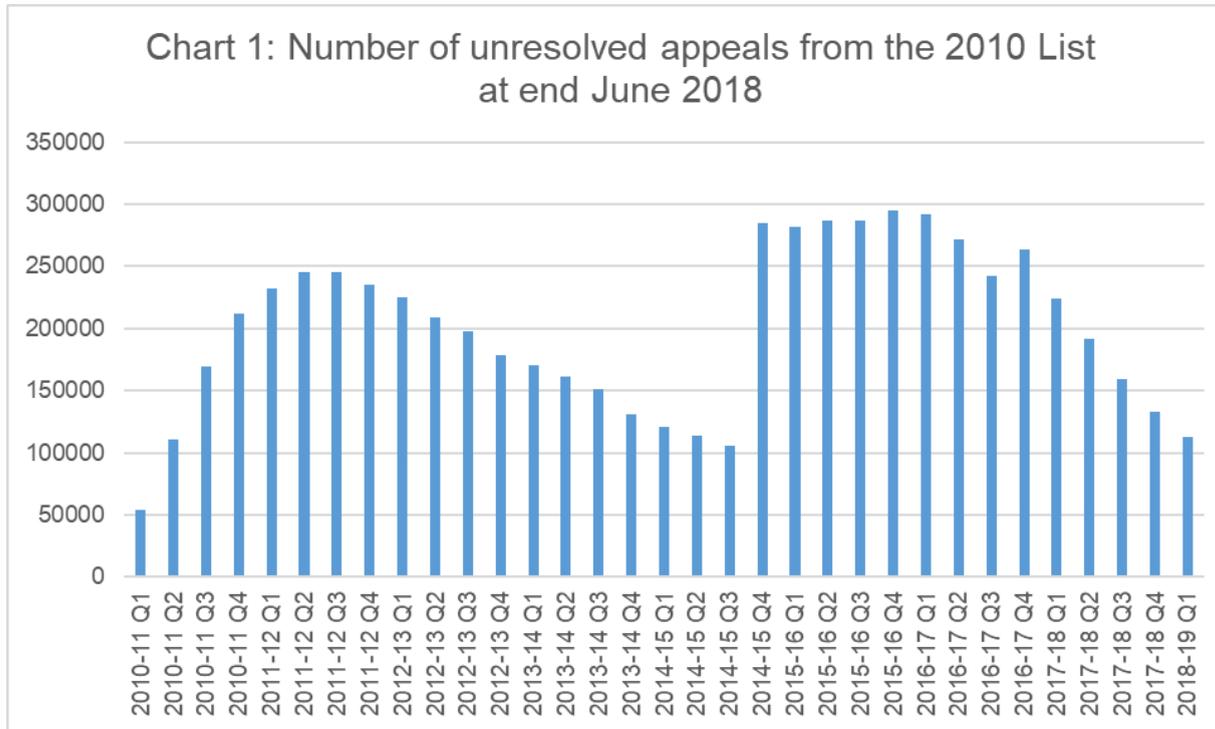
Indicating balances:

- Declining – but continued to 2017/18?
- Highest in Inner London
- Lowest Outer London
- Largest annual decline in Shire Districts
- Largest spread in Shire Districts

Chart 3: Percentage of NRP set aside at year-end 2016/17 by type of authority



# For example – Appeals outstanding



Indicating:

- Levels of appeals outstanding on 2010 List at low point
- Only clearly lower points at 2014/15 Q3 and 2010/11 Q1
- How do you compare against this cycle and how does this compare to your balances on provisions (2010 List)?

# Identifiers of resilience - Business Rates

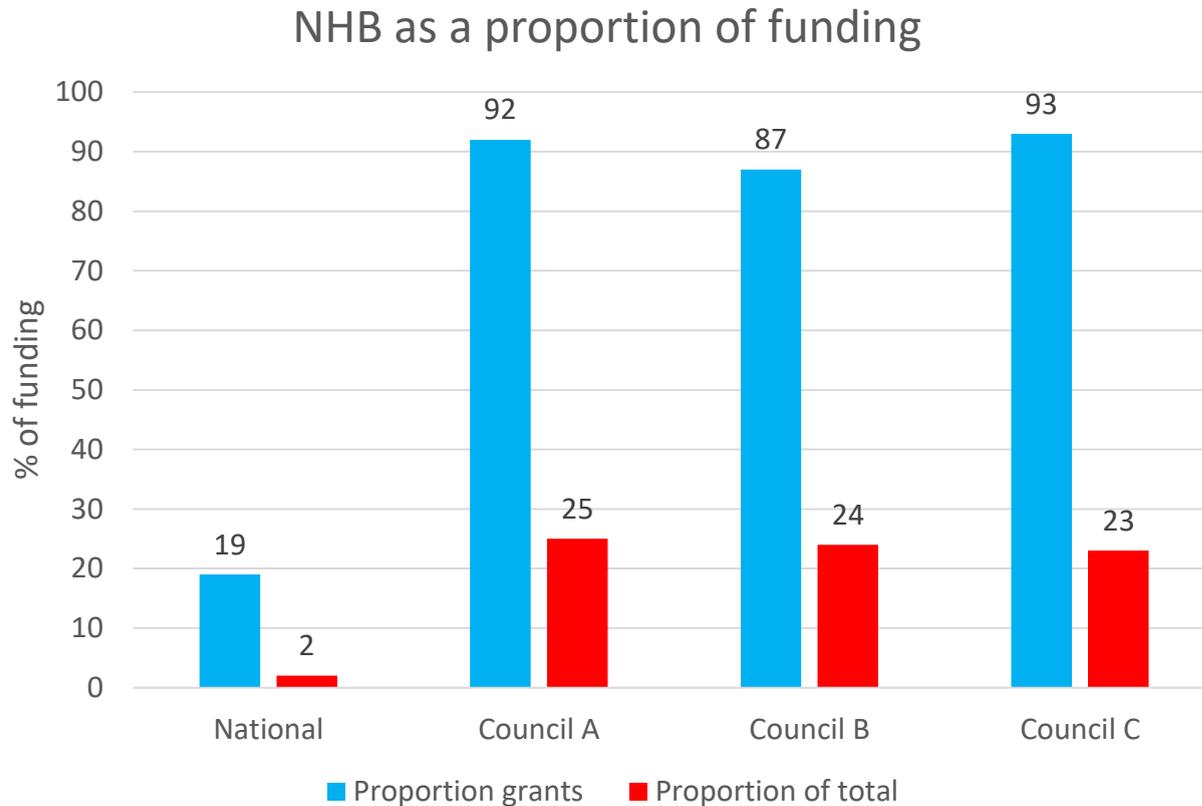
- Low proportion of funding relates to Business Rates relative to Council tax compared to national (28% or 21%) and authority type
- Variability has been low, income is predictable (at a level above Baseline) so trends are easy to identify and project forward with confidence, number of Appeals on the 2010 List are much reduced
- Variability, when it does occur, is at a level well above Baseline
- High levels of provisions for the pre 2017 list remain and these are high relative to levels of Appeals outstanding
- Steady increase to and / or a high collection rate
- Budgeting is below actual income and this has allowed a sizeable equalisation reserve to be established
- Low reliance on one or a few large properties with track record of Appeals or reduction / closure; low relative reliance on retail businesses

# Resilience of grants income – main factors/sources of information

Main factors	Key questions
The relative balance of funding	How high is the proportion of total funding that relates to the main government grants e.g. RSG; RSDG; NHB?
Composition of grants	Which grants is the authority most dependent upon?
New Homes Bonus	What reliance is there on additional annual allocations and how much relates to legacy payments?

Question	Sources of information
Balance of funding	Local Balance of Funding analysis
Composition of grants	Settlement 18/19, potentially adjusted for Pilot status
New Homes Bonus	NHB allocations information provided by MHCLG

# For example: NHB as a source of income



- 62 District Councils receive 10% or more of their total funding from NHB

# Identifiers of resilience - Grants

- Low proportion of funding relative to other sources of income at the end of a Spending Review (11% or 9%)
- Lower reliance on NHB relative to other grants i.e. currently NHB more susceptible to variation
- NHB annual grant includes sizable annual payments for most recent year (i.e. less dependent on legacy payments) – most at risk from policy change
- NHB annual grant includes sizable legacy payments but no annual payment for most recent year (i.e. high dependency on legacy payments) – certainty that grant income will decline and disappear

# Resilience of Fees and charges income – main factors

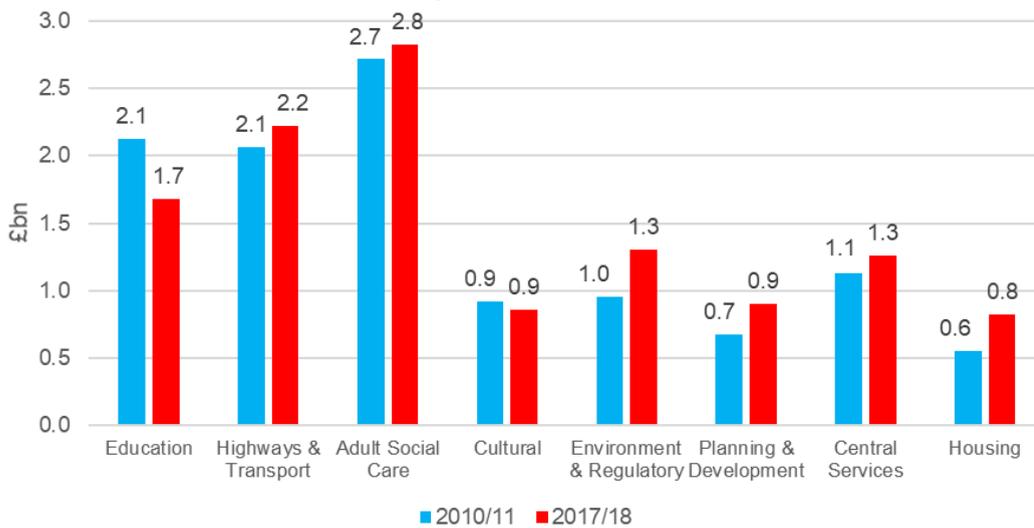
Main factors	Key questions
The relative balance of funding	How high is the proportion of total funding that relates to fees and charges income?
Size relative to net revenue expenditure	How much of net revenue expenditure is being recovered?
Movements and trends over time	Has income gone up or down and have movements been on a clear trend?
Volatility over time	Has there been significant volatility across years?
Policy on Fees and charges income	Does policy clearly establish what happens when income goes down or up and are these movements managed within service accounts?

# Fees and charges income – main sources of information

Question	Sources of information
The relative balance of funding	Local Balance of Funding analysis
Size relative to net revenue expenditure	Outturn for 2017/18 (RSX)
Movements and trends over time	Outturn (RSX) over time
Volatility over time	Outturn (RSX) over time
Policy on Fees and charges income	Local policy

# For example: Individual services

Chart 1 - Income comparison of 2010/11 and 2017/18



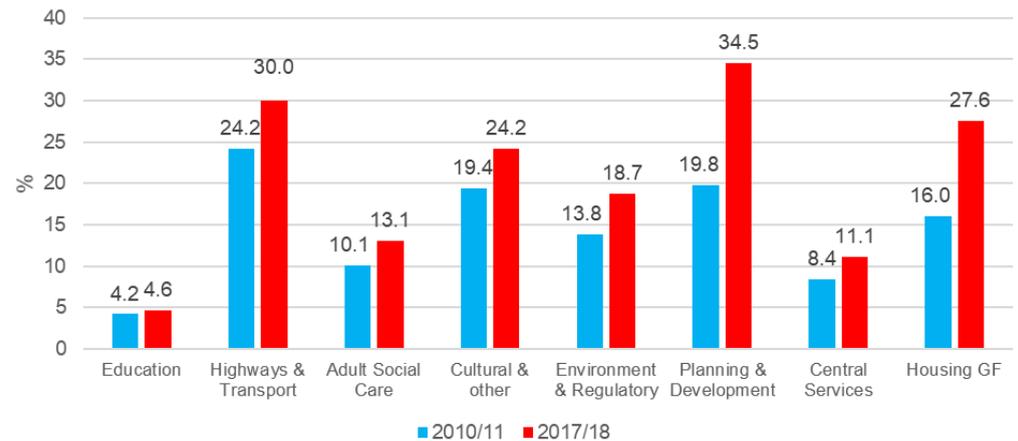
Indicating:

- How levels of income per service have changed over time including which have grown fastest e.g. Environment & Regulatory 37%

Indicating:

- How increasingly charges contribute toward the costs of providing the service, and in which the change has been greatest e.g. Planning & Development

Chart 2 - proportion of service expenditure recovered through income from fees and charges



# Identifiers of resilience – Fees and charges

- Hardest to define what is the right balance but 22% nationally
- Consistently increasing fees and charges as a proportion of service expenditure
- Consistent trends especially with the services most dependent on fees and charges income
- Low levels of volatility in the services most dependent on fees and charges income
- Policy consistently applied and commitment to maintained

# Resilience in levels of reserves – main factors

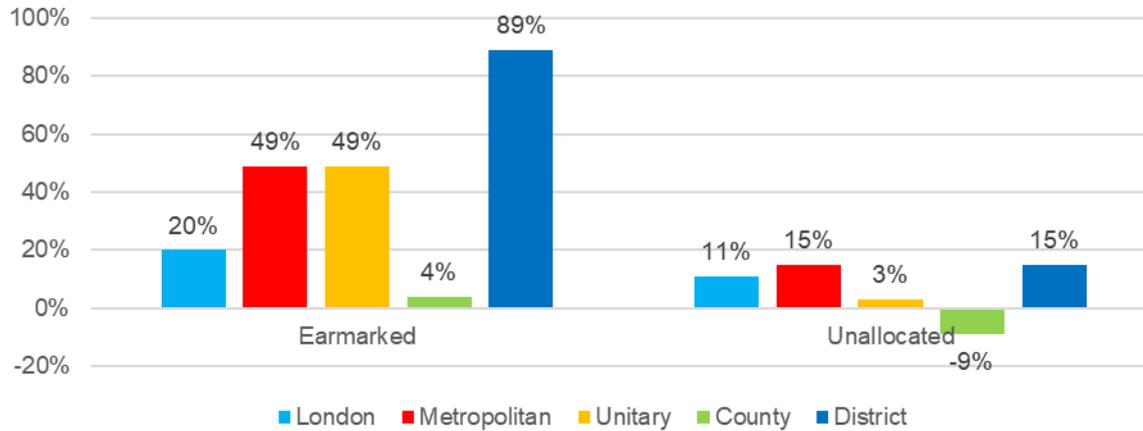
Main factors	Key questions
Current relative levels	Compared across local government; relative to Net Revenue Expenditure; projected vs actual at year end
Trends over time	Has there been a long term decline or increase since the start of austerity? What have trends been since SR15? Has there been significant volatility in movements?
Size relative to funding volatility	How does the earmarked reserves to manage funding volatility compare to actual volatility? How does unallocated reserves compare to levels of overall funding volatility?

# Reserves – main sources of information

Question	Sources of information
Current levels	RO and RA forms
Trends	RO forms over time and since 'austerity' introduced
Size relative funding	Interlinking with analysis of own Balance of Funding and funding variability

# For example: Growth in balances

Chart 4: Percentage change in levels of reserves by type of authority between 2011/12 and 2017/18



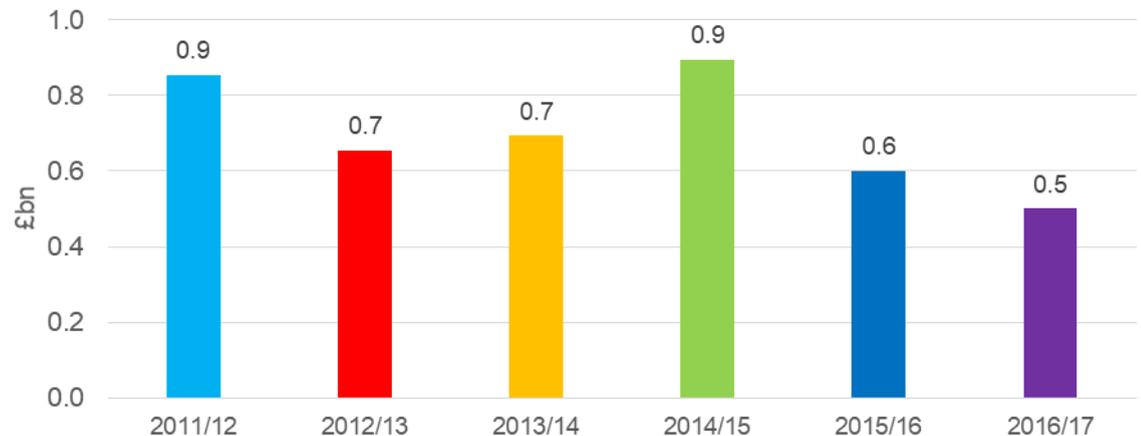
Indicating:

- Perhaps why most of the high profile financial struggles are at County Councils?
- Districts have much more robust position at period end?

Indicating:

- Variance of year end unallocated reserves to projected is declining – how does your authority compare?

Chart 4: Variance of actual level of unallocated reserves compared to budget (£bn)



# Identifiers of resilience – Reserves

- High levels of reserves relative to NRE, levels of volatility in funding
- Reserves higher at ‘end of austerity’ than at beginning
- Longer and shorter term trends are for increased levels of reserves and for low volatility in year end levels of reserves
- Note: Cipfa resilience index refers to total levels of reserves and change over last three years

# Summary for Session 2

## Balance of Funding

- Drives your focus around funding issues and your financial strategy
- Critical to resilience and funding reform

## Key questions to ask for each funding source

- What they are?
- You need to decide which most relevant for your authority

## Sources of information for each funding stream

- How you might build your analysis
- Do you routinely analyse?

## Identifiers of resilience for each funding stream

- Potential characteristics of strong resilience
- Provide potential 'early warning'

# How can the Resource Planning Hub assist?

- Provides funding based analysis
- Creates tools around each of the main sources of income, with main focus around 'local' sources of income
- Regularly updated with new analysis and updated tools
- You can influence how it evolves to best meet your needs to understanding of resilience



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