



FINANCE WITH VISION



Local Government Funding Reform: Settlement 2019/20 and the Road Ahead



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Outline for the briefing today

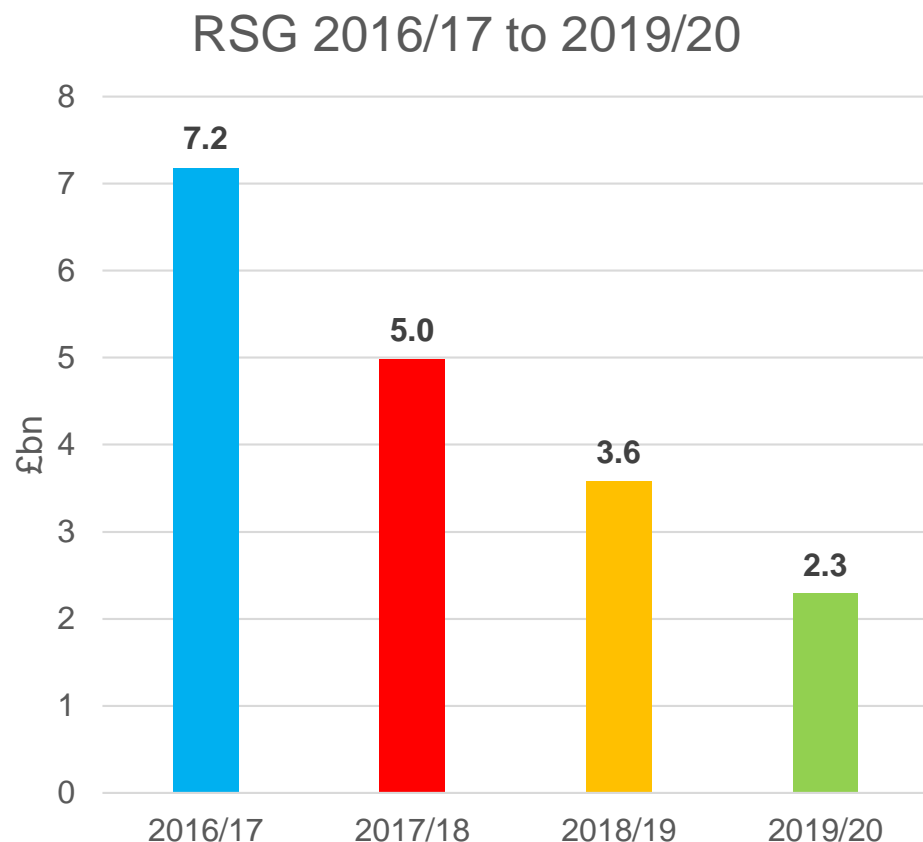
- 2019/20 Provisional Settlement and NNDR1 2019/20
- Funding Reform Consultations
 - Fair Funding
 - Business Rates Retention

Session 1: 2019/20 Provisional Settlement & NNDR1 2019/20

Provisional Settlement 2019/20

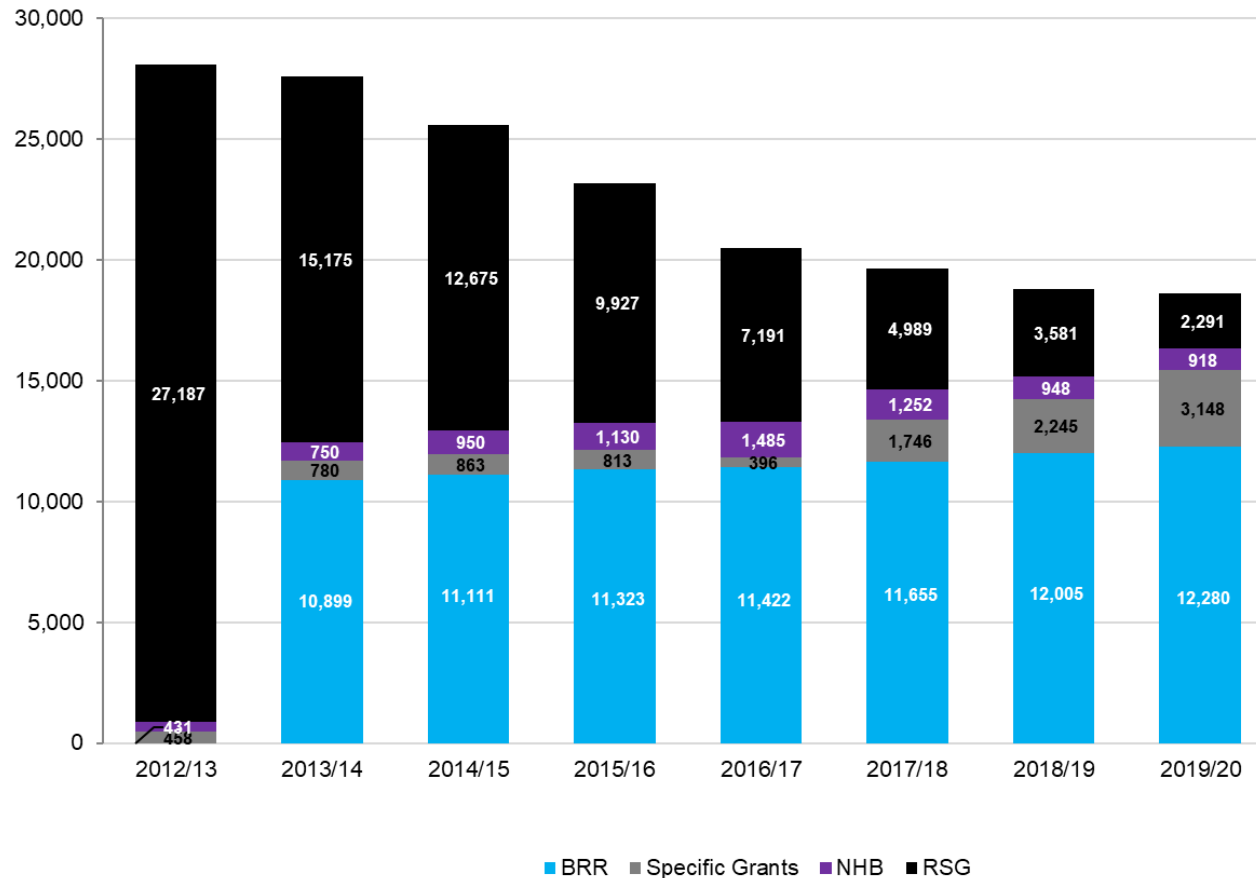
- Announced on 13 December 2018
- Updated Core Spending Power figures
- Confirmation of continuing cuts to RSG
- Removal of Negative RSG
- Increases to RSDG (+£16m) and NHB (+£18m) Funding
- £180m released from the BRR levy account
- Provisional Social Care Allocations of £650m (Budget 2018)
- 15 new 75% Pilot areas announced for 2019/20 (and 7 back to 50%)
- No changes to the Council Tax referenda principles (aside from Police)

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



- Continued major reductions to RSG
- A cut of £1.3bn or 36% 2018/19 to 2019/20
- A confirmed cut of £4.9bn or 68% 2016/17 to 2019/20
- BUT part hidden by changes made for 100% BRR pilots (in 17/18, 18/19 and 19/20)

Funding 2012/13 to 2019/20



- Funding reduced from £28.1bn to £18.6bn over the period (34%)

Change in SFA funding

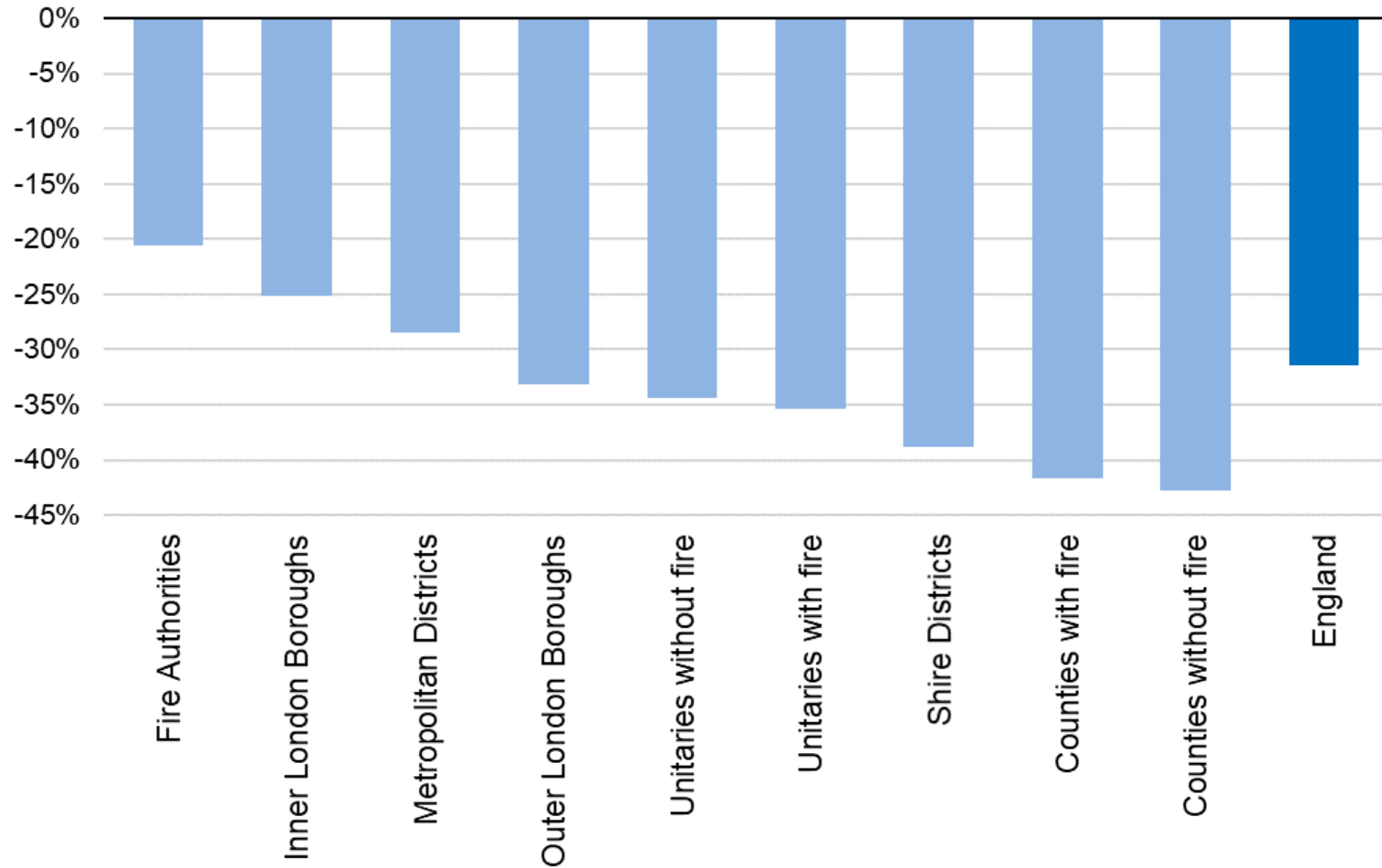
- Change in SFA Funding by class of authority

Authority group	Services			Change in SFA from previous year				Cumulative change since 2015/16
	Lower tier	Upper tier	Fire	2016/17	2017/18	2018/19	2019/20	
Unitaries without fire	✓	✓		-13.6%	-11.5%	-7.1%	-7.5%	-34.4%
Metropolitan Districts	✓	✓		-10.9%	-9.0%	-5.6%	-6.4%	-28.4%
Inner London Boroughs	✓	✓		-9.6%	-7.8%	-4.7%	-5.6%	-25.1%
Outer London Boroughs	✓	✓		-13.0%	-11.0%	-6.8%	-7.4%	-33.2%
Unitaries with fire	✓	✓	✓	-13.6%	-11.8%	-7.4%	-8.4%	-35.4%
Counties with fire		✓	✓	-16.7%	-15.1%	-9.9%	-8.6%	-41.7%
Counties without fire		✓		-17.0%	-15.0%	-9.9%	-9.9%	-42.7%
Shire Districts	✓			-16.9%	-15.0%	-8.0%	-5.8%	-38.8%
Fire Authorities			✓	-6.8%	-8.9%	-4.1%	-2.4%	-20.6%
England				-12.4%	-10.6%	-6.3%	-6.5%	-31.4%

Change in SFA funding

Cumulative change in SFA by class of authority

Cumulative change between 205/16 and 2019/20



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
 - Levy Account
- Relative Need Consultation
- Business Rates Retention Consultation

Core Spending Power: England

		2015-16	2016-17	2017-18	2018-19	2019-20
		£m	£m	£m	£m	£m
SFA	-RSG removal + inflation	21,250	18,602	16,633	15,574	14,560
Under indexation grant	Slight Increase	165	165	175	275	400
Council Tax	Tax rate Assumptions	22,036	23,247	24,666	26,332	27,927
Improved Better Care Fund	No change			1,115	1,499	1,837
New Homes Bonus	Slight Increase	1,200	1,485	1,252	947	918
Rural Services Delivery Grant	Slight Increase	16	81	65	81	81
Transition Grant	No change		150	150		
Adult Social Care Support Grant	No change			241	150	
Winter Pressures Grant	Budget 2018 Change				240	240
Social Care Support Grant	Budget 2018 Change					410
Core Spending Power		44,666	43,730	44,296	45,098	46,373

Core Spending Power: England

		2018-19	2019-20
		£m	£m
Settlement Funding Assessment	-RSG removal + inflation		162
Under indexation grant	Slight Increase		25
Council Tax	Tax rate Assumptions	-269	-120
Improved Better Care Fund			
New Homes Bonus	Slight Increase		18
Rural Services Delivery Grant	Slight Increase		16
Transition Grant			
Adult Social Care Support Grant			
Winter Pressures Grant	Budget 2018 Change	240	240
Social Care Support Grant	Budget 2018 Change		410
Core Spending Power		-28	751

Individual Authority (1)

- Net increase to Core Spending Power of **£7.4m**
- Other Grants increase of **£1.6m**
- SFA Reduction of **£3.5m**
- Net Central Funding Change of - **£2.0m**
- Offset by a Council Tax forecast increase of **£9.4m**

Chart 1 - Core Spending Power

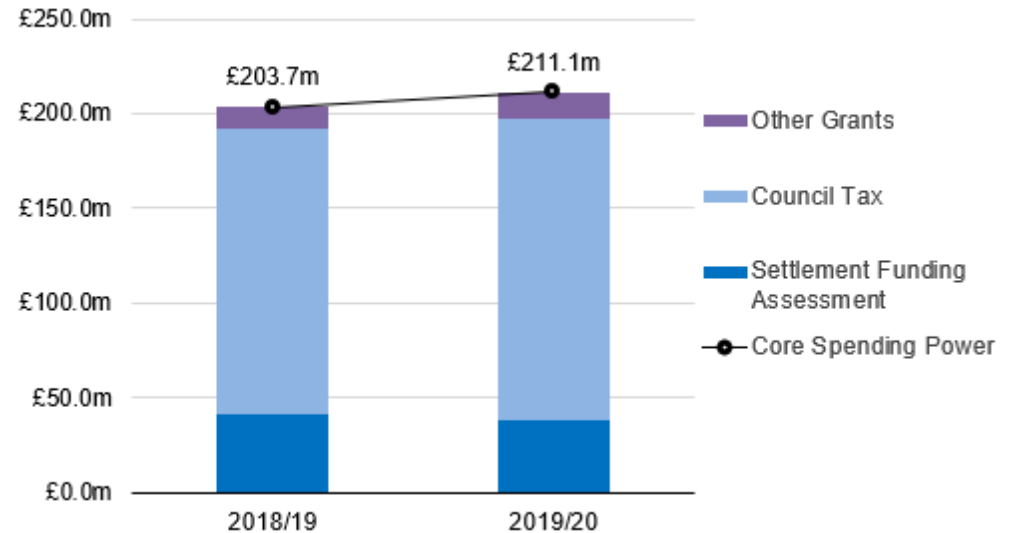


Table 1 - Core Spending Power (£m)

	2018/19	2019/20	Change
Core Spending Power	203.7	211.1	3.7%
<i>Of which:</i>			
Settlement Funding Assessment	41.4	37.9	-8.5%
Assumed Council Tax	150.6	160.0	6.2%
Other Grants	11.7	13.3	13.8%
Other (not part of Core Spending Power)			
Levy surplus returned		0.6	

Individual Authority (1)

- **Other Grants +£1.6m**
 - NHB change of – **£1.0m**
 - Multiplier Grant **+£0.4m**
 - Social Care Support Grant **+£2.0m**
 - Improved Better Care Fund **+£0.9m**
 - Adult Social Care Support Grant **-£0.7m**

	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment	41.4	37.9
Compensation for under-indexing the business rates multiplier	0.8	1.2
Council Tax of which;	150.6	160.0
Improved Better Care Fund	5.4	6.3
New Homes Bonus	3.5	2.5
Rural Services Delivery Grant	0.0	0.0
The Adult Social Care Support Grant	0.7	0.0
Winter pressures Grant	1.2	1.2
Social Care Support Grant	0.0	2.0
Core Spending Power	203.7	211.1

Individual Authority (2)

- Net decrease to Core Spending Power of **£0.527m**
- Other Grants decrease of **£0.439m**
- SFA Reduction of **£0.418m**
- Net Central Funding Change of - **£0.857m**
- Offset by a Council Tax forecast increase of **£0.330m**

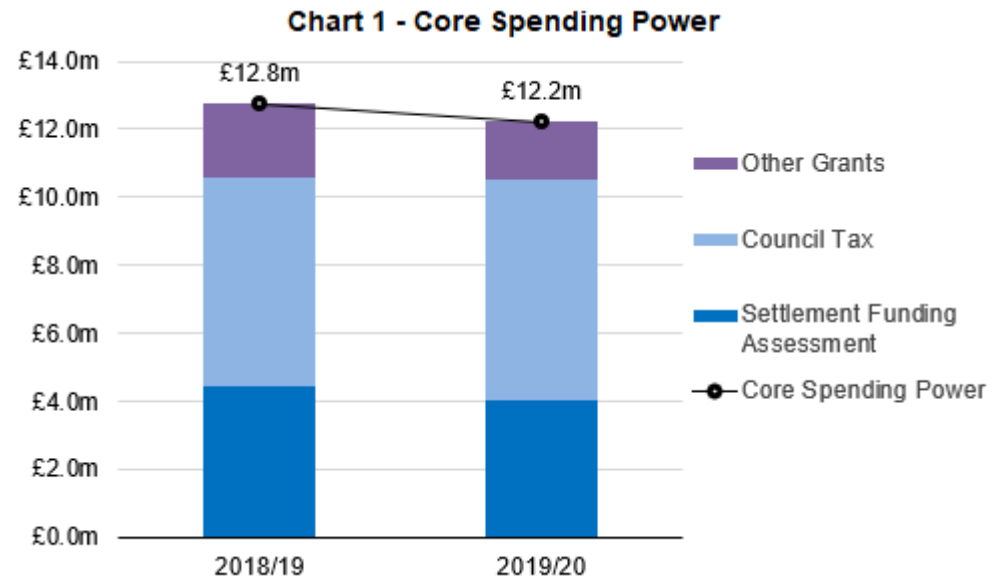


Table 1 - Core Spending Power (£m)

	2018/19	2019/20	Change
Core Spending Power	12.753	12.225	-4.1%
<i>Of which:</i>			
Settlement Funding Assessment	4.435	4.017	-9.4%
Assumed Council Tax	6.146	6.476	5.4%
Other Grants	2.172	1.732	-20.2%
Other (not part of Core Spending Power)			
Levy surplus returned		0.059	

Individual Authority (2)

- Other Grants **-£0.439m**
 - NHB change of – **£0.478m**
 - Multiplier Grant **+£0.039m**

	2018-19 £ millions	2019-20 £ millions
Settlement Funding Assessment	4.435	4.017
Compensation for under-indexing the business rates multiplier	0.086	0.125
Council Tax of which;	6.146	6.476
New Homes Bonus	2.086	1.608
Core Spending Power	12.753	12.225

Business Rates Pilots

- **2018/19**
 - 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 £0.8bn (IFS)
 - Announced as 1 year only
- **2019/20**
 - It should be the final year of “pilots”
 - Original 5 areas to continue at 100%
 - London moved from 100% to 75% (but was 67% anyway in 2017/18)
 - 7 of the 10 new 2018/19 Pilot areas moving back from 100% to 50%
 - 15 Pilot areas at 75% outside of London (12 new – 3 from 2018/19)
 - Not just an extra 25% of growth for some (i.e. 50% to 75%), due to the levy also not payable
 - Will the pilot changes result in income distortion?

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
- 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. 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 maintained the limit from 2018/19. So:
 - Upper tier authorities 2.99% plus (potentially up to 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
- Social Care Precept is as was, so:
 - Balance of 6% over 3 years not used by end 18/19
- Town and Parish councils – deferred setting of referendum principles for town and parish councils
- Extended limits for PCCs - £24 per annum

Council Tax – the 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	18.8	18.5
Council tax	22.0	23.2	24.7	26.3	27.9
Council Tax as a Proportion of Total	49%	53%	56%	58%	60%

- National funding has reduced by £4.1bn over 5 years, an 18% decline
- Council tax projected CSP funding has increased by £5.9bn over 5 years, a 27% increase
- Council tax will fund 60% of all CSP by 2019/20 compared to 49% in 2015
- Next CSP?

Council Taxbase Growth Assumptions – CLG inconsistency, but reduced

- CLG have made following assumptions for changes in the taxbase
 - Average annual growth 2014-15 to 2018-19 up to 2019/20: calculated at nationally 1.96%
 - Increases in line with maximum use of new referendum limits
- Starting point of council tax revenue in 2018/19 is lower by -£268m and estimate for 2019/20 is lower (excluding extra GLA Police) by -£154m (note additional SC precept to be raised in 19/20)
- Likely taxbase growth for 2019/20 could be 1.5% so MHCLG overestimate could be approximately £115m

Other issues

- New Homes Bonus – no change on previous method set out, with the extra £18m in funding averting the possible increase to the deadweight for 2019/20, but no indicative future numbers now provided
- An extra £153m of funding for high taxbase / tax rate authorities to avoid having negative RSG for 2019/20. Reducing SR15 funding reductions for these authorities
- Additional RSDG – an increase of £16m to funding, to match 2018/19 levels
- £180m released from the BRR levy account
 - Not shown in Core Spending Power. Why? 2020/21 comparisons?
 - Allocated based on 2013/14 SFA – not reflect SR 2015 reductions (taking into account tax rate and base)
 - Allocated after negative RSG wiped out

Completing NNDR1 2019/20

2019/20 NNDR1

- Main changes anticipated:
 - Changes to local splits for the pilot authorities (and those no longer pilots)
 - S31 Grant Calculation for SBRR reflects the proposed revised threshold factors
 - Additional Retail relief and resulting additional S31 grant
- Important for Pilot areas to understand any local governance arrangements and how they may alter the amounts from NNDR1
- Highly unlikely that the figures to be used within the Reset / setting authorities' NNDR Baseline for 2020/21 and beyond
- Part 4 may see some areas change their attitude to the appeals provisions from the 2017 list

2019/20 NNDR1 - Appeals

- Not likely that appeals can be nationalised under the current system
- But the alternative 'simplification' (see later) effectively does nationalise appeals
- 2010 List
 - Any adjustment needed (more or less) to part 4
 - More authorities concerned regarding the knock on impact of 2010 appeals being settled adversely
- 2017 List
 - Feedback suggest very little information / activity
 - Authorities already have ...
 - Made a forecast for 2018/19 (in 2018/19 NNDR1)
 - Put aside an amount in 2017/18 NNDR3

2019/20 NNDR1 - Appeals

- Is the amount set aside in 2017/18 NNDR3 still the best estimate?
- If so, it needs repeating in part 4 for 2018/19 and including in Part 3 for 2019/20
- If not, (depending on whether a similar approach was taken in 2018/19 NNDR1) there could be a significant one-off change in resources in 2019/20 and potentially an ongoing increase in future years

Potential example

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

2019/20 NNDR1 - Appeals

Scenario A – no change in appeals approach

- 2019/20 - £40m less 5% = £38m
- It will take £2.0m (£0.8m local share) of the forecast 2018/19 income in part 4
- Local share that the authority will receive = £16m less £0.8m = **£15.2m**
- Future years **£15.2m** per annum also

Scenario B – Appeals % changed to 0%

- 2019/20 - £40m less 0% = £40m
- 2019/20 local share that the authority will receive = £16m
- It will also be able to reverse the £0.8m set aside from 2017/18
- It will also no longer need to include the £0.8m future years repayments for 2018/19
- Total Received in 2019/20 = £16.0m + £0.8m + £0.8m = **£17.6m**
- Future years = **£16.0m** per annum

2019/20 NNDR1 - Appeals

Issues

- What percentage / approach to use for the 2017 list?
- What is your auditor saying?
- 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

2017/18 NNDR3: Collection Fund balances

	2013/14 £bn	2014/15 £bn	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn
Rates overpaid	1.2	0.8	0.7	-0.1	0.1	
Deficit distributed		0.5	0.5	1.3	0.5	-0.2

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 £2.7bn over five years
- Estimated deficits have been distributed between 2013/14 and 2018/19 of £2.6bn which means there is an outstanding deficit to distribute in 2019/20 of £0.1bn

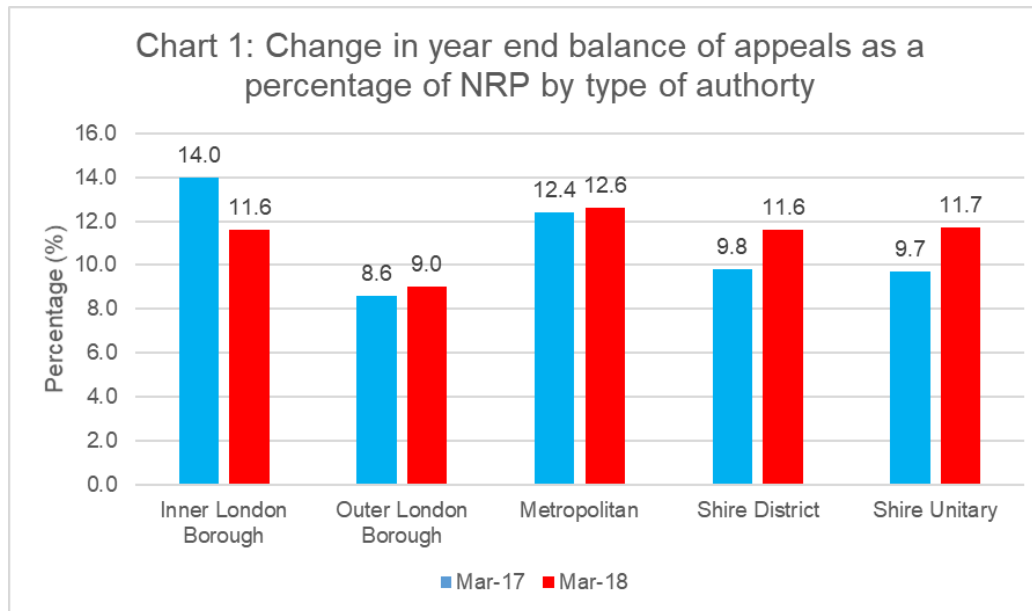
Appeals analysis at NNDR3 – balance at year end

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
All England	1,744	2,515	2,806	2,639	2,810

Main messages

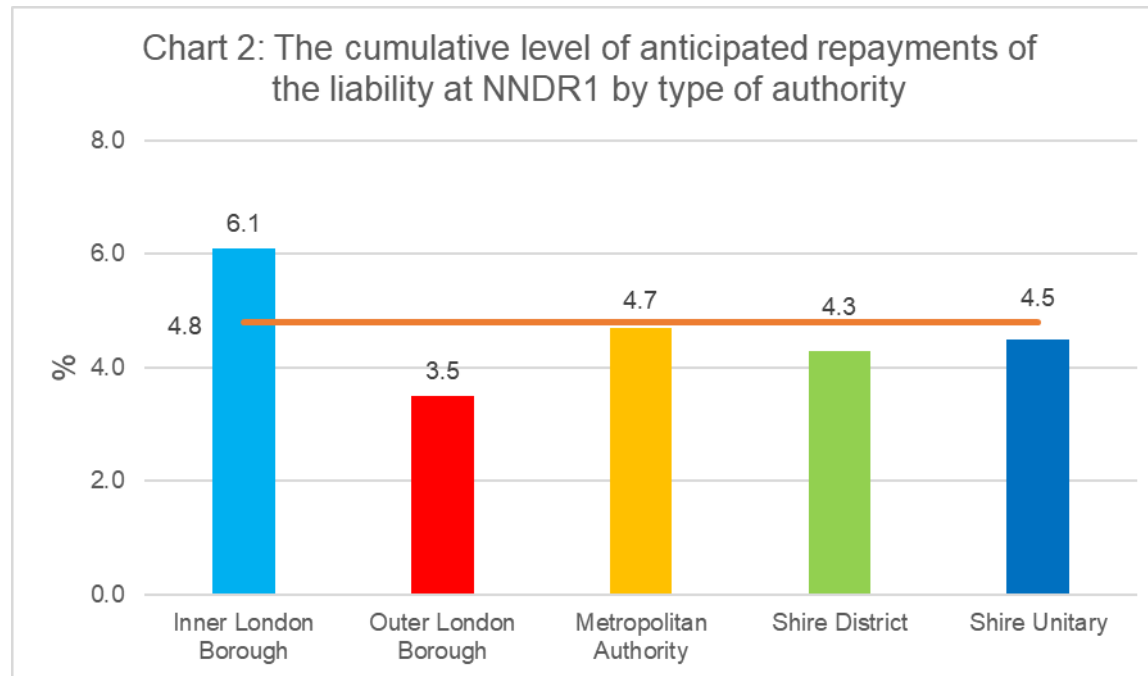
- All England balances up to a high as 31 March 2018 – now added in one year for 2017 List
- Will additional 2017 List additions exceed reductions to 2010 List (and 2005 List)?

2017/18 NNDR3: Balances on appeals



- There was a mixed picture of movement between 2016/17 and 2017/18 with declines in Inner London but increases in all other types of authority;
- There was a reduction of 2.4% in the proportion of NRP set aside in appeals Inner London compared to increases in Shire Unitaries of 2.0% and Shire Districts of 1.8%;
- At the end of 2017/18 it is Metropolitan Authorities who on average have the highest proportion of NRP set aside in appeals at year end (prev. Inner London Boroughs).

NNDR1: Budgeted repayments for 2017 List



- Chart 2 shows that over the two years, local authorities across England have quantified the amount due as repayments from reductions to valuation at 4.8% of Net Rates Payable.
- Inner London Boroughs (6.1%) have the highest cumulative total quantified and Outer London Boroughs (3.5%) the lowest total.
- Metropolitan Authorities have a 4.7% level of cumulative repayments shows at NNDR1, which matches the levels assumed by CLG at Revaluation 2017.

Summary for session 1

- Least complex year of the 4 year Settlement
- Grant funding additions continue to be made to part compensate for high reductions at SR15
- Council taxbase assumptions from MHCLG continue to be overly high
- NNDR1 2019/20 – 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?

Session 2: Reform of Local Government Funding

Covering

- A review of local authorities relative needs and resources
- Business Rates Retention Reform – sharing risk, managing volatility and setting up the reformed system
- Both published on 13 December, closing date for responses by 21 February 2019

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

Relative Need Formulas	Relative Resources	Transitional Arrangements
Greater detail	Clearer policy steer, but lacking in depth of detail	Principles outlined, no attempt at providing any depth of detail
4 questions	9 questions	2 questions
Covering: <ul style="list-style-type: none"> • Structure • Key cost driver(s) • Service Specific Formulas • Area Cost Adjustment • Weighting 	Covering: <ul style="list-style-type: none"> • Tax Base • Council tax levels • Collection Rates • Tier splits • Future council tax • Sales, Fees and Charges 	Covering: <ul style="list-style-type: none"> • Principles • Baseline

Main points

- Enhanced understanding of how the Needs and Resources Formulas might work
 - Much simplified Needs Model
 - Clear structure (mostly) in place
 - Importance of Population / Population Projections emphasised
 - Clarity of inclusion of Public Health (but possible implications for future)
 - Emphasis of maintaining use of ‘notional’ council tax levels
- But lack of information / options / consistency on:
 - Weighting or data which are crucial
 - Resourcing ‘notional’ figures
 - Not using council tax base projections whilst using Population projections
- Lack of any detail, beyond principles, on Transition means at this stage there is no knowledge of how quickly gain or pain after April 2020/21 could materialise

Timetable - update

- Potentially introduced 2020/21
- Set funding baselines and finalise transitional arrangements Oct 2019 – January 2020
- Significant amount of technical work in next 8 months needed and political decision making to be made – any more consultation?
- Before then government's current aim (subject to Spending Review 19) is to publish indicative allocations through a further stage of formal consultation before the 2020/21 provisional local government finance settlement

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		●		●	●	●	

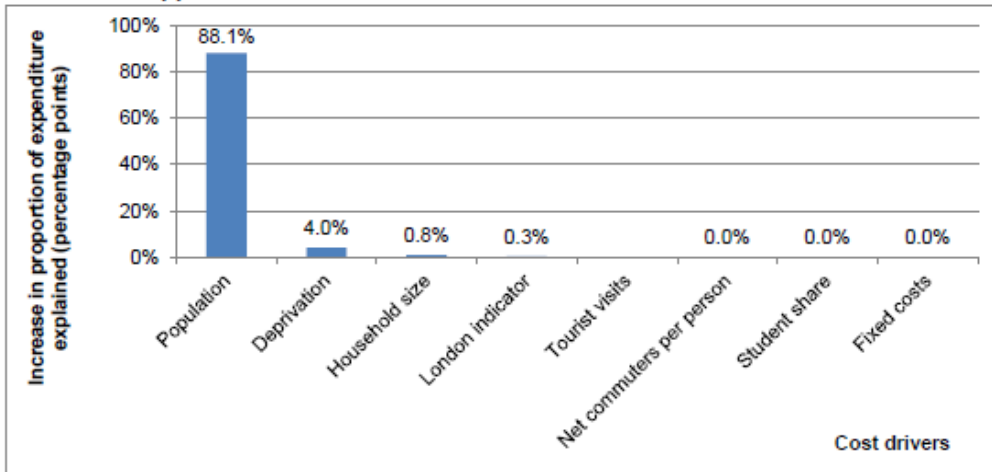
Relative Needs: Foundation Formula

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:	<p>Upper tier:</p> <ul style="list-style-type: none"> Waste disposal Public transport Libraries Leisure Planning Central services <p>Lower tier:</p> <ul style="list-style-type: none"> 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 Needs: Other costs drivers

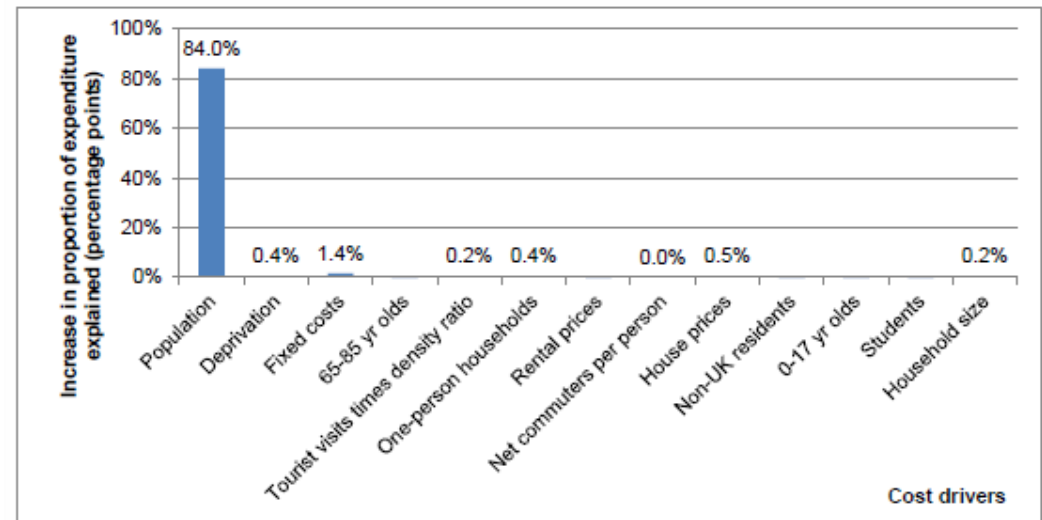
Figure 1 – Graph showing the impact of including additional cost drivers in the upper tier Foundation Formula



Upper Tier: Population alone explained 88.1% of variances in past expenditure

Lower Tier: Population alone explained 84% of variances in past expenditure

Figure 2 – Graph showing the impact of including additional cost drivers in the lower tier Foundation Formula



Relative Needs: The Seven Service Formulas

- Adult Social Care: Split 18-64 and 65+; Small Area Modelling, ACA
- Children & Young People's Services: Cost Drivers TBD; Multi Level Modelling, ACA
- Public Health: Formula from 2015, subject to further DSS / PH England review, ACA
- Highways Maintenance: Road Length & Traffic Flow; Expenditure regression; ACA
- Fire & Rescue: Retaining separate; Expenditure regression proposed; ACA
- Legacy capital: Assumed Debt & Interest; No ACA
- Flood Defence & Coastal protection: Upper tier – within Funding Foundation; Lower Tier each separate, own formula, Expenditure regression with further work, ACA

Relative Needs: Other Areas Considered

- Concessionary travel
- Local Bus Support
- Waste Services
- Homelessness
- Fixed Costs
- Unaccompanied Asylum Seeking Children
- People with no recourse to public funds

Relative Needs: Area Cost Adjustment

- The proposed Area Cost Adjustment will continue to adjust for differences in labour and business rates costs, and also considers the impact of 'Accessibility' and 'Remoteness'
- The Government is minded to incorporate the factors set out below:
 - A rates cost adjustment, including rents, to reflect the variation between areas in the cost of using equivalent premises due to differences in local supply and demand factors,
 - A labour cost adjustment, including accessibility, to reflect the fact that authorities will need to compete with other potential employers to secure and retain suitably skilled staff, and
 - A remoteness adjustment, to account for variation in the cost of some inputs due to the size of local markets or isolation from major markets.
- Proposed Area Cost Adjustment methodology - tailored Area Cost Adjustment for the Foundation Formula and each service area it is applied to
- The factors set out above will be weighted together into a single index for each funding formula, using evidence-based weights which are appropriate for the relevant service(s)

Relative Needs: Weightings

- As the proposed system will include several funding formulas it will be necessary to decide the proportion of overall funding that is allocated by each one - the government intends to further explore the approach to determining control totals
- The consultation states that statistical techniques offer an evidence-based way to determine funding allocations by minimising the use of judgement in constructing funding formulas, with different services more suited to a particular technique
- In determining the merits of a particular technique the following factors are under consideration:
 - i. the analytical robustness offered by a technique
 - ii. the level of sophistication employed by a technique (and the trade-off between complexity, robustness and transparency), and
 - iii. practicalities, including the availability of appropriate data sources
- The paper does on to discuss the relative merits of the two leading statistical techniques identified for the review i.e. 'multi-level' modelling and expenditure based regression

Relative Needs: Future Proofing

- Respondents to December 2017 consultation expressed strong consensus around using official population projections to reflect changing population sizes when assessing the relative needs of local authorities.
- The Government is minded to agree that:
 - Using Office for National Statistics population projections to calculate allocations for each year of a forward funding period
 - Taken at the outset of the period
 - Updating these when the needs assessment is refreshed
- They consider this is most appropriate way to reflect future population changes, while giving authorities certainty over income for the duration of the funding period
- They don't ask for further views on this

Questions on Relative Needs

- Question 1): Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?
- Question 2): What are your views on the best approach to a Fire and Rescue Services funding formula and why?
- Question 3): What are your views on the best approach to Home to School Transport and Concessionary Travel?
- Question 4): What are your views on the proposed approach to the Area Cost Adjustment?

Relative Resources: Council Tax (1)

- Tax base
 - Minded to continue including the effect of all non-discretionary discounts and exemptions in its measure of the tax base
 - Minded to continue 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 and is keen to hear wider views before determining a preferred approach
- Council tax level: The government is minded to use a notional assessment of council tax levels when making the relative resources adjustment. This is an approach that has precedent in previous local government funding settlements, including the 2013-14 methodology

Relative Resources: Council Tax (2)

- Collection rate: A uniform notional collection rate could be set at various levels (e.g. at the minimum, average, or maximum collection rate); however, it would have the same effect for all authorities in the relative resources adjustment irrespective of their actual collection rate
- Tier splits: government is minded to calculate the average share in council tax receipts in multi-tier areas between the shire county precept, the shire district element and the fire element of council tax bills across the country, and apply that percentage uniformly to the measure of council tax in the resources adjustment for relevant areas
- 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
- Previously been netted off against authorities' gross expenditure to determine the level of net revenue expenditure
- Consideration of whether appropriate to make more direct adjustment for sales, fees and charges income when assessing relative resources
- Having taken into account factors such as scale, ability, choice and incentive effects, volatility and data availability the government “recognises that there are practical challenges in taking direct account of sales, fees and charges income and are broadly minded not to do so”
- However, may be a case for taking specific service areas into account which have generated an increasingly significant level of surplus income for some authorities, such as on and off-street parking. The government are keen to hear wider views on potential options before determining a preferred approach

Questions on Relative Resources

- Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?
- Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?
- Question 7): Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?
- Question 8): Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?
- Question 9): What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?
- Question 10): Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?
- Question 11): Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?
- Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?
- Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?

Relative Resources: Transitional Arrangements

- Application: introduced taking into consideration wider factors including business rates baseline reset, development of the business rates retention system and SR2019
- Principles
 - Stability: transition from existing funding to new target allocations must be manageable and sustainable in the context of wider changes to the local government finance system
 - Transparency: the process must be 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 in settlement funding allocations using deferred gains provided over fixed period of time 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. Considerations might include local revenue raising capacity, distances from target allocations or relative funding pressures, for example to deliver statutory services
- Baseline for Transition: measure of the funding available to each local authority in 2019/20 with adjustments, with approach only be finalised after local authorities' new funding baselines have been determined - government would like to build early consensus around the principles used in designing these arrangements next year

Questions on Transitional Arrangements

- Question 14): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?
- Question 15): Do you have views on how the baseline should be constructed for the purposes of transition?

Relative Resources: So what do we know now?

- Foundation Formula (FF) plus a 7 block Needs Model
- Population, population projections and ACA key factors in the FF
- Public Health a new block with associated implications included
- Emphasis of maintaining use of 'notional' council tax levels and not using council tax base projections
- Council tax working age claimants - not yet known how to reflect
- Other notional levels re council tax to be determined
- No inclusion of sales, fees and charges (but car parking excess income)
- Weighting remains outstanding and crucial issue
- Transition methodology likely broader than in the past
- Transition framework late in the process
- Consultation on indicative numbers intended pre Settlement but post SR19

Business Rates Retention Reform

- Balancing risk and reward
 - Resets
 - Safety net
 - Levy
 - Ties splits
 - Pooling
- Simplifying the system
 - Review of the central/local list
 - Addressing volatility
 - Simplification
- Setting up the system
 - Resetting Business Rates Baselines

BRR Reform: Balancing risk and reward

Resets

- Government intends to carry out a full reset for 2020/21
- Approach in future could be different
- Types of reset
 - Full:
 - Partial:
 - Phased:
- Intermittent full resets regardless (potentially every 15 years)
- Timing – how often and to reflect Revaluation or not?
- Asking:
 - Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?
 - Question 2: Please comment on why you think a partial / phased reset is more desirable.
 - Question 3: What is the optimal time period for your preferred reset type?

BRR Reform: Balancing risk and reward

Safety net and Levy

- Continued safety net
- Level set only once clarity on wider system specifics
- Funded through general top slice affecting all and not a levy
- No future levy
- Future threshold will be applied beyond which 100% of all growth lost
- Asking:
 - Question 4: Do you have any comment on the proposed approach to the safety net?
 - Question 5: Do you agree with this approach to the reform of the levy?
 - Question 6: If so, what do you consider to be an appropriate level at which to classify growth as ‘extraordinary’?

BRR Reform: Balancing risk and reward

Tier splits and Pooling

- Continues to evade suggesting what these might be
- Continues to push the sector led solution
- Identifies a fall back – local government’s own ‘backstop’ – is required
- Tier split between GLA and London Boroughs a local discussion
- Fire share proposed to stay at 1%
- Future Pools could have ability to change shares
- Still trying to identify how to incentivise future Pools
- Asking:
 - Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?
 - Question 8: Should a two-tier area be able to set their tier splits locally?
 - Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

BRR Reform: Simplifying the system

Central/Local Lists

- Government carrying out a review
- Implemented at reset
- Criteria for listing outlined
 - Nature and use of the property
 - Size and geographical spread of the property
 - Suitability or otherwise for assessment of the property on local non-domestic rating lists
- Government not minded to facilitate moving premises where likelihood that a hereditament's presence on local list will cause significant short-term disruption
- Asking:
 - Question 10: On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.
 - Question 11: On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

BRR Reform: Simplifying the system

Addressing Volatility

- Identifies potential use of a proxy to measure losses on appeals
- Outlines four possible approaches to mitigate losses
- But then says it sees none can work and so they would like to simplify the system
- Implicit is if continue with current system, losses on appeals and volatility resulting - local government will have to live with
- Asking only:
 - Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

BRR Reform: Simplifying the system

Proposals to simplify administration of the system

- Why simplification - reasons
- How the reformed system would work (showing how future funding calculated and when)
- Risk and reward under the reformed system – explaining
- Asking:
 - Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

BRR Reform: Simplifying the system

Why simplification

- It offers a way of addressing the issue of volatility caused by appeals and other valuation change
- It would also simplify the system and give more certainty to authorities of the level of income they can expect to see on a year to year basis
- It negates the need to Reset Business Rates Baselines for all authorities

BRR Reform: Simplifying the system

How the reformed system would work

- Split out annual income from reward and risk
- 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
- NNDR1 completion would need to be brought forward to probably September

BRR Reform: Simplifying the system

Risk and reward under the reformed system




- Under 75% business rates retention, local authorities would keep 75% of their business rates growth (notwithstanding decisions taken on the levy and tier splits) and 75% of any decline (notwithstanding decisions taken on the level of the safety net)
- The growth achieved and retained by local authorities would more closely represent the actual growth achieved and would not be affected by changes in provisions
- Under the proposed reform, the government is minded to measure growth and decline based on outturn figures (provided in NNDR3 forms), net of provisions
- NNDR forms do not currently require local authorities to separately identify 'prior year adjustments' for 'gross rates payable' but will in future need to do so to remove impact in assessing 'growth' with a 'baseline' being set by the adjusted previous years' NNDR3
- Any growth or decline in business rates income in a local area would be recognised by adjusting the following year's top-up and tariff payments, i.e. top-ups and tariffs would be used both to redistribute business rates to ensure determined need is provided for and to reflect growth

BRR Reform: Alternative system – comparison

Criteria

Current

Alternative

Existing Growth?	 Added to Baseline Need	
Nationalised appeals?	Problematic 	Yes
Realistic starting position?	Lottery 	Increased chance
Complexity?	Complex (although fair ?)	Less complex / Fair
Reward genuine growth?	Yes, but could be undermined by the starting position or appeals	Yes, but still subjective

BRR Reform: Potential future funding (simplified)

BRR System	2020/21 Resources	2021/22 Resources	2022/23 Resources
New System	Baseline Need only	Baseline Need +/- 2020/21 growth	Baseline Need +/- 2021/22 growth
Old System	Plus/Minus Estimated surplus/deficit 2019/20	Plus/Minus Outstanding surplus/deficit 2019/20	No impact

The Reformed System – summary

- It's a late new addition to the discussions (July 2018)
- Could potentially simplify the system significantly
- There will be new complexities – around reward and risk
- There will be migration complexities e.g. what happens to existing provisions, how will old system C/F surplus/deficits be managed
- Rewards and s31 grants – how will reward not be influenced by past and future central government policy decisions?
- When will there be certainty about which 'horse will be backed'
- Will there be further consultations on how it will work, and if so, when?
- What will be the view of local government?

BRR Reform: Resetting Business Rates Baselines

- Emphasise only required if local government does not go for simplification
- Proposals:
 - Based on NNDR3 with inevitable imperfect Baselines
 - Single year data
 - Bottom up baseline – so no EBRA nationally and shares of this
 - Using 2018/19 NNDR3 uprated by multiplier
 - Net Rates Payable – amount for allowance for non collection less amount for provisions less disregarded amounts
 - Allowance for non collection – data over x years (not specified)
 - Using NNDR3 based estimates of future 2017 appeal losses or using own estimate of 4.7% or authorities own stand alone estimate using centrally determined method
- Less than perfect and rushed proposals
- Very much based on assumption of moving to a simplified system
- Asking:
 - Question 14: What are your views on the approach to resetting Business Rates Baselines?

BRR Reform: So what do we know now?

- Full reset at 2020/21 so all individual growth lost to FFR / SR19
- Future resets could be on a quite different basis (even phased)
- Intermittent full reset planned, but how practical?
- Safety net to continue, at a level to be set at the end of the process
- No levy, but a growth threshold (not yet determined) at which 100% of gains lost
- Tier splits and Pooling – decisions and system long way off, but potential back stop for tier splits where sector cannot decide itself
- Fire share likely staying at 1%
- Review of central list – but scope as originally expected
- Local government either goes for simplified BRR system or:
 - Appeals driven volatility here to stay
 - Even more imperfect Baselines will be set at 202/21
- MHCLG would really like to go with the simplification of BRR

Summary – consultation papers

- Continuing progress
- A lot of systemic knowns
- A lot of systemic known 'unknowns'
- Indicative numbers not until after SR19
- Simplified BRR highly likely so will need to get used to a brand new system



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