

Part of Foundation Formula (?): EPCS Lower Tier

Lowest increases in population – 2013 to 2016

	Mid Year 2013	Mid Year 2016	Change
High Peak	92,367	91,662	-0.76%
East Lindsey	139,816	138,443	-0.98%
Scarborough	108,942	107,824	-1.03%
Tamworth	77,899	76,955	-1.21%
Woking	101,401	99,695	-1.68%
Copeland	70,771	69,307	-2.07%
West Somerset	35,071	34,306	-2.18%
Harrogate	159,892	156,312	-2.24%

100% Business Rate Pilots



Why become a 100% business rate pilot?

- To help DCLG design 100% BRR
- To explore transfer and redesign of services/ funding streams
- To help influence the design of 100% BRR
- Local perception – i.e. a “win” for the Council – although the reality of what it is worth maybe confusing for local stakeholders also
- Continue to evolve integrated working on business rates income across authorities
- To gain financially (but as above, these gains may not match up to the perception locally)

What is the Government looking for?

- Selection criteria:
 - “operate across a functional economic area (i.e. the county council(s) and all relevant district councils; groups of unitary authorities; or groups of county councils, all their districts and unitaries”
 - “particularly interested in piloting in two-tier areas”
 - “promote the financial sustainability of the authorities involved”
 - “evidence of how pooled income from growth will be used across the pilot area”

Further selection criteria

- “Seek a wide spread of geographical areas across England”
- “Focus on rural areas”
- “Achieve a variation in the types of business rates base represented (e.g. whether there a small number of large rate payers in the area).”

What is the Government really looking for?

- Affordable – can do more pilots if cost per pilot is less
- Deliverable – short timescales, minimal negotiation with departments, good governance
- Give something to rural areas and counties
- Understand possible splits in two-tier areas
- Delivering something back to the local economy – not just bailing-out local authority budgets (remember: HMT is funding pilots)
- Risk transfer (“no detriment”)
- Political as well as technical criteria

What is a 100% business rate pilot?

- 100% of business rates is retained locally – no 50% central share
- Same basic structure as current 50% system
- Fiscally neutral – no additional resources to authorities if business rates are collected at baseline
- 100% of growth above baseline is retained – and no levy
- Safety net is based on 97% of pilot BFL – and potentially no “no detriment” payment

Baseline Funding Level

£M	Rolled-in grant 2018-19						Baseline Funding Level (50%)	New BFL = Rolled-in Grants + BFL
	Revenue Support Grant	Rural Services Delivery Grant	Public Health Grant	Improved Better Care Fund	Council Tax Benefit Admin Support Grant	Housing Benefit Admin Support Grant		
Adur					0.069	0.191	1.650	1.910
Arun	0.194				0.192	0.531	3.426	4.343
Chichester		0.117			0.116	0.319	2.103	2.655
Crawley	0.575				0.147	0.407	3.402	4.531
Horsham		0.006			0.085	0.235	1.916	2.243
Mid Sussex					0.091	0.251	2.001	2.343
Worthing	0.008				0.113	0.313	2.514	2.949
West Sussex	12.122		34.858	5.102			74.015	126.098
TOTAL	12.898	0.123	34.858	5.102	0.814	2.247	91.028	147.071

Business Rate Baseline/ Top-up and Tariff

	Original BA Tier Split	Tier Split (100% Pilot)	Top-up (+ve)/ Tariff (-ve)	Notional BRB	Notional BRB (grossed-up for tier split)	New Top-up (+ve)/ Tariff (-ve) (New BFL minus New BRB)
Adur	40%	30%	-4.641	6.291	4.719	-2.809
Arun	40%	30%	-8.688	12.114	9.085	-4.742
Chichester	40%	30%	-16.244	18.347	13.760	-11.105
Crawley	40%	30%	-40.108	43.510	32.633	-28.102
Horsham	40%	30%	-14.228	16.145	12.108	-9.865
Mid Sussex	40%	30%	-14.924	16.925	12.694	-10.351
Worthing	40%	30%	-9.540	12.055	9.041	-6.092
West Sussex	10%	70%	42.637	31.379	219.651	-93.554
TOTAL	50%	100%	-65.737	156.765	313.691	-166.620

Notional BRB = New BFL plus top-up/ tariff

Notional BRB under 100% = notional BRB grossed-up for new tier split
Billing authority = 30%/40%
County = 70%/30%

New tariff = grossed-up BRB under 100% retention *minus* new BFL

Potential financial gains from 100% pilot

- Based on 2017-18 NNDR1
- Actual gains will be based on NNDR3 (for 2018-19)
- Gains for 2018-19 but possibly will continue into future years
- Estimated benefits should take into account business rate pool

Calculating financial gains

- Same baselines but..
- Increased share of above-baseline gains (and losses)
- No levy payable
- Effect of current business rate pool (if there is one)
- Effect of change in safety net

Current 50% scheme

	Amount above Baseline £m	Less Forecast Levy £m	Plus Forecast Safety Net £m	Plus Pooling Gain £m	Equals Total Gain above Baseline £m	Share of Growth	Origin of growth - billing authorities
Council 1							
Council 2							
Council 3							
Council 4							
Council 5							
Council 6							
TOTAL							

Proposed 100% pilot

Make
assumption on
tier split

	Amount above Baseline £m	Amount below baseline (£m)	Plus Forecast Safety Net £m	Amount below baseline after safety net (£m)	Plus Forecast "No Detriment" £m	Equals Total Gain above Baseline £m	Share of Growth	Origin of growth - billing authorities
Council 1								
Council 2								
Council 3								
Council 4								
Council 5								
Council 6								
TOTAL								

Estimated financial benefit

Depends on tier split – different splits will result in different distribution of gains

Based on 2017-18 NNDR1 initially but update to 2018-19 forecast

Include effect of pool on 50% scheme

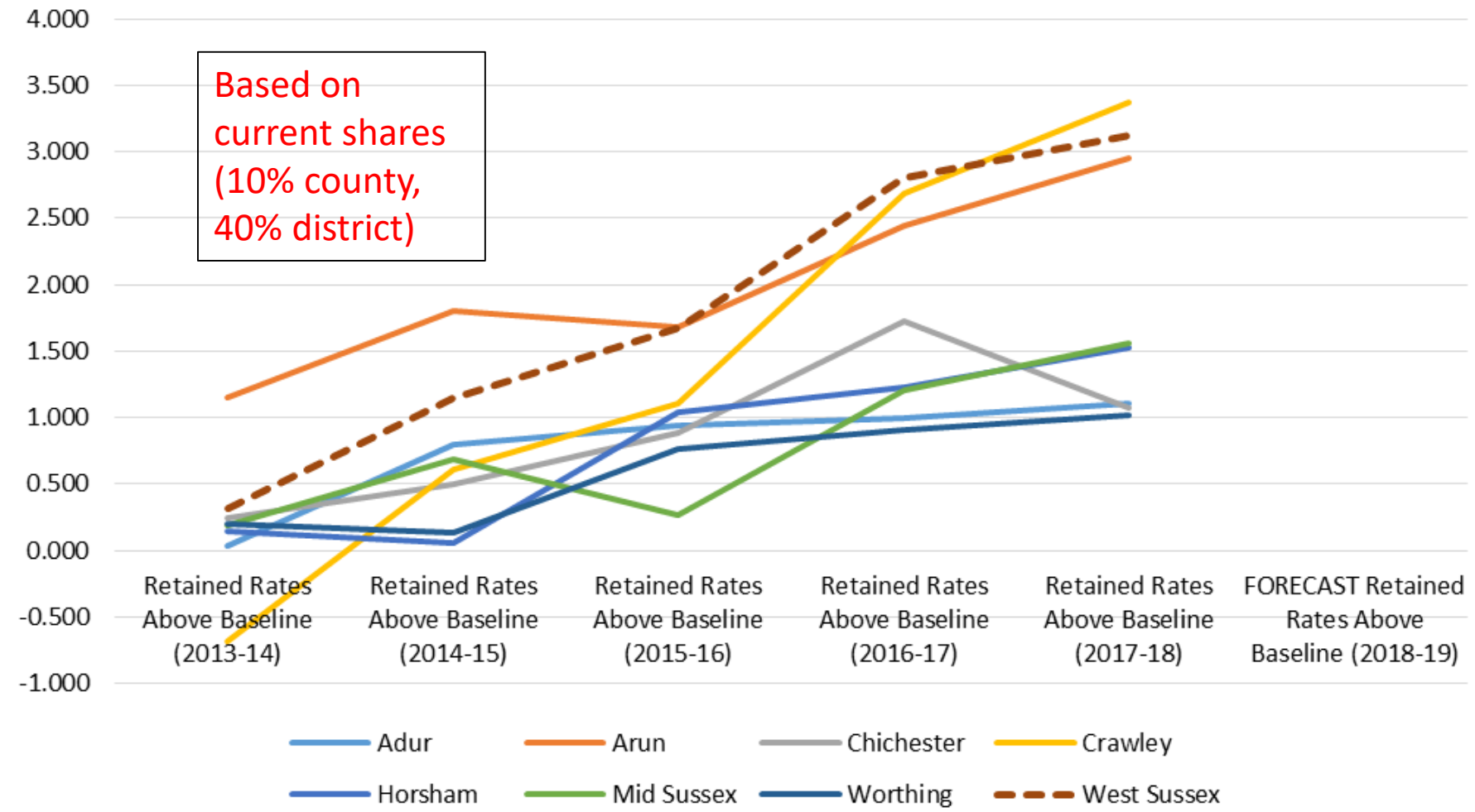
	50% scheme (excluding pooling) (£M)	100% pilot (£M)	Change (£M)
Council 1			
Council 2			
Council 3			
Council 4			
Council 5			
Council 6			
TOTAL			

Establishing the potential for growth

- Consider recent trends – growth trends? above baseline?
- If above baseline, provides some cushion for the pilot
- Designated areas, enterprise zones and renewable energy – proportion of growth within these areas?
- Consider major risks especially from very large hereditaments and from appeals – look in more detail when considering forecasts

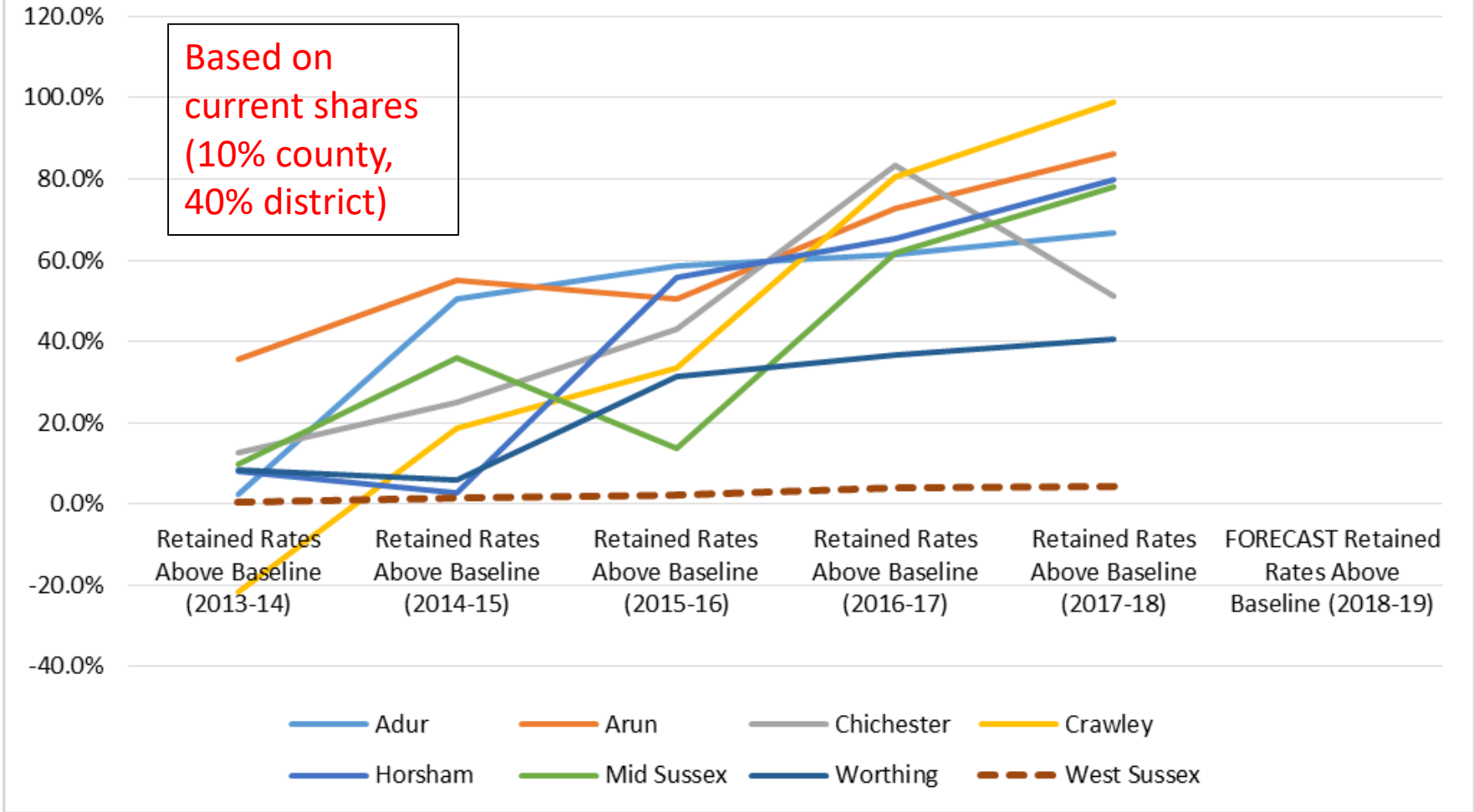
Retained Rates Above Baseline (£M)

Based on current shares (10% county, 40% district)



Retained Rates Above Baseline (%)

Based on
current shares
(10% county,
40% district)



Key decisions before submission

- Geography and membership
- Tier splits
- Transfers to BFL (funding or “new responsibilities”)
- Managing risks and rewards – and specifically on “no detriment”
- Forecasting
- Business rates pool (50% retention)
- Use of financial gain (economic development)
- Various governance and administrative matters

Geography and membership

- Do all authorities in a county have to be involved? Are all authorities willing to join?
- What is the economic geography for the county and region? What are the LEPs for the county?
- Are there any neighbouring authorities or counties to work with? Is there the potential to expand the pilot at a later date?

FAQ 1. Does a county council need to apply with all districts in their area as part of the pool?

- “will look favourably on applications from groups of authorities who have committed to work together as part of a ‘pool’”
- “particularly ... pilots where all the districts and county have come together”
- “reserves the right to pilot a full range of options and so to create a single authority pilot if deemed useful”

Tier split

50% scheme:

West Sussex County Council = 10%
(includes 1% fire)

District councils = 40%

100% pilot – realistic range?

Min. district share = 20% district/
80% county

Max. district share = 50% district/
50% county

- Every authority to gain
- Take into account tier split, levy and current pool
- Can modify tier splits with risk/reward system (e.g. MFL)
- Reasonable balance in system (risk, reward) “*explain how this will promote sustainability*”
- Consider economic objectives (local, county)
- Help to inform design of national system

FAQ 3. Would the new tier split agreed apply to all of the retained rates or only the additional rates retained under the pilot?

- “anticipate that pools of authorities will preserve the existing split of the ‘local share’ and will only be deciding how they want to split the 50% of business rates that currently goes to central government”
- “would be prepared to consider proposals for more radical change – for example, by reducing the overall percentage of business rates due to one tier below the current ‘local share’ percentage and awarding the balance to the other tier – subject to being persuaded that the arrangements delivered sustainable local services”

Transfers to BFL

- *“Authorities selected as pilots for 2018/19 will be expected to forego Revenue Support Grant (RSG) and Rural Services Grant”*
- No mention of additional transfers in the guidance
- Possible preference is for minimum or no additional transfers beyond RSG and RSDG [we need to confirm what DCLG would prefer]
- Future BFL will be amended for any future changes to grants rolled-in (e.g. cuts in RSG, or increases in social care grants)

Options for transfers to BFL

- Public Health Grant
 - Improved Better Care Fund
 - Highways Maintenance (Capital) [three grants payable to CC]
 - Public transport grants (Bus Operator Grant)
 - HB Administration Subsidy Grant
 - LCTS Administration Subsidy Grant
-
- Exclude any grants that are performance related or not largely confirmed in advance (e.g. New Homes Bonus)

Managing of risk

- Additional risk from higher retention rate (increase from 50% to 100%)
- “No detriment” – ensures pilot as a whole is no worse-off than under 50% scheme
- Safety net:
 - Current 50% scheme: 92.5% of local authority BFL
 - Current business rates pool: 92.5% of pool BFL
 - 100% pilot: 97% of “pilot” BFL
- Decide whether “no detriment” is required for the submission – depends on confidence in forecasts and views about risk

Safety net

	50% scheme without pool	50% scheme with pool	100% pilot
<u>Baseline Funding Level</u>			
Adur	1.650	1.650	1.910
Arun	3.426	3.426	4.343
Chichester	2.103	2.103	2.655
Crawley	3.402		4.531
Horsham	1.916		2.243
Mid Sussex	2.001		2.343
Worthing	2.514	2.514	2.949
West Sussex	74.015	74.015	126.098
TOTAL	91.028	83.709	147.071
Safety net	92.5%	92.5%	97.0%
Safety net threshold	n/a	77.431	142.659
Pool/ Pilot	n/a	6.278	4.412
Crawley		0.255	
Horsham		0.144	
Mid Sussex		0.150	
Total		6.827	4.412

Options for sharing risk and reward

- Minimum Funding Level based on 50% scheme (including pool)
- Minimum Funding Level based on 50% scheme plus Joint Fund
- Minimum Funding Level set at £xm

Forecasting business rates in 2018-19

- Forecast change in taxbase in rest of 2017-18 and for 2018-19
- Reasonable and consistent estimates for losses on outstanding appeals (2010 list) and for losses on 2017 list
- **Most-likely case forecast**
 - Recession effects
 - Closure or major appeal on the largest ratepayers across the county
- **Realistic worst-case scenario**
 - **Important:** consistent, credible and understood by all relevant stakeholders
 - **Plus:** what is each billing authority holding back in appeals provision and collection fund?

Duration of 100% pilot

- Next round of 100% pilots is for 2018-19 only

“The 2018/19 pilot programme will last for one year only”

- Possibly extended until introduction of more permanent national scheme (e.g. 2020-21)
- Current (2017-18) pilots will continue and possibly be developed further

FAQ4. Do areas have to retain any new pooling arrangements into 2019 to 2020 if the pilots only run for one year?

- “anticipate the pilots running for only one year, 2018 to 2019”
- “In line with the legislation, if members of the pool then request us to revoke the designation for 2019 to 2020, we will do so”
- “establish a different pool for 2019 to 2020 ... we will consider the request on its merits at that time”

Business rate pool (50% retention)

- Option to retain for existing pilots (Greater Manchester, West Midlands) – done so for pool members who are outside the pilot
- No benefit or purpose in continuing business rate pool

Timescale and process

- Deadline for submissions (27 October 2017)
- Assessment of applications (possibly asking for more information)
- Successful pilots “announced before or alongside the draft local government finance settlement” (December 2017)
- Decision on business rates pools (50%) made at same time (December 2017)
- “support authorities in preparing for implementation”
- Launch (April 2017)

- When is the point of “no return”?

Submission document

- “business case with supporting financial analysis”
- Including:
 - Membership/ housekeeping
 - Governance arrangements
 - Additional supporting evidence
- Four typed pages in size 12 font

Governance

- How will decisions be taken (technical, political)? When will decisions be taken?
- What arrangements will be put in place to manage the pilot if successful?
- If having Joint Fund, how will it be used? Are there plans already in place? Is there a structure to make decisions (countywide, local)?
- What relationship will the pilot (and Joint Fund) have with LEP?

Technical consultation, Section 31 grants and Revaluation Adjustment



Consultation paper

- Consultation paper on the 2018-19 Local Government Finance Settlement
- <https://www.gov.uk/government/consultations/local-government-finance-settlement-2018-to-2019-technical-consultation>
- The consultation closes on 26 October 2017.
- There is very little that is new in this consultation paper but there is very useful confirmation of many of the assumptions we were making about the 2018-19 settlement

Multi-year settlements

- **Intended approach for third year of the multi-year settlement is outlined for those authorities who signed up to the four-year settlement**
- The Government does not intend to make any changes to the figures that have already been published, “barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement”
- Does not apply to those authorities who did not sign up

2018-19 business rate pilots

- **Same methodology for 2018-19 100% pilots as was used for the 2017-18 pilots**
- For those authorities who are going to apply to be a pilot in 2018-19, it is useful to know that the basic methodology will remain the same

“Deadweight” baseline for NHB

- **Confirmation that there will be a baseline again for New Homes Bonus in 2018-19**
- Baseline was set at 0.4% in 2017-18; only taxbase growth above this baseline earned NHB payments
- Actual baseline for 2018-19 will not be announced until the provisional settlement, and there is no indication of the level at which it will be set
- Government is consulting on those additional conditions (e.g. local plan, planning permissions refused)

Council tax referendum principles

- **Same Council Tax Referendum principles will be used in 2018-19 for all classes of authority**
- Government is considering extending the 2% principle to mayoral combined authorities

Post-revaluation adjustments to top-ups/ tariffs

- **Confirmation of the methodology that was used in the 2017-18 settlement to adjust top-ups and tariffs following revaluation**
- Business rates income will be calculated using 2016-17 NNDR3 rather than the 2015-16 NNDR3 (as was the case when the original adjustments were published in the settlement earlier this year)
- Could make a significant difference in the revaluation adjustment
- Levy rates will also be adjusted to take account of the revised baselines.

Transferring fire functions

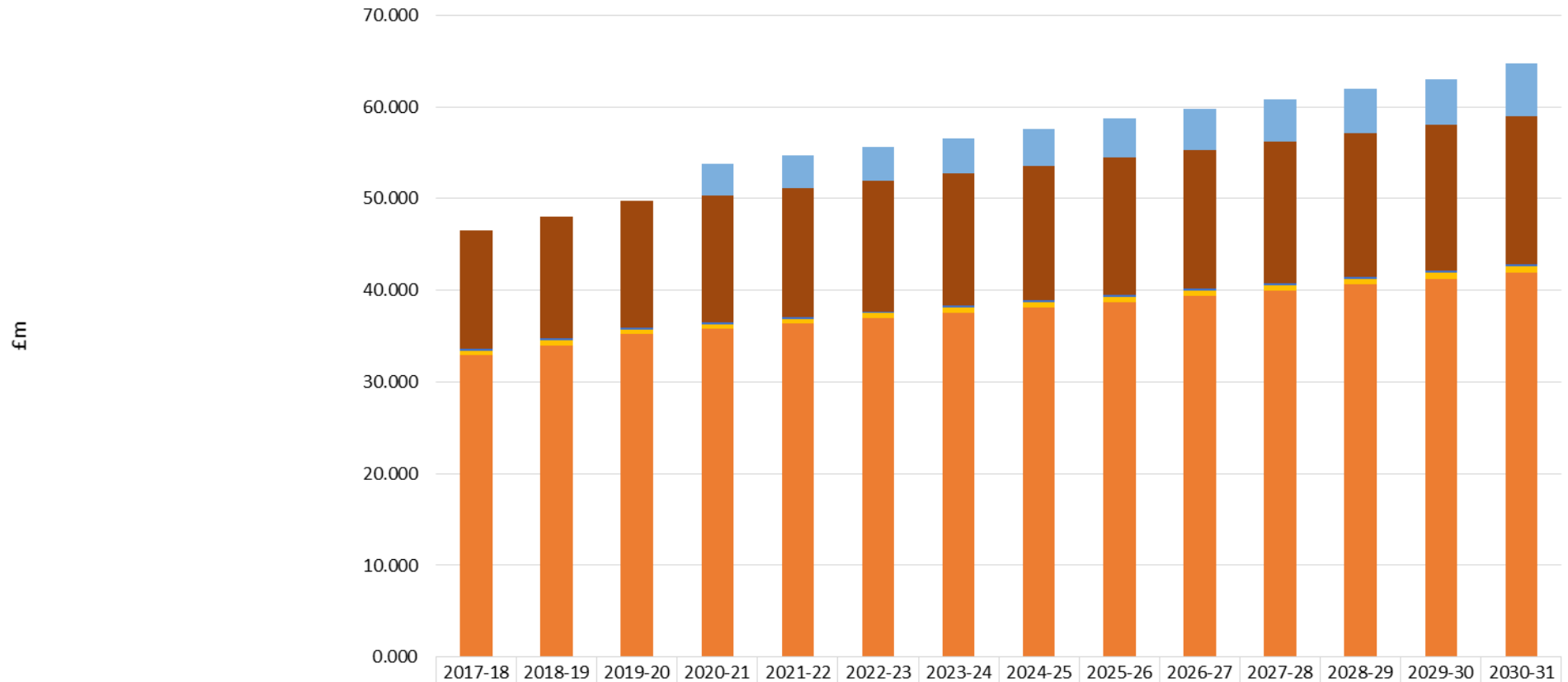
- **Proposals for managing the effect of transferring fire functions to police and crime commissioners**
- There is particular focus on the effect that the transfers could have on the adult social care precept in county councils

Medium Term Financial Plans



Luton BC

Chart 1 - Business Rate Retention System (BRRS)



	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
■ Business rate pool														
■ Additional 100% pilot retention														
■ Returned Surplus				3.435	3.566	3.696	3.826	3.952	4.321	4.483	4.644	4.806	4.965	5.753
■ Safety Net	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
■ Levy	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
■ Top-up/ (Tariff)	12.868	13.282	13.755	13.776	13.996	14.220	14.447	14.679	14.913	15.152	15.394	15.641	15.891	16.145
■ S.31 - Multiplier Cap	0.193	0.200	0.207	0.207	0.210	0.214	0.217	0.220	0.224	0.228	0.231	0.235	0.239	0.243
■ S.31 - Multiplier Cap	0.495	0.511	0.529	0.537	0.546	0.555	0.564	0.573	0.582	0.591	0.601	0.610	0.620	0.630
■ Non-Domestic Rating Income + Section 31 grants	32.946	34.006	35.216	35.779	36.352	36.933	37.524	38.125	38.735	39.354	39.984	40.624	41.274	41.934

Chart 2 - Share of Rates (post levy and safety net) vs Business Rate Baseline

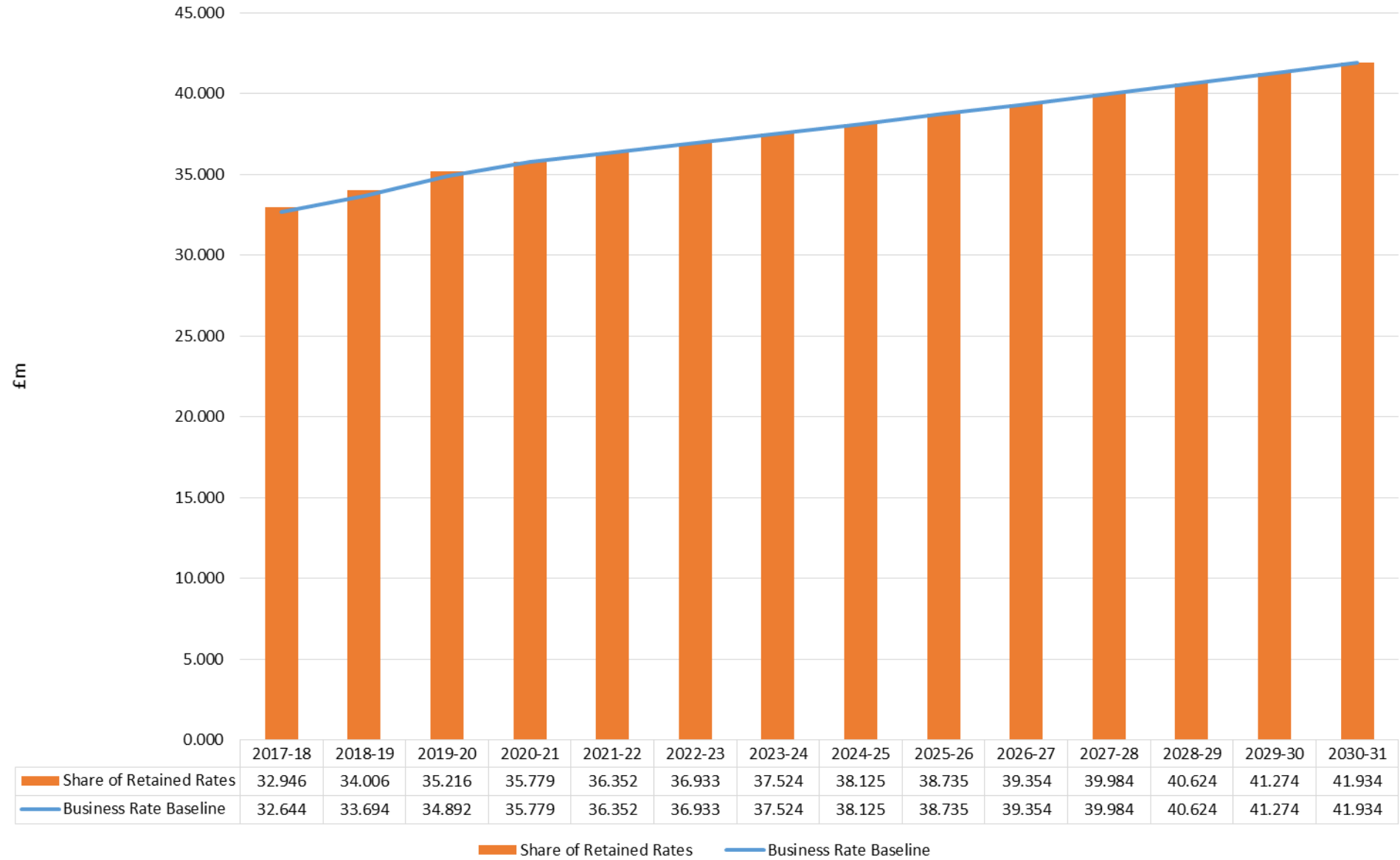
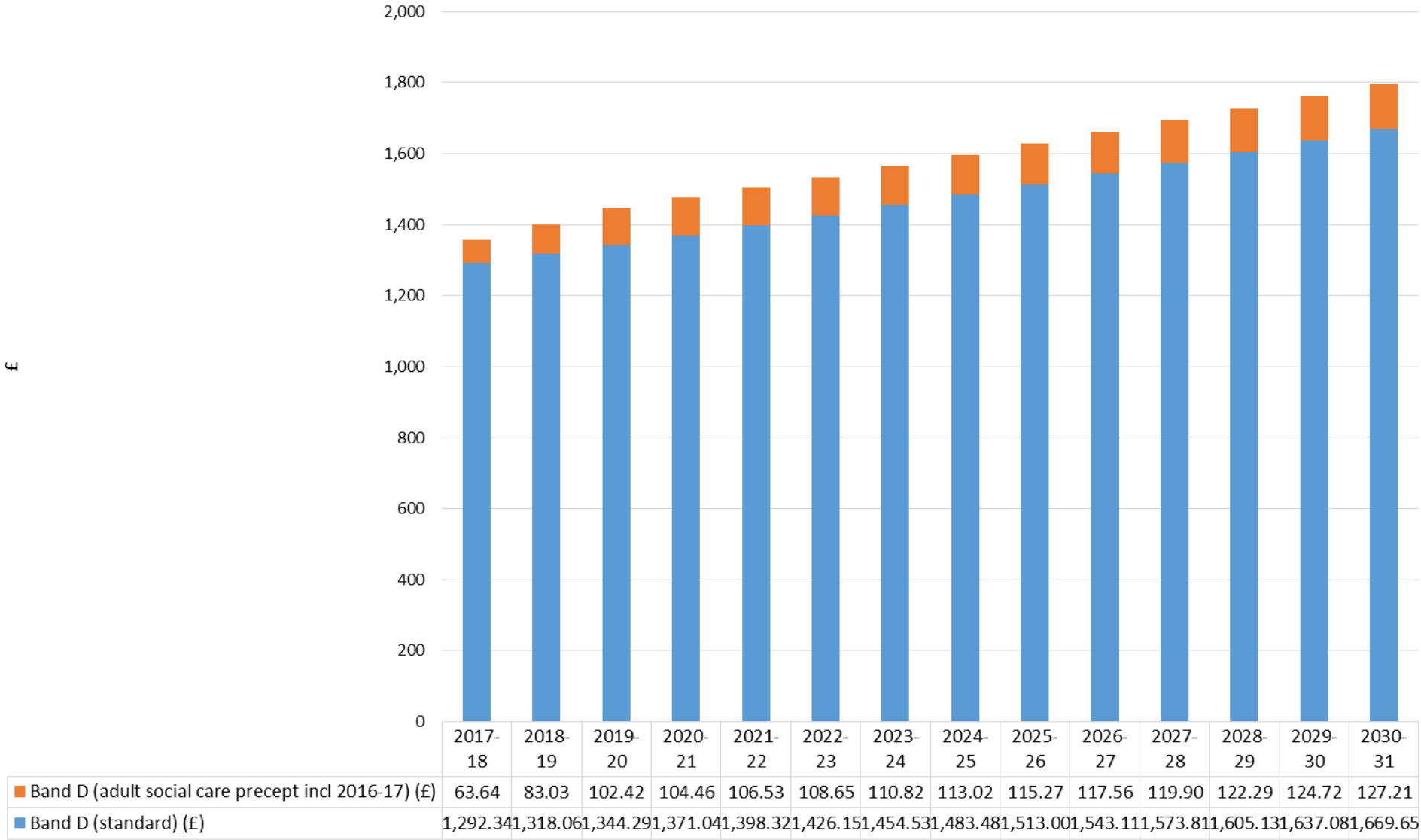


Chart 3 - Council Tax Band D



■ Band D (standard) (£) ■ Band D (adult social care precept incl 2016-17) (£)

Chart 4 - Sources of Funding

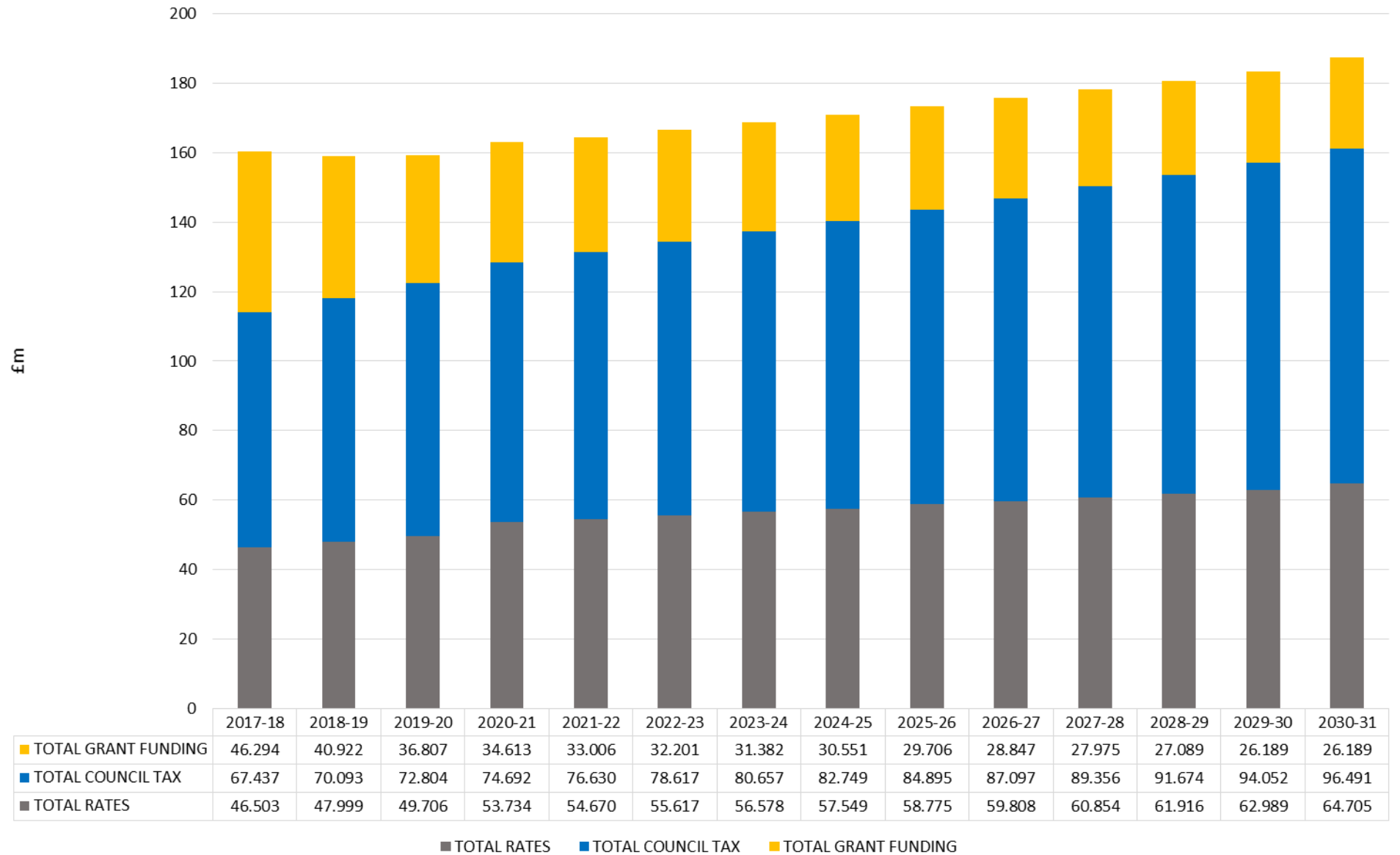
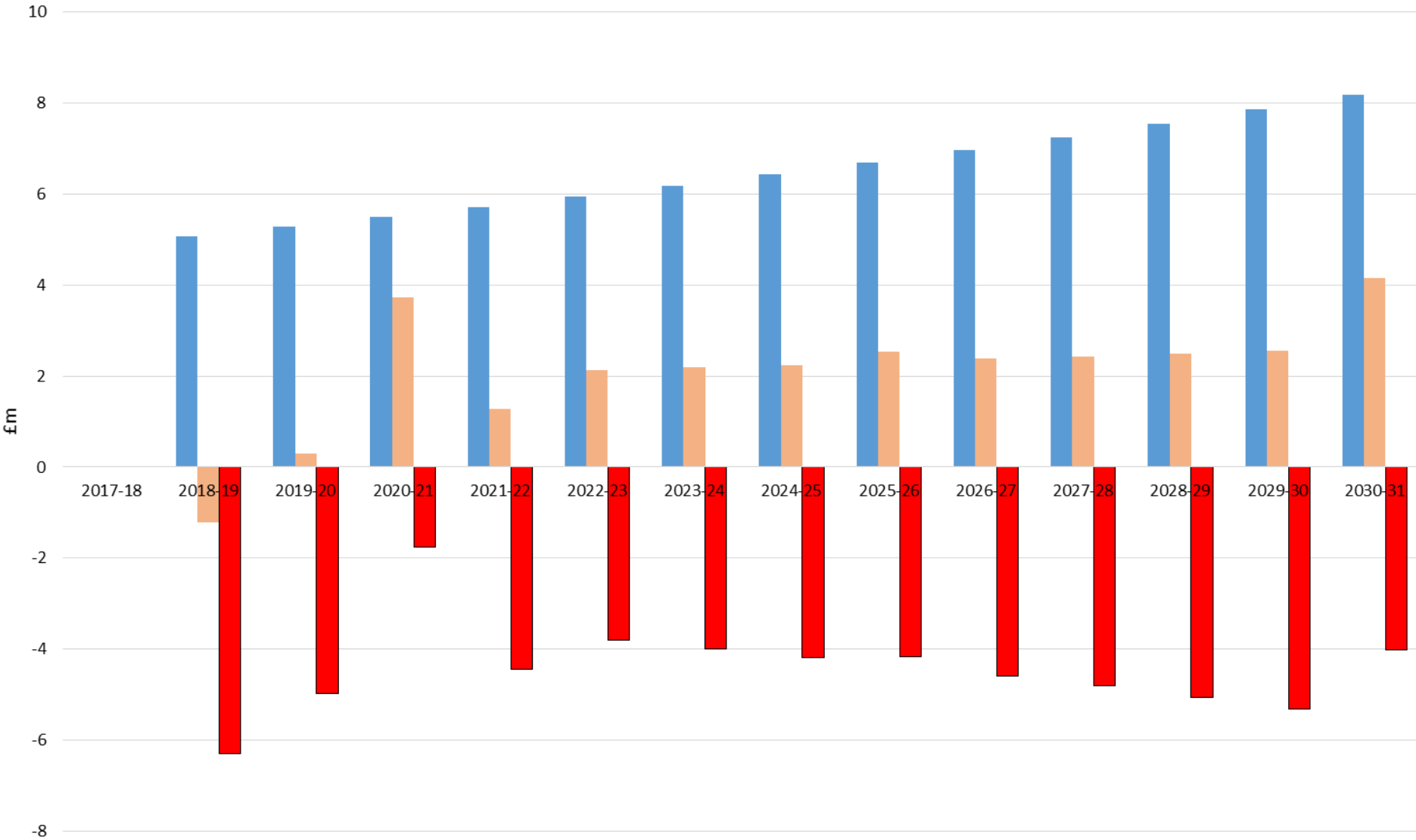


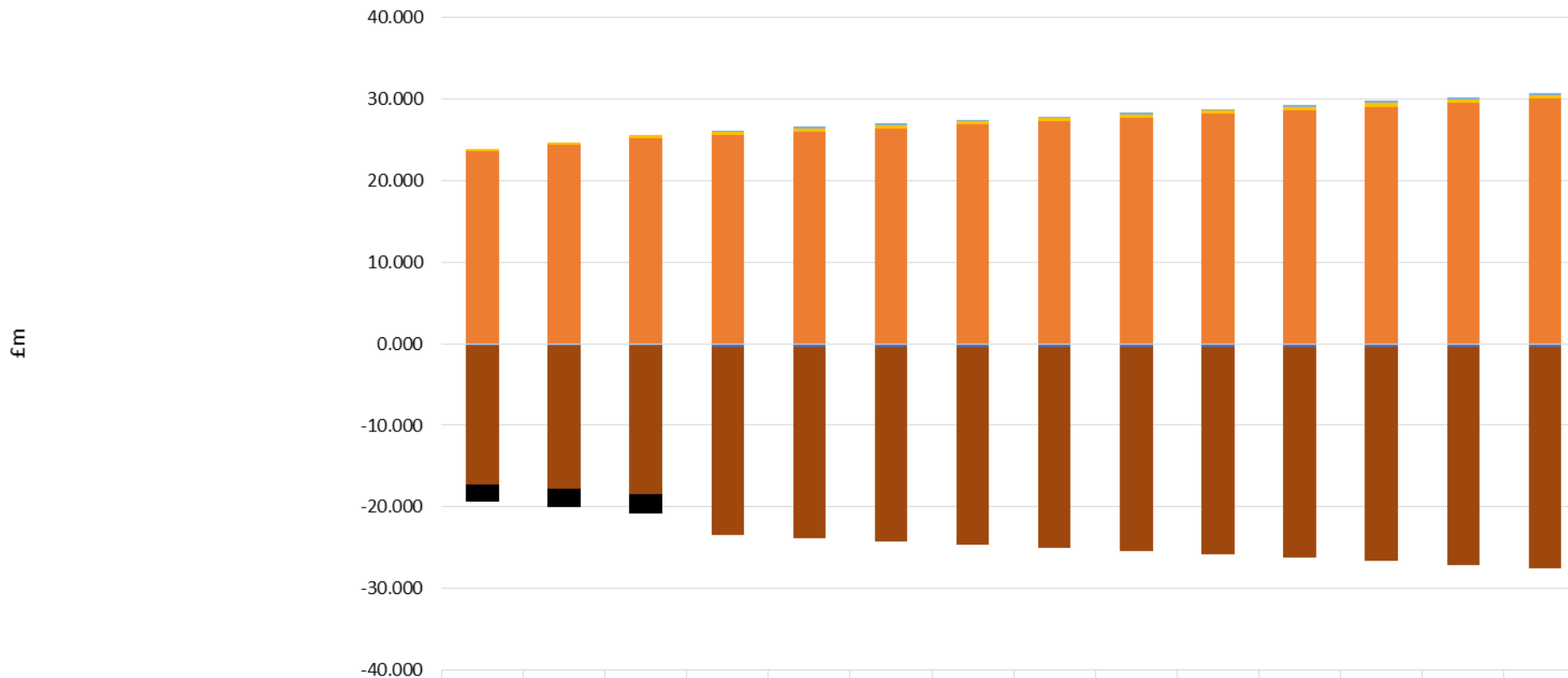
Chart 5 - Budget Surplus/ (Shortfall)



Change in budgeted spending Total change in Resources Funding surplus/ (shortfall)

North West Leicestershire DC

Chart 1 - Business Rate Retention System (BRRS)



	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Business rate pool														
Additional 100% pilot retention														
Returned Surplus				0.169	0.176	0.182	0.188	0.195	0.212	0.220	0.228	0.236	0.244	0.282
Safety Net	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Levy	-2.144	-2.213	-2.292	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Top-up/ (Tariff)	-17.009	-17.557	-18.181	-23.123	-23.493	-23.869	-24.251	-24.639	-25.033	-25.433	-25.840	-26.254	-26.674	-27.101
S.31 - Multiplier Cap	-0.256	-0.264	-0.273	-0.347	-0.353	-0.359	-0.364	-0.370	-0.376	-0.382	-0.388	-0.394	-0.401	-0.407
S.31 - Multiplier Cap	0.354	0.365	0.378	0.384	0.390	0.396	0.403	0.409	0.416	0.422	0.429	0.436	0.443	0.450
Non-Domestic Rating Income + Section 31 grants	23.542	24.300	25.164	25.567	25.976	26.392	26.814	27.243	27.679	28.122	28.572	29.029	29.493	29.965

Chart 2 - Share of Rates (post levy and safety net) vs Business Rate Baseline

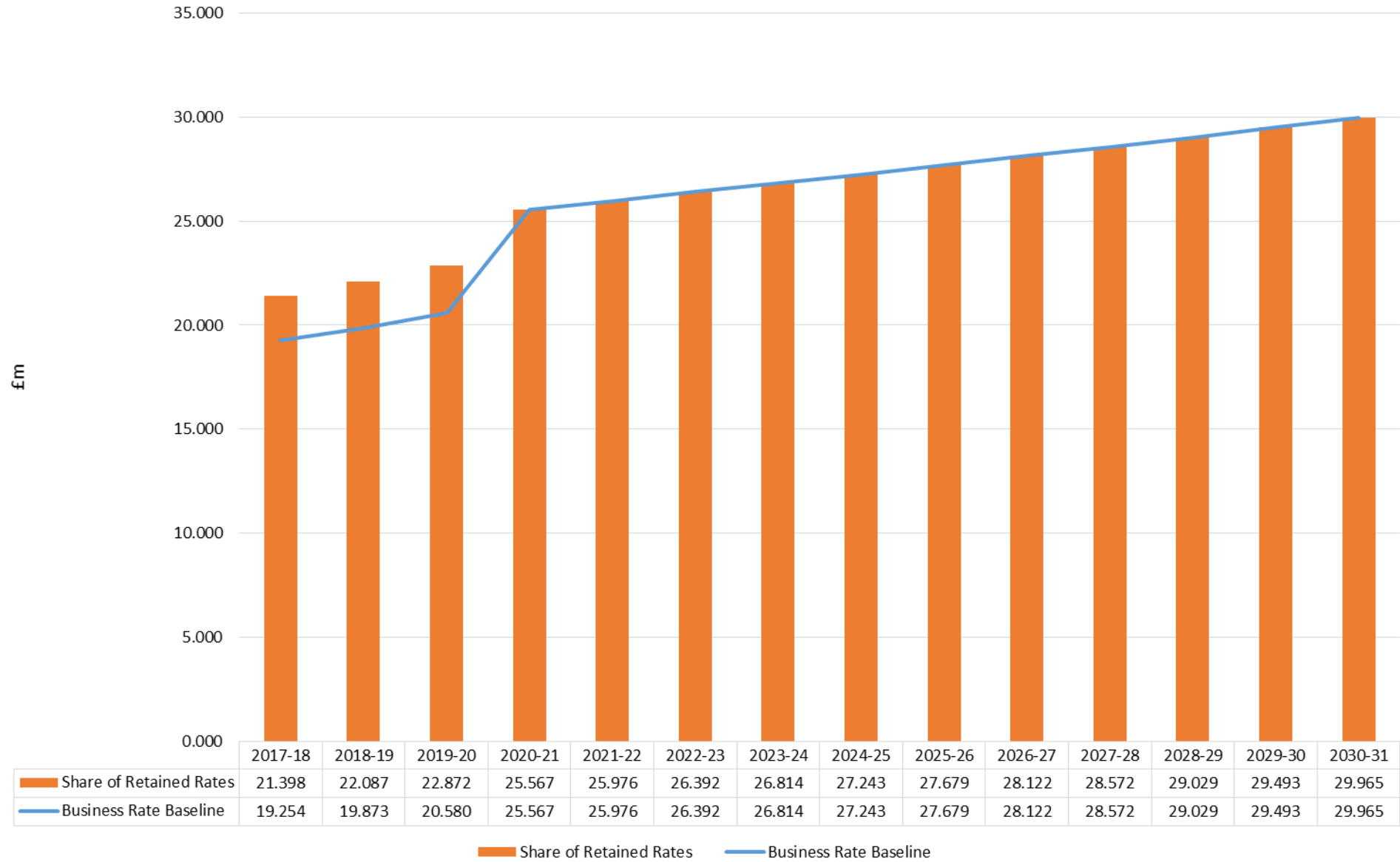
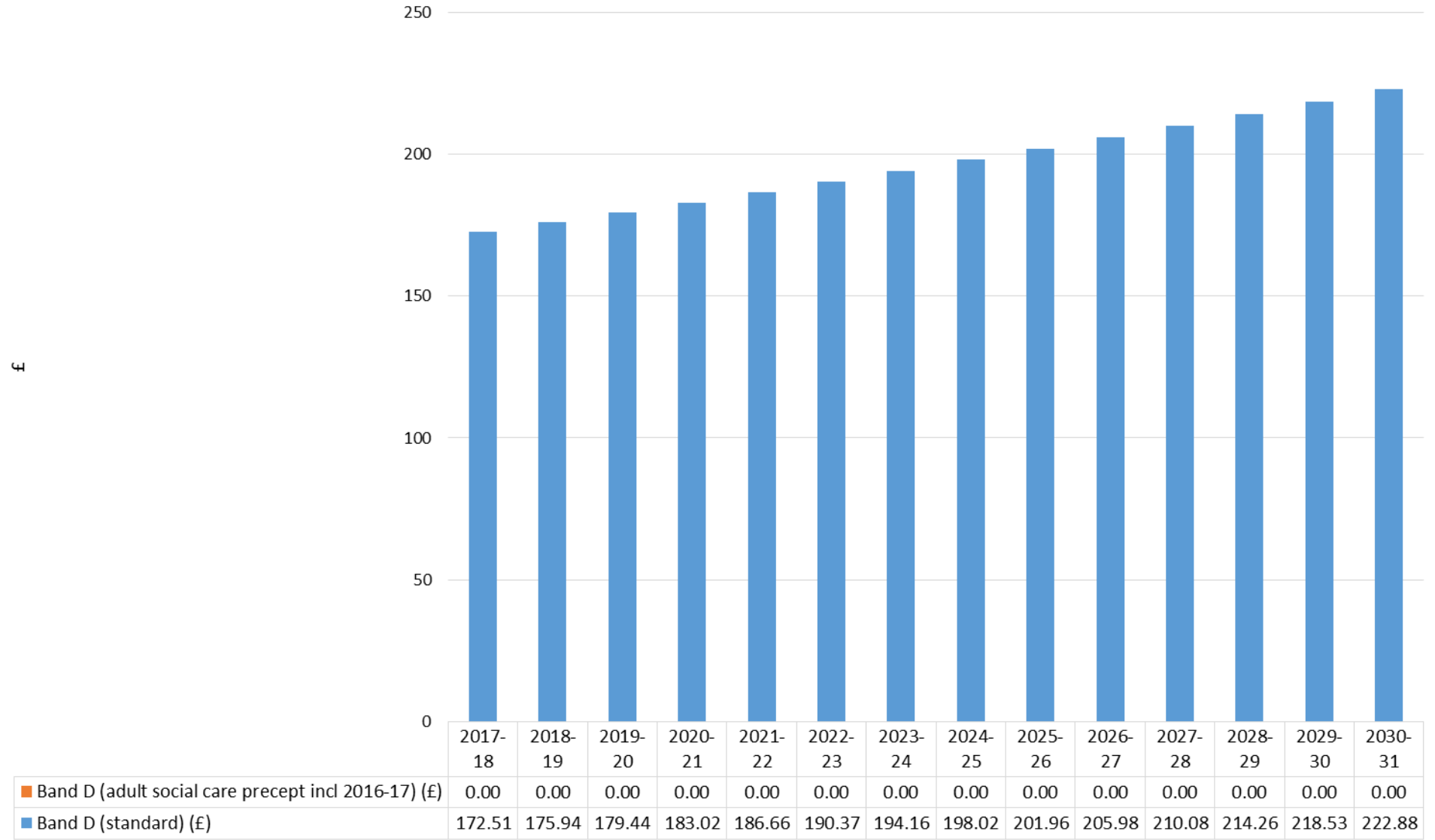
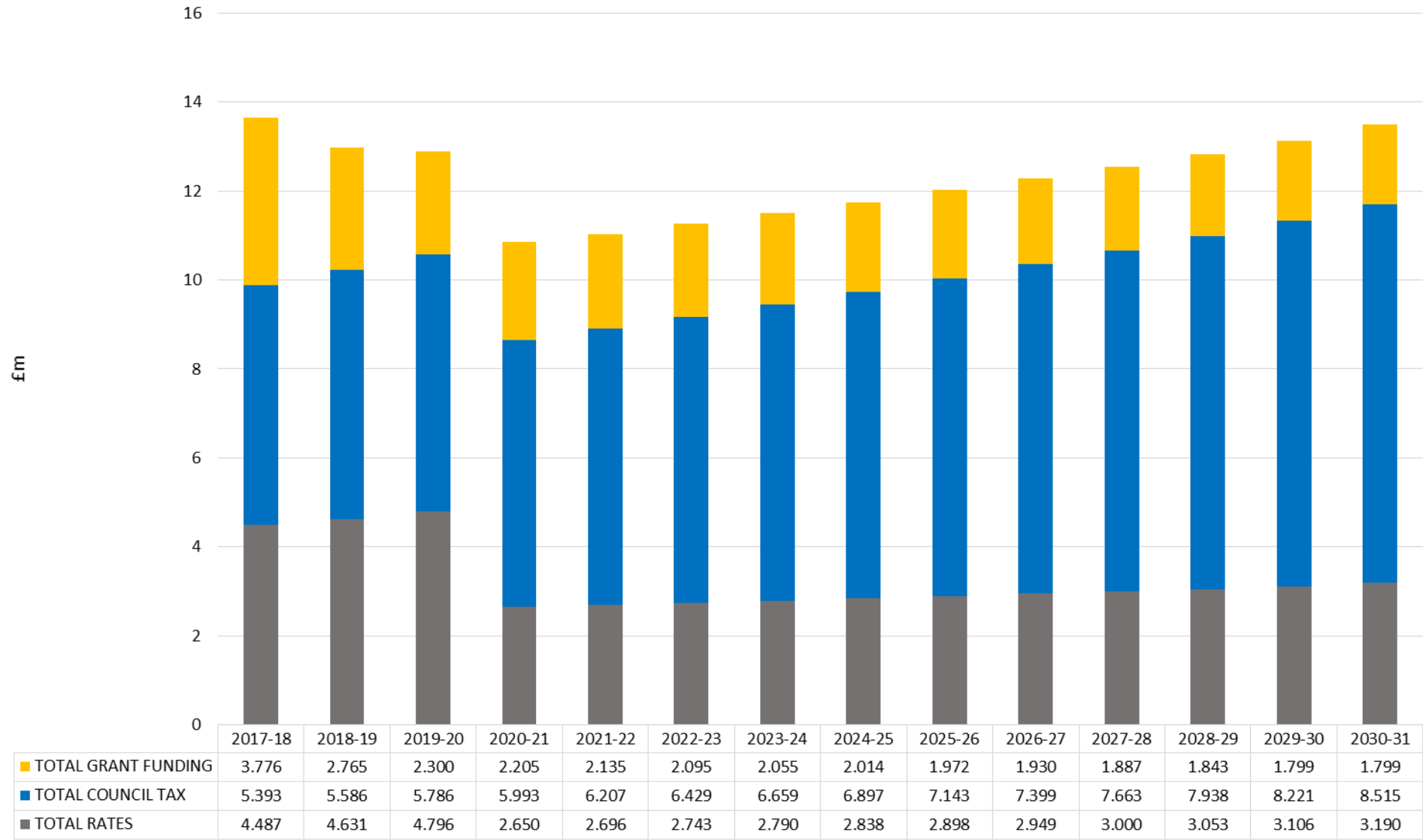


Chart 3 - Council Tax Band D



■ Band D (standard) (£) ■ Band D (adult social care precept incl 2016-17) (£)

Chart 4 - Sources of Funding



■ TOTAL RATES ■ TOTAL COUNCIL TAX ■ TOTAL GRANT FUNDING

Chart 5 - Budget Surplus/ (Shortfall)



Adrian Jenkins

Director, Pixel Financial Management

0796 998 0016

adrian@pixelfinancial.co.uk

<http://www.cipfa.org/services/networks/funding-advisory-service>

