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Business Rates Retention and Review of Relative Needs and Resources

Regional consultation events

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Contacts and resources

Reviewing needs and resources	Business rates retention
Consultation document:	Consultation document:
https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources	https://www.gov.uk/government/consultations/business-rates-retention-reform
MHCLG contact email:	MHCLG contact email:
needsandresources@communities.gov.uk	BRRSystemDesign@communities.gov.uk
LGA contact email (both workstreams):	All papers of technical working groups online here:
businessrates@local.gov.uk	https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention

Agenda

Time	***Session***
1.30pm	Introduction
1.40pm	Review of relative needs and resources
2:55pm	Comfort break
3:10pm	Business Rates Retention
4:25pm	AOB
4:30pm	Close

Chair's welcome and introduction

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Progress to date..	
Oct 2015:	Further business rates retention first announced
Feb 2016:	Review of relative needs and resources announced
Mar 2016:	Joint MHCLG / LGA technical working groups begin work
Jul 2016:	Initial calls for evidence published, over 200 responses to each
Jul 2017:	Technical working groups continue after General Election; further business rates retention revised
Nov 2017:	Data collection and modelling in relation to Children's Services
Dec 2017:	Technical consultations published
Dec 2018:	Further consultations
21 Feb 2019:	Closing date for the current consultations

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Review of Relative Needs and Resources

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Principles and objectives

Principles

- Simplicity
- Transparency
- Contemporary
- Sustainability
- Robustness
- Stability

Terms of Reference

- **set new baseline funding allocations** for councils
- deliver an up-to-date assessment of **relative needs**
- examine the **relative resources** of local authorities
- consider appropriate **transitional arrangements**
- be developed through **close collaboration with local government**
- focus initially on **services currently funded through the local government finance settlement,** with a subsequent case-by-case consideration of additional responsibilities

Final funding position for a local authority

1 Relative needs share - 2 Relative resources adjustment +/- 3 Potential transitional arrangements + Actual resources income

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1) Relative needs

Formulas by class of authority

Relative Needs Formulas		Shire Areas			Metropolitan Areas	London	Other
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	Fire authorities
Foundation Formula	Upper Tier	✯	✯		✯	✯	
	Lower tier	✯		✯	✯	✯	
Adult Social Care		✯	✯		✯	✯	
Children and Young People's Services		✯	✯		✯	✯	
Public Health		✯	✯		✯	✯	
Highways Maintenance		✯	✯		✯	✯	
Fire & Rescue		✯	✯				✯
Legacy Capital Finance		✯	✯	✯	✯	✯	✯
Flood Defence and Coastal Protection		✯		✯	✯	✯	
Other potential service areas (discussed in consultation)							

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1) Relative needs

Overview of formulas and cost drivers

Relative Needs Formulas	Cost drivers included in formula	Will an Area Cost Adjustment apply?	Analytical technique
Foundation Formula	• Total population	Yes	Per capita basis
Adult Social Care	*18-64 formula*: • Proportion of people aged 16 to 64 with day-to-day activities limited a lot • Proportion of people aged 16-64 claiming JSA, IS and ESA • Proportion of people of all ages living in households with one family • People aged 16-24 inclusive per person aged 16-64 inclusive *65+ formula*: • Proportion of older adults entitled to Attendance Allowance • Proportion of people aged 85 and over with limiting (significantly) condition • Proportion of people aged 80 and over claiming Pension Credit • Proportion of households over 65 who are couples • Number of home owner households (outright ownership only) aged 65 and over	Yes	Multi-level model
Children and Young People's Services	• *Initial results in spring 2019*	Yes	Multi-level model
Highways Maintenance	• Road length • Traffic flow	Yes	Expenditure based regression

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1) Relative needs

Overview of formulas and cost drivers

Relative Needs Formulas	Cost drivers included in formula	Will an Area Cost Adjustment apply?	Analytical technique
Public Health	• Population estimates • Sub-national population projections by age and sex • Standardised mortality ratios for those under 75 • Age-gender indices based on service weights by age-group and sex for: nutrition, obesity and physical activity; smoking; non-mandated sexual health services and children's 5-19 public health services • Modelled costs for substance misuse services by age-group and postcode sector • Predicted costs for sexual health services by age-group, sex and local authority • Sparsity adjustment for health visiting services	Yes	Weighted capitation formula; needs-weighting partially based on person-based / multi-level modelling
Legacy Capital Finance	• Assumed debt repayment • Assumed interest charges	No	-
Flood defence and coastal protection	_Flood_: • Length of ordinary watercourse • Properties at risk • Agricultural land at risk _Coast_: • Properties at risk • Length of coast	Yes	Expenditure based regression
Fire and Rescue Services	• Total population • Deprivation • Proportion of residents aged 65 and over	Yes	Expenditure based regression

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The consultation proposes adjusting for:

1 Differences in **labour costs,** including..

Sparsity

Density

..**Accessibility**

2 Differences in **premises costs**, including **business rates**

3 **Remoteness**

'**Accessibility**' and '**remoteness**' reflect the impact of journey times on labour costs to account for additional costs associated with sparsity, density, market conditions and economies of scale

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Final funding position for a local authority

1 Relative needs share **-** 2 Relative resources adjustment **+/-** 3 Potential transitional arrangements **+** Actual resources income

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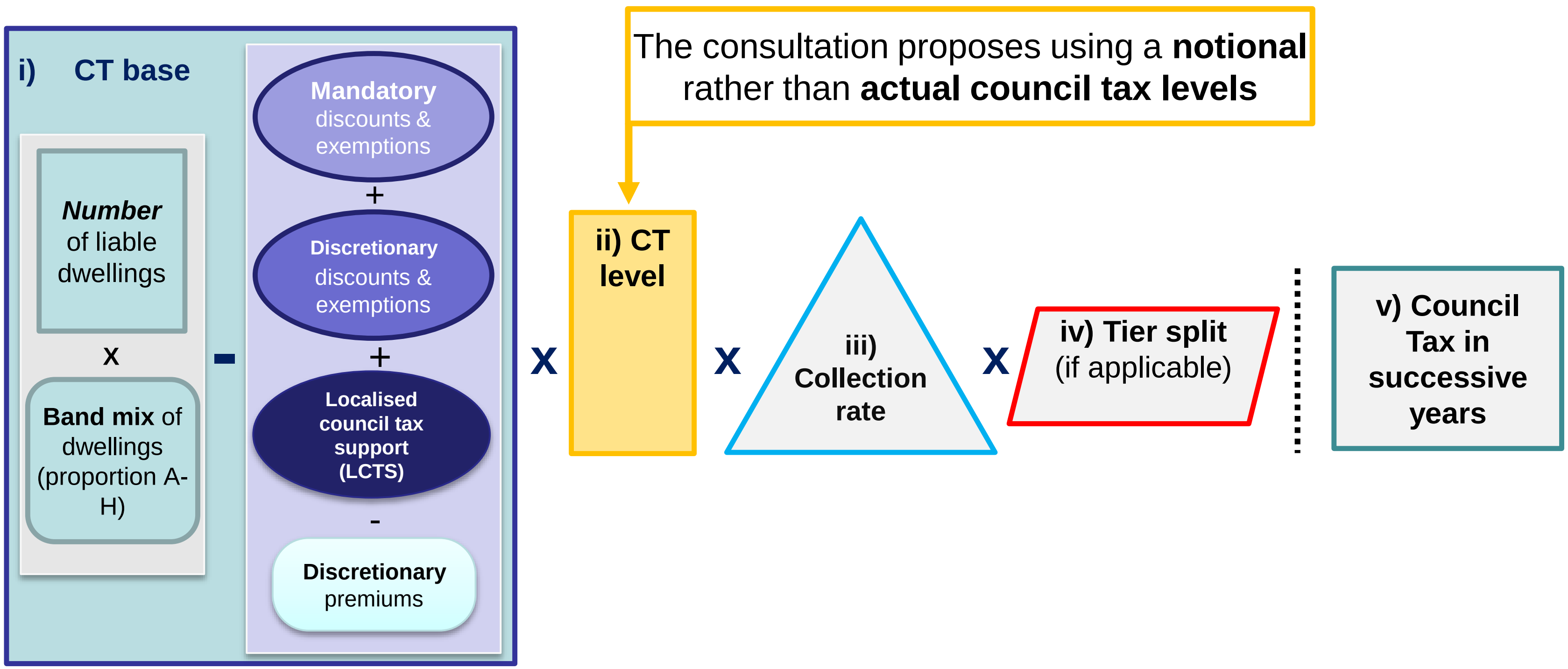
2) Relative resources

The measure of council tax resource equals

Principles

- Our approach to assessing relative resources will result in **no redistribution of council tax or sales, fees and charges resources between authorities**
- We **do not intend to reward or penalise authorities for exercising local discretion.**



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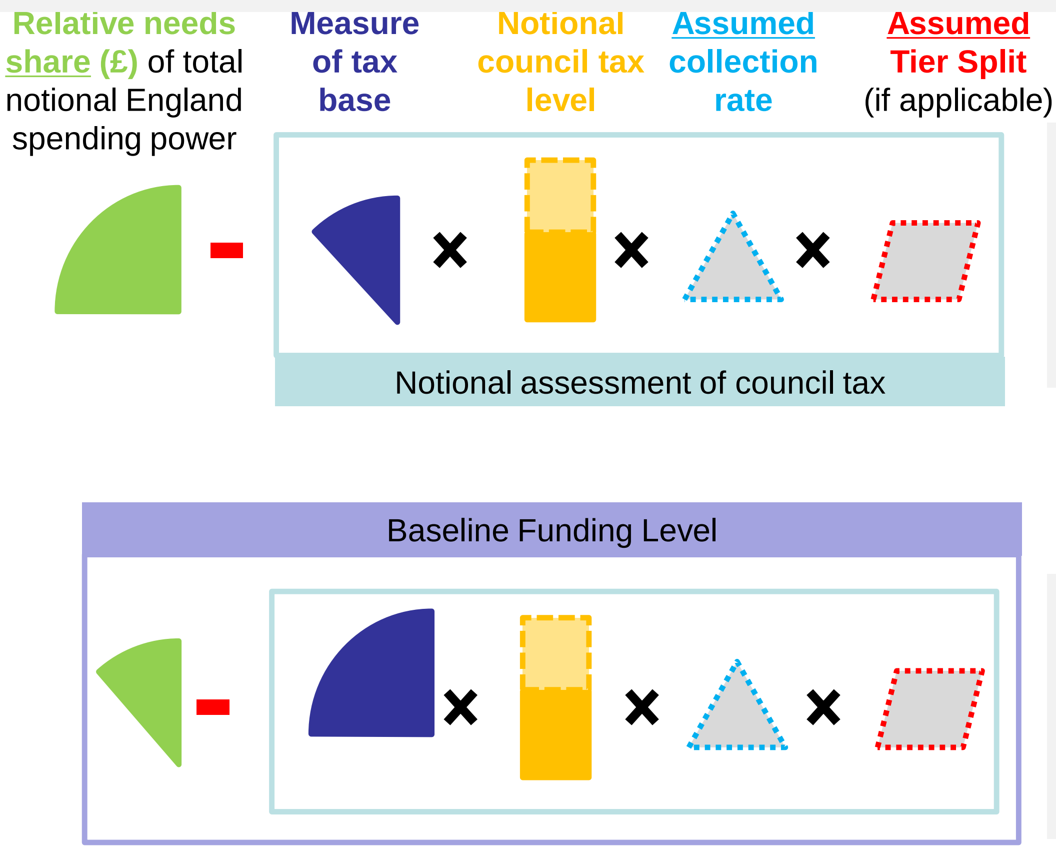
2) Relative resources

It is misleading to draw conclusions from a comparison of a council's actual council tax level against the notional council tax level

- It depends on whether a council's share of total need is higher than its share of tax base (e.g. **Council A**)
- A higher notional benefits Council A because its needs share **increases at a higher rate** than its resources adjustment

Council A

Council B



Council **A** relative to **B** would benefit from a **higher** notional council tax level

Council **B** relative to **A** would benefit from a **lower** notional council tax level

2) Relative resources
Sales, Fees and Charges

Considerations taken into account

Scale	Ability, choice and incentive effects	Volatility	Data availability

Approach in the review

- There are practical challenges in taking a direct account of sales, fees and charges income through the resources adjustment and we are therefore broadly minded not to do so
- However, there may be a case for taking specific service areas into account which have generated a significant level of surplus income for some authorities, such as on and off-street parking

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Final funding position for a local authority

1 Relative needs share **-** 2 Relative resources adjustment **+/-** 3 Potential transitional arrangements **+** Actual resources income

3) Potential transitional arrangements

Principles to guide transition

Stability	**Transparency**	**Time-limited**	**Flexibility**

Establishing the baseline:

- The scale of transition will depend on the baseline it is measured from.
- We propose the starting baseline for the purposes of transition will be a measure of the funding available to each local authority in 2019-20.

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Next steps and milestones

(aim to implement from April 2020)

21 February 2019:	Current consultation closes
Spring 2019:	Initial results from Children and Young People's Services research
Spring 2019:	Finalise options for needs and resources
Autumn 2019:	Set baseline funding allocations and finalise transitional arrangements
Autumn 2019:	LGF provisional settlement 2020-21

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Business Rates Retention

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Context

The business rate retention system was introduced in April 2013. Local government retains 50% of the rates collected from businesses, with the remainder retained centrally by the government and used to provide grant funding for local authorities.

Recap on the Government's commitment to Business Rates Retention

- The Government's **2017 manifesto** included a commitment: "***We will continue to give local government greater control over the money they raise***". Business Rates Retention remains a priority to deliver this manifesto commitment.
- In December 2017, the Government announced it is **aiming to increase business rates retention to 75% from 2020/21** in a way that is fiscally neutral. The Government also confirmed its intention to work collaboratively with the sector on reforms to the system, including **tackling the impact of appeals losses** on local authorities.

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Context

The business rate retention system was introduced in April 2013. Local government retains 50% of the rates collected from businesses, with the remainder retained centrally by the government and used to provide grant funding for local authorities.

During 2018 the Government has been considering options for reform of the system from 2020 within the existing legislative framework. Officials have been working with the joint MHCLG and LGA **Steering Group** and **Technical Working Groups** to come up with options for reforms. Papers are available on the LGA website.

This work also builds on two previous consultations on possible reform of the business rates retention system:

- Self-sufficient local government: 100% Business Rates Retention (July 2016).
- 100% Business Rates Retention, Further consultation on the design of the reformed system (February 2017).

This consultation brings together this previous work and seeks the sector's views on options to reform the business rates retention system from 2020.

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Objectives for this consultation

The consultation covers reform of the way the business rates retention system will work from 2020. There is a separate consultation on the Review of Relative Needs and Resources published alongside this consultation.

The consultation is seeking views on *options* for reform of the system – no decisions have been taken yet and the Government wants to hear local government's views on reform of the system.

The Government is intending to consult further on reform, in the context of wider changes to the local government finance system, including transitioning to the new system, in 2019.

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Objectives for this consultation

The consultation covers reform of the way the business rates retention system will work from 2020. There is a separate consultation on the Review of Relative Needs and Resources published alongside this consultation.

The consultation covers two broad areas:

- The **right balance of risk and reward in the business rates retention system.** Local authorities should continue to receive the benefit of growth they achieve in their local areas.
- Summarises the work undertaken to develop options to **mitigate volatility** in income and address the impact of appeal losses on local authorities.

The consultation also seeks views on how to set business rates baselines in 2020.

Following the findings and recommendations of the recent ***Hudson Review into the governance and processes of local government finance***, the government has also been considering options to mitigate against exacerbating the complexity of the current system and for the BRR system to be more responsive to change and more straightforward for local authorities and central government to administer.

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Balancing Risk and Reward

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Resets

The 2017 consultation sought the sector's views on full and partial resets, with the sector supporting the concept of partial resets to help ensure that there is an incentive to grow business rates in all years.

The system design working group has also considered additional reset options and we are using this consultation to test the idea of phased resets alongside partial resets.

Full reset: growth is retained for a set period and then redistributed in full.

Partial reset: growth is retained for a set period and then at a reset such that a proportion of growth retained over the previous period is redistributed, with the remaining proportion is retained with individual local authorities.

Phased reset: authorities retain each year's growth for a set number of years and then it is redistributed.

The length of reset period could vary for all reset types too

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Resets

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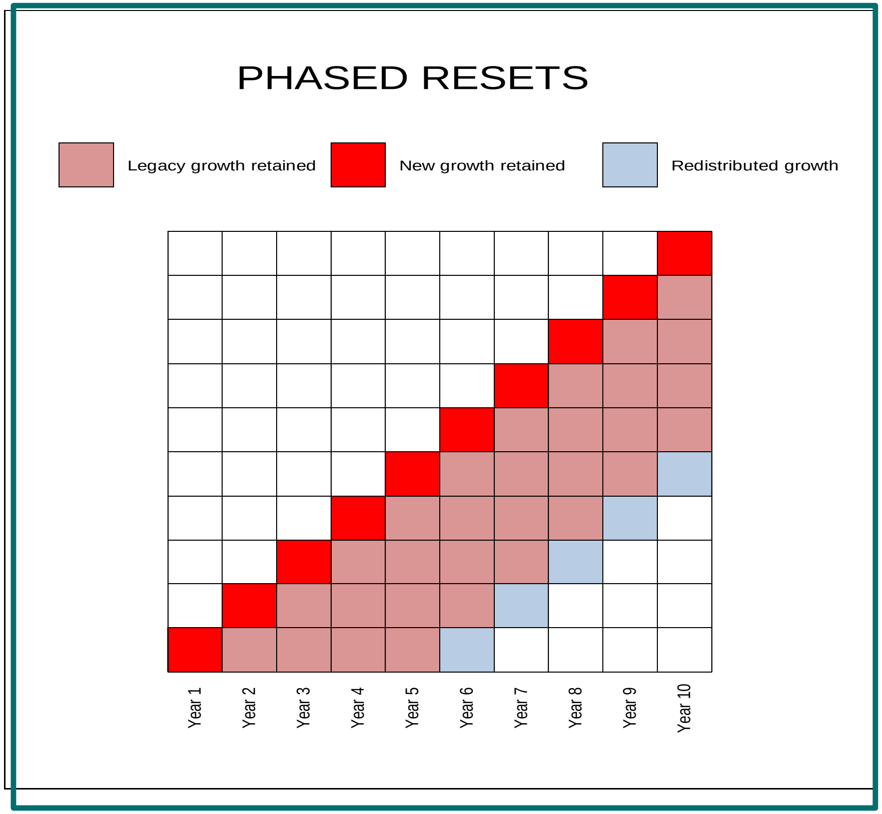
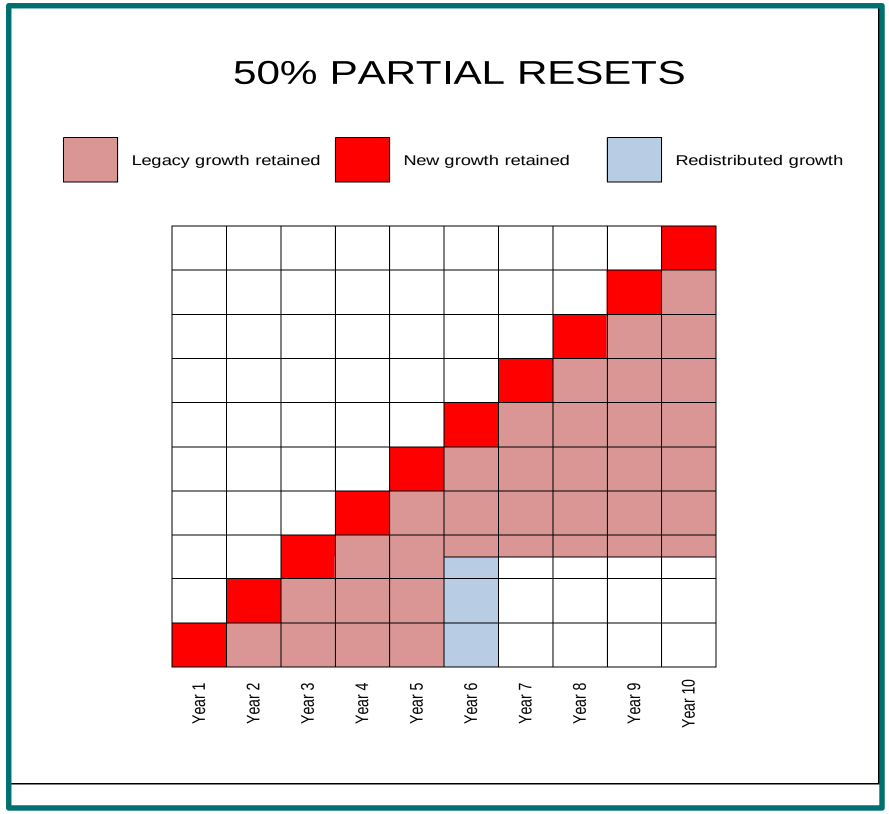


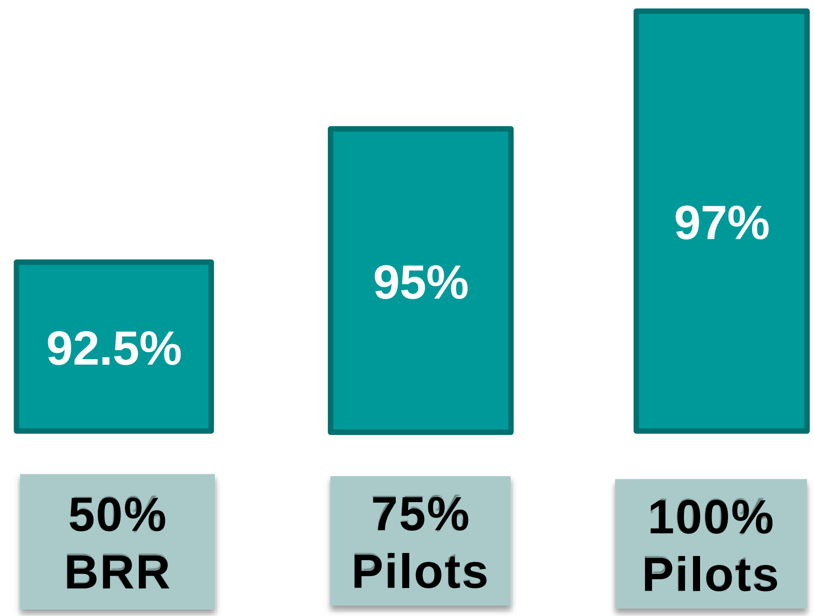


Safety Net

Safety Net

- The safety net remains an important mechanism as it ensures risk in the system is **proportionate** and **sustainable** at a local authority level.
- The Government has previously confirmed that the safety net will **continue as a 'simple' safety net** whereby local authorities bear some of the risk but will a safety net will kick in if income drops below a certain level (of baseline funding level).
- The consultation seeks local government's views **on the level of the safety net**.
- The appropriate level for the safety net will be influenced by the reform of other elements of the system.

Different safety net levels are being piloted by different areas



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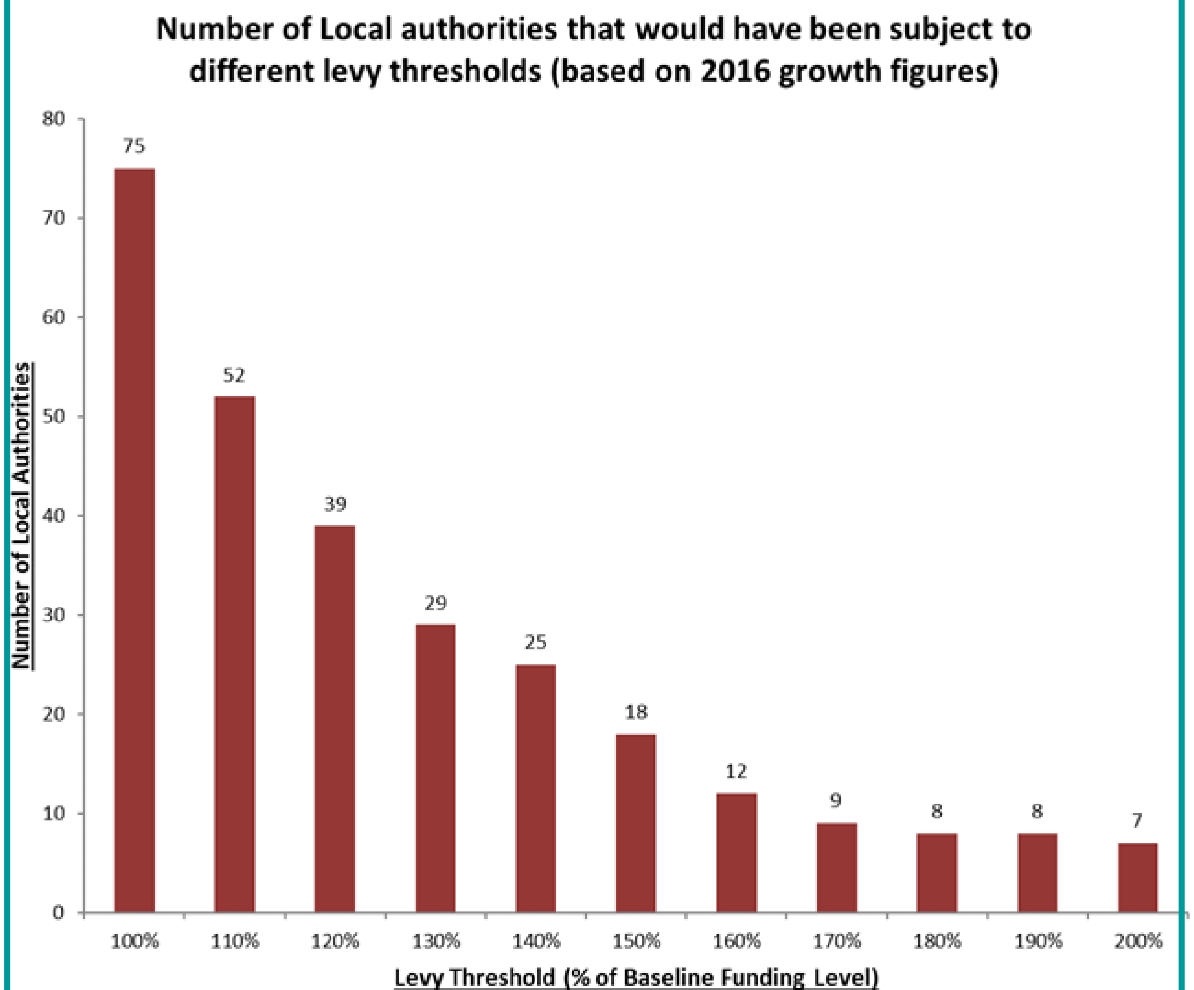
Levy

The Government wants to ensure that the growth incentive remains strong.

The Levy

- Scrapping the levy would require primary legislation however the Government **remains committed to rewarding growth** and is minded to reform the levy.
- The consultation proposes raising the levy threshold so that more growth is kept by more local authorities.
- The consultation is also seeking views on whether the levy should act as a 'cap' on all growth above a certain level.



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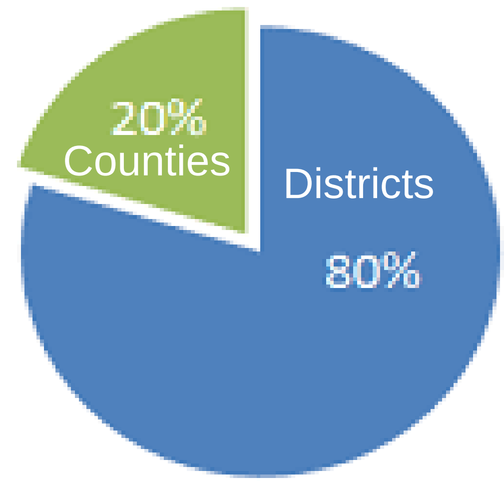
Tier splits and pooling

Tier Splits

- The Government is minded to **retain a national tier split** to distribute business rates income in two tier areas.
- The consultations seeks views on whether the **principles behind the current tier split** (80% districts) and (20% counties) are still correct.
- The Government will **continue to collaborate** with districts and counties on setting the new tier split
- The consultation asks whether two tier areas would welcome the opportunity to **set their own tier split** (regardless of a decision on the 'national' tier split).
- The consultation confirms that there will continue to be separate consultation on the tier split between London boroughs and the Greater London Authority and that FRAs will continue to retain 1% of business rates.

Current Tier Split



Q: 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?
Q: Should two-tier areas be able to agree their tier split locally?

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Tier splits and pooling

The Government will continue to work with two tier areas on the future tier split and is seeking sector views on the future of pooling

Pooling

- The Government believes that pooling is desirable and offers many benefits including:
    - Facilitating joint strategic decision making.
    - Better planning across functional economic areas.
- Reforming the levy along the lines proposed in the consultation would reduce the fiscal incentive to pool and the Government is seeking suggestions for alternative incentives.

Q: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

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Reducing volatility and simplifying the system

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Central and Local Lists

Resetting the business rates retention system in 2020/21 provides the opportunity to reassess the allocation of hereditaments between the central and local lists.

- The Government re-affirms its current criteria for inclusion on the central list and its view that the central/local list system should be **rational and transparent**, and criteria should be applied in an **uniform** way throughout the country.

- The MHCLG-LGA System Design Working Group has considered other criteria including whether high hereditaments with a large rateable value should be included on the central list if they posed a risk to an authority's short term financial stability. However, the government is minded to rule this out as the safety net serves a simpler mechanism to deal with this sort of volatility.

- The consultation outlines a principle that any movement of hereditaments between lists ahead of the 2020 reset **should not impact** on local authority income.

Annex A published alongside the main consultation provides a detailed description of the existing criteria that will be applied to decide whether a hereditament should be listed on the central list. The consultation asks respondents to apply these criteria and answer:

Q: Are there any hereditaments which you believe should be listed in the central list?
Q: Are there any listed on the central list which you believe should be listed in a local list?

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Tackling the impact of appeal losses and other valuation change

The Government remains committed to addressing the impact of appeals and other valuation change on local authority income.

The consultation document summarises the work the department has been doing with the System Design Working Group to mitigate the impact of appeals and valuation change on local authorities.

To address volatility caused by appeals and valuation change, MHCLG has worked with the sector and CIPFA to answer two questions:

- *How to measure the compensation due to local authorities, if business rates losses due to valuation change were to be centralised.*
- *How to mitigate the impact of provisions on authorities' ability to spend on services*

Annex B accompanying the consultation summarises the proposed change in more detail.

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Tackling the impact of appeal losses and other valuation change

The Government remains committed to addressing the impact of appeals and other valuation change on local authority income.

The consultation proposes a reform that would allow the impact of appeals provisions to be removed. At the moment the Government believes this reform would be the best way to ensure this happens The Government is seeking views on this reform as both a way to a mitigate the impact of appeals, but also a way to create a business rates retention system that is more flexible and responsive.

This would work by:

- Replacing **'fixed' baselines** and **'fixed' top-ups and tariffs**. Instead of fixed baselines, **local authorities' own estimates of income** – after provisions – would be used each year (provided through NNDR1s).

- **'Floating' top-ups and tariffs** would be used to ensure that any changes in provisions or any differences between NNDR1s and NNDR3s doesn't impact on income in subsequent years. This would result in local authorities having certainty that they will receive BR income equal to their assessed need year (+/- growth/decline recognised).

Annex B accompanying the consultation summarises the proposed change in more detail.

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Summary of the proposed change

Current System

Under the current system each LA has a BRB set in 2013/14 based on the average BR income in 2010/11 and 2011/12.

Each LA's top-up or tariff is set as the difference between BRB and BFL. These means that top-ups and tariffs have been 'fixed' in real terms and inflexible, not taking account of individual LA circumstances.

Baseline Funding Level

BRB: Business Rates Baseline

Fixed top-up or tariff

REDISTRIBUTION + GROWTH

BRBs have been fixed in real terms and are used to set a top-up and tariff to both distribute BR to meet need AND as a baseline to measure growth from.

Each local authority will continue to have a pre-determined baseline of 'need' - a baseline funding level.

Under the proposed reform, local authorities' own estimates of income (provided through NNDR1s) can be used to set top-ups and tariffs so that actual provisions can be taken into account. **Top-ups and tariffs can be set to ensure that local authorities retain business rates equivalent to their need *after* provisions.**

Under the proposed reform, top-ups and tariffs will be adjusted to reconcile any differences in income caused by provisions and backdated appeals. **Top-ups and tariffs will be set to ensure local authorities receive their allocated need after provisions + any growth or decline**.

New Baseline 'Need'

NNDR1
Net Rates Payable

REDISTRIBUTION

Floating top-up or tariff

Proposed Change

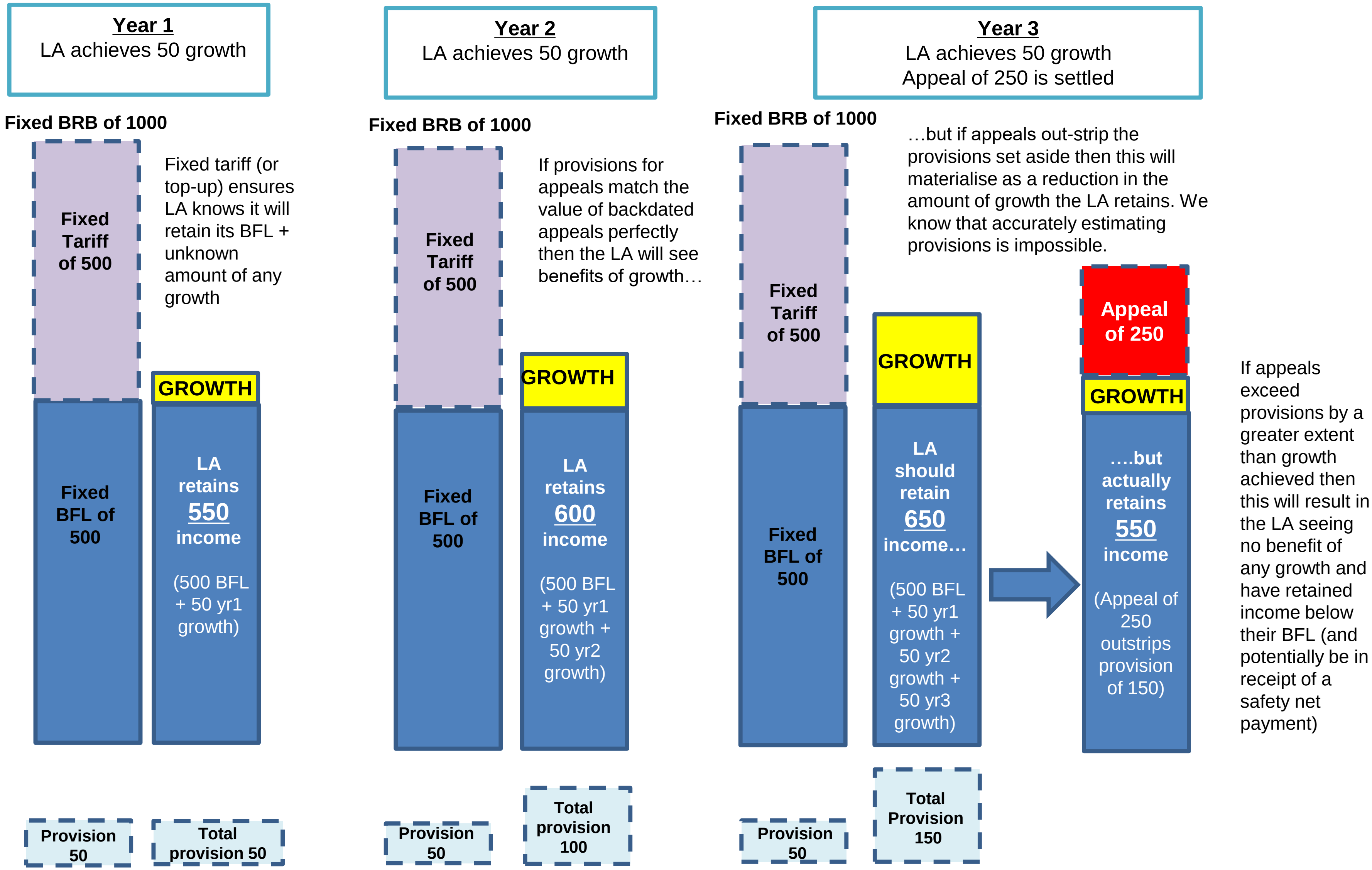
The baseline from which growth is measured will be recalibrated annually to take account of backdated appeals. **This will ensure that the growth a LA retains is not reduced by backdated appeals**. There are still choices on how we could measure growth and MHCLG will continue to work with the sector.

Annually recalibrated baseline

GROWTH

Annex B accompanying the consultation summarises the proposed change in more detail.

Current ‘Fixed’ Tariff / Top-up System



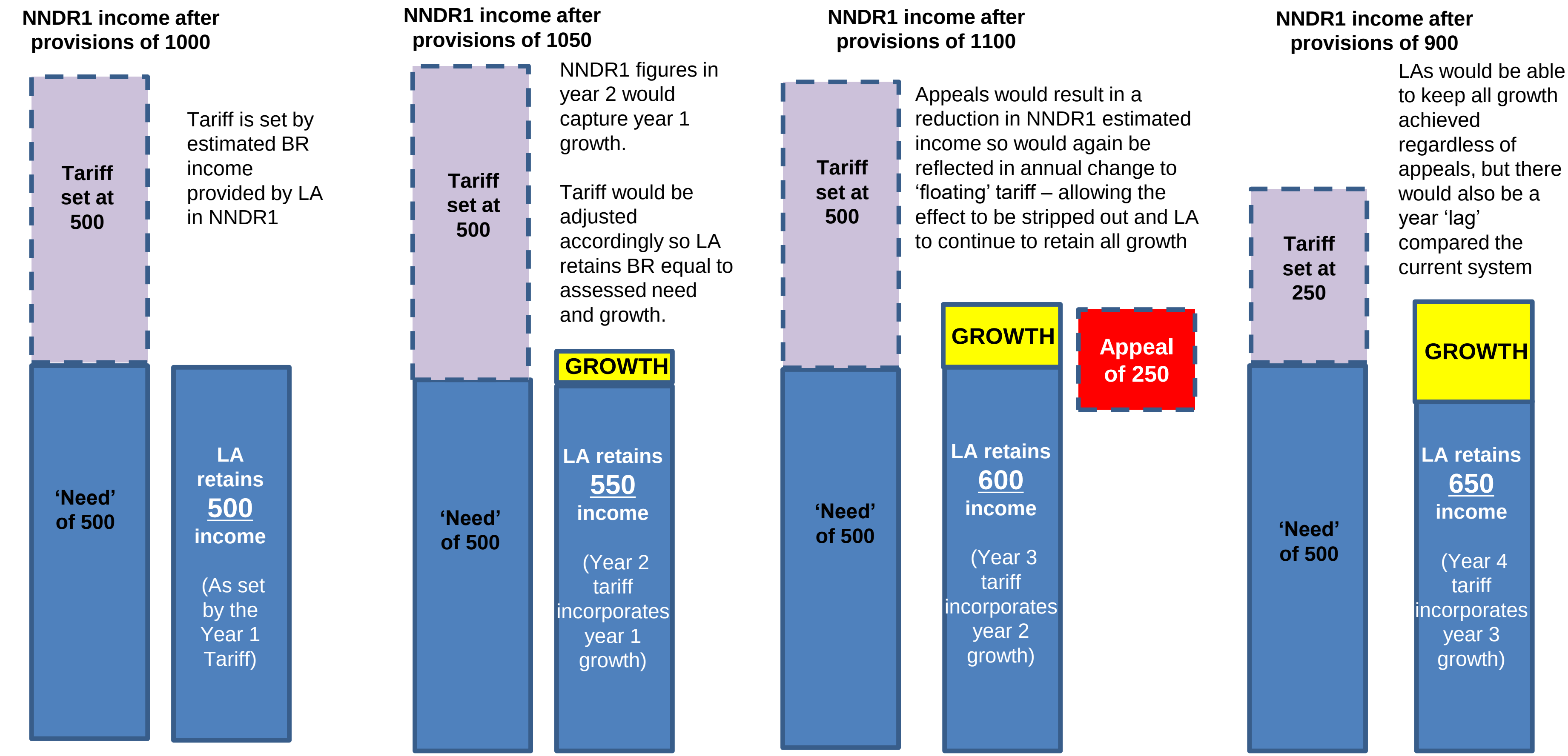
Alternative 'Floating' Tariff / Top-up System

Year 1	**Year 2**	**Year 3**	**Year 4**
LA achieves 50 growth	LA achieves 50 growth	LA achieves 50 growth Appeal of 250 is settled	

Bringing forward NNDR1 forms so they are available in time for provisional Settlement will allow LAs own estimate of income to be used for top-ups and tariffs.

Top-ups and tariffs can also be set *net* of any changes to provisions.

By collecting 'prior-year adjustments' posted to individual years the baseline from which growth is calculated in any given year can be recalibrated to take account of appeals



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Tackling appeal losses and other valuation change – changing the way the system is administered

A change to the administration of the system would deliver several outcomes for local authorities:

Removing the impact of appeals and providing predictability of funding

Ensuring local authorities see the benefit of growth

Creating a more flexible and responsive business rates retention system

- MHCLG will continue to work the sector on developing this proposal and the consultation provides and opportunity for local authorities to suggest areas which we need to explore further.

- Regardless of whether this proposed reform is implemented, the other elements of the system being consulted on would continue to be relevant. The options proposed in the consultation on the future of resets, tier splits, the safety net and the levy could all be applied whether or not this change to the administration of the system is implemented.

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Setting up the system

Setting up the new system – Setting business rates baselines

The Government is committed to a full reset of the business rates retention system in 2020. The consultation doesn't cover how local authorities will transition to new funding allocations (outcome of the review of relative needs and resources and the Spending Review). The Government will consult further in 2019.

If we do not change the way in which the system is administered, the Government will need to set new business rate baselines for 2020-21. In order to provide sufficient time for local authorities to input into this, if it is needed, the lead proposal is set out in the consultation.

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Setting up the new system – Setting business rates baselines

Setting new business rates baselines

- If the proposed changes to the administration of the system are not made, it will be necessary to **set new business rates baselines**.
- The consultation proposes using a **single year's data** rather than an average of two years as in 2013/14.
- The consultation suggests that the data that would have to be used to do this would be the **2018/19 NNDR3 outturn data** – uprated by change in small business rating multiplier.
- The consultation document also proposes building business rates baselines from the **'bottom-up' using individual LA NNDR3s** opposed to 'divvying-up' a national aggregate as was done in 2013/14.

Q: What are your views on the approach to resetting Business Rates Baselines?