



Ministry of Housing,
Communities &
Local Government

Business Rates Retention and Fair Funding Review

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MHCLG



Local government finance

Where are we now?

2018/19

- 2018/19 Local Government Finance Settlement approved by parliament
- Third year of a four-year settlement – minimal change
- Additional Adult Social Care Support Grant allocated

2019/20

- Commitment to consult on options to remove 'negative Revenue Support Grant' in 2019/20
- Another round of business rates retention pilots

2020/21

- Fair Funding Review and 75% Business Rates Retention – from 2020/21



Fair Funding Review

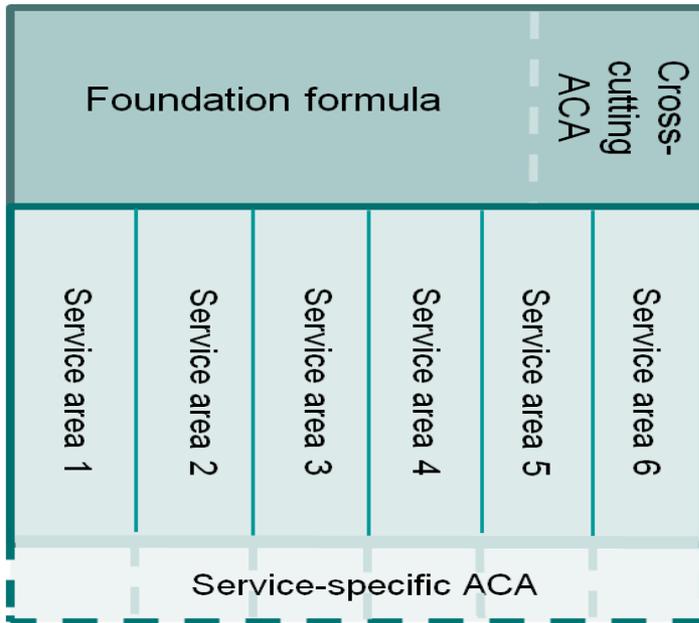
What have we done so far?

The progress to date..

- February 2016 – announcement of the Review
- March 2016 – DCLG/LGA Fair Funding Review technical working group starts work
- July 2016 – initial call for evidence
- September 2016 – call for evidence closes, over 200 responses
- May 2017 – General Election
- July 2017 – working group continues its meetings
- December 2017 – technical consultation on needs



Fair Funding Review Relative needs



One potential approach

- A foundation formula
- Several service specific formulas
- A service-specific Area Cost Adjustment
- Cross-cutting Area Cost Adjustment

Key criteria for cost drivers

- Relevant
- Objective
- Distinct
- Stable
- Future proof



Fair Funding Review Relative resources

The Review will examine how **council tax** should be taken into account when redistributing business rates at local government finance settlements, and will also consider other sources of income.

In particular, it will consider:

- the varying levels and capability of local authorities to raise council tax
- the effects of council tax discounts, from nationally set exemptions (eg students) to those with local discretion (eg LCTS)
- how net expenditure is used, and how to take account of sales, fees and charges (eg parking revenue)
- and the equity and incentive effects of the various options.



Getting to 2020...

(subject to final decisions and on-going review)

- Consultation on relative needs closes – March 2018
- Academic engagement – begins January 2018
- Planned series of technical papers – spring/summer 2018
- Finalise overall structure and leading options for needs assessment and resources assessment – summer 2018
- Finalise options for needs and resources – spring 2019
- Children's Services research concludes – summer 2019
- New Index of Multiple Deprivation – summer 2019
- Set baseline funding levels and finalise transitional arrangements – autumn 2019



Business rates retention What have we done so far?

Announced the broad shape of business rates retention in 2020/21:

- 75% retention – rolling-in Revenue Support Grant, Rural Services Delivery Grant, Public Health Grant and GLA Transport Grant
 - Developing assurance mechanism for public health funding
- Full re-set in 2020/21 – new baselines set through Fair Funding Review
- Continued redistribution through top-ups and tariffs

Range of pilots testing different arrangements:

- City mayoral areas piloting 100% retention in 17/18, extended into 18/19
- 100% retention piloted across new London pool in 18/19
- 10 new pilots in 18/19 – all testing pooling and many in two-tier areas trialling their own tier split

Started work with LGA steering and working groups on the detail:

February 2018 – paper on the Central List



1. Series of technical papers throughout 2018:

- Risk and gearing: the safety net and tier splits
- Managing appeals losses
- Resets
- Pooling
- Transition
- Implementation: setting new business rates baselines

All papers will be shared with the technical working group and steering group and made available on the LGA website for wider comment

2. Pilots prospectus published May/June 2018 for applications for 2019/20

3. Full 'system design' consultation towards the end of 2018

4. Final system consultation in Summer 2018, bringing business rates retention together with the Fair Funding Review