100% Business Rates Pilots – Explanatory Note

1. Following the announcement that, local authorities would be allowed to keep 100% of locally-collected business rates before the end of the Parliament, the Government then announced that a number of devolution-deal areas would pilot 100% rates retention from 1 April 2017.

2. The announcement, at Budget 2016, confirmed that local authorities in Greater Manchester and Liverpool City Region had agreed to be pilots. It also confirmed that from 2017-18, the Greater London Authority (GLA) would take on responsibility for funding TfL's investment grant in return for a higher share of local business rates; and invited other devolution deal areas to come forward if they too wanted to pilot 100% rates retention. Discussions were held and successfully concluded with authorities in the West of England Combined Authority area, the West Midlands and Cornwall.

3. The arrangements for these pilot authorities have no impact on the funding available for other areas.

Foregoing other income streams

4. In all the pilot areas, authorities have agreed to forego other funding streams in return for higher shares of business rates.

5. In London, the GLA will not receive any Revenue Support Grant (RSG) from DCLG for 2017-18. DfT will no longer pay TfL's investment grant, which instead will be paid by the GLA. In return the GLA will receive 37% of the business rates collected by London Boroughs.

6. In Greater Manchester, DCLG will no longer pay RSG to the metropolitan districts. Nor will the districts receive Public Health Grant from DH. The combined authority will forego Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT. In return, the Manchester metropolitan districts will each retain 99% of the business rates they collect. The remaining 1% will be paid to the fire and rescue authority, as at present.

7. In Liverpool, the metropolitan districts will no longer receive RSG or Improved Better Care Fund (iBCF)[1] from DCLG. They will retain 99% of locally-collected business rates, with the remaining 1% going to the Fire and Rescue Authority, as at present.

[1] The amount of Improved Better Care Fund foregone does not take into account the additional funding announced in the 2017 Budget. See the Explanatory Note on the Improved Better Care Fund.

8. In the West of England, Bath and North East Somerset, Bristol City and South Gloucestershire will forego RSG. The West of England Combined Authority will forego Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT. The three councils will instead retain 94% of locally collected business rates. The combined authority will receive 5% of local business rates and the Fire and Rescue Authority, the remaining 1%.

9. In West Midlands, the metropolitan district councils will no longer receive RSG, but in return will retain 99% of local business rates. The remaining 1% will go the Fire and Rescue Authority, as at present.

10. Cornwall Council will forego RSG, Rural Services Delivery Grant and forego Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT. In return they will retain 100% of the business rates they raise locally.

Ensuring Cost Neutrality

11. The 100% rates retention pilots are cost-neutral at the point of delivery. As agreed with the authorities concerned, this is achieved by re-calculating the *baseline funding levels* (BFLs) and *business rates baselines* (BRBs) for each of the participating authorities to reflect:

    a. the value of the funding streams that they are foregoing; and

    b. the value of their increased share of business rates.

12. For each authority, the difference between its new BFL and BRB represents the revised tariff or top-up that it will pay, or receive in 2017-18.

13. BFLs, BRBs tariffs and top-ups will be recalculated for each authority in 2018-19 to reflect changes to grant totals between 2017-18 and 2018-19

Calculating Baseline Funding Levels (BFLs)

14. In order to calculate the revised BFL for each pilot authority for 2017-18, we summed:

    a. the value of the grant(s) that the authority will forego in 2017-18; and

    b. the authority's BFL for 2017-18 as if it had remained in the 50% rates retention scheme, ie the authority's 2016-17 BFL, multiplied by 264.9 (the value of the Retail Price Index at September 2016)/259.6 (the value of the Retail Price Index at September 2015). This is to adjust the BFL for the change in September's RPI, by which the small business rates multiplier is indexed in all years, including Revaluation years.

Calculating Business Rates Baselines (BRBs)

15. BRBs were established for each authority in the 2013-14 local government finance settlement in order to calculate authorities' tariffs and top-ups for that year. They have not been re-calculated for later years. Instead, local government finance settlements for 2014-15 and later years have directly indexed the previous year's tariff and top-up by the change in the small business rating multiplier. Nevertheless, the BRB for 2014-15 and later years can be derived, notionally:

    a. by indexing the previous year's BRB by the change in the small business rates multiplier; or

    b. because there is a fixed relationship between BFLs, BRBs and tariffs/top-ups, by calculating the relevant year's BFL and either adding back the value of that year's tariff, or subtracting the value of that year's top-up.

16. Because 2017-18 is a Revaluation year, we are revising the tariffs and top-ups of all authorities to reflect the relative change in their business rates income as a result of the Revaluation – as set out in the provisional Settlement consultation document.[2]

17. Therefore, in order to derive a new BFL for pilot authorities, the first step is to derive a notional BRB for 2017-18 that takes account of the Revaluation, but otherwise treats the authority as if it had remained subject to the 50% rates retention scheme. This is done by taking the 2017-18 BFL for the authority (unadjusted for the value of the grants that the authority will forego) – i.e. the calculation at paragraph 14(b) above – and add back the Revaluation-adjusted tariff, or subtract the Revaluation-adjusted top-up.

18. The notional 2017-18 BRB is then grossed-up by the increase in the authority's share of non-domestic rating income to calculate the BRB for each 100% pilot authority. For example, in the case of a Greater Manchester, or Liverpool City Region authority, the calculation is:

    notional BRB under 50% rate retention/ authority's local share of 49% multiplied by agreed share under 100 % retention of 99%

[2] https://www.gov.uk/government/consultations/provisional-local-government-finance-settlement-2017-to-2018

19. The stages involved in calculating the Baseline Funding Level for pilot authorities are shown in the Settlement Funding Calculation model for pilot authorities which is available on the Settlement website

Deriving Tariffs and Top-ups for 100% pilot authorities

20. Finally, having derived revised BFLs and BRBs for the pilot authorities, a tariff, or top-up is calculated. The calculation is:

    BFL minus BRB

21. In all cases (except the Greater Manchester Combined Authority) the value of the grants foregone was less than the value of the additional share of business rates income to be retained. The effect of the above calculations, therefore, has been to increase the tariffs, or reduce the top-ups payable by/from those authorities. But, by virtue of retaining a higher share of business rates, each authority will retain a higher share of any "growth" in their business rates.

22. The methodology set out above ensures that the pilots are cost neutral by ensuring that the value of the additional retained business rates is matched by the value of the grants foregone, plus the change in tariffs and top-ups. As such, there is no impact on the resources available to other authorities through the Settlement, or outside it. The additional growth retained by authorities would, in the absence of the pilots, have been due to central Government.

Calculation of Core Spending Power

23. The Core Spending Power figures do not reflect the impact of pilot arrangements. This is to enable funding allocations to be presented on a consistent basis for the entire Parliament and to allow, as far as possible, like for like comparisons between pilot and non-pilot authorities in 2017/18.

24. The Settlement Key Information tables show the actual figures for pilot authorities in 2017/18.