

SUMMARY

To advise Executive on a response to the Consultation on the 2018-19 Local Government Finance Settlement Technical consultation paper

PORTFOLIO

Finance

Date signed off:
28/09/17 Cllr Brooks

WARDS AFFECTED

Not applicable

RECOMMENDATION

The Executive is advised to:

- (i) NOTE and COMMENT on the proposed Consultation response;**
- (ii) DELEGATE to the Chief Executive in consultation with the Leader the completion and submission of the final consultation response**

1. RESOURCE IMPLICATIONS

- 1.1 The Technical consultation contains a number of proposals which could impact the Council's finances. These are as follows:

Grant Settlement

- 1.2 The settlement for 2018/19 will be in line with the multi-year settlement agreed in 2016/17. As Surrey Heath lost all its Revenue Support Grant in 2017/18 there is only a minor reduction of £37k excepted for 2018/19 compared to the current year.
- 1.3 No further information has been provided in respect of the negative grant of £933,000 which is expected to be charged in 2019/20;

New Homes Bonus

- 1.4 Last year the Government decided to reduce the incentive given to Council to provide new homes. This was done by firstly restricting payments to 4 years rather than the previous 6 and secondly by deducting a baseline housing delivery expectation (0.4% of the tax base) from the actual number of houses built before calculating the incentive paid.
- 1.5 The Government intends to review the baseline deduction later this year and this will be published in December.
- 1.6 The Government is also proposing to clawback New Homes Bonus (NHB) in relation to applications refused but then granted on appeal. For example if out of 100 applications 10 are refused and then 3 of the 10 are overturned on appeal there would be a 3% reduction in NHB paid. If adopted this will make it very important that applications are only refused on sound planning grounds which are unlikely to be overturned on appeal.
- 1.7 The Government has also said that for 2018/19 they will not link the NHB to a Local Plans however they are considering linking the bonus to housing delivery or housing need for 2019/20. Further details will be provided in due course.

Council Tax

- 1.8 It is proposed that there will be a referendum limit of 2% with Districts being allowed to levy an increase of up to £5 if higher. The Special precept for Adult Social Care would also be maintained.
- 1.9 The Government is still considering whether to apply referendum principles to Parishes.

2. KEY ISSUES

- 2.1 The Government has asked for comments on its proposals through a number of consultation questions. A recommended response is attached to this paper.
- 2.2 The consultation commenced on the 14th September and ends on the 26th October 2017. The final settlement is expected to be announced around Christmas 2017

3. RISK MANAGEMENT

- 3.1 No issues form this paper although the Government's proposals do increase funding risk to the Council.

4. EQUALTIES IMPLICATIONS

None

5. OPTIONS

- 5.1 The Executive can decide to amend the consultation or not respond

6. PROPOSALS

It is proposed that the Executive:

- (i) NOTE and COMMENT on the proposed Consultation response;
- (ii) DELEGATE to the Chief Executive in consultation with the Leader the completion and submission of the final consultation response

ANNEXES	Annex A – Draft Consultation response
BACKGROUND PAPERS	DCLG – The 2018/19 Local Government Finance Settlement – Technical Consultation Paper
AUTHOR/CONTACT DETAILS	Kelvin Menon – Executive Head of Corporate Finance 01276 707257 Kelvin.menon@SurreyHeath.gov.uk
HEAD OF SERVICE	As above

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

	Required	Consulted
Resources		
Revenue	✓	✓
Capital	-	-
Human Resources	-	-
Asset Management	-	-

IT	-	-
Other Issues		
Corporate Objectives & Key Priorities	✓	✓
Policy Framework	-	-
Legal	-	-
Governance	-	-
Sustainability	-	-
Risk Management	-	-
Equalities Impact Assessment	-	-
Community Safety	-	-
Human Rights	-	-
Consultation	-	-
P R & Marketing	-	-



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Mr R Palmer,
Department for Communities and Local Government
2nd Floor, Fry Building,
52 Marsham Street
LONDON
SW1P4DF

25th September 2017

Dear Mr Palmer,

**RESPONSE TO THE CONSULTATION ON THE TECHNICAL CONSULTATION
PAPER FOR THE 2018/19 LOCAL GOVERNMENT FINANCE SETTLEMENT**

I am responding to the above consultation on behalf of Surrey Heath Borough Council. This response was tabled at the Council's Executive meeting on the 3rd October and has been endorsed by Councillors.

Our answers to your questions are as follows:

Question 1: Do you agree that the government should continue to maintain the certainty provided by the 4-year offer as set out in 2016-17 and accepted by more than 97% of local authorities?

Whilst the multiyear settlement has provided certainty for 2018/19 the Government has still not addressed the issues surrounding the introduction of a negative tariff in 2019/20. Whilst as a Council we were willing to lose all our grant as our contribution towards the nation's deficit we did not agree with what is effectively a £933,000 charge on our residents from 2019/20. It is also worthwhile stating that there appears to be very little "certainty" in respect of grants such as New Homes Bonus which are not only subject to annual review but in addition will not be fixed until the final settlement each year.

Question 2: Do you agree with the New Homes Bonus allocations mechanism set out above?

The original purpose of the New Homes Bonus was to encourage development by giving money to communities affected by that development. The changes last year together with the one proposed has the effect of making the bonus less of an incentive for development and therefore making it hard to deliver housing in local communities. As this Council made clear in an earlier consultation we do not agree with a system that effectively "punishes" Councils for what are deemed "wrong" decisions taken by elected

members in a democratic and open process. That said however if the Government is intent on pursuing this policy then we would consider that a deduction should only be made for applications granted on appeal which went against officer advice. This would ensure that the penalty would only apply where members take decisions which cannot be substantiated by planning law. In addition it should be noted that permission is sometimes refused on outline applications because the detail is not always available and so these appeals should be excluded. We would remind Government that the granting of planning permission does not always lead to the building of houses and so we would urge the Government to look at penalising developers who have permission granted but then do not undertake the development. This fine could equal for example the NHB forgone because the development has not been delivered.

Question 3: Do you agree that the approach should be based on data collected by the Planning Inspectorate? If you disagree, what other data could be used?

This is a sensible approach that minimises data collection but we do not agree with the principle of a deduction.

Question 4: Do you agree with the proposed appeal/challenge procedure for the dataset collated by Planning Inspectorate? If you disagree, what alternative procedure should be put in place?

Yes

Question 5: Are there alternative mechanisms that could be employed to reflect the quality of decision making on planning applications which should be put in place?

There is an underlying assumption that a decision that is subsequently overturned on appeal is of poor quality. This is not necessarily the case as the interpretation of planning law and advice is by its nature subjective

Question 6: Which of the two mechanisms referenced above do you think would be more effective at ensuring the Bonus was focussed on those developments that the local authority has approved?

Although the mechanism outlined in para 3.3.4 is simpler to manage and therefore preferable neither mechanism takes account of the fact that New Homes Bonus is only awarded when housing is actually built. Under both of the mechanisms suggested Councils would lose NHB based on *planning decisions* but this will not take account of the fact that these houses *may not actually be built* and therefore would never attract NHB. For such a deduction to be equitable the Government would need to award NHB based on permissions granted rather than houses built. Alternatively houses built on appeal could be excluded from the NHB calculations.

Question 7: Do you think that the same adjustments as elsewhere should apply in areas covered by National Park Authorities, the Broads Authority and development corporations?

No comment

Question 8: Do you think that county councils should be included in the calculation of any adjustments to the New Homes Bonus allocations?

No.

Question 9: Do you have views on council tax referendum principles for 2018-19 for principal local authorities?

There should not be any referendum principles at all. The decision on the level of Council Tax should be left to locally elected members who are answerable through the ballot box to their residents. It should also be noted that a 2% increase is actually a real terms cut given that inflation is in excess of this figure.

Question 10: Do you have views on whether additional flexibilities are required for particular categories of authority? What evidence is available to support this specific flexibility?

County Councils in two tier areas receive less from the Adult Social Care precept than those in unitary areas as Districts cannot apply this precept. This anomaly needs to be addressed as part of the settlement.

Question 11: What factors should be taken into account in determining an Alternative Notional Amount for Combined Authority mayors?

No comment

Question 12: Do you agree with the proposed approach to correcting the reduction in relevant county councils' income from the Adult Social Care precept?

No comment

Question 13: Do you have any comments on the impact of the proposals for the 2018-19 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

The continued reductions in Government funding as evidenced by the reductions in New Homes Bonus proposed in this paper together with the negative grant in 2019/20 will have a disproportionate impact on services delivered to vulnerable and protected members of our community as they are the greatest users of Council services.

If I can provide you with any further information please do not hesitate to contact me

Yours sincerely,

Mrs Karen Whelan
Chief Executive – Surrey Heath Borough Council



Department for
Communities and
Local Government

The 2018-19 Local Government Finance Settlement

Technical Consultation Paper



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Scope of the consultation

Topic of this consultation:	This consultation covers proposals for the local government finance settlement for 2018-19.
Scope of this consultation:	This consultation seeks views on proposals for the local government finance settlement for 2018-19, in particular from representatives of local government.
Geographical scope:	These proposals relate to England only.
Impact Assessment:	Since the Government does not envisage that the proposals within this consultation document will have an impact on business, no impact assessment has been produced.

Basic Information

To:	The consultation will be of particular interest to local authorities, and representative bodies for local authorities.
Body/bodies responsible for the consultation:	Local Government Finance Directorate within the Department for Communities and Local Government.
Duration:	This consultation will last for 6 weeks from 14 September 2017 to 26 October 2017.
Enquiries:	For any enquiries about the consultation please contact Roger Palmer Roger.Palmer@communities.gsi.gov.uk or 0303 444 3130
How to respond:	<p>You may respond by completing an online survey at: https://www.surveymonkey.co.uk/r/lgsettlement1819</p> <p>In addition, you can respond to the questions in this consultation by email to: LGFConsultation@communities.gsi.gov.uk</p> <p>If you are responding in writing, please make it clear which questions you are responding to.</p> <p>Written responses should be sent to:</p> <p>Roger Palmer Department for Communities and Local Government 2nd floor, Fry Building</p>

	<p>2 Marsham Street London SW1P 4DF</p> <p>When you reply it would be very useful if you confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:</p> <ul style="list-style-type: none"> - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including postcode), - an email address, and - a contact telephone number.
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About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Communities and Local Government will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact DCLG Consultation coordinator.

Department for Communities and Local Government
2 Marsham Street
London
SW1P 4DF

Or by e-mail to: consultationcoordinator@communities.gsi.gov.uk

1 Summary of proposals

1.1 Background

- 1.1.1 The proposed 2018-19 settlement is framed in the context of the overall Spending Review package, announced in 2015, which addressed the particular pressures experienced by councils which provide adult social care.
- 1.1.2 In addition, in the Spring Budget 2017, a total of £2.021 billion was announced, as supplementary funding to the improved Better Care Fund (iBCF) (£1.01 billion in 2017-18, £674 million in 2018-19 and £337 million in 2019-20).
- 1.1.3 The 2016-17 settlement offered local authorities an historic four year deal, giving greater certainty over their funding. This was accepted by 97% of local authorities. The proposed 2018-19 settlement funding is therefore allocated in accordance with the agreed methodology announced by the Secretary of State at that time. This ensures that local councils delivering the same set of services receive the same percentage change in settlement core funding for those services.
- 1.1.4 This consultation paper describes the Government's intended approach for the third year of the multi-year settlement. In broad terms, this offers the certainty to councils which will allow them to plan ahead and implement reform with greater confidence.

1.2 Summary of proposals

- 1.2.1 The remaining sections of this document set out our proposed approach to the 2018-19 settlement. It:
 - outlines the third year of the multi-year settlement offer for those councils that accepted the offer, and arrangements for those that did not
 - outlines the method for distributing New Homes Bonus funding following implementation of reforms announced at the time of the 2017-18 provisional settlement and a proposal for further incentives to support the delivery of housing growth
 - outlines the Government's proposals for the council tax referendum principles for 2018-19
 - confirms the approach being taken for adjusting business rates tariff and top-ups to cancel out, as far as is practicable, the impact of the 2017 business rates revaluation on local authorities' income

- outlines the approach to Mayoral Combined Authorities precepts in 2018-19
- outlines the approach for allocating settlement funding where a fire authority transfers from a county council in accordance with the provisions of the Fire and Rescue Services Act 2004, as amended by the Policing and Crime Act 2017 and the implications for the Adult Social Care council tax precept.

2 The multi-year settlement offer

2.1 Certainty of funding

2.1.1 The 2016-17 settlement announced the opportunity for councils to accept a multi-year settlement offer, which would give greater certainty of funding until the end of the spending period. The offer included:

- Revenue Support Grant
- business rates tariff and top-up payments, which will not change for reasons relating to the relative needs of local authorities
- Rural Services Delivery Grant and
- Transition Grant.

2.1.2 We have also published individual local authority allocations for the improved Better Care Fund until 2019-20, which total £1.5 billion in 2018-19 and £1.8 billion in 2019-20.¹

2.1.3 97% of councils accepted the multi-year offer, giving councils the confidence to implement reforms.

2.1.4 Government will need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement,² the Government intends to present these figures to parliament as part of the 2018-19 provisional local government finance settlement in due course.

2.1.5 Those councils who did not accept the original offer made in 2016-17 will be subject to the existing annual process for determining the level of central funding that they will receive.

Question 1: Do you agree that the government should continue to maintain the certainty provided by the 4-year offer as set out in 2016-17 and accepted by more than 97% of local authorities?

¹ The Secretary of State for Health, in his written statement to parliament on Monday 3rd July, set out a package of measures for reducing delays in transfer of care. This included considering a review, in November, of 2018/19 allocations of the social care funding provided at Spring Budget 2017 for areas that are poorly performing. This funding will all remain with local government, to be used for adult social care.

<http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/commons/>

² As prescribed in sections 78 and 78A of the Local Government Finance Act 1988.

2.2 100% business rates retention pilots

- 2.2.1 The Government is committed to working with local government to consider how best to implement its manifesto commitments to continue to give local government greater control over the money they raise and address concerns about the fairness of current funding distributions. We have recently launched a prospectus that invites local authorities to submit proposals to pilot 100% business rates retention in 2018 to 2019. This can be found at:
<https://www.gov.uk/government/publications/100-business-rates-retention-pilots-2018-to-2019-prospectus>
- 2.2.2 We intend that the impact on the settlement calculations of existing and any new pilots will be approached in broadly the same way as for the first wave of pilots in 2017-18. Further details will be provided at the time of the provisional settlement.

3 New Homes Bonus

3.1 Background

- 3.1.1 Since its introduction in 2011 the New Homes Bonus has been successful in encouraging authorities to promote housing growth. Over £6 billion has been allocated to local authorities through the scheme to reward housing supply. Since the New Homes Bonus was introduced over 1,200,000 homes have been delivered. This includes new homes, conversions and long term empty properties being brought back into use.
- 3.1.2 In 2015-16 the Government consulted on a number of possible reforms to the Bonus to sharpen the incentive for housebuilding and provide £800m for Adult Social Care. The outcome of the consultation was announced alongside the provisional local government finance settlement 2017-18. The Government decided to:
- reduce the number of years for which legacy payments are made from 6 years to 5 years in 2017-18 and then to 4 years from 2018-19 and
 - set a national baseline for housing growth to sharpen the incentive for councils to deliver more new homes.
- 3.1.3 The Government chose to set the initial baseline in 2017-18 at 0.4% below which the Bonus will not be paid. This level is significantly below the average growth rate in the 10 years before the introduction of the New Homes Bonus scheme. The Government also retained the option of making adjustments to the baseline in 2018-19 and future years in the event of significant and unexpected housing growth.

3.2 Baseline 2018-19

- 3.2.1 As New Homes Bonus calculations are based on additional housing stock reported through the council tax base, decisions on the baseline for 2018-19 will be made following a review of the data when it is published in November. Confirmation of the baseline to be used for 2018-19 allocations will be made at the time of the provisional settlement. Any funding intended for New Homes Bonus payments that is not used for this purpose will be returned to local government.

3.3 New Homes Bonus and Planning Effectively

- 3.3.1 The Government decided not to take forward proposals linking the New Homes Bonus to planning reforms in 2017-18 but confirmed that it would consider withholding the part of the Bonus from authorities not planning effectively for new homes from 2018-19. Government has considered the position and has decided to consult on revised proposals. We also intend to go further in 2019-20. This could include linking payment of the bonus to the housing delivery test or the standard approach to local housing need. We would consult on any further changes to the Bonus before implementation in 2019-20.
- 3.3.2 As noted in the 2015 consultation, under the current scheme, councils receive the same reward for homes granted permission by the authority as they do for development granted on appeal by the Planning Inspectorate (PINS). We consulted on a 'by unit' methodology in 2015. This method, in which we would reduce the New Homes Bonus payment in line with the number of homes allowed on appeal, is still under consideration. We would now like to gather views on further proposals to ensure the Bonus is focussed on recognising those homes the authority has approved.
- 3.3.3 An alternative approach, instead of linking a reduction in the Bonus to the number of homes granted on appeal or tracking specific appeals, looks at the quality of decision making by planning authorities, as set out in the Planning Live tables P152 and P154³.
- 3.3.4 This approach would link Bonus allocations to the ratio of successful appeals to residential planning decisions⁴ (major and minor) over an annual period using data collected by PINS. At the time the allocations are made, the number of successful appeals/appeals allowed by PINS divided by the number of decisions made, in the last financial year, would result in a percentage reduction to be applied to the New Homes Bonus allocation for the following financial year, so:

$$\frac{\text{Residential appeals allowed by PINS}}{\text{Residential decisions made by the LPA}} \times 100 = \% \text{ reduction in NHB allocation}$$

³ Live tables on planning application statistics: Table P152 and P154
<https://www.gov.uk/government/statistical-data-sets/live-tables-on-planning-application-statistics>

⁴ Live tables on planning application statistics: Table P135
<https://www.gov.uk/government/statistical-data-sets/live-tables-on-planning-application-statistics>

- 3.3.5 The number of units involved in the decisions is not considered in this methodology, nor is there a link drawn with specific appeal outcomes on specific developments, rather it is a more general approach to link the quality of decision making within the authority over a period of time. A hypothetical worked example is set out at annex A.
- 3.3.6 Under the proposal, PINS would produce a new dataset each year drawing on the data contained within the published Planning Live tables P152 and P154 to which the formula would be applied. Authorities would then be given an opportunity to comment on this dataset through the same process currently used to make representations on New Homes Bonus allocations. There is usually one calendar month between the announcement of provisional allocations and confirmation of final allocations.

Question 2: Do you agree with the New Homes Bonus allocation mechanism set out above?

Question 3: Do you agree that the approach should be based on data collected by the Planning Inspectorate? If you disagree, what other data could be used?

Question 4: Do you agree with the proposed appeal/challenge procedure for the dataset collated by Planning Inspectorate? If you disagree, what alternative procedure should be put in place?

Question 5: Are there alternative mechanisms that could be employed to reflect the quality of decision making on planning applications which should be put in place?

Question 6: Which of the two mechanisms referenced above do you think would be more effective at ensuring the Bonus was focussed on those developments that the local authority has approved?

3.4 National parks, development corporations and county councils

- 3.4.1 National Park Authorities (and the Broads Authority) are responsible for decisions on planning applications in their areas; whereas New Homes Bonus payments for the homes built are made to the relevant district and county councils. This reflects the fact that local authorities are responsible for many of the services that would be affected by increased population in their areas.
- 3.4.2 The original scheme design for the New Homes Bonus made clear that billing authorities were expected to discuss with National Park Authorities and the Broads Authority the use of Bonus receipts in their areas. They could, for example, conclude an agreement to split New

Homes Bonus funding between them at a locally determined rate, or reach an agreement on funding a specific community project.

- 3.4.3 Government is seeking views on whether, in such areas, the Bonus paid to local authorities should be removed or reduced in line with the proposals set out above, that is, whether the decision making by the National Park Authority or Broads Authority should be reflected in Bonus allocations.
- 3.4.4 The same considerations apply where development corporations are established – whether Urban Development Corporations, or Mayoral Development Corporations in London. These bodies are again the local planning authority for decisions on planning applications but not the recipients of the New Homes Bonus.
- 3.4.5 Government has also considered the position of county councils in two tier areas, who receive 20% of Bonus payments, but are not the planning authority for decisions involving residential development. The Government is again seeking views on whether county councils should be included in the calculation of any adjustments.

Question 7: Do you think that that the same adjustments as elsewhere should apply in areas covered by National Park Authorities, the Broads Authority and development corporations?

Question 8: Do you think that county councils should be included in the calculation of any adjustments to the New Homes Bonus allocations?

4 Council tax referendum principles

4.1 Council tax referendum principles for local authorities

4.1.1 The Government aims to balance the need to keep council tax low with ensuring that councils and others such as fire and rescue authorities, police and crime commissioners and combined authority mayors can raise sufficient funds. The Government's election manifesto re-affirmed that the Government will continue to ensure that local residents can veto high increases in council tax via a referendum. The Government therefore seeks views on the following referendum principles for 2018-19:

- a core principle of less than 2%. This would apply to shire counties, unitary authorities, London boroughs, the Greater London Authority, fire authorities, and Police and Crime Commissioners except those whose Band D precept is in the lower quartile of that category (see below)
- the Government is considering whether a 2% principle would apply to the precepts set for the general functions of Mayoral Combined Authorities (see section 6). It is anticipated that the relevant police principle would apply to the Greater Manchester Combined Authority's police functions (see below)
- a continuation of the Adult Social Care precept of an additional 2% with additional flexibility to increase the precept by 1% to 3% in 2018-19, provided that increases do not exceed 6% between 2017-18 and 2019-20. This would apply to County Councils, unitary authorities and London boroughs (including the Common Council of the City of London and the Council of the Isles of Scilly), subject to consideration of the use made of the Adult Social Care precept in the previous year
- shire district councils would be allowed increases of less than 2% or up to and including £5, whichever is higher
- Police precepts in the lowest quartile would be allowed increases of less than 2% or up to and including £5, whichever is higher.

4.1.2 Following consideration of responses, the Government intends to provide an update on its proposals alongside the provisional local government finance settlement later in the year.

Question 9: Do you have views on council tax referendum principles for 2018-19 for principal local authorities?

Question 10: Do you have views on whether additional flexibilities are required for particular categories of authority? What evidence is available to support this specific flexibility?

4.2 Council tax referendum principles for town and parish councils.

- 4.2.1 Last year, the Government issued a challenge to town and parish councils to demonstrate restraint when setting precept increases that are not a direct result of taking on additional responsibilities, and to make precept decisions more transparent to local tax-payers. The continuation of this position in 2018-19 is contingent upon the Government receiving clear evidence of how the sector is responding to this challenge. The Government expects parishes, in setting their precepts, to consider all available options to mitigate the need for council tax increases, including the use of reserves where they are not already earmarked for particular purposes or for “invest to save” projects which will lower on-going revenue costs. Any revised proposals will be set out at the time of the provisional local government finance settlement later in the year.

5 The business rates revaluation adjustment

5.1 Background

- 5.1.1 The most recent business rates revaluation took effect from 1 April 2017. Revaluation is a revenue neutral exercise so the total rates bill stays the same at the England level in real terms, after allowing for appeals. At the local authority level, overall bills will increase or fall depending upon whether rateable values in that area have performed above or below the average for England, after allowing for appeals.
- 5.1.2 This creates change in business rates revenues outside the control of local authorities. When the Government introduced the 50% business rate retention scheme it signalled that it would adjust each authority's tariff or top-up following a revaluation to ensure, as far as is practicable, that their retained income is the same after revaluation as immediately before. This will ensure that the growth incentive created by the rates retention scheme and the delivery of public services will not be weakened by losses of income outside the control of authorities.
- 5.1.3 The Government has confirmed a methodology for adjusting the tariffs and top-ups following consultation at the 2017-18 provisional settlement (see Annex B).

5.2 Business rate retention levy

- 5.2.1 Following the recalculation of tariffs and top-ups, as set out in Annex B, we will use the resulting business rates baselines to recalculate the levy rate for each authority for 2017-18 and subsequent years.

6 Mayoral Combined Authorities

6.1 Background

- 6.1.1 Devolution Deals have led to the creation of 6 Mayoral Combined Authorities with powers such as transport and planning. Combined Authorities are currently funded by their constituent councils through a levy for transport functions, and contributions agreed and provided by constituent local authorities in their area.

6.2 Establishing a precept

- 6.2.1 From 2018-19 elected Combined Authority mayors can raise additional resources through a precept (or additional charge) on local council tax bills, unless an Order is made that prevents them from doing so (such as in West of England). The precept may only be set with the agreement of the Combined Authority. The new Mayoral Combined Authorities of Cambridgeshire & Peterborough, Liverpool City Region, Tees Valley and West Midlands may set a precept for mayors' general functions, and the Greater Manchester Combined Authority may set a precept with two separately identified elements for the mayor's general functions and for his police and crime commissioner functions.
- 6.2.2 The Government is considering applying referendum principles to Mayoral Combined Authorities that are setting precepts. Local authorities are required annually to determine whether their proposed council tax increase exceeds the threshold set by the Secretary of State, thereby triggering a referendum. Since newly established MCAs' mayoral precepts will have no Band D amount from the previous year on which such calculations can be made, it would be necessary to set notional figures or Alternative Notional Amounts (ANAs) for all authorities concerned to enable this determination to take place.
- 6.2.3 In assessing the level of ANA, the Government would engage with mayors and authorities to discuss the level of any required ANA, taking account of any conferral of functions, including additional mayoral functions and the need to limit pressure on council tax bills.

Question 11: What factors should be taken into account in determining an Alternative Notional Amount for Combined Authority mayors?

7 Transfer of Fire functions from County Councils to Police and Crime Commissioners

7.1 Background

- 7.1.1 The Fire and Rescue Services Act 2004, amended by the Policing and Crime Act 2017 enables police and crime commissioners (PCCs) to take responsibility for fire and rescue services in their local area where a local case is made setting out that to do so would be in the interests of economy, efficiency and effectiveness or public safety (the statutory tests). The Home Secretary can only give effect to such a proposal when it appears, in her view, to meet these statutory tests.
- 7.1.2 PCCs developing such a proposal will need to propose an allocation of the Settlement Funding Assessment (Revenue Support Grant and Baseline Funding levels) and council tax precept that will be transferred to the PCC Fire and Rescue Authority.
- 7.1.3 We would expect the allocation of settlement funding and council tax precept to be a fair and proportionate amount considering the funding requirements and financial sustainability of both the PCC Fire and Rescue Authority and county council.
- 7.1.4 Where a proposal is approved by the Home Secretary, funding will be allocated for 2018-19 and 2019-20 according to the Settlement Funding Assessment included in the proposal.
- 7.1.5 Both the PCC Fire and Rescue Authority and the county council will require an Alternative Notional Amounts report to be approved by the House of Commons alongside the settlement in order to set the council tax precepts for the first year of the new arrangements in accordance with the agreed referendum principles. Any draft ANA reports will be published for representations alongside the provisional settlement.

7.2 Implications for collecting the Adult Social Care Precept

- 7.2.1 The Adult Social Care council tax precept was established in 2016-17 and enabled social care authorities such as county councils to charge an additional 2% on top of up to 2% core increase without triggering a referendum, specifically to fund Adult Social Care services. In 2017-18 and 2018-19 they are permitted to increase council tax by up to 3% each year, provided that the total increase in the years 2017-18 to 2019-20 does not exceed 6%.
- 7.2.2 Any transfer of the fire function and associated precept from the county council will result in it having a lower Band D council tax level due to a

decrease in its council tax baseline. Whilst this is a natural consequence of the change, it will mean that the additional funding which can be collected through the Adult Social Care precept will be lower than originally assumed. This also impacts adversely on assumptions made in allocating funding through the improved Better Care Fund.

7.2.3 We propose to adjust the county's ANA to restore the element of council tax Band D which is attributable to previous use of the ASC precept. For the avoidance of doubt, there would be no equivalent negative change to the council tax baseline of the PCC Fire and Rescue Authority, which does not charge the ASC precept. It is anticipated that the adjustment will not result in local taxpayers paying any additional council tax than they would have done under present arrangements.

7.2.4 The level of the ASC adjustment will depend upon the size of the county's remaining precept once agreement has been reached about the financial implications of the transfer of its fire function. However, it is intended that in calculating the adjustment, a comparison will be made between:

- the total amount of Adult Social Care precept in its council tax baseline in the financial year immediately prior to the transfer of its fire function (i.e. the amounts of ASC precept collected in the years 2016-17 and 2017-18) and
- the total amount of ASC precept it would be able to charge in 2018-19 using its reduced council tax baseline following the transfer of the fire function.

7.2.5 The cash difference will be converted into an amount of Band D council tax using the county's 2016 council tax level, and added to the county's ANA. All future council tax increases will be based upon the starting point provided by this ANA figure, thereby locking in the ASC precept adjustment for future provision of Adult Social Care services.

Question 12: Do you agree with the proposed approach to correcting the reduction in relevant county councils' income from the Adult Social Care precept?

8 Equalities impacts of these proposals

- 8.1.1 A draft equality statement for the 2017-18 local government finance settlement was published in February 2017. Any representations made in response to this consultation will be used to inform the equalities statement to be published at the time of the 2018-19 provisional settlement.

Question 13: Do you have any comments on the impact of the proposals for the 2018-19 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Annex A – Planning Appeals

methodology for adjusting New Homes Bonus payments

The following example shows the impact of reducing a local authority's New Homes Bonus payment according to the ratio of successful appeals to total planning decisions in a given time period.

The proposed approach is illustrated below using hypothetical figures for clarity.

Example

- A local planning authority (LPA) makes decisions on 100 residential planning applications during the course of the relevant year. Ten of these decisions were to refuse permission for new homes.
- Five developers involved decide to appeal the decisions, and those appeals are then considered by PINS.
- Three of the appeals are subsequently successful and two unsuccessful.
- The impact of the new mechanism would be to reduce the authority's New Homes Bonus payment for that year by 3%.

	Worked example	
i	Applications to LPA	100
ii	Rejected by LPA	10
iii	Appeals to PINS	5
iv	Dismissed by PINS	2
v	Allowed by PINS	3
vi	Reduction to NHB allocation (v/ i)	3%

Annex B: Methodology for adjusting for the 2017 business rates revaluation

1 2017-18 tariff and top-up as calculated in the settlement

1.1 The tariff and top-up amount for 2017/2018 was calculated as:

$$(A + B) \times (C / D)$$

where:

A is the tariff or top-up amount for the authority for 2016/2017, calculated in accordance with Section 6 of the Local Government Finance Report (England) 2016/2017;

B is calculated as follows:

$$E \times (1 - F / G) \times H$$

C is the value of the September 2016 RPI, which is 264.9;

D is the value of the September 2015 RPI, which is 259.6;

E is the sum of:
an authority's income from business rates; plus the amount of section 31 grants paid to the authority in 2015/2016 to compensate for loss of business rates income multiplied by 0.484/0.480 to bring it up to 2016-17 values;

F is:
the sum of rateable value in all of the draft 2017 local rating lists covering the authority's area using the draft lists published on 28 September 2016⁵; multiplied by the 2017/2018 small business rates multiplier adjusted for revaluation, which is 0.436;

G is:
the sum of the rateable value in all of the 2010 local rating lists covering the authority's area published on 28 September¹; multiplied by the 2016/2017 small business rates multiplier, which was 0.484;

⁵ <https://www.gov.uk/government/statistics/non-domestic-rating-high-level-estimates-of-change-in-rateable-value-of-rating-lists>

H is the authority's local share as set out in paragraph 1.2 below.

1.2 The table below sets out the local share for each class of authority.

Class of authority	Local Share
Non-metropolitan district councils which do not have the functions of county councils	0.40
London borough councils Common Council of the City of London	0.30
Metropolitan district councils Non-metropolitan district councils which have the functions of county councils County councils which have the functions of district councils but which do not have responsibility for the provision of fire and rescue services	0.49
County councils which have the functions of district councils and which have responsibility for the provision of fire and rescue services Council of the Isles of Scilly	0.50
County councils which do not have responsibility for the provision of fire and rescue services	0.09
County councils which have responsibility for the provision of fire and rescue services	0.10
Metropolitan county fire and rescue authorities, Combined fire and rescue authorities	0.01
Greater London Authority,	0.20

2 Recalculation of 2017-18 tariff and top-up

2.1 The adjusted tariff and top-up amount for 2017/2018 will be calculated as:

$$(A + I) \times (C / D)$$

where:

I is calculated as follows:

$$J \times (1 - K / L) \times H$$

J is the sum of:
an authority's income from business rates; plus the amount of section 31 grant paid to the authority in 2016/2017 to compensate for loss of business rates income;

K is:
the sum of the rateable value in all of the 2017 local rating lists covering the authority's area for 1 April 2017 and measured on that day; multiplied by the 2017/2018 small business rates multiplier adjusted for revaluation, which is 0.436;

L is:
the sum of the rateable value in all of the 2010 local rating lists covering the authority's area for 31 March 2017 and measured on 1 April 2017; multiplied by the 2016/2017 small business rates multiplier, which was 0.484.

3 2017-18 tariff and top-up adjustment

3.1 The adjustment is calculated as the difference between the adjusted tariffs and top-ups (see para 2.1) and the original 2017-18 tariffs and top-ups (see para 1.1).

4 2018-19 tariff and top-up

4.1 The tariff and top-up amount for 2018/2019 will be calculated as:

$$(A + I) \times (M / D)$$

M is the value of the September 2017 RPI.

5 2019-20 tariff and top-up

5.1 The tariff and top-up amount for 2019/2020 will be calculated as:

$$(A + I) \times (N / D)$$

N is the value of the September 2018 RPI.

Annex C: Summary of consultation questions

Question 1: Do you agree that the government should continue to maintain the certainty provided by the 4-year offer as set out in 2016-17 and accepted by more than 97% of local authorities?

Question 2: Do you agree with the New Homes Bonus allocations mechanism set out above?

Question 3: Do you agree that the approach should be based on data collected by the Planning Inspectorate? If you disagree, what other data could be used?

Question 4: Do you agree with the proposed appeal/challenge procedure for the dataset collated by Planning Inspectorate? If you disagree, what alternative procedure should be put in place?

Question 5: Are there alternative mechanisms that could be employed to reflect the quality of decision making on planning applications which should be put in place?

Question 6: Which of the two mechanisms referenced above do you think would be more effective at ensuring the Bonus was focussed on those developments that the local authority has approved?

Question 7: Do you think that the same adjustments as elsewhere should apply in areas covered by National Park Authorities, the Broads Authority and development corporations?

Question 8: Do you think that county councils should be included in the calculation of any adjustments to the New Homes Bonus allocations?

Question 9: Do you have views on council tax referendum principles for 2018-19 for principal local authorities?

Question 10: Do you have views on whether additional flexibilities are required for particular categories of authority? What evidence is available to support this specific flexibility?

Question 11: What factors should be taken into account in determining an Alternative Notional Amount for Combined Authority mayors?

Question 12: Do you agree with the proposed approach to correcting the reduction in relevant county councils' income from the Adult Social Care precept?

Question 13: Do you have any comments on the impact of the proposals for the 2018-19 settlement outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Annex D: Glossary of technical terms

Baseline funding level

The amount of an individual local authority's Start-Up Funding Assessment for 2013/14 provided through the *local share* of the Estimated Business Rates Aggregate uprated each year by the change to the small business multiplier (in line with RPI).

Local share

The percentage share of locally collected business rates that is retained by local government. This is set at 50%.

Revenue Support Grant

Billing and most major precepting authorities receive Revenue Support Grant from central government in addition to their local share of business rates Aggregate. An authority's Revenue Support Grant amount plus the local share of the Estimated Business Rates Aggregate will together comprise its Settlement Funding Assessment.

Tariffs and top-ups

Calculated by comparing at the outset of the business rate retention scheme an individual authority's business rates baseline against its baseline funding level. Tariffs and top-ups are self-funding, fixed at the start of the scheme and index linked to RPI in future years.

Tariff authority

An authority with, at the outset of the scheme, a higher individual authority business rates baseline than its baseline funding level, and which therefore pays a tariff.

Top-up authority

An authority with, at the outset of the scheme, a lower individual authority business rates baseline than its baseline funding level, and which therefore receives a top-up.

Title: Surrey Business Rates Pilot

Summary:

To inform Executive of the implications of joining a Surrey Business Rates Pilot for 2018/19

Portfolio and Date Consulted

Leader – Cllr M Gibson 29/09/17

Wards Affected

All

Recommendation

The Executive is advised to:

- (i) NOTE the implications of joining a Surrey Business Rates Pilot for 2018/19;
- (ii) COMMENT as appropriate
- (iii) DELEGATE to the Executive Head of Finance in consultation with the Leader and Chief Executive the final terms of the pilot and the submission of the application.

1. Resource Implications

1.1 Surrey Heath collects £35m a year in business rates of which only a small proportion (4%) actually remains in the borough. Under the current system 50% of the Business Rates collected goes straight to Government, 10% to the County and 40% is retained by Surrey Heath. However against this 40% a fixed tariff is charged leaving the Council with only 3%.

1.2 This 3% equivalent to £1.465m is a guaranteed baseline. The Council gets to keep 40%, less a 50% levy, of any gains over this baseline and losses are capped at £90k after which they are covered by a safety net. This is shown in the table below which shows not only the baseline position but also what happens if say £40m or £30m of rates are collected.

		2017/18 Baseline £000	2017/18 Increase £000	2017/18 Decrease £000
Baseline - assumed minimum collected		34,988	40,000	30,000
Less: 50% to Government		-17,494	-20,000	-15,000
Less: 10% to SCC		-3,499	-4,000	-3,000
Share for SHBC		13,995	16,000	12,000
Less Fixed Tariff		-12,531	-12,531	-12,531
Business Rates for SHBC		1,464	3,469	-531
Less Levy - 50% of gain over baseline			-1,003	
Add Safety net				1,885
Remining share of Business Rates		1,464	2,467	1,354
Safety Net		1,354	1,354	1,354

1.3 Being a Pilot means that 100% of *growth* is retained within Surrey not 100% of all rates collected. However from work done Surrey as an area could still benefit by up to £28m by becoming a pilot. The Government has stated that applicants for a Pilot must show how being in a pilot will help with 2 particular aims which are firstly increasing financial stability of Councils and secondly supporting economic development.

1.4 In order to satisfy these requirements modelling has been done which allocates this additional funding as follows:

- First call on funds is to recompense those Councils which fall below the safety net. This is because there is likely to be no “no detriment” clause in that previously Councils joining a rates pilot were guaranteed not to receive less than they would have got had they not been in a pilot. What this means is that losses in one Council have to be covered by gains in others – although this is thought to be very unlikely in Surrey
- The second call on any surplus will be pay growth to Councils based on their business rates performance which would normally be lost through a levy. At the moment Districts get to keep 40% of any growth they generate but 50% of this goes towards national levy. In a pilot there would be no levy to pay and so this growth would be passed on to Councils. Surrey Heath could receive around £1m from this.
- The third call would be to ensure that every Council has some gain - £500k has been suggested – to ensure they all want to participate in the pilot. Only 2 Councils will have a gain of less than £500k from the step above.
- The final stage is to create a “Surrey Investment Pot”, which could have £20m in it. This would be used on a collaborative basis to support the Government’s key aims of financial stability and economic

development. For the County financial stability is a key priority and the money would be used to enable changes to be implemented in Social care. For boroughs economic growth is a priority and the money would be used to pay for infrastructure and one off project costs. Working jointly across Surrey would be really attractive to Government and hopefully make it more likely that Surrey will be selected as a pilot area.

2. Key Issues

- 2.1 The Government introduced “Localisation of Business Rates” some years ago. The object was to encourage Councils to promote economic growth within their areas and thus to share in any additional business rates this generated. Due to the fact the Government retained 50% of all business rates and the level of growth Councils kept was very restricted this did not prove to be such an incentive to Councils as was originally thought.
- 2.2 The Government has said for a while that it was its intention to give Local Government 100% of business rates rather than the 50% under the current scheme so as to make the incentive for growth that much better. In return Local Government would lose a number of central Government grants. During 2017/18 a number of pilot areas were allowed to retain 100% of their business rates as a trial for the full system. These included Manchester and Cornwall amongst others. The Government guaranteed that any Council participating in this first wave of pilots would not be any worse off – a “no detriment” clause – although in reality they were all significantly better off.
- 2.3 As a result of the election plans to roll out this arrangement to all Councils were delayed however on the 1st September this year the Government invited applications for a further round of one year pilots with a closing date of 27th October 2017. Successful pilots would pool all their business rates within an area and retain 100% of rates collected. In exchange the Government would effectively not give any Rate Support Grant or Rural Services Grants – these would have to come out of the business rates retained
- 2.4 Pilots can cover any economic area and two tier pilots are especially welcome. Councils will need to make a bid jointly and show how by retaining 100% of business rates this will contribute to promote financial sustainability and economic growth. There is unlikely to be a “no detriment” clause again and Councils will need to illustrate how they will manage this. It is unlikely that all applications will be successful.
- 2.5 Surrey is in a particularly good position to benefit from 100% localisation. This is because there has been significant growth in business rates across the county over the last few years and in addition the level of grant paid by Government is very low – in fact in 2018/19 only Surrey CC will receive any Rate Support Grant. With this in mind a team of consultants – LG Futures – who had advised on business rates pooling have been appointed to draw up a bid. A fee is being negotiated based on the level of gains realised.
- 2.6 If Surrey is unsuccessful in its bid to become a pilot then there is still the option of pooling. With pooling it is possible for Councils to retain more of gains in their area as a levy does not apply. This levy would normally take

half of the 40% of any gains over the baseline made by Surrey Heath. LG futures have been engaged over a number of years to work out the optimum pooling arrangement using a combination of Councils to maximise the gains available. Surrey Heath is currently in a pool and their modelling shows benefit from being in a pool with 3 other districts and Surrey CC for 2018/19 if the pilot is unsuccessful.

- 2.7 The Pilot is original only for one year 2018/19 but there is a chance it could be extended for a further year to 2019/20 however this will depend on the timing of the Fair funding analysis work being done currently by Government.

3. Options

- 3.1 Members can decide not to join the pilot but this is likely to invalidate the bid and lose a significant amount of extra funding for Surrey taxpayers. At the moment all Districts have signified their willingness to be in the Pilot.

4. Proposals

It is proposed that Executive:

- (i) NOTE the implications of joining a Surrey Business Rates Pilot;
- (ii) COMMENT as appropriate
- (iii) DELEGATES to the Executive Head of Finance in consultation with the Leader and Chief Executive the final terms of the pilot and the submission of the application. AGREE to be a member of a Surrey Business Rates Pilot

5. Supporting Information

- 5.1 A copy of the Governments proposals is included a background paper

6. Corporate Objectives And Key Priorities

- 6.1 A pilot promotes prosperity by retaining a larger proportion of business rates generated within the borough

7. Legal Issues

- 7.1 Any pilot would need the agreement of all Councils together with the Government. It would only last for 1 year

8. Governance Issues

- 8.1 Surrey County Council has agreed to be the lead authority and would be responsible for the management of the pilot at no cost to the other boroughs and districts

9. Sustainability

- 9.1 The ability to be in a pilot promotes financial sustainability

10. Risk Management

- 10.1 Under the current system if an individual borough suffers a significant loss in business rates they are able to call on a safety net provided by the Government. In a pilot the safety net level will only apply if the whole pilot area suffers a loss. This could mean that an individual

Council could suffer losses and have no safety net to call on. In order to mitigate this it will be a principle that the first call on any gains will be to ensure that each Borough has a “minimum funding guarantee” to deal with these situations. That said it is highly unlikely to be called upon in an area such as Surrey which has significant growth.

11. Officer Comments

- 11.1 It is important for Surrey to try to become a pilot area not only because of the amount of money that could be retained within Surrey rather than going across the country but also because the pilots are likely to inform the shape of the final national 100% localisation scheme when it is eventually implemented by Government. Although there will be some discussions between boroughs and districts as to the final shape of the scheme it must be remembered that if no unanimous agreement is reached then there will be no gains for anyone and the additional £28m will be lost to Surrey residents.

Annexes	None
Background Papers	DCLG Business rates Pilots
Author/Contact Details	Kelvin Menon kelvin.menon@surreyheath.gov.uk
Head of Service	Kelvin Menon Executive Head of Finance

Consultations, Implications And Issues Addressed

Resources	Required	Consulted
Revenue	✓	
Capital		
Human Resources		
Asset Management		
IT		

Other Issues	Required	Consulted
Corporate Objectives & Key Priorities	✓	
Policy Framework		
Legal		
Governance		
Sustainability		
Risk Management		
Equalities Impact Assessment		
Community Safety		
Human Rights		

Other Issues	Required	Consulted
Consultation		
P R & Marketing		

Review Date:

Version:



Department for
Communities and
Local Government

Invitation to Local Authorities in England

to pilot 100% Business Rates Retention in 2018/19 and to pioneer new pooling and tier-split models.

September 2017

Department for Communities and Local Government



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Section 1 – The purpose of these invitations

- 1.1 The Government is committed to continuing to give local authorities greater control over the money they raise locally. It is in this context that the Government has decided to proceed with the already announced expansion of the pilot programme for 100% business rates retention for 2018/19. These will run alongside the five current 100% pilots which have been in operation since 1 April 2017.
- 1.2 The current pilots, and a new wave in 2018/19, will help explore options, with local government, for the design of future local government finance reforms.
- 1.3 Alongside the 2018/19 pilots, the Government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

Background

- 1.4 On 1st April 2017 the Government launched five pilots¹ of 100% business rates retention, which Ministers have granted to areas with ratified devolution deals. These pilots will retain 100% of business rates income and forego some existing grants. Over the pilot period they will retain all of their growth in business rates income. The five current 100% pilots which launched on 1 April 2017 will be continuing on in 2018/19, running alongside this new wave of 2018/19 pilots.
- 1.5 Spring Budget 2017 announced that authorities in London are working with the Government to explore piloting 100% business rates retention from 2018/19 and to retain a greater share of business rates in 2017/18.
- 1.6 In response to the Consultation on Self Sufficient Local Government, the Government made a commitment to launch a further pilot scheme in 2018/19. All interested authorities are invited to apply.
- 1.7 The 2018/19 pilots are an opportunity for the Department to test more technical aspects of the 100% business rates retention system, such as tier-splits. This will provide the opportunity to evaluate how collaboration

¹ These pilots are in Greater Manchester, Liverpool City Region, The West Midlands, Cornwall and The West of England.

between local authorities works in practice.

- 1.8 The Government would like to see authorities form pools and, with agreement in place from all authorities, to apply jointly for pilot status. The opportunity to work together as a pool across a functional economic area will allow authorities to make coherent strategic decisions about the wider area and to jointly manage risk and reward.
- 1.9 Finally, in addition, the pilots will test authorities' administration (e.g. how they tackle avoidance), technical planning for implementation, and look at system maintenance; how the accounting, data collection and IT system will work. The Government expects to learn from the pilots' experiences in the design of any national system of business rates retention.

Section 2 - The invitation to authorities to pilot

- 2.1 This invitation is addressed to all authorities in England, excluding those in London and participants in the 2017/18 pilots of 100% business rates retention which are expected to have separate discussions with the Department.
- 2.2 These authorities are now invited, if they so wish, to make a proposal to become a pilot of 100% business rates retention in 2018/19.

Terms of the invitation

- 2.3 The Government is interested in exploring how rates retention can operate across more than one authority to promote financial sustainability and to support coherent decision-making across functional economic areas. Accordingly, the Government encourages, in particular, areas to apply as pools (either on existing, or revised pool boundaries), which comprise county council(s) and all relevant district councils; groups of unitary authorities; or groups of county councils, all their districts and unitaries. Arrangements would also need to reflect the position of precepting authorities, such as Fire and Rescue authorities.
- 2.4 To be accepted as a pilot for 2018/19, agreement must be secured locally from all relevant authorities to be designated as a pool for 2018/19 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988) and to put in place local arrangements to pool their additional business rates income.
- 2.5 We require pooled areas coming forward to propose a split for sharing additional growth. We particularly want to see additional growth being used to promote the financial stability and sustainability of the pooled area. In addition, we would expect some retained income from growth to be invested to encourage further growth across the area.
- 2.6 For the 2017/18 pilots the Government has agreed a 'no detriment' clause, guaranteeing that these areas will not be worse off as a result of participating in the pilot. However, proposals for the 2018/19 pilots should include details of how authorities will work together to manage risk in line with their proposed pooling arrangements in the event that the 2018/19 pilots programme does not include a 'no detriment' clause. Applications should make it clear whether or not they would be willing to become a 100% BRR pilot if the 2018/19 pilots

were expected to operate without the benefit of ‘no detriment’.

- 2.7 The Government will use the 2018/19 pilots to deepen its understanding of how different local arrangements work and improve the information that it holds on business rates retention. As such, participating authorities will be expected to share additional data and information, as required.
- 2.8 Authorities selected as pilots for 2018/19 will be expected to forego Revenue Support Grant (RSG) and Rural Services Grant. The value of the grant foregone will be taken into account in setting revised tariffs and top-ups, which will be used to ensure that the changes are cost neutral, except for the value of any growth retained.
- 2.9 Pilot areas will be expected to operate under the arrangements that currently determine safety net payments for pools. In other words, each “pool” will have a single safety net threshold determined on the basis of the pool’s overall baseline funding level and business rates baseline. However, the pool’s safety net threshold will be set at 97% of its baseline funding level, instead of 92.5%, to reflect the additional risk of greater retention. Pilots will operate with a “zero levy”, as is the case for the current 2017/18 pilot areas.
- 2.10 Given the timetable for pilot applications and the proximity to the finalisation of the local government finance settlement, all applications must outline, with agreement from all participating authorities, what pooling arrangements they would like to see if their application to become a pilot were unsuccessful. In addition, any authority which is part of a current pool but wishes to apply to become a pilot as part of a different pool, must inform the current pool of its intention.
- 2.11 Alongside this prospectus we are publishing supplementary information on how pooling arrangements will be managed in line with applications to become pilots. Please consult this document for further information.
- 2.12 The Government reserves the right to pilot a full range of options and so to create a single authority pilot if it is deemed useful as a result of our discussions with applicants. The Government will not compel any authority to become a pilot that does not wish to, and we cannot designate a pool without explicit agreement from all participating local authorities.

Response to the invitation

- 2.12 It is wholly at the discretion of authorities whether or not they choose to apply to the pilot scheme outlined above.
- 2.13 Any proposals for new pilots must be received by the Department for Communities and Local Government on or before Friday 27 October 2017.
- 2.14 It is expected that successful applications will be announced before or alongside the publication of the draft local government finance settlement.

Section 3 - The criteria for becoming a pilot

- 3.1 The Department will consider all applications to pilot 100% business rates retention that are received by Friday 27 October 2017 and which conform to the scheme outlined in Section 2.
- 3.2 Because of affordability constraints, it may be necessary to assess applications against selection criteria. In these circumstances, the following criteria will apply:
- Proposed pooling arrangements 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);
 - Because they were not included in the 2017/18 pilot scheme, the Government is particularly interested in piloting in two-tier areas;
 - The proposals would promote the financial sustainability of the authorities involved; and,
 - There is evidence of how pooled income from growth will be used across the pilot area.
- 3.3 If further assessment criteria are required, the Government will:
- Seek a wide spread of geographical areas across England;
 - Focus on rural areas (given that the majority of 2017 pilots are in urban 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).

Section 4 – The authorities’ proposal to become a pilot

- 4.1 Any proposal must be in accordance with the invitation outlined in Section 2, and summarised in paragraph 4.3.
- 4.2 The proposal must be in the form of a business case with supporting financial analysis.
- 4.3 The business case should clearly set out the following:

Membership details/ Housekeeping

- i. Local authority membership of the proposed pool, explaining its relevance to the economic geography of the area;
- ii. Evidence that each local authority fully supports the application and the proposed pooling arrangements;
- iii. A clear outline, with agreement from all participating authorities, on what pooling arrangements you would like to see if your application to become a pilot was unsuccessful
- iv. A clear indication of whether or not you would still like your application to be considered if you were expected to operate without a ‘no detriment’ clause.
- v. The lead authority;
- vi. The proposed position of precepting authorities such as Fire and Rescue;

Governance arrangements

- vii. The governance agreement, including how any additional business rates income is to be used; how risk is to be managed; and how residual benefits/liabilities would be dealt with once the pilot ends;
- viii. An indication of how the pool will work together in the longer term;
- ix. Proposals for sharing additional growth. We particularly want to see additional growth being used to promote financial stability and sustainability. In addition, we would expect some retained income from growth to be invested to encourage further growth across the area.

Additional supporting evidence

- x. The benefits to the area of participation in the 2018/19 pilots, including the financial case;
- xi. In two-tier areas, applications should propose a tier split and explain how this will promote sustainability; and

xii. A brief explanation of the business rates base in your area.

- 4.4 We understand application lengths may vary, however, as a guide, we would expect applications to be around four typed pages in size 12 font.

Membership

- 4.5 Proposals should include the identities of all authorities in any proposed pool and evidence that each fully supports the application and the proposed pooling of a proportion of additional income.
- 4.6 Authorities cannot apply as part of more than one pool and, where they have two possible options, must choose which pilot they wish to apply to participate in.
- 4.7 If existing pooling arrangements need to be reconfigured as a result of a pilot proposal, the Department would expect to make the necessary determinations at the same time as confirming its agreement to the pilot arrangements. In the event that a pilot proposal is not accepted, the Government will make 2018/19 pooling arrangements with the authorities concerned in line with their expressed preferences on their pilot application, as requested in paragraphs 2.7 and 4.3 (iii).

Benefits

- 4.8 Applications must include details on how participation in the pilot scheme will benefit the area and should cover the potential pilot's approach to pooling and the sharing of growth, including how authorities will collaborate to use pooled retained income to promote further growth across the area. In two tier areas applications should propose a tier split and explain how this will promote sustainability. The financial case should reflect these considerations. An indication of how the area will work together in the longer term should also be included.

Lead Authority

- 4.9 Participating pools will be treated as one entity by the Department for the purposes of business rates retention and one calculation will be made regarding top-up/ tariff and the safety net payment. Therefore, the pool must nominate a Lead Authority to receive payments from and make payments to the Department on behalf of the entire pool. Any authority within the pool is eligible to fulfil this role. Applications must state which authority will be acting

as the Lead Authority for the duration of the pilot.

Governance agreement

- 4.10 Pools should submit a governance agreement setting out how the pooling arrangements will work in terms of financial distribution and service provision and evidencing how business rates income growth will be shared. The governance agreement should also include how balances and liabilities will be treated if the pool were to be dissolved.
- 4.11 Please ensure that the s.151 officer of each authority has signed off the proposal before it is submitted. The Department will work closely with all successful applicants to support the implementation and running of the pilot.

Other information

- 4.12 Authorities may include any further materials they see fit in support of their proposal.

Section 5 – The Government’s handling of proposals

- 5.1 All proposals received on or before Friday 27 October 2017 by the Department will be carefully considered between then and December 2017.
- 5.2 The first assessment of proposals will ensure that all conform to the terms of the invitation (see Section 2).
- 5.3 If it is necessary for a selection to be made, for reasons of affordability, then the proposals will be subject to a further assessment against the criteria outlined in Section 3, 3.2.
- 5.4 If a third round of assessment is required, then proposals will be assessed against further criteria to ensure a variety of useful pilots are created, including those outlined in Section 3, 3.3.
- 5.5 The Government may request further information in carrying out this assessment from the authorities submitting the proposal and from other persons and bodies that it deems appropriate.
- 5.6 Where information is not available the Government reserves the right to make assumptions and estimates as it sees fit.
- 5.7 Successful pilots will be announced in December 2017 and launched in April 2018. Between these dates the Department will support authorities in preparing for implementation.

Section 6 – Submission of proposals

6.1 Any proposals for new pilots must be received by the Department for Communities and Local Government on or before Friday 27 October 2017. The Secretary of State may publish proposals in the Libraries of Parliament.

6.2 Proposals should be submitted to:

Local Government Finance Reform Team

The Department for Communities and Local Government

Fry Building

2 Marsham Street

Westminster

London

SW1P 4DF

Email: Businessratespilots@communities.gsi.gov.uk

Section 7 – Conditions

- 7.1 In designating a pool for 2018/19, the Department will attach conditions to the designation in accordance with paragraph 35(1) of Schedule 7B to the Local Government Finance Act 1988 by appointing a lead authority and requiring the authority to take the steps set out in its application in the event that the pool is dissolved.
- 7.2 It also reserves the right to attach such other conditions as it sees fit, in accordance with paragraph 35(2) of Schedule 7B. If the Department attaches conditions these are likely to be around the publication of information by the lead authority in the interests of transparency.
- 7.3 The Department also reserves the right to modify or remove conditions at any point in the future, as becomes necessary.
- 7.4 The 2018/19 pilot programme will last for one year only, and does not prejudice the discussion the Department will be continuing to have with Local Government on the future of the business rates retention system as a whole.

