100% Business Rates Pilots – Explanatory Note

1. Last year, agreement was reached with a number of devolution deal areas to pilot 100% business rate retention. Greater Manchester and Liverpool City Region, together with Cornwall Council and the councils in the combined authority areas of West of England and West Midlands will continue to pilot 100% rates retention in 2018-19. As announced at the Budget, the GLA, the City of London and all the London Boroughs will form a "pool" for the purposes of the business rates retention scheme and will also pilot 100% business rates retention in 2018-19.

2. In addition, following successful bids to pilot in other areas, a further [87] local authorities in [10] areas will form "pools" to pilot 100% business rate retention in 2018-19. Taken together, these pilots will allow us to test the greatest number of different variants of 100% business rates retention, and to assess how different structures support local growth and the sustainability of local services.

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

<u>Foregoing other income streams</u>

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

5. In London, the boroughs and the GLA will not receive any Revenue Support Grant (RSG) from DCLG for 2018-19. DfT will no longer pay TfL's investment grant, which instead will be paid by the GLA.

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.

7. In Liverpool, the metropolitan districts will no longer receive RSG or Improved Better Care Fund (iBCF) from DCLG.

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 forego Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT.

9. In West Midlands, the metropolitan district councils will no longer receive RSG,

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.

11. The authorities in Berkshire, Derbyshire, Devon, Gloucestershire, Kent, Leeds Lincolnshire, Solent, Suffolk, Surrey will forego RSG and, if applicable, Rural Services Delivery Grant.

<u>Ensuring Cost Neutrality</u>

12. The 100% rates retention pilots are cost-neutral at the point of delivery. 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.

13. 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 2018-19.

14. BFLs, BRBs tariffs and top-ups will be calculated for London and the 10 authorities listed in paragraph 11 for 2018-19; and recalculated for the pilots in greater Manchester, Liverpool, Cornwall, West of England and West Midlands to reflect changes to grant totals between 2017-18 and 2018-19

<u>Calculating Baseline Funding Levels (BFLs)</u>

15. In order to calculate the revised BFL for each pilot authority for 2018-19, we sum:

    a. the value of the grant(s) that the authority will forego in 2018-19; and

    b. the authority's BFL for 2018-19 as if it had remained in the 50% rates retention scheme, ie the authority's 2017-18 BFL (as under 50% rates retetntion), multiplied by 48.0 (the small business rating multiplier in 2018-19)/46.6 (the value of the small business rating multiplier in 2017-18). This is to adjust the BFL for the change in multipliers between 2017-18 and 2018-19.

<u>Calculating Business Rates Baselines (BRBs)</u>

16. 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.

17. 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 –[Link].

18. Therefore, in order to derive a new BFL for pilot authorities, the first step is to derive a notional BRB for 2018-19 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 2018-19 BFL for the authority (unadjusted for the value of the grants that the authority will forego) – i.e. the calculation at paragraph 16(b) above – and add back the Revaluation-adjusted tariff, or subtract the Revaluation-adjusted top-up.

19. The notional 2018-19 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:

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

<u>Deriving Tariffs and Top-ups for 100% pilot authorities</u>

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

a. BFL minus BRB

21. 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

22. 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 2018/19.

23. The Settlement Key Information tables show the actual figures for pilot authorities in 2018/19.