Local Government Finance and The Implications of the Business Rates Regime for Rural Areas

- Summary of existing position on fair funding – 2013/14 to 2018/19
- Government Fair Funding Review – Needs and Redistribution Technical Working Group
- Business Rates analysis and look forward
- 2018/19 pilots

The Local Government Finance Settlement – 2012-13 to 2019-20

And the rural-urban divide

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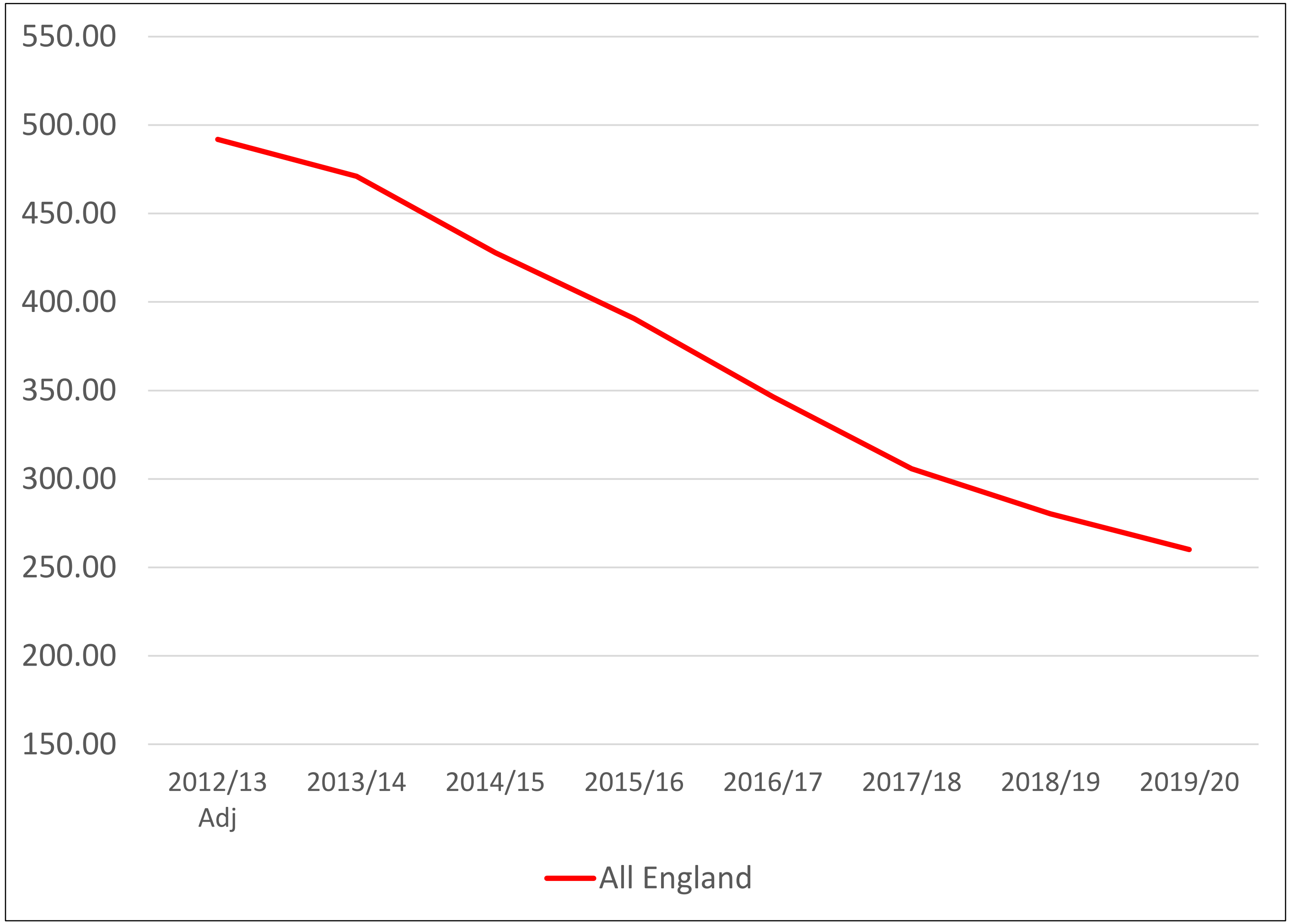
Understanding the history in order to determine how to move forward

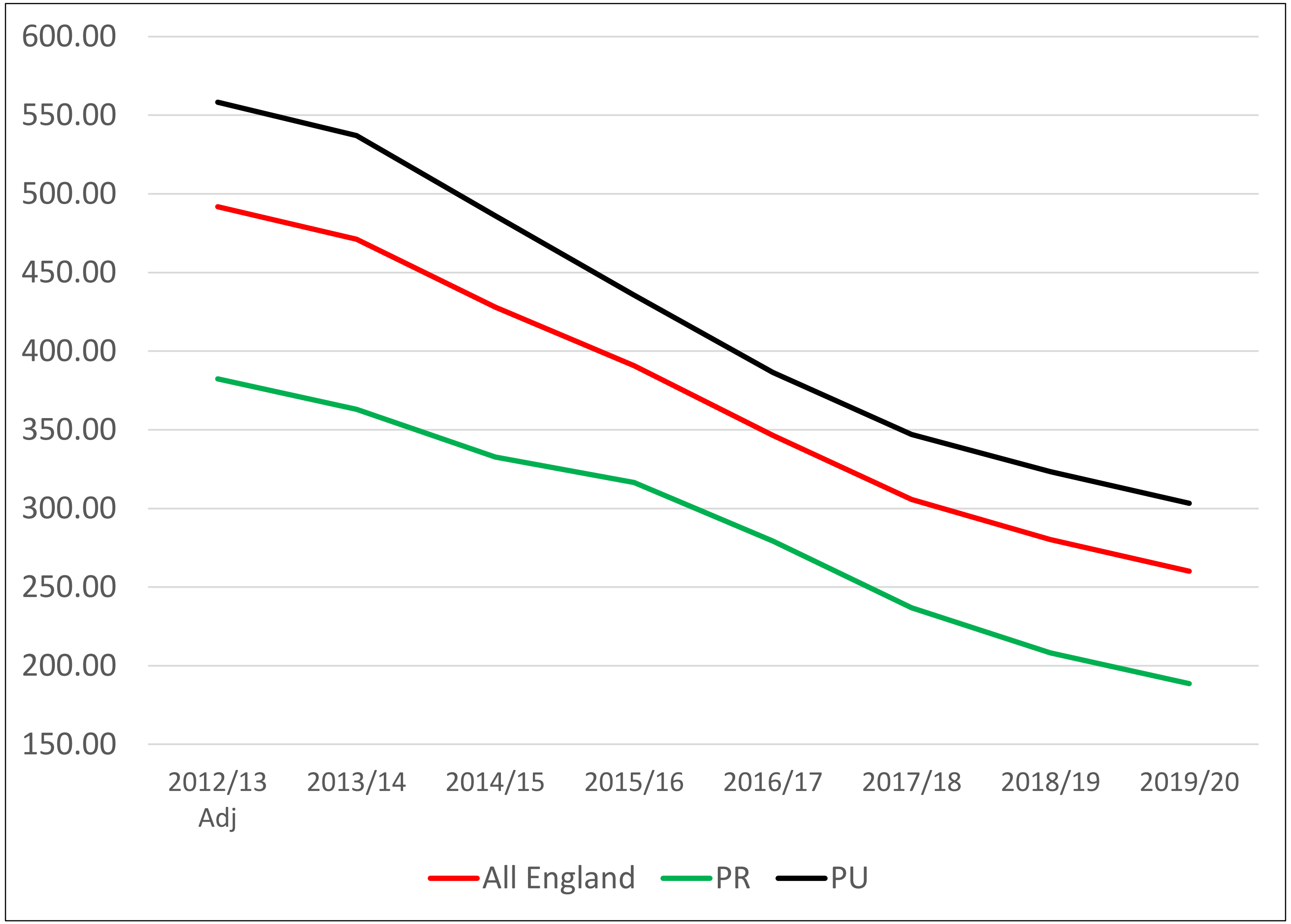
- Look in some detail at SFA from 2012/13 to 2019/20
- Identify three key impacts which have resulted in the funding disparity
- Other issues – particularly Adult Social Care and Council Tax

Settlement Funding Assessment per Head – 2012/13 to 2019/20



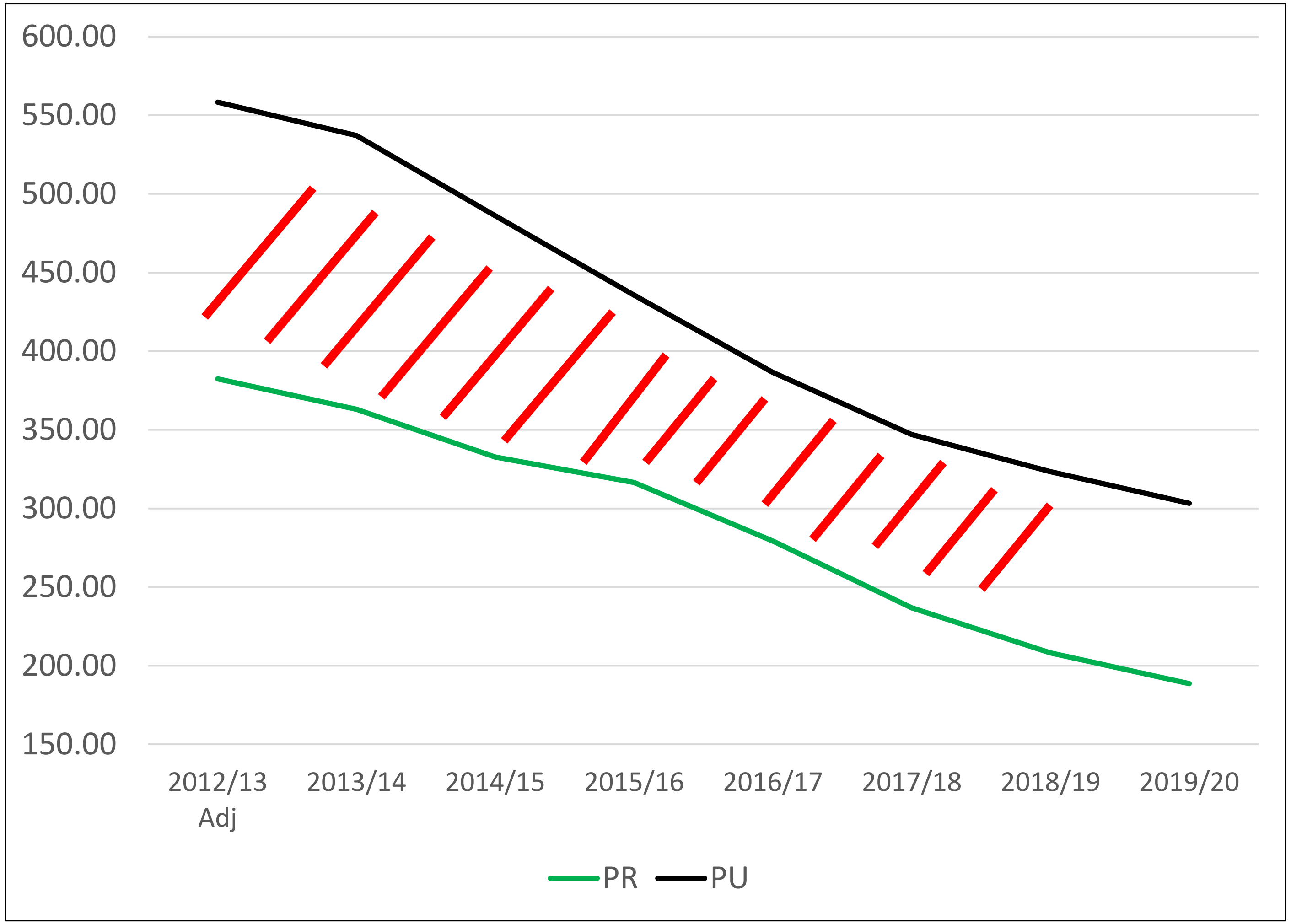
- Under the coalition and subsequent Conservative Government, the level of Government Funding for Local Government has fallen significantly

Settlement Funding Assessment per Head – 2012/13 to 2019/20



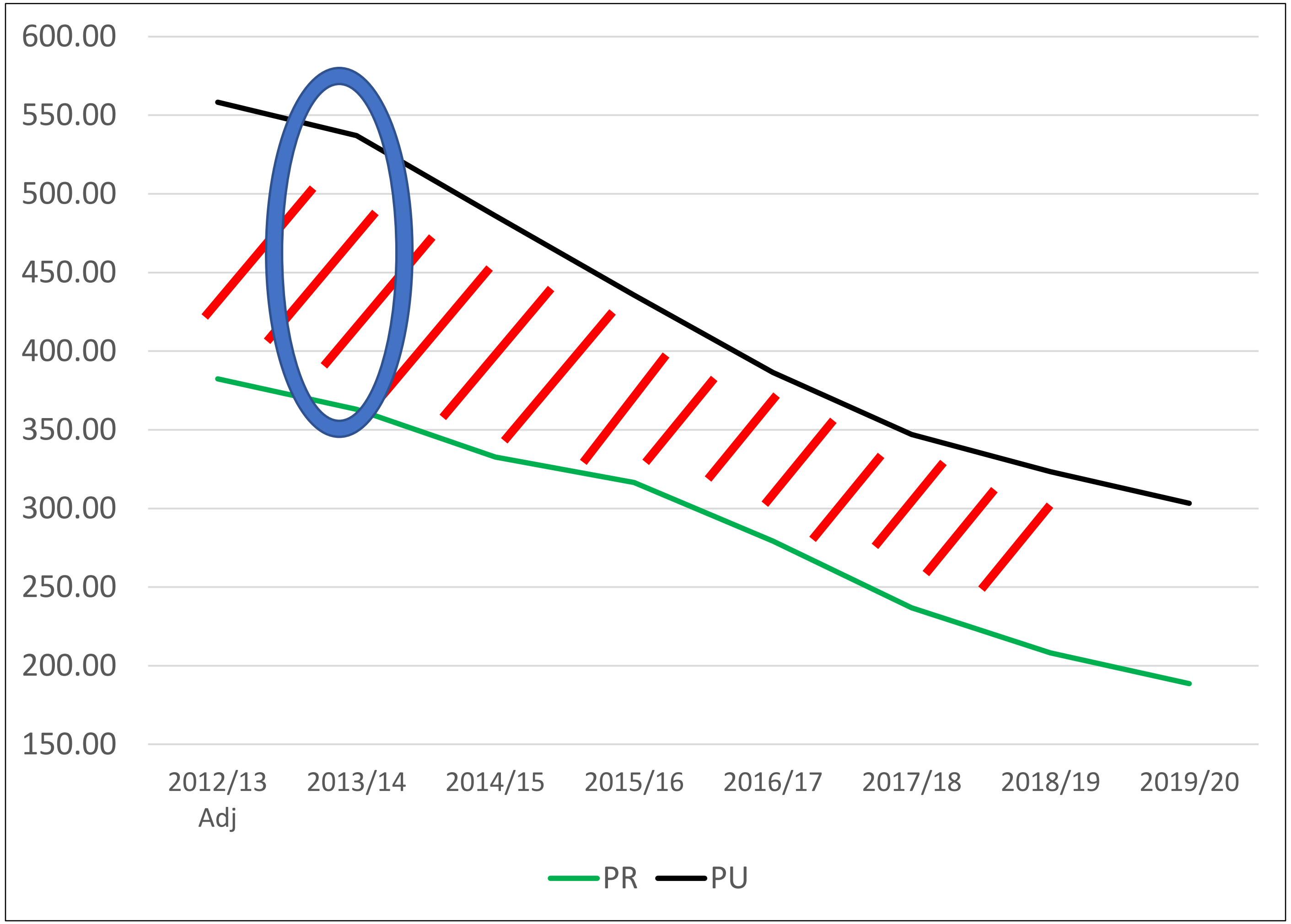
- The gap in funding between urban and rural is not only significant, it hasn't really changed over the last two parliaments
- Three key points to take from this analysis

Settlement Funding Assessment per Head – 2012/13 to 2019/20



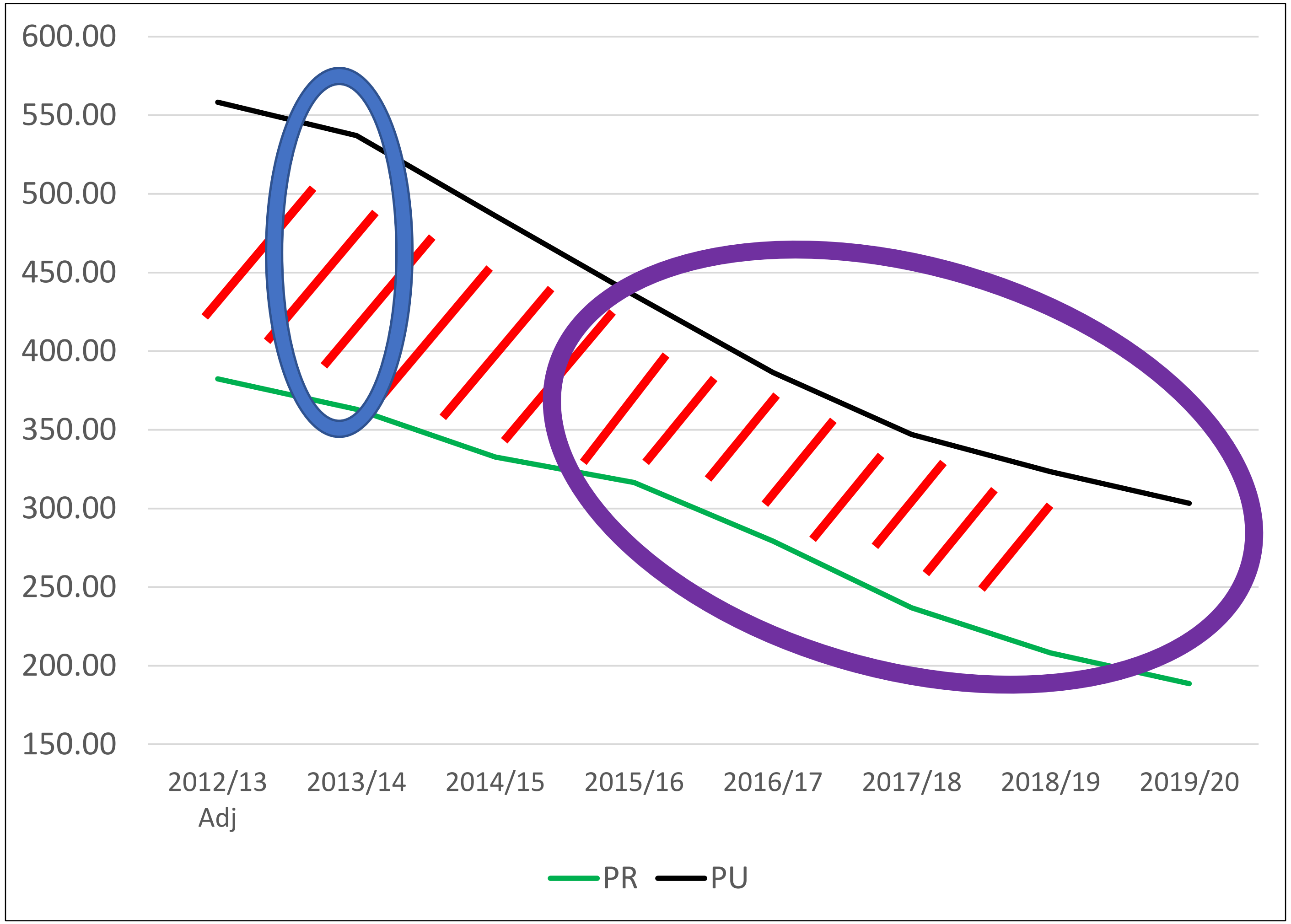
- 1. The gap itself over the period

Settlement Funding Assessment per Head – 2012/13 to 2019/20



- 1. The gap itself over the period
- 2. Additional sparsity in the 2013/14 formula damped away

Settlement Funding Assessment per Head – 2012/13 to 2019/20



- 1. The gap itself over the period
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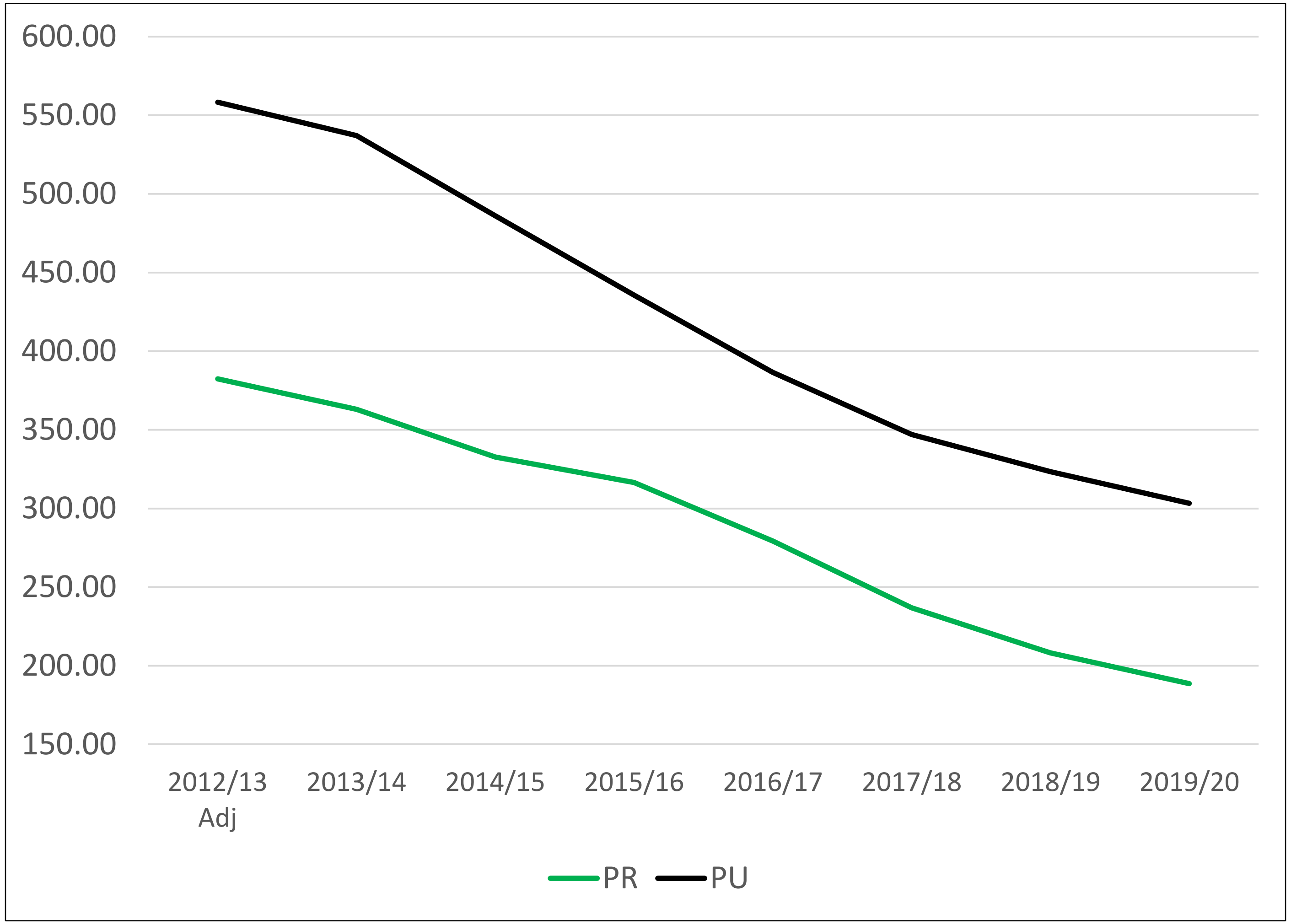
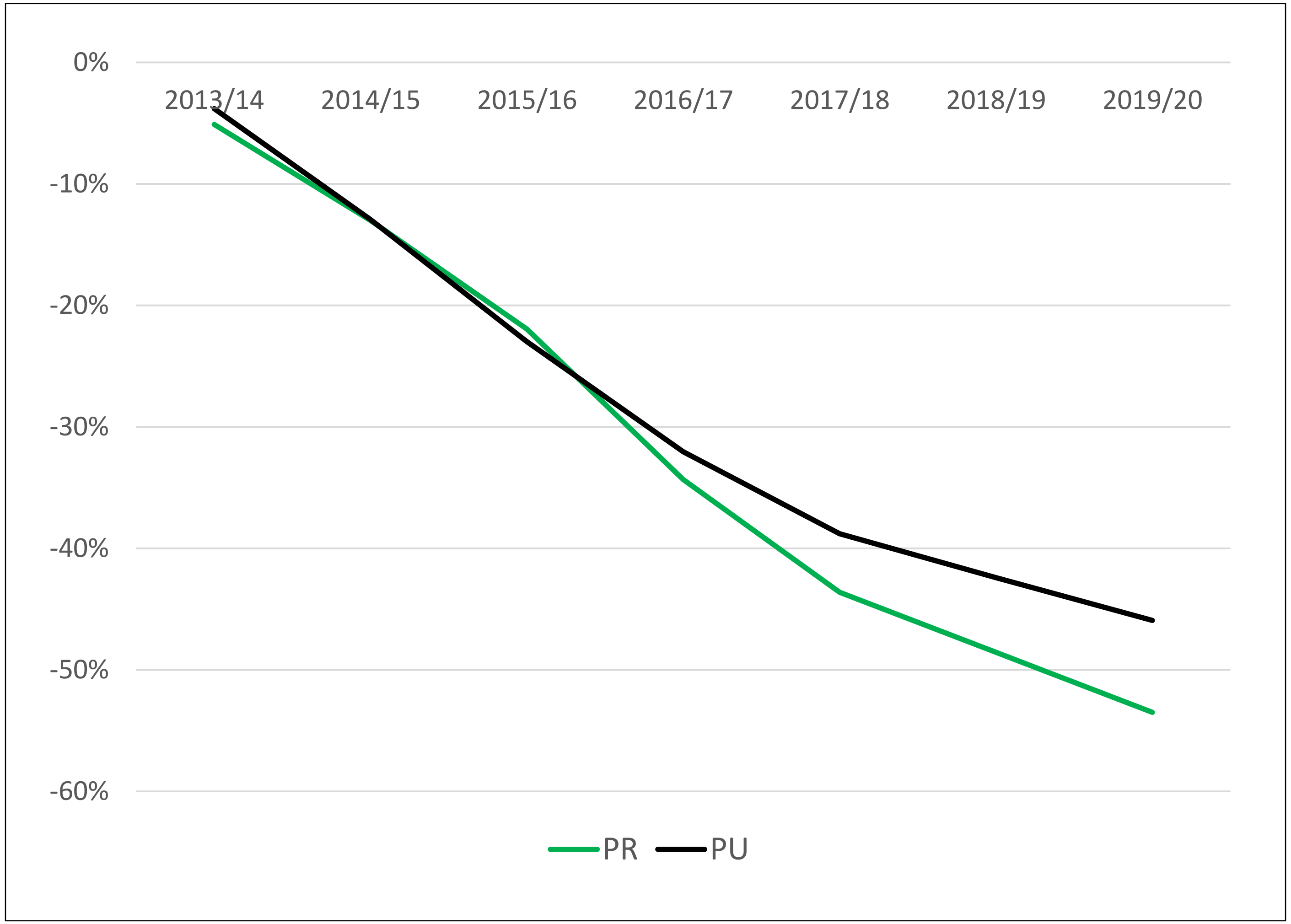
Settlement Funding Assessment per Head – 2012/13 to 2019/20



- 1. The gap itself over the period

- Arguably, little justification for the gap – KEY ARGUMENT for needs/resources review
- An argument accepted by the Government (pushing against an open door?)

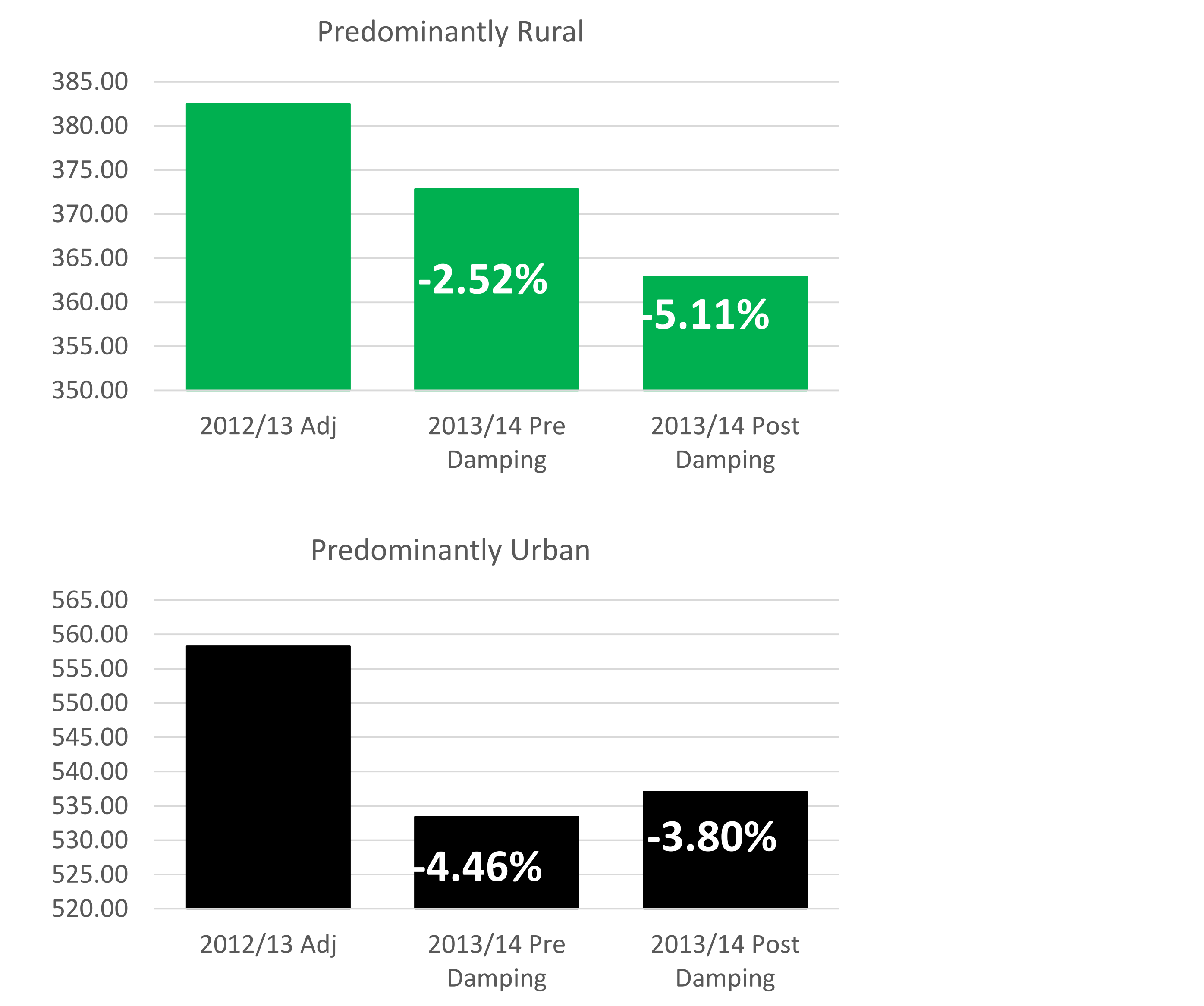
Settlement Funding Assessment per Head – 2012/13 to 2019/20



- 1. The gap itself over the period

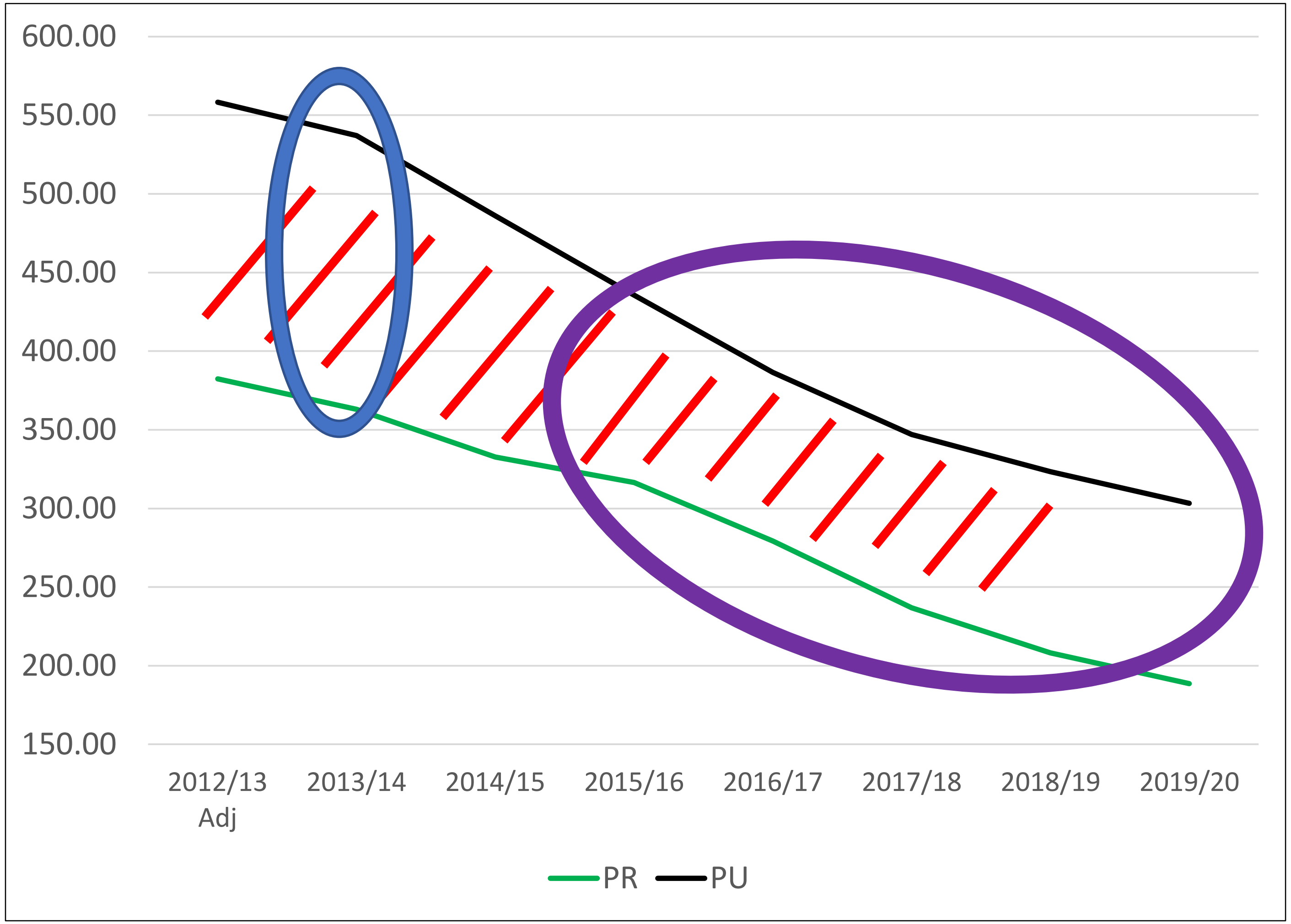
- And the gap has actually widened in percentage terms thanks to the change in SFA calculation in the 16/17 settlement

Settlement Funding Assessment per Head – 2012/13 to 2019/20



- 2. Additional sparsity in the 2013/14 formula damped away
- Response to 2012 Technical Consultation resulted in significant increase in sparsity weightings in formula
- But ¾ of gains were damped away!
- PR lost £126m in 13/14 and every year since!
- Needs to be redressed in Needs review

Settlement Funding Assessment per Head – 2012/13 to 2019/20



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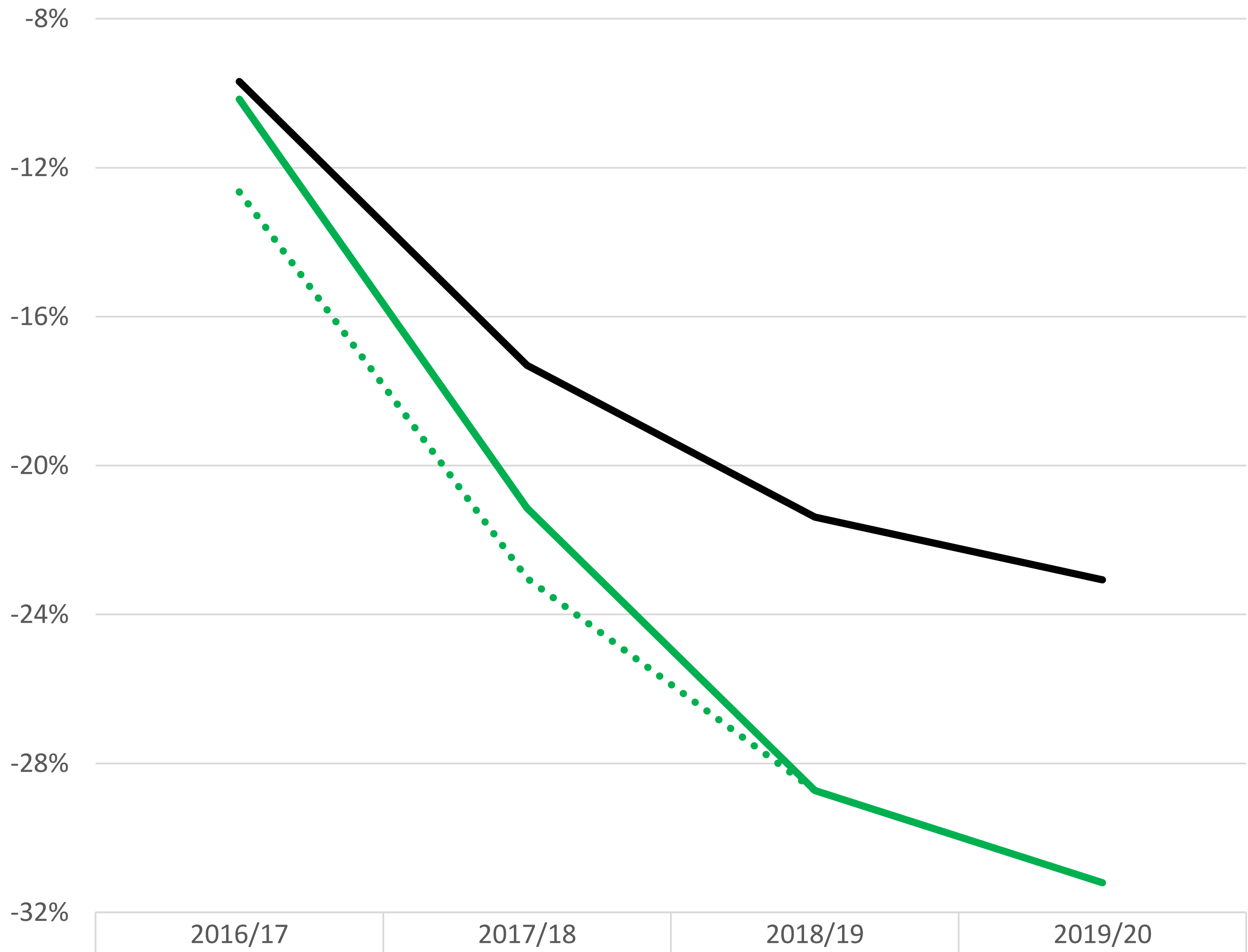
- Historically, Government Funding in urban areas higher than rural (by about half as much again) – point 1
- Some rectification by changing sparsity in 2013/14 formula but gains damped away! – point 2

- Under SoS Pickles, Revenue Support Grant cuts equal between urban and rural authorities
- Provisional Settlement – December 2015
- SFA reductions no longer equal for all authorities but higher cuts for authorities with higher council tax income
- **Resulting in higher reductions in rural areas than urban areas**

Reduction in Government Funded Spending Power 2015/16 to 2019/20

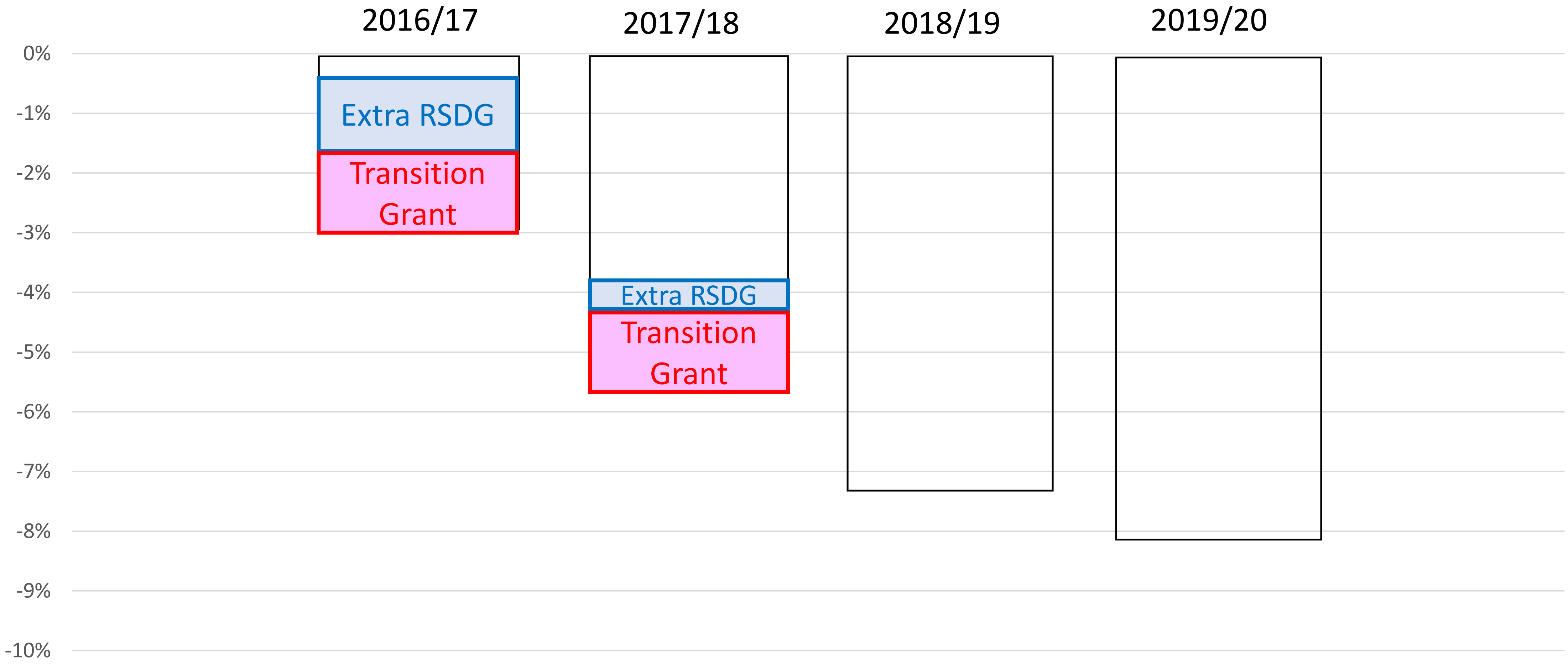


	2016/17	2017/18	2018/19	2019/20
PR (prov)	-12.65%	-23.03%	-28.73%	-31.21%
PR (final)	-10.16%	-21.14%	-28.73%	-31.21%
PU (final)	-9.69%	-17.31%	-21.39%	-23.07%

PR (prov) PR (final) PU (final)

- 3. Greg Clark's subtle but devastating change to the SFA calculation measurement in the 2016/17 settlement

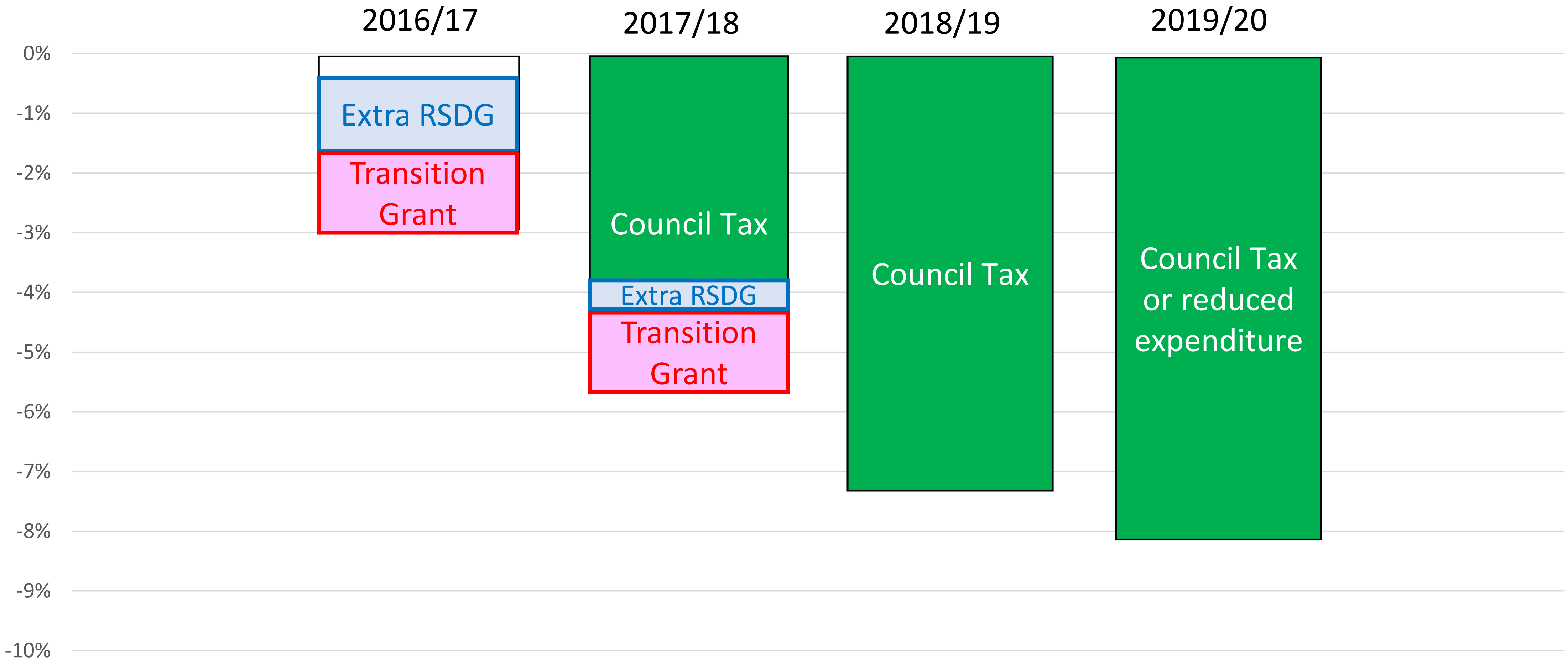
The Widening Gap Between Urban and Rural Funding



One year on – 2017/18 settlement

- But it was a one year only fix!
- 2017/18 and beyond had to change or else rural would lose out by the RSG change (ie. Allowing Council Tax to ‘crowd out’ Government Funding in rural areas)
- Sajid Javid did NOTHING to change the devastating change to the SFA formula and provided no additional transition grant or RSDG
- Constant references from SoS and officials to the commitment to a ‘fairer funding’ review – RSN and members must be ready for this!

The Widening Gap Between Urban and Rural Funding will be filled by increases in Council Tax

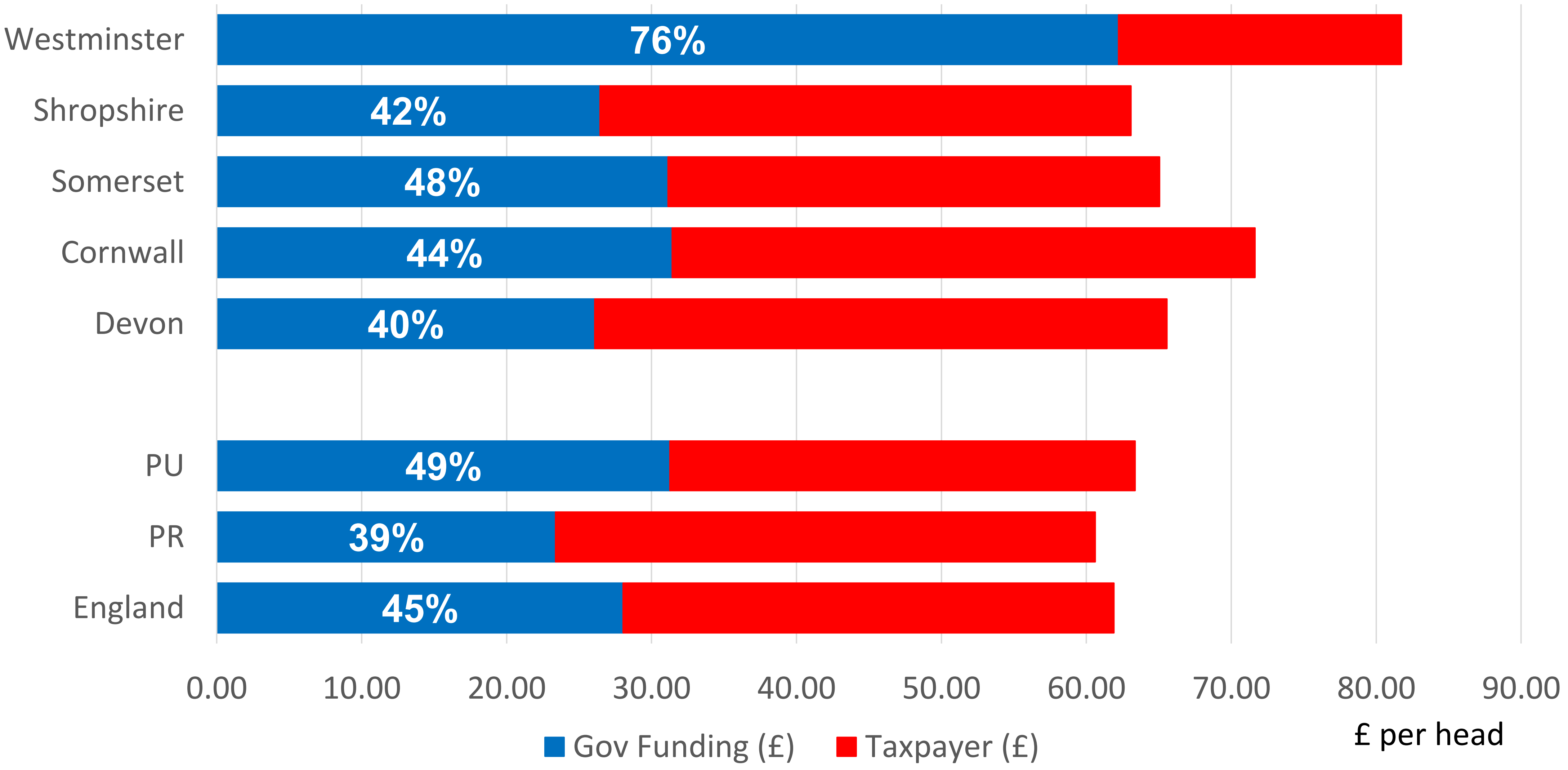


Percentage of Spending Power funded by Council Tax over the four year settlement period					
	2015/16	2016/17	2017/18	2018/19	2019/20
Predominantly Rural	58%	62%	66%	70%	71%
Predominantly Urban	45%	49%	53%	56%	57%

Effectively …

Government Policy is such that rural taxpayers will pay much higher and increasing levels of Council Tax to fund local services.

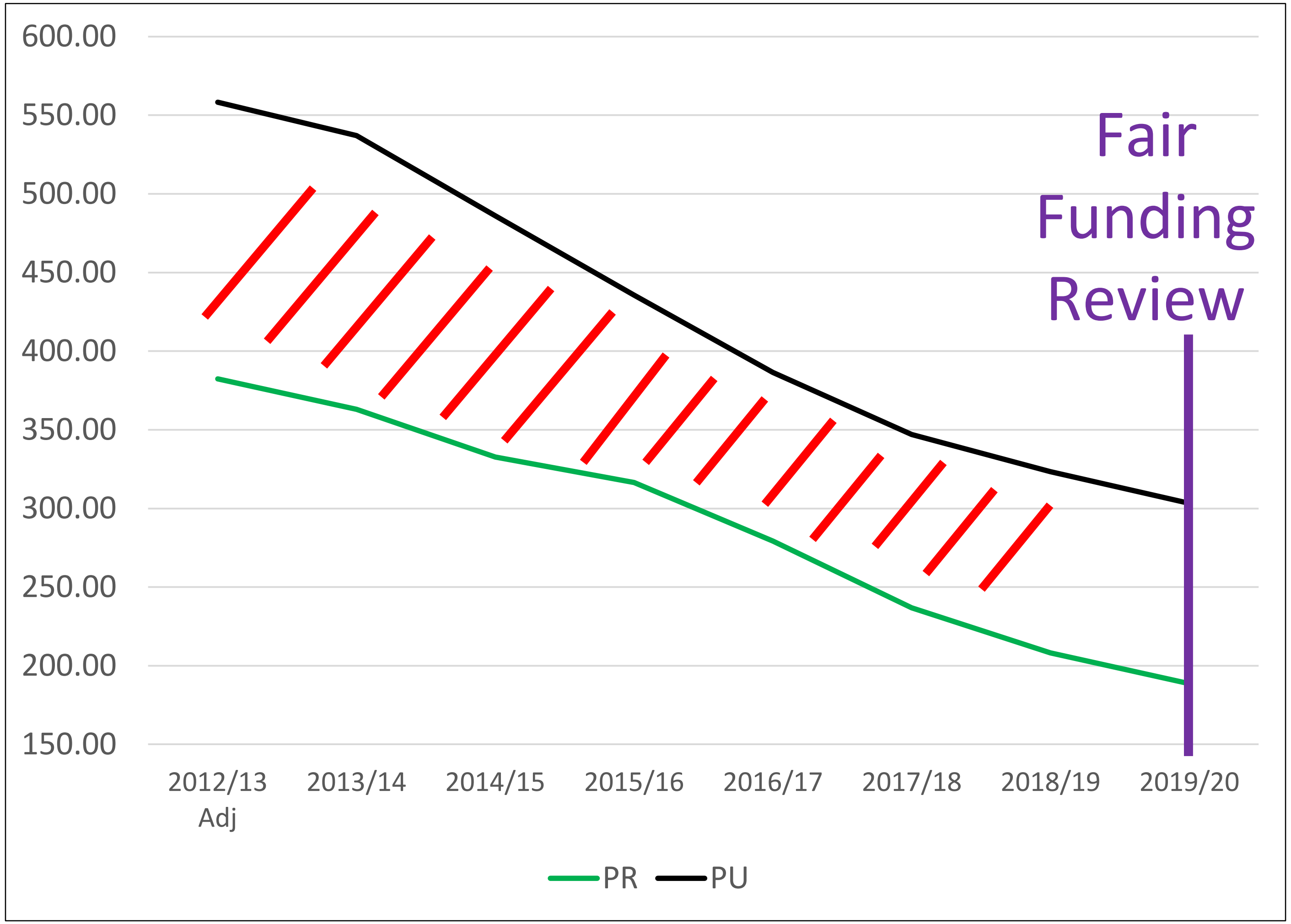
Who is paying for 2019/20 Additional Adult Social Care Funding?



The effects of Government changes are …

- that **rural** taxpayers will pay much higher and increasing levels of Council Tax to fund local services.
- that **rural** taxpayers will pay for a much greater proportion of the additional resources required to address the Adult Social Care crisis.

Settlement Funding Assessment per Head – 2012/13 to 2019/20



- Fair Funding Review
- To conclude for the 2020/21

Government Fair Funding Review – Needs and Redistribution Technical Working Group

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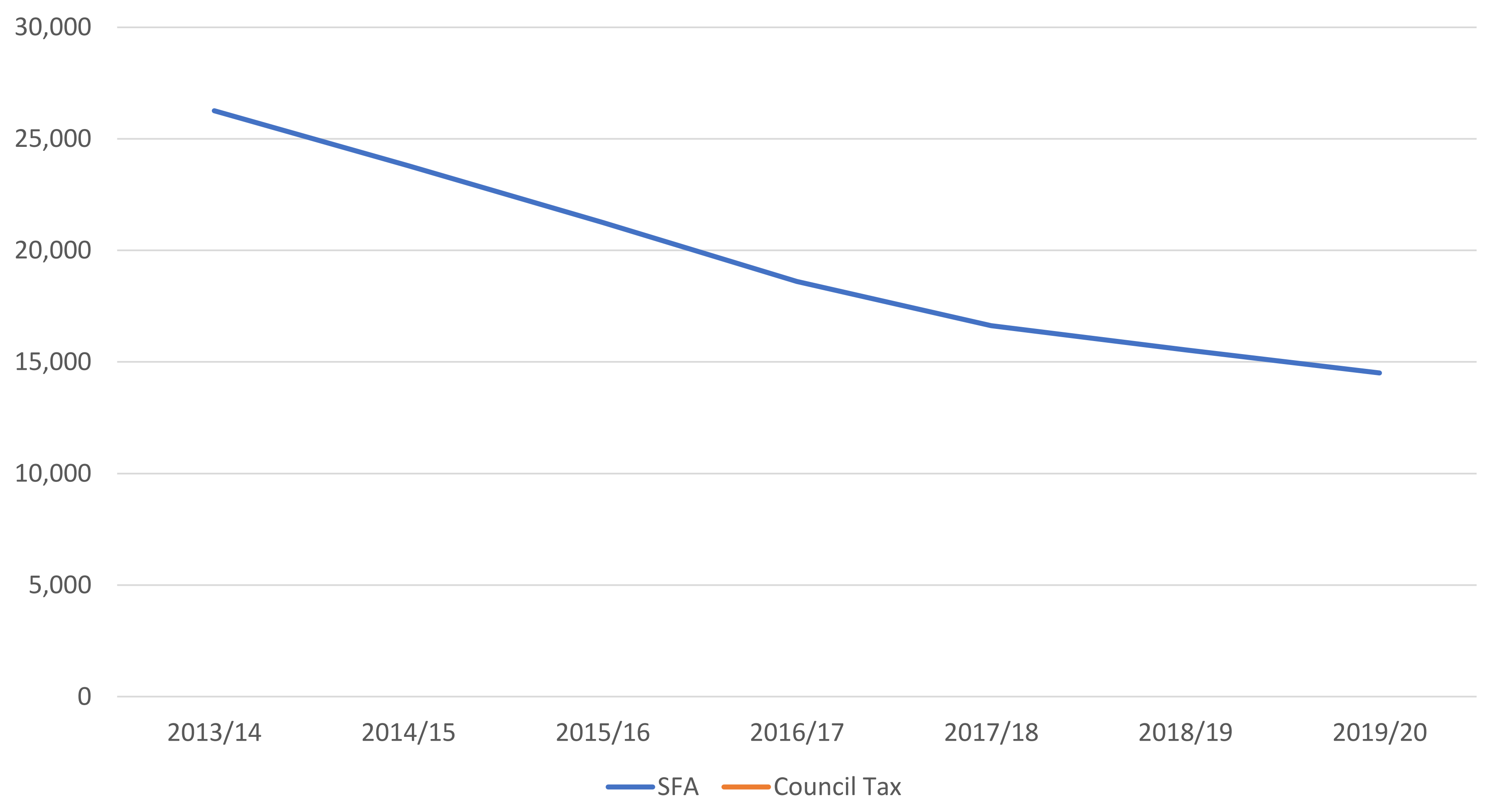
When were our needs last recognised?

- Needs was one of the four blocks which made up Formula Funding
- Alongside Resources, Central Allocation and Damping
- Needs and Resources often considered together and relative weightings of these blocks, determined by Ministerial judgement, can be used to redistribute significantly
- Four Block Formula Funding added to other funding streams to make Settlement Funding Assessment (SFA)
- SFA = RSG + Baseline Localised Rates
- Spending Power = SFA + NHB + RSDG +IBCF + Council Tax

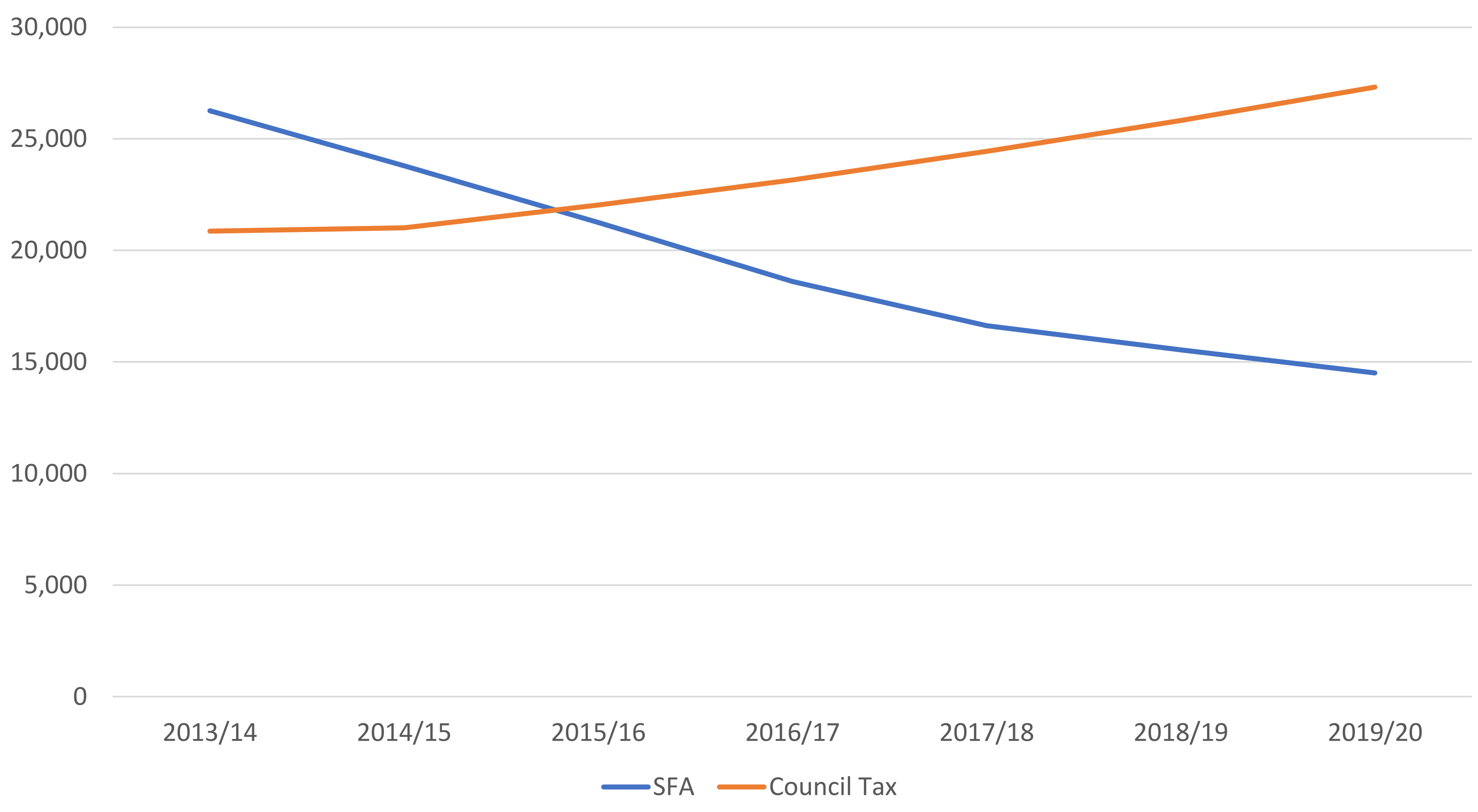
When were our needs last recognised?

- Formula Funding last calculated for 2013/14
- Effectively frozen since then
- Frozen with ¾ of the sparsity needs gains damped away
- Significant reductions in SFA since then
- But modest year on year increases in Council Tax after the ‘freeze years’
- Such that much greater reliance on Council Tax to fund Local Government
- Significant Spending Power adjustments according to historic gearing between council tax and government funding

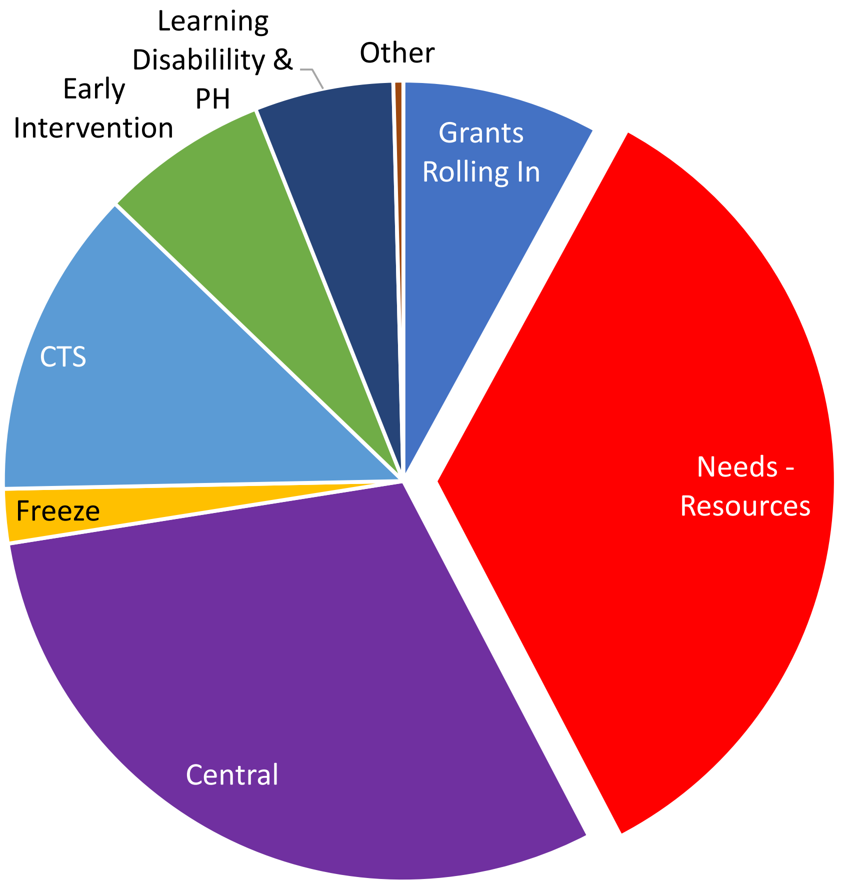
Levels of SFA 2013/14 to 2019/20

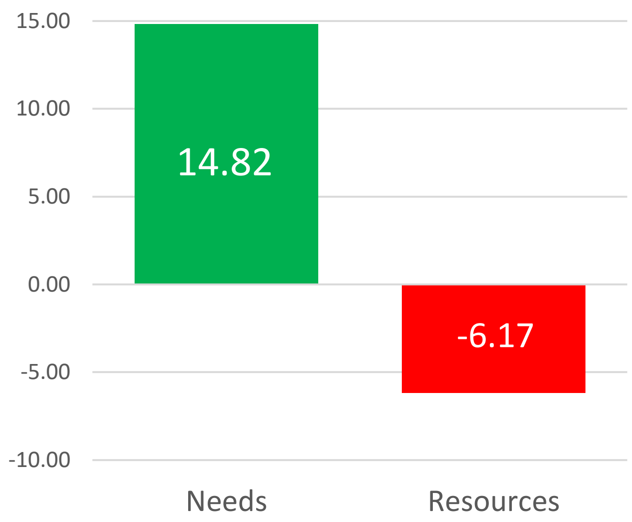


SFA and Council Tax – 2013/14 to 2019/20

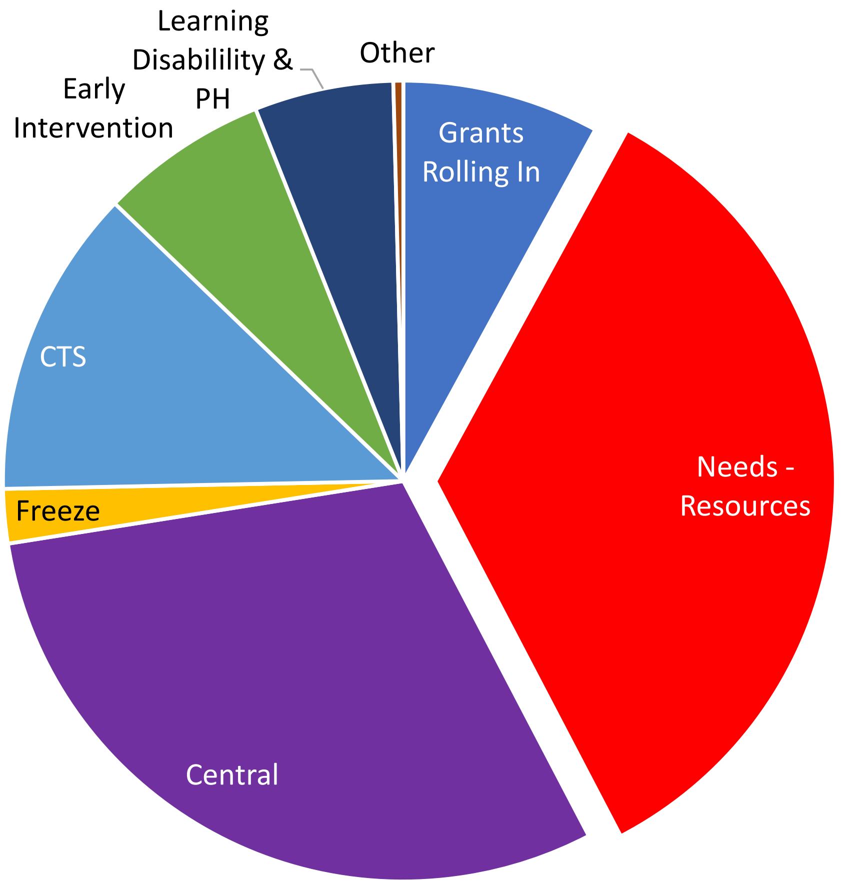


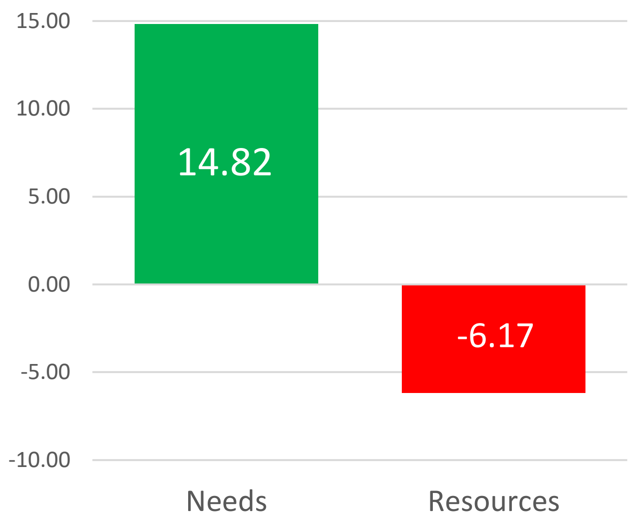
SFA 2013/14: £26.256bn

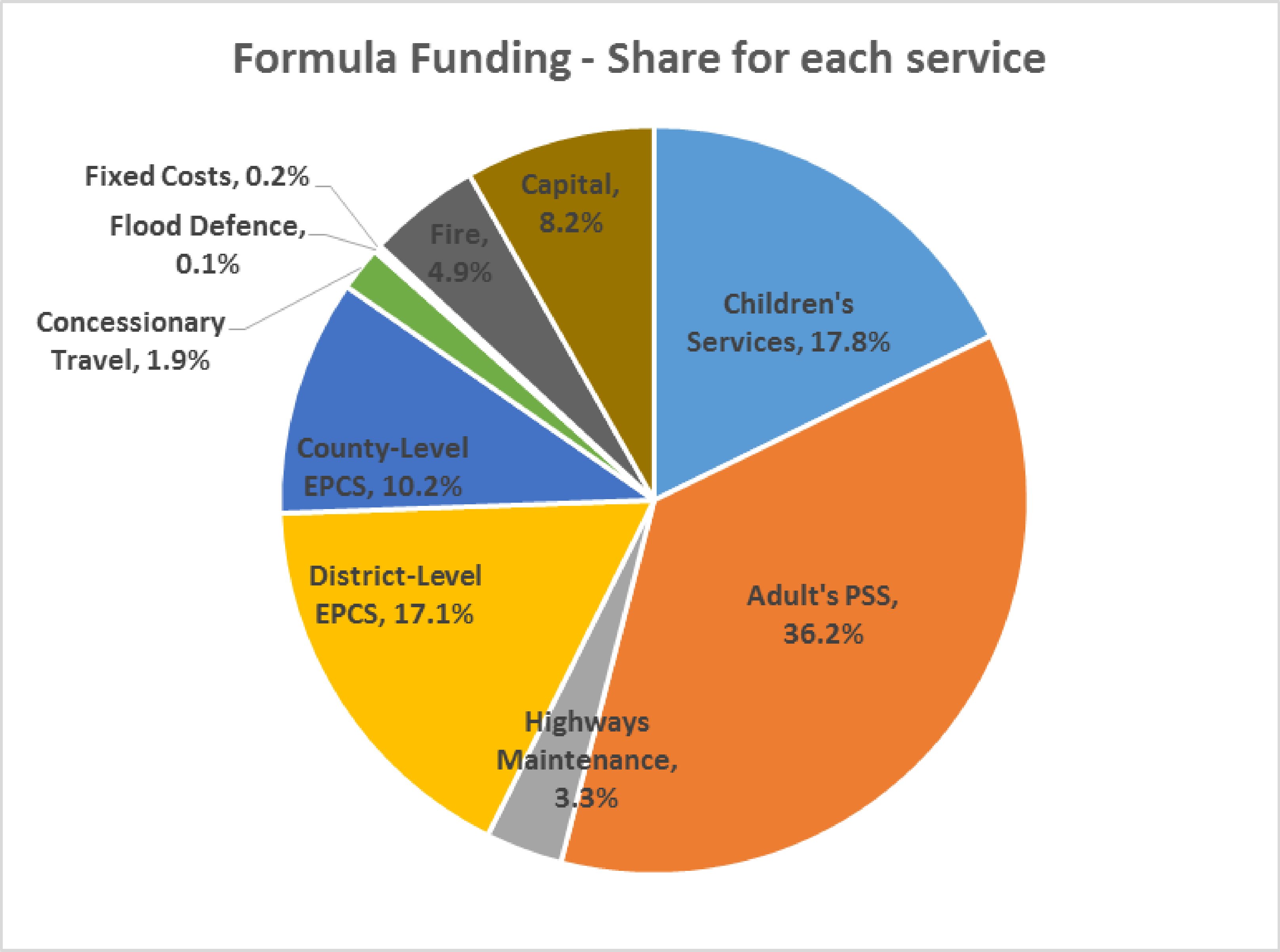




SFA 2013/14: £26.256bn - 2019/20: £14.584






Formula Funding - Share for each service
Fixed Costs, 0.2%
Flood Defence, 0.1%
Concessionary Travel, 1.9%
Fire, 4.9%
Capital, 8.2%
Children's Services, 17.8%
County-Level EPCS, 10.2%
District-Level EPCS, 17.1%
Adult's PSS, 36.2%
Highways Maintenance, 3.3%

Terms of reference updated on 17 July 2017

Department for
Communities and
Local Government

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

The Fair Funding Review
Terms of reference

The Fair Funding Review will:

- **set new baseline funding allocations** for local authorities,
- deliver an **up-to-date assessment of the relative needs** of local authorities,
- examine the **relative resources** of local authorities,
- focus initially on the **services currently funded through the local government finance settlement**, and
- be **developed through close collaboration with local government** to seek views on the right approach

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

Department for Communities and Local Government

The Fair Funding Review

The areas of focus of the Review can broadly be divided into three closely related strands of work:

1) **Relative needs**
2) **Relative resources**
3) **Transitional arrangements** Such as Damping!!

Department for
Communities and
Local Government

The Fair Funding Review
Guiding principles

- **Simplicity** – this Review is an opportunity for bold, clear thinking to identify the most important factors that drive the 'need to spend' on local services,
- **Transparency** – it should be straightforward for those affected by the relative needs assessment to understand what factors have influenced the levels of funding received by a local authority,
- **Contemporary** – the new relative needs assessment will be based on the most up-to-date data that is available,
- **Sustainability** – an evidence-based approach will be deployed to identify the factors which drive costs for local authorities today and in the future,
- **Robustness** - the new funding formula should take into account the best possible objective analysis, and
- **Stability** – the funding formula should support predictable, long-term funding allocations as part of a multi-year settlement.

Encouraging developments

- A key principle of the Review is to work towards simplification of the current funding formulas. With that aim in mind, the Review is working to identify the extent to which a simple and transparent ‘foundation’ formula using common cost drivers can be used to allocate at least a proportion of the available funding to each type of local authority.

- One criticism of a simple expenditure based regression (EBR) approach at local authority level is that it may be seen as reinforcing existing funding decisions. The Review is therefore keeping all options open, and will consider potential improvements to EBR by using more advanced analytical techniques to address concerns relating to the influence that historic levels of funding have on levels of spending. One option being considered is multi-level modelling, which may be particularly appropriate for service areas that are high cost and where future demand is difficult to predict.

Encouraging developments

Other considerations:

Rurality

- Discussions with the technical working group have recognised that there are specific challenges in rural areas, which include scattered and remote populations, a lack of private sector service providers, and poor broadband or mobile phone coverage.

- The Review will consider options for measuring the impact of rurality on local authorities' 'need to spend', including the scope for alternatives to sparsity, and the evidence to support an appropriate adjustment.

- The Review will also explore whether it might be possible to incorporate measures of rurality within the area cost adjustment. It is essential that the factors and data used are reviewed in order to ensure that a new funding formula best captures the varying costs of delivering services today and in the future.

Rural Area Cost Adjustment (?)

Proposed areas of focus for future technical working group meetings:

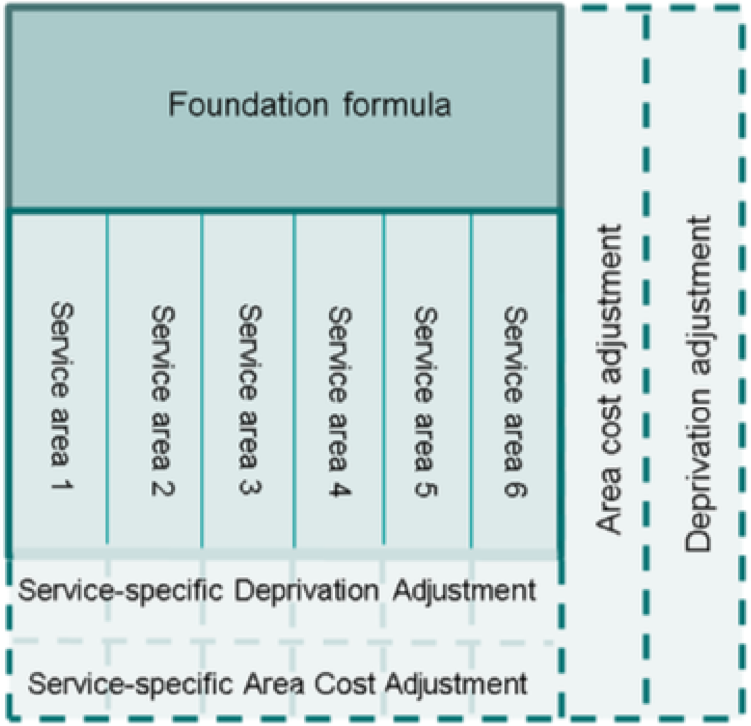
Future agenda items (with dates to be determined)
• Regular programme updates • Relative resources • ACA and rurality • Deprivation • Approach to foundation formula / service specific formula(s) • Transitional arrangements

Department for Communities and Local Government

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

The Fair Funding Review

Relative needs



- Depiction of both service-specific and cross-cutting ACA and Deprivation adjustments, alongside a ‘foundation formula’ and several potential service specific formulas within a new relative needs assessment (The diagram is for illustrative purposes and no inference should be drawn from the size of individual block elements)

Why is this encouraging for rural?

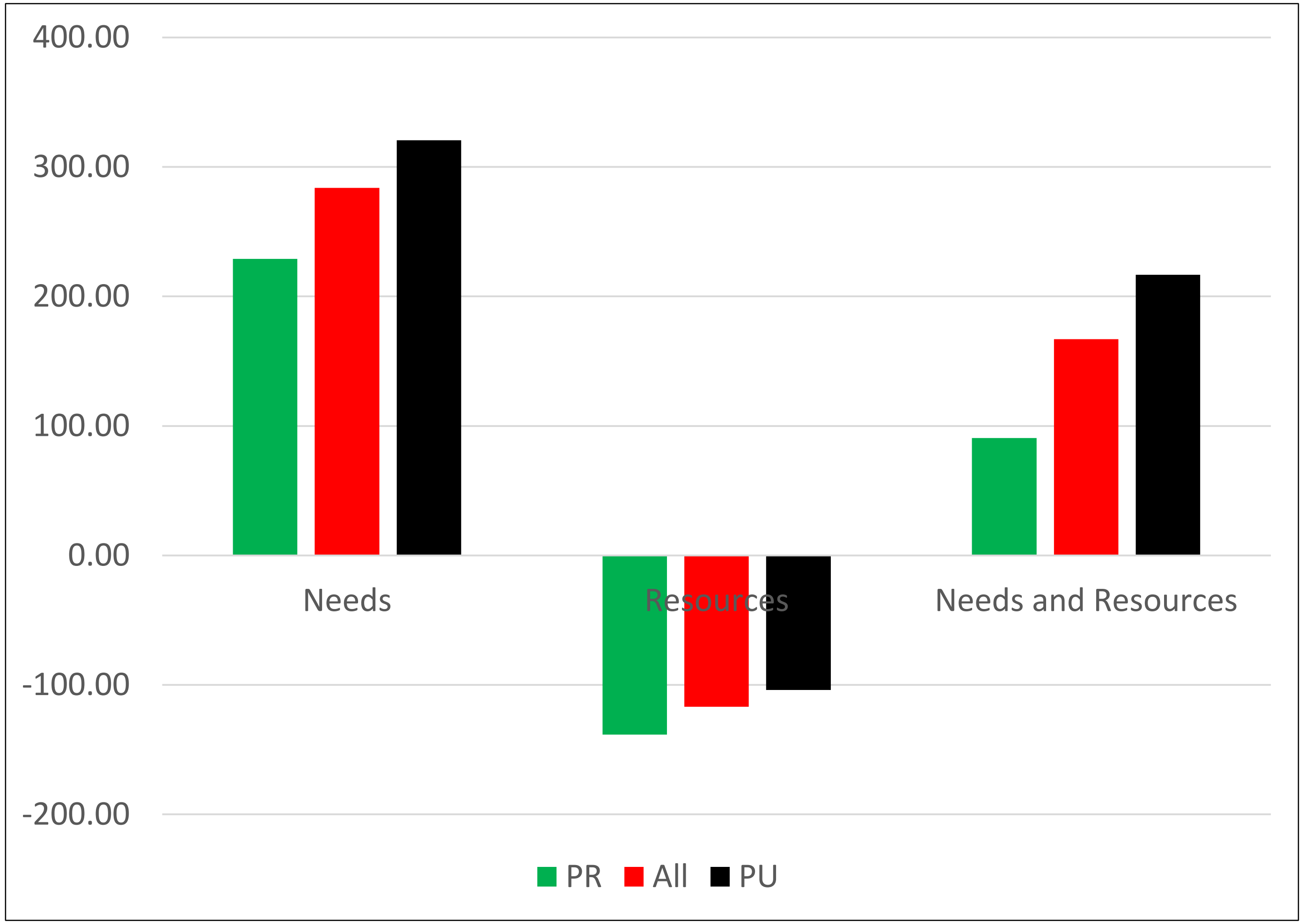
- Foundation Formula – simpler overall formula replacing multiple complex formulas which have tended to favour urban areas (eg. Density)
- Recognition of Sparsity (possibly as part of the Area Cost Adjustment) but important that there is a way to adequately show that sparsity is a cost driver (ie in a statistically relevant way)
- Search for cost drivers ahead of expenditure based regression should remove the influence on past expenditure on future assessed needs.

Beware the Resources Block!

What is the Resources Block?

- A negative amount which subracts from needs
- Often referred to as ‘equalisation’
- Is a proxy for the amount of needs which an authority can meet from local resources (ie. Council tax)
- Uses taxbase figures such that those with a high taxbase have higher (negative) resources amounts
- Rural authorities tend to have higher relative taxbases
- Size of needs and resources block is ministerial judgement

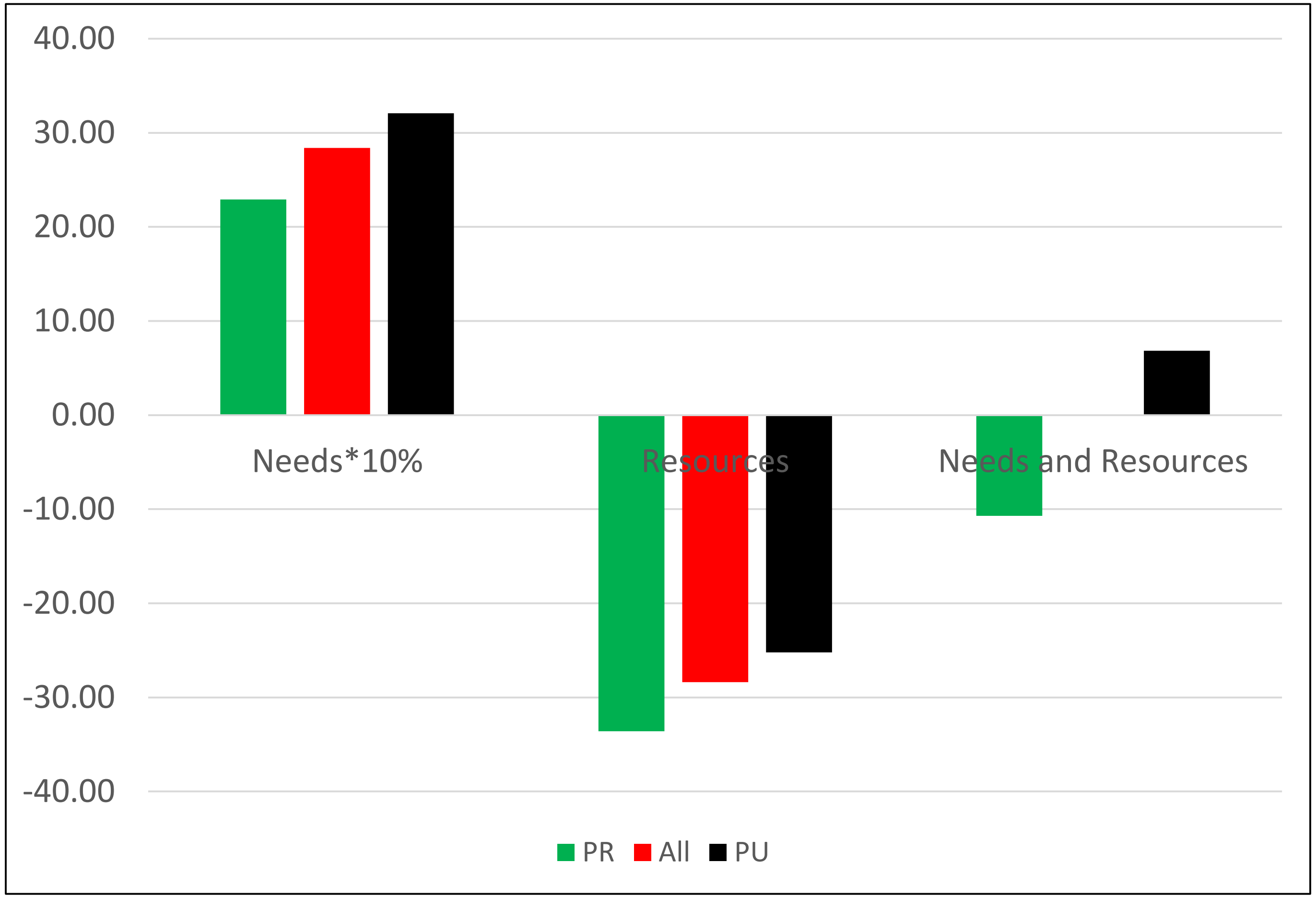
Modelling increase in needs and resources in 2013/14



- Actual 2013/14 needs and resources analysed by predominantly urban and predominantly rural

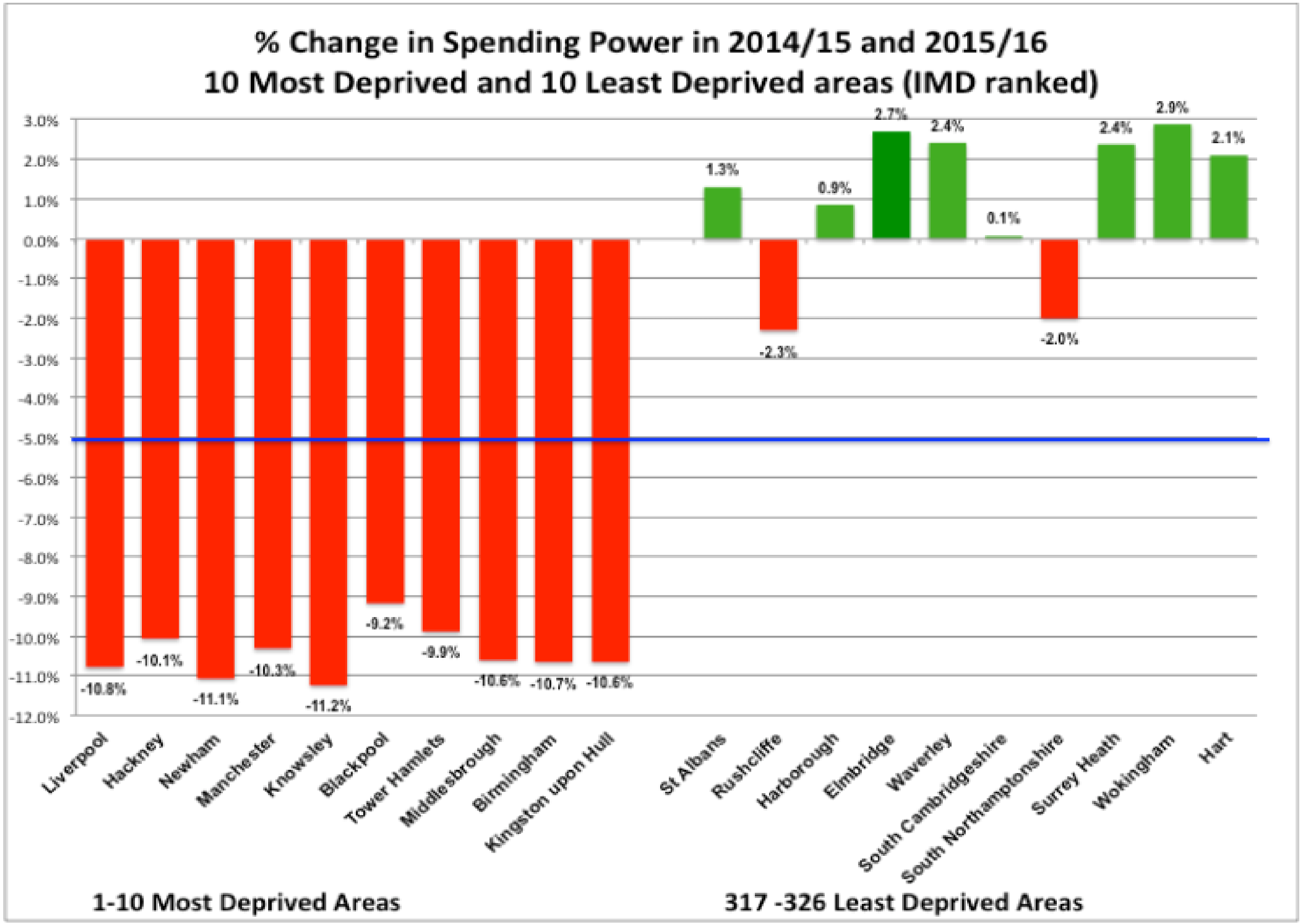
- But what would happen if needs were increased by 10% and resources increased to fund this needs increase

Modelling increase in needs and resources in 2013/14



- Needs increase benefits those with higher needs (in 2013/14 this was urban but in 2020/21 might be rural)
- But the increase in the resources equalisation to pay for the additional needs would hit higher taxbase authorities (ie rural)

Resources Block



How might it play out?

- Needs assessment review should provide a fairer outcome for rural areas as moving away from expenditure based regression strips out past spending patterns
- Clear recognition of difficulty of serving sparse areas welcome if this translates to favourable Area Cost Adjustment for rural areas
- But risk of needs gains being wiped out via resources block for those high relative taxbase authorities
- And important that transitional arrangements don’t ‘damp’ and then ‘freeze’ any gains as they did from 2013/14 to 2019/20

Business Rates Analysis and Look Forward

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DCLG direction of travel (2)

"Local Government Finance Bill … will not form part of the Parliamentary timetable for this session"

"We are engaging ministers on the options for future reform without an immediate Bill…,"

"If the government is planning to introduce any reform by executive order, it needs to make sure they take the sector with them."

Anne Stuart, DCLG, letter to business rates working group

"The government is committed to delivering the manifesto pledge to help local authorities to control more of the money they raise and will work closely with local government to agree the best way to achieve this."

DCLG statement

DCLG direction of travel (2)

In other words:

- No LG Finance Bill
- But DCLG still keen on 100% retention (hence more 18/19 pilot)
- Needs review continuing
- So likely reset of Business Rates Baselines and Baseline Funding Levels in 2020/21

Possible financial impact on authorities

- **50% retention system continues.** Business rates baseline reset? Redistributing surplus?

- **Fair Funding** changes implemented in 2020-21

- **Four-year funding guarantee.** Transition grant finishes in 2017-18, tariff adjustments in 2019-20

- Some scope for authorities to engage with DCLG on **business rates – 2018/19 pilots with favour to RURAL and two tier areas**

Implications for rural authorities

- Commitment to Fair Funding review is very welcome – but there are risks as well as opportunities
- Rural authorities doing reasonably well out of retained rates – compared to baseline, not per head
- Trends might not continue – growth in urban areas heavily influenced by London, where NDR growth has been patchy
- Opportunity associated with 2018/19 pilots – however, district / county shares will be interesting

Localised Rates 101

- Business Rates Baseline (BRB)
  - Net rates starting point
  - Based on two years data previous to the 13/14 start date
  - Amount you actually receive in rates (cash) – bears no relationship to your funding!
- Baseline Funding Level (BFL)
  - The amount of rates that you collect that the Government allows you to keep
  - Fixed (and growing proportion) of your Settlement Funding Assessment
  - Is index linked
- Shares
  - Government 50%, Districts 40%, Counties 9%, Fire 1%, Unitaries 49%

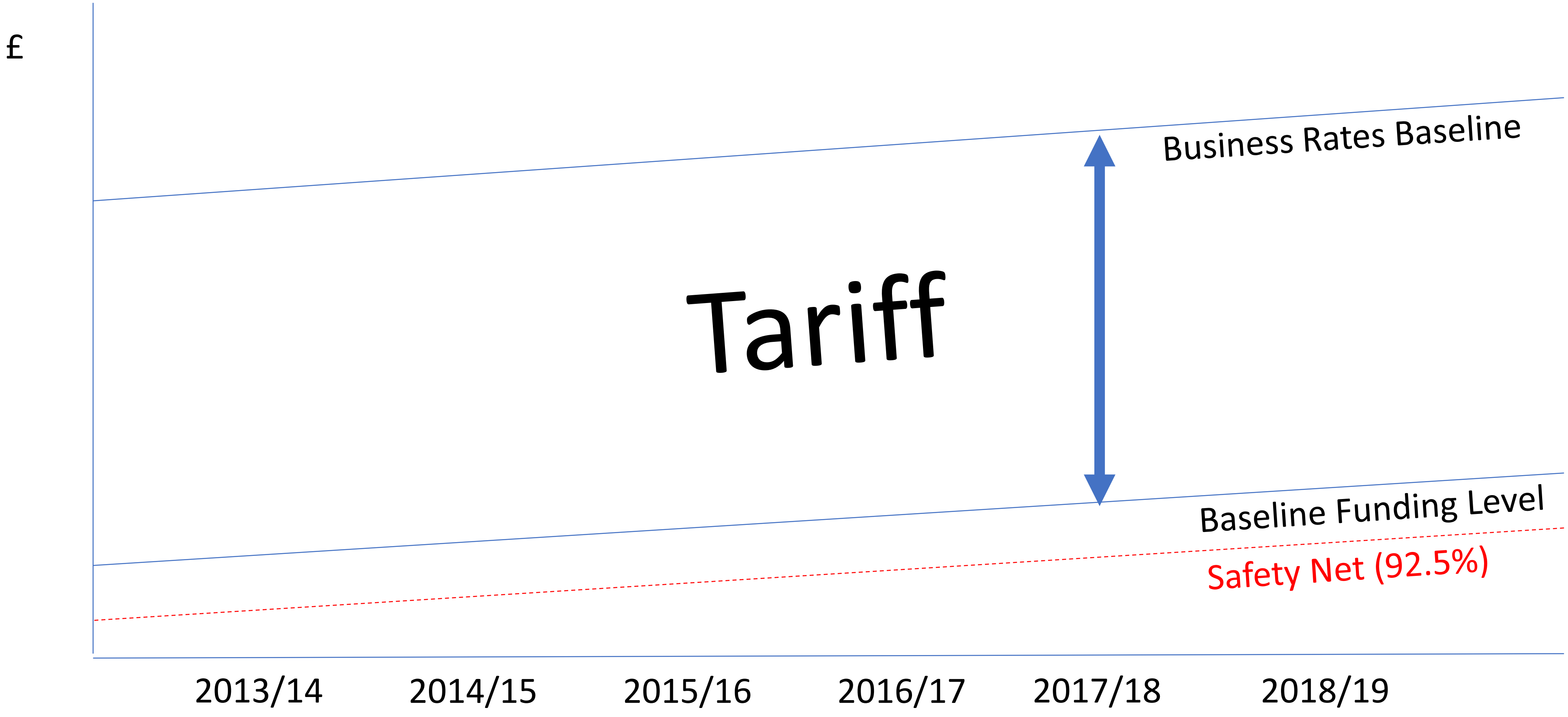
Localised Rates 101

- Tariff / Top-Up
  - The difference between your BRB and BFL – if the amount you collect is higher than the amount you are allowed to keep then the difference is your tariff. Other way round and it's a top-up
  - Tariff / Top-ups like BFL are index linked
- Levy on Growth
  - Where net rates increase by more than inflation, you have growth which you get to keep according to your share (districts 40%, counties 9%, unitaries 49%) subject to a levy on that growth of up to 50%. Government gets half of the growth
  - If you net rates decrease then you lose out by that decrease until they fall to 92.5% below your baseline at which you lose no more as a safety net payment kicks in
  - They income from levies is used to fund the safety net
  - Authorities can pool in order to reduce the levy

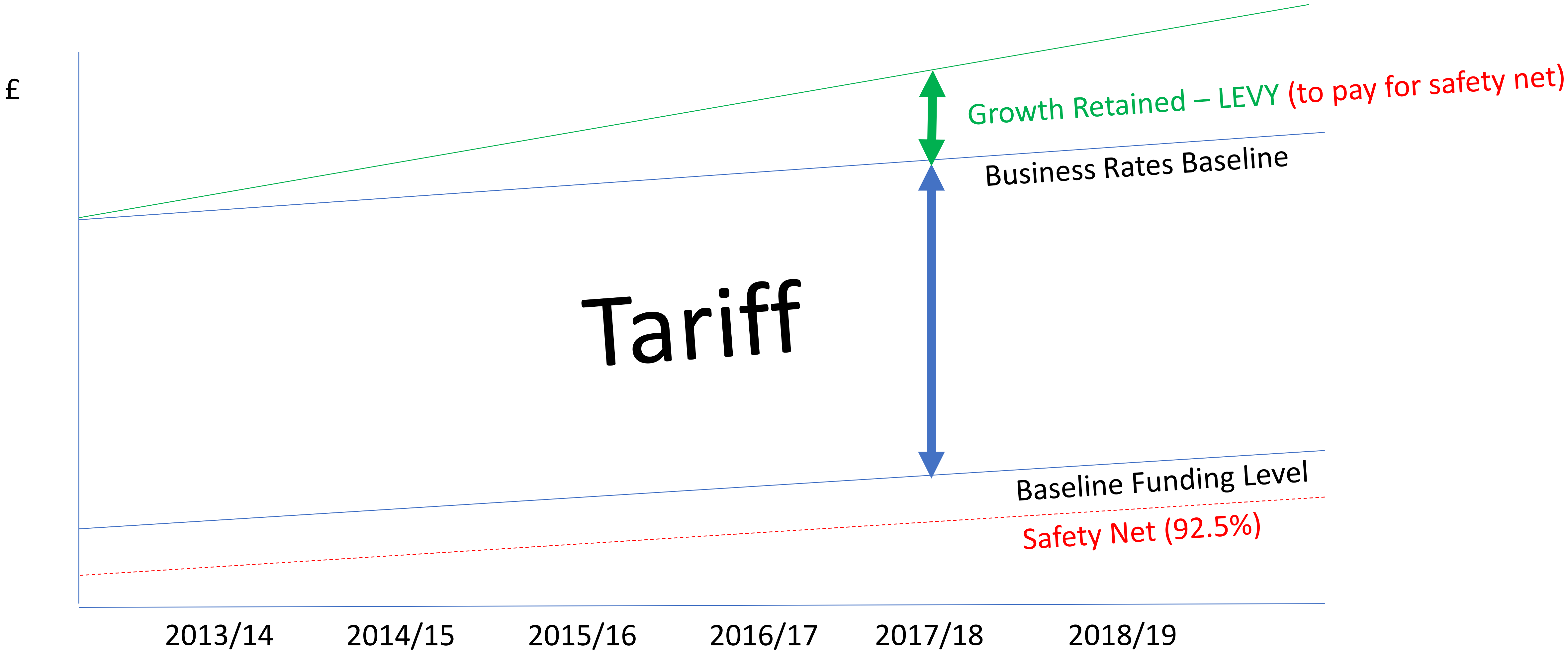
Business Rates Localisation: How it works

Source: Department of Communities and Local Government (DCLG) practitioners guide, 2013

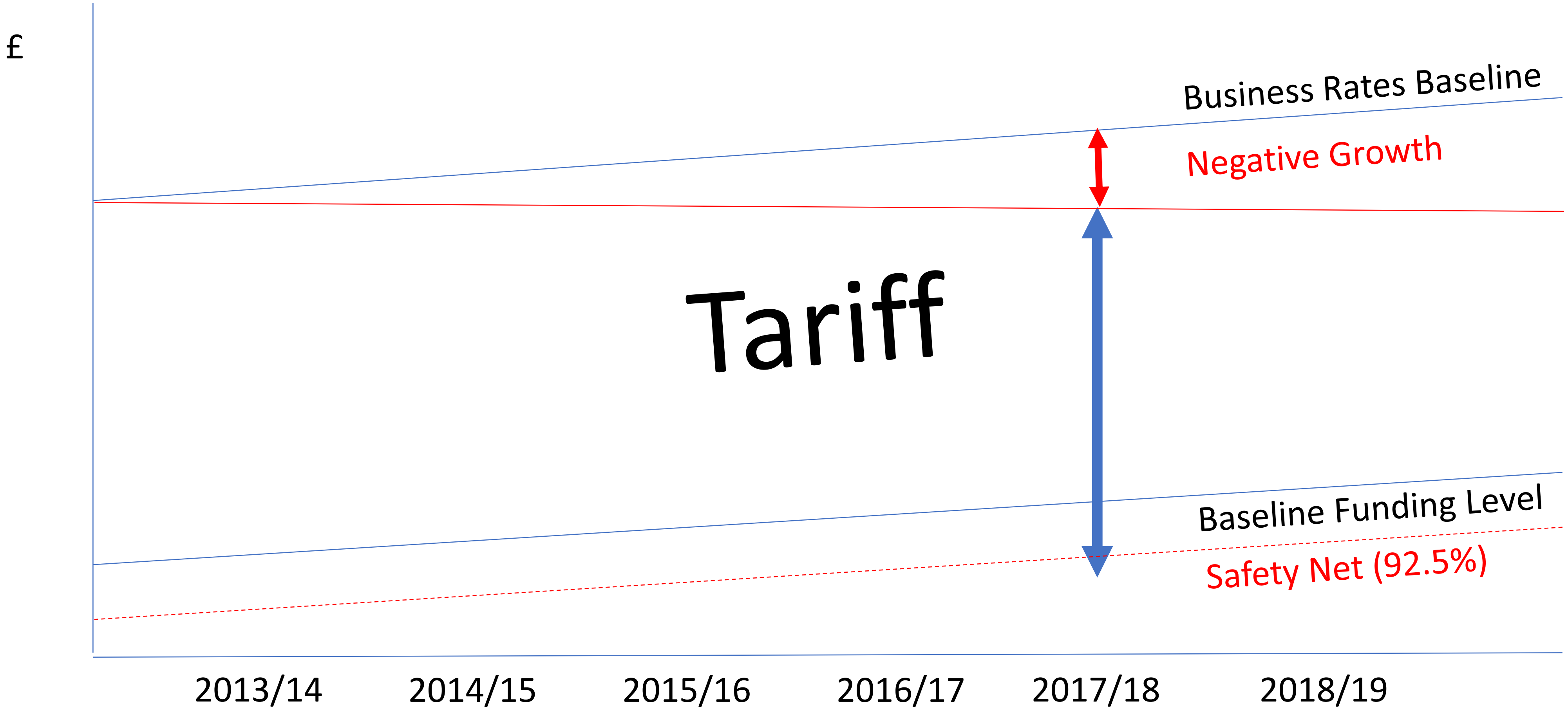
Business Rates Localisation: How it works



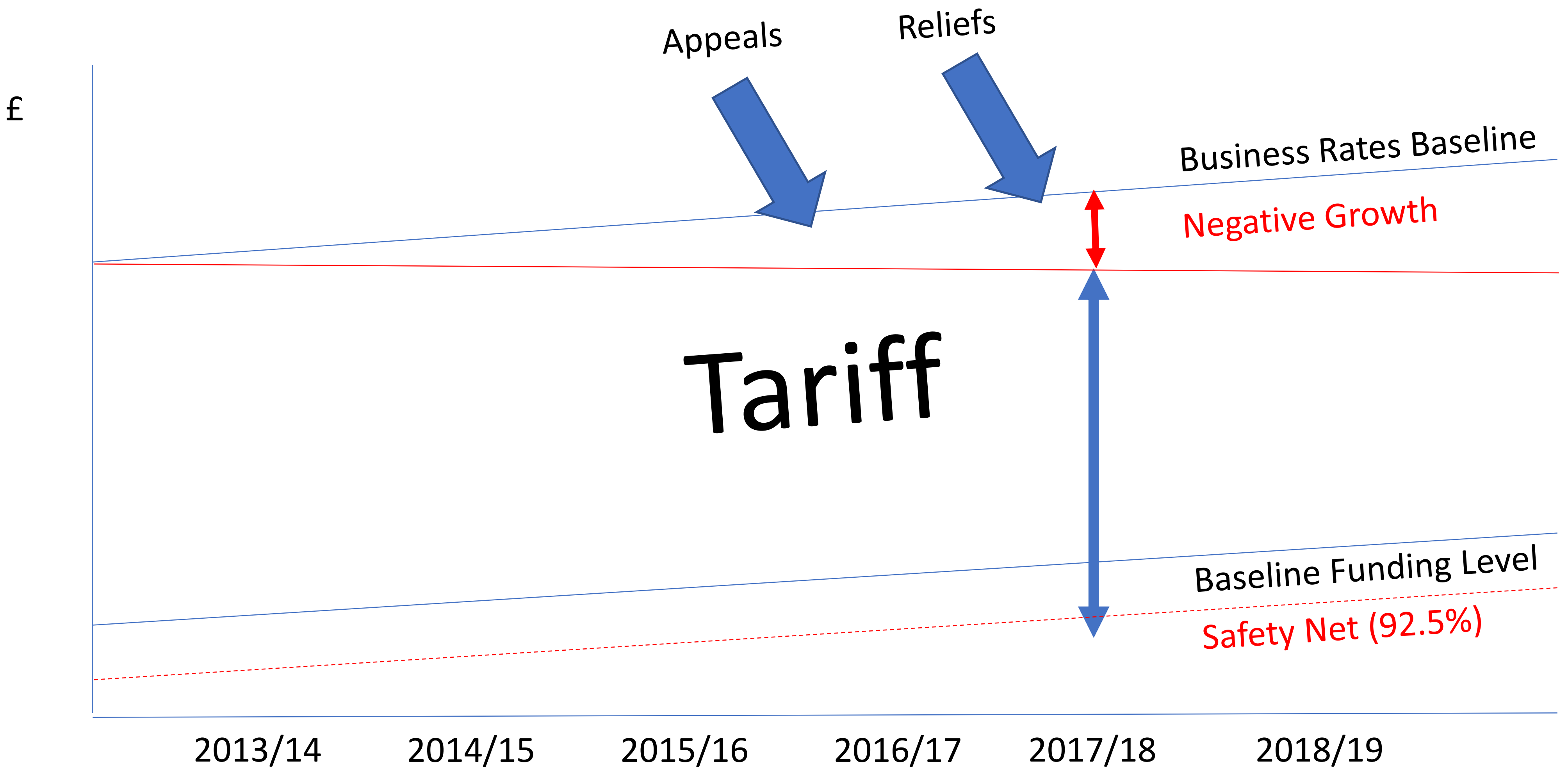
Business Rates Localisation: Growth



Business Rates Localisation: Decline



Business Rates Localisation: Decline



Localised Rates 101

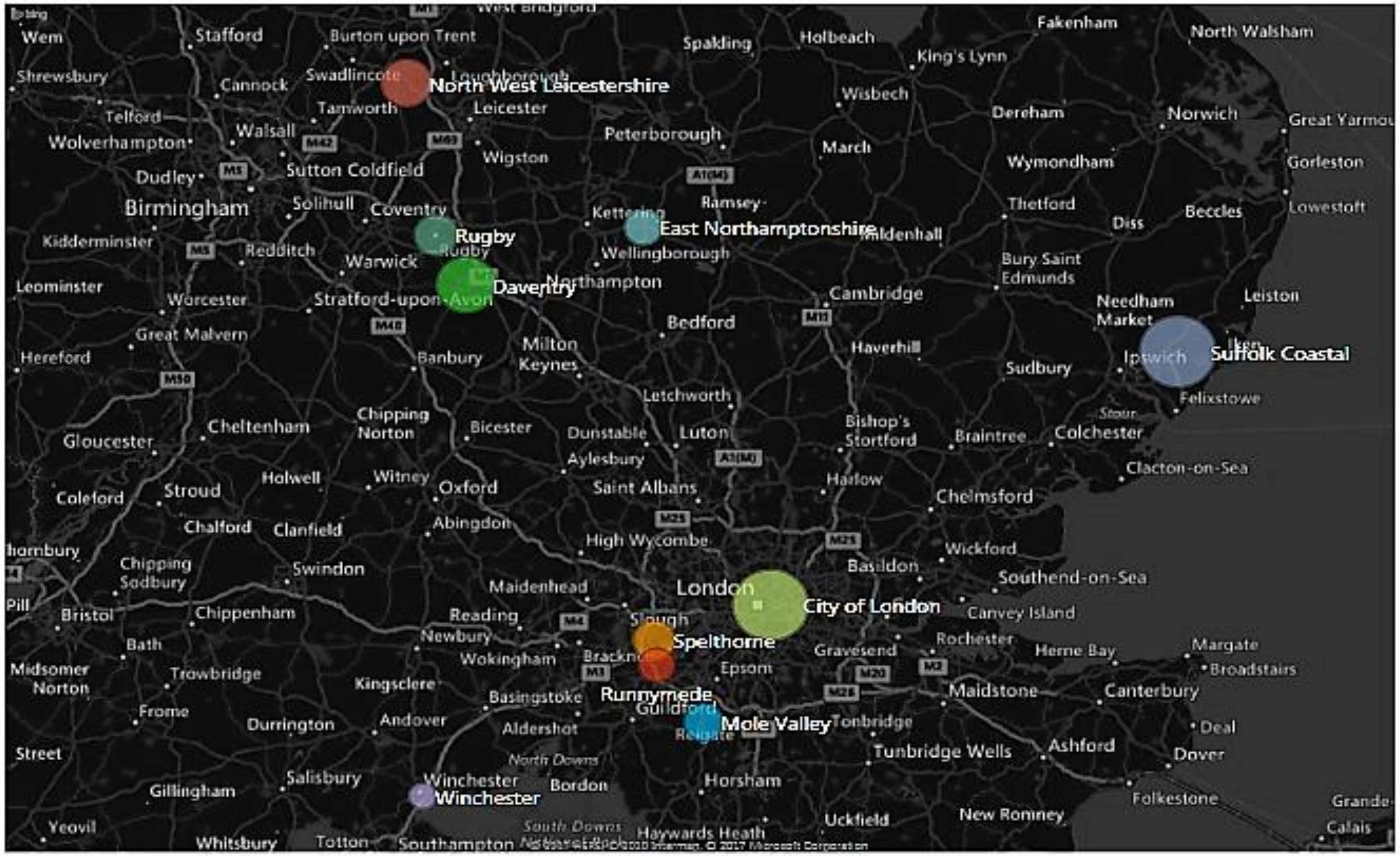
- Worst Case – lose 7.5% of your Baseline Funding Level
- Better Case –growth which you get to keep subject to levy
- Better still case – additional retention of growth via a Business Rates Pool with reduced levy
- Best Case – you’re a pilot where you get to keep the Government’s 50% of the growth – eg Cornwall

Winners – most "above" baseline (17/18 nndr1)

Local authority	Class	Post-Levy Retained Rates	Baseline Funding Level	
Suffolk Coastal	SD	6.535	2.690	142.9%
City of London	L	37.524	15.571	141.0%
Daventry	SD	4.107	1.978	107.7%
North West Leicestershire	SD	4.298	2.245	91.5%
Rugby	SD	4.077	2.255	80.8%
Spelthorne	SD	3.225	1.801	79.1%
Mole Valley	SD	2.103	1.201	75.1%
East Northamptonshire	SD	3.892	2.251	72.9%
Runnymede	SD	2.970	1.731	71.6%
Winchester	SD	3.378	2.083	62.2%

Winners - Most 'above' Baseline

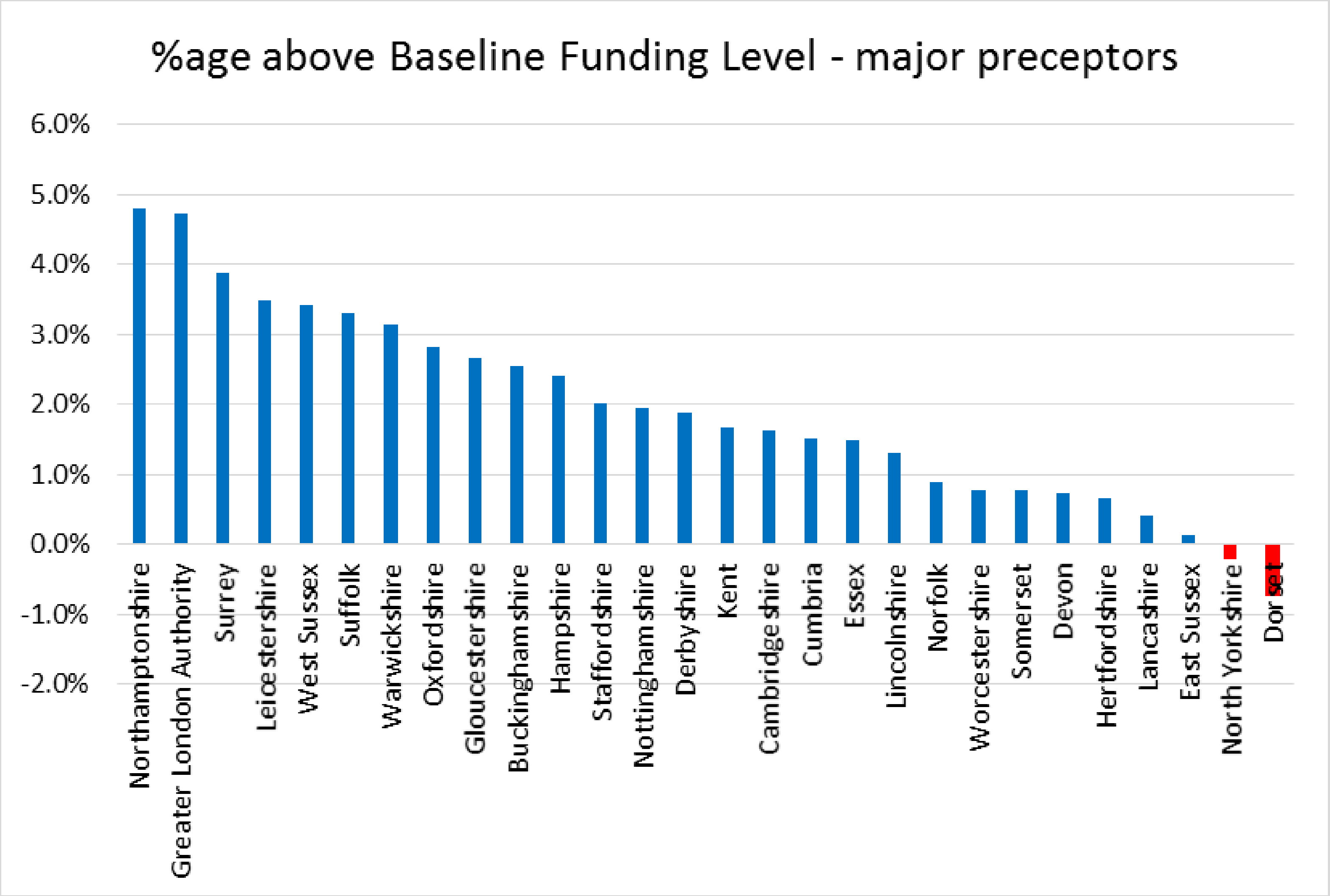
% Over Baseline by Local Authority, and Baseline Funding Level



Losers – authorities at safety net in 2017-18

Local authority	Class	Post Levy Retained Rates	Baseline Funding Level	
South Hams	SD	1.666	1.801	-7.5%
West Devon	SD	1.424	1.539	-7.5%
North Dorset	SD	1.433	1.550	-7.5%
Purbeck	SD	0.998	1.079	-7.5%
West Dorset	SD	2.526	2.730	-7.5%
Weymouth and Portland	SD	1.762	1.904	-7.5%
Hammersmith and Fulham	L	53.433	57.765	-7.5%
Fareham	SD	1.666	1.801	-7.5%
Dacorum	SD	2.606	2.818	-7.5%
St Albans	SD	2.181	2.358	-7.5%
Tonbridge and Malling	SD	1.988	2.150	-7.5%
Lancaster	SD	4.956	5.357	-7.5%
Preston	SD	4.803	5.192	-7.5%
Selby	SD	2.124	2.296	-7.5%
Vale of White Horse	SD	2.047	2.213	-7.5%
West Somerset	SD	1.039	1.123	-7.5%
Windsor and Maidenhead	UA	10.994	11.886	-7.5%
Hartlepool	UA	24.611	26.607	-7.5%

Major preceptors (mostly) above baseline



What factors are driving growth and losses?

- Location – highest growth is concentrated in two areas: M1/ M6 intersection and south-west of London
- Appeals – greatest source of volatility and explanation for those at safety net
- Power stations – for individual authorities, very significant and often drives largest appeals
- Shire districts – 40% retention share makes for large gains and large losses
- Not necessarily a rural versus urban thing

What might happen after 19/20?

- Four year settlement takes us up to 19/20
- Likely that fair funding review completed by then so there will be a Baseline Funding Level (BFL) reset based upon up to date needs
- Rates baselines (BRB) likely to be reset at the same time
- What will happen to the growth in the system?
- Good chance that it will be taken out and redistributed which means growing authorities will return to starting point
- Numerous pilots (17/18 and 18/19) may have helped Government decide how to take forward 100% retention

100% pilots for 2017-18

- Greater Manchester (10 Met authorities)
- Liverpool City Region (5 Met authorities, plus neighbouring unitary, Halton)
- West Midlands (7 Met authorities)
- The West of England (Bath and North East Somerset, Bristol, South Gloucestershire)
- Cornwall Council
- Greater London Authority (GLA only, excludes boroughs)

Estimated gains from 2017-18 pilots

	Gain from increased share	Gain from levy	Total gain	Average gain per authority
	£M	£M	£M	£M
Greater Manchester	92.4	5.4	97.8	*9.8*
West Midlands	79.4	3.0	82.4	*11.8*
Liverpool City Region	36.7	0.0	36.7	*6.1*
West of England	22.4	5.3	27.7	*9.2*
TOTAL	**231.0**	**13.7**	**244.7**	***9.4***

100% pilots 2018-19

- 2018/19 pilots prospectus issued on 1 September
- Shows that despite Local Government bill not progressing, Government is still pursuing 100% rates retention
- Applicants to forego Revenue Support Grant and Rural Services Delivery Grant in exchange for 100% retention
- Pilots get to keep 100% of all growth (currently 50% of growth goes to Government)
- Unlikely that the ‘no detriment’ clause enjoyed by 2017/18 pilots will be retained for 2018/19 pilots

100% pilots 2018-19

- Completive process. Business Case Required. Criteria:
  - Applications to cover a functional geographic area
  - Preference from applicants in two tier areas
    - no two tier 17/18 pilots
    - Government keen to explore tier splits
  - Proposals would promote financial stability
    - Pilots to show how they won't need 'no detriment' clause
    - Safety net to be applied at pilot level rather than individual authority level
  - Evidence of how pooled income for growth will be used across pilot area
    - Applicants need to demonstrate how they will share risk and reward
    - Invest retained income to promote further growth in the area

100% pilots 2018-19

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).

Further evidence that the Government recognises that rural areas need to have equal access to benefits of the new system.

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