Department for Communities and Local Government

The provisional 2017-18 local government finance settlement: confirming the offer to councils

Consultation Paper

December 2016
Department for Communities and Local Government

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Contents

Scope of the consultation

Topic of this consultation:	**This consultation covers proposals for the provisional local government finance settlement for 2017-18.**
Scope of this consultation:	This consultation seeks views on proposals for the local government finance settlement for 2017-18, in particular from representatives of local government, before determining the final amount of Revenue Support Grant and its allocation to receiving authorities and the specified body.[1] The consultation notifies representatives of local government of the general nature of the basis of distribution of Revenue Support Grant, and of the general nature of the basis of calculation of 'tariff' and 'top up' payments through this consultation document and accompanying documents, in particular the draft Local Government Finance Report for 2017-18.[2]
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 4 weeks from 15th December 2016 to 13th January 2017.
Enquiries:	For any enquiries about the consultation please contact LGFSettlement @communities.gsi.gov.uk
How to respond:	Please respond by completing an online survey at: https://www.surveymonkey.co.uk/r/provisional1718settlement

[1] As required by section 78(5) of the Local Government Finance Act 1988.
[2] As required by section 78A(3) of the Local Government Finance Act 1988 and paragraph 12 of Schedule 7B to the same Act.

	Alternatively, you can respond to the questions in this consultation by email to: LGFsettlement@communities.gsi.gov.uk If you are responding in writing, please make it clear which questions you are responding to. Written responses should be sent to: Charles Coleman Department for Communities and Local Government 2nd floor, Fry Building 2 Marsham Street London SW1P 4DF 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: - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including post/code), - an email address, and - a contact telephone number

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 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 Co/coordinator.

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

1. Summary of proposals

1.1 Summary

1.1.1 This chapter provides an overview of the wider reforms of local government finance which will help provide context to the proposals for the 2017-18 local government finance settlement:

- it provides background information regarding the ongoing reforms to business rates retention and

- it outlines the key themes that the Government is proposing for the 2017-18 local government finance settlement.

1.2 Background

1.2.1 There will be no reduction in funding for councils to deliver their core services for the rest of this Parliament. By then, local government will retain 100% of taxes raised locally. This will give local government additional business rates receipts of around £12.5bn to spend on local services. The system will have stronger incentives to boost growth, and areas that take bold decisions to boost growth will see the benefits. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities, and some Whitehall grants will be phased out.

1.2.2 These reforms represent a unique opportunity to fundamentally change the role of local government and the way it is funded. The move towards self-sufficiency and away from dependence on central government is something that councils have been calling for over a number of decades. The historic 2016-17 local government finance settlement was a first step along this road. It offers those local authorities who are committed to reform far greater certainty over their future funding.

1.2.3 The proposed 2017-18 settlement is designed 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 and children's services, and allocates funding in a way that reflects the different sets of services that councils provide.

1.2.4 The historic 2016-17 settlement offered local authorities greater certainty over elements of their funding until the end of the Parliament. 97% of local authorities accepted the offer. Under the Local Government Finance Act 1988, the Government is required to consult on proposals to distribute centrally allocated resources. This consultation paper meets this requirement and describes the Government's wider proposals that relate to the second year of the multi-year settlement.

1.3 Summary of proposals

1.3.1 Earlier in the autumn, the Government consulted on technical issues concerning the 2017-18 settlement. A summary of the responses to this consultation can be found at https://www.gov.uk/government/consultations/local-government-finance-settlement-2017-to-2018-technical-consultation

1.3.2 Having considered responses to that consultation, this document confirms our approach to the 2017-18 settlement. This is outlined in the following chapters:

Chapter 2 – The distribution of central resources

1.3.3 This chapter outlines our proposals for distributing central resources in 2017-18 to build on the four year offer announced in the 2016-17 local government finance settlement. In summary, it outlines:

- the second year of the multi-year settlement offer for those councils that accepted the Government's offer, and arrangements for those that did not
- the reforms to the New Homes Bonus, following consultation earlier this year, with further details published alongside this document in https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation
- the introduction of an Adult Social Care Support Grant to be funded from additional savings from the New Homes Bonus in 2017-18
- the confirmed approach to distributing funding through the improved Better Care Fund which allocates the funding through a separate grant to local authorities, using a methodology which ensures every authority gets its share of the total funding available through the improved Better Care Fund and the Social Care Precept, as measured by the social care Relative Needs Formula.

Chapter 3 – Changes to local resources

1.3.4 This chapter outlines the Government's proposals for the 2017-18 local government finance settlement that have implications for the local resources collected by councils. In summary, it includes:

- the Government's proposals for the council tax referendum principles for 2017-18.
- improvements to the approach 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
- confirmation of the methodology, for the final settlement, for calculating the agreed changes in the local share of retained business rates and the level of tariff and top ups for local authorities piloting 100% business rates retention, designed to ensure that no authorities anywhere in the country are adversely affected by these pilots, and

- confirmation of the mechanism for voluntary transfer of funding between the Mayoral Combined Authority and constituent authorities

Chapter 4 – Draft equality statement

1.3.5 This chapter contains a draft assessment of the impact of the provisional 2017-18 settlement on persons who share a protected characteristic.

2. The distribution of central resources

2.1 Summary

2.1.1 This chapter outlines our proposals for distributing central resources in 2017-18 to build on the four year offer announced in the 2016-17 local government finance settlement. In summary, it outlines:

- the proposed approach for the second year of the multi-year settlement offer for those councils that accepted the Government's offer, and arrangements for those that did not
- the reforms to the New Homes Bonus, following consultation earlier this year
- the confirmed approach to distributing funding through the improved Better Care Fund which allocates the funding through a separate grant to local authorities, using a methodology which ensures every authority gets its share of the total funding available through the improved Better Care Fund and the Social Care Precept, as measured by the social care Relative Needs Formula.

2.2 The multi-year settlement offer

2.2.1 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 Parliament. 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.

2.2.2 97% of councils accepted the offer and published an efficiency plan or other supporting document, and the Government has now written to those local authorities to confirm the offer.

2.2.3 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, the Government expects these to be the amounts presented to Parliament each year.

2.2.4 The Government intends to make payments[3] in 2017-18 to receiving authorities (any billing authority or major precepting authority),[4] except local policing bodies,[5] under sections 78, 78A and 79 of the Local Government Finance Act 1988.

2.2.5 A draft local government finance report for 2017-18 has also been published alongside this document which sets out the method core spending power will be allocated. This is consistent with the methodology in 2016-17 and a description included in the 2016-17 provisional consultation document, which can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494385/Provisional_settlement_consultation_document.pdf

2.2.6 Allocations of funding for individual authorities are set out in the supporting tables published as part of this consultation.

Question 1: Do you agree with the methodology of Revenue Support Grant in 2017-18?

2.3 Local authorities that have not accepted the multi-year settlement

2.3.1 For those authorities who have not accepted the multi-year offer and published an efficiency plan, the Government is only confirming funding allocations for 2017-18. The funding allocations for these authorities in 2018-19 and 2019-20 will be revisited in due course as part of the annual settlement process covering these years. The Government cannot guarantee that funding allocations for these authorities in these years will not be reduced or distributed on a different basis.

2.4 Providing greater funding certainty to local authorities

2.4.1 The 2017/18 Local Government Finance Settlement Technical Consultation Paper sought views on expanding the multi-year offer. This would give local authorities who are committed to reform the opportunity for greater security over more of their funding for the rest of this Parliament.

2.4.2 Of the 288 responses, 83% supported the inclusion of additional grants. Some respondents raised concerns that expanding the multi-year offer should not reduce

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[3] Revenue Support Grant.
[4] Each of the following is a major precepting authority:
- a county council which does not have the functions of a district council
- police and crime commissioners in England whose police area is listed in Schedule 1 to the Police Act 1996
- a metropolitan county fire and rescue authority
- a fire and rescue authority constituted by a scheme under section 2 of the Fire and Rescue Services Act 2004, or a scheme to which section 4 of that Act applies (a 'combined fire and rescue authority')
- the Greater London Authority;
- a mayoral combined authority, as defined by section 107A(8) of the Local Democracy, Economic Development and Construction Act 2009..

[5] Local policing bodies comprise the Mayor's Office for Policing and Crime, police and crime commissioners, and the Common Council of the City of London. (The Mayor's Office for Policing and Crime (MOPAC) is a functional body of the Greater London Authority (s.424(1) of the Greater London Authority Act 1999).

available resources, or that accepting the multi-year offer meant they agreed that Government funding is sufficient to meet service pressures.

2.4.3 The Government has considered carefully the case for expanding the multi-year offer, but has concluded on balance that the priority should be to provide further certainty regarding grant allocations alongside the settlement.

2.4.4 For that reason we are publishing the 2017/18 allocations for the Public Health Grant and Lead Local Flood Authority Grant, and have already published 2017/18 final allocations for the Highways Maintenance Grant, Independent Living Fund Grant and Pothole Action Fund. This totals an additional £4bn in funding security for the sector in 2017/18.

2.4.5 We have already published multi-year allocations for the former Independent Living Fund and Highways Maintenance Grant, and are publishing multi-year allocations for the Lead Local Flood Authority Grant alongside the provisional financial settlement.

2.4.6 We are working to ensure that a number of other grant allocations are published by the final settlement to support local authorities' budget planning, and we will continue to explore how we can provide further medium term certainty for local authorities.

2.4.7 Grant funding allocations are published here https://www.gov.uk/government/collections/funding-allocations-to-local-authorities-paid-outside-of-the-local-government-finance-settlement-2017-to-2018 as they become available

2.5 New Homes Bonus

2.5.1 The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. Local Authorities can choose to spend the new Homes bonus as they wish, either on front line services or on keeping council tax down. Since then, almost £6 billion has been allocated to Local Authorities through the scheme to reward housing supply. Since the 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. At present the New Homes Bonus rewards all net additions in an area for 6 years.

2.5.2 The Government has published its response to the consultation on reforming the Bonus, New Homes Bonus: Sharpening the Incentive, which is available at: https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation

2.5.3 Having considered the views of those who responded to this consultation the Government has 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

- introduce a baseline for housing growth set at an initial baseline of 0.4% of the council tax base for 2017-18. Housing growth below this level in each authority will not receive Bonus allocations. The Government will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth.

2.5.4 From 2018-19 we will consider withholding new Homes Bonus payments from local authorities that are not planning effectively, by making positive decisions on planning applications and delivering housing growth. To encourage more effective local planning we will also consider withholding payments for homes that are built following an appeal.

2.5.5 As the Government is implementing wider planning reforms to get the nation building the homes it needs, including measures announced at Autumn Statement and through the Neighbourhood Planning Bill and forthcoming Housing White Paper, we will not introduce the proposals to withhold payments for areas without a local plan in 2017-18.

2.5.6 There are some local authorities who will see their funding reduced as a consequence of the reduction to legacy payments in 2017-18.

Question 2: Do you think the Government should consider transitional measures to limit the impact of reforms to the New Homes Bonus?

2.5.7 Provisional New Homes Bonus allocations for 2017-18 are being announced alongside the provisional 2017-18 local government finance settlement, calculated using a similar methodology as in 2016-17, but with the introduction of the national baseline for growth in dwelling stock outlined above. Based on the most recent council tax base data available, the cost of New Homes Bonus payments relating to 2017-18 is forecast to be £197 million. Combining this with the cost of legacy payments gives an estimated total New Homes Bonus payment of £1.23 billion in 2017-18. Details of the provisional allocations and how the allocations have been calculated can be found here https://www.gov.uk/government/publications/new-homes-bonus-provisional-allocations-2017-to-2018

2.5.8 As in previous years, the Government will set aside an amount of funding to part fund the New Homes Bonus. In 2017-18 this amount will be £93 million. Again, as in previous years, the remaining funding will be provided from Revenue Support Grant, expected to be £1.13 billion in 2017-18. The Government proposes to hold back £1.16 billion in 2017-18 to fund these allocations, to ensure sufficient funding will be available with a margin for uncertainty. This would be deducted from the control totals for the relevant councils, in proportion to the size of those control totals.

2.5.9 Final allocations for New Homes Bonus in 2016-17 will be published alongside the final local government finance settlement in February 2016. Any surplus will be returned to local authorities.

Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2017-18 with £1.16 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.5.8?

2.6 2017-18 Adult Social Care Support Grant

2.6.1 These reforms to New Homes Bonus are expected to release an additional £240 million in 2017-18.

2.6.2 The Government has listened to the concerns expressed about the pressures facing the adult social care market and the need to address these funding challenges before more significant additional resources announced in the Spending Review become available through the Adult Social Care precept and improved Better Care Fund. We are therefore proposing to return the additional savings released from New Homes Bonus to those authorities responsible for adult social care. We propose giving each authority a share of the £240m of funding proportional to the Adult Social Care Relative Needs Formula.

Question 4: Do you agree with the proposal to provide £240 million in 2017-18 from additional savings resulting from New Homes Bonus reforms to authorities with adult social care responsibilities allocated using the Relative Needs Formula?

2.7 Distribution of the improved Better Care Fund

2.7.1 The Spending Review 2015 announced the introduction of the improved Better Care Fund worth £105 million in 2017-18, £825 million in 2018-19 and £1.5 billion in 2019-20.

2.7.2 The Government set out its proposed approach to allocating the improved Better Care Fund allocations alongside the provisional Local Government Finance Settlement 2016-17 and formally consulted on the distribution of the fund as part of the 2017-18 local government finance settlement technical consultation.

2.7.3 Having carefully considered the responses received through the consultation, the Government will maintain the approach for 2017-18 set out in chapter 5 of the consultation on the provisional 2016-17 local government finance settlement published on 17 December 2015.[6] This approach allocates the funding through a separate grant to local authorities, using a methodology which ensures every authority gets its share of the total funding available through the improved Better Care Fund and the Social Care Precept, as measured by the social care Relative Needs Formula.

2.8 Business rates safety net

2.8.1 The business rates safety net ensures that no authority's income from business rates falls below 7.5% of their individual baseline funding level for the year. In previous years it has been funded by a levy on local authorities which benefit from disproportionate growth in business rates income and a top-slice from Revenue

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[6] Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/494385/Provisional_settlement_consultation_document.pdf

Support Grant. If it appears that the levy on high-earning authorities may be insufficient to fund the safety net, an additional amount is held back.

2.8.2 The Government proposes to hold back £25 million from RSG to fund the business rates safety net for 2017-18. We propose that this amount should be deducted from the control totals for each set of services as outlined in Annex A of the Local Government Finance Report (England) 2017/18) in proportion to the size of those control totals. The level of hold back does not determine whether payments will be made; all councils that qualify for safety net payments will continue to receive them.

Question 5: Do you agree with the Government's proposal to hold back £25 million to fund the business rates safety net in 2017-18, on the basis of the methodology described in paragraph 2.8.2?

2.9 2017-18 Transition Grant

2.9.1 The 2016-17 local government finance settlement published a four year offer which allocated Revenue Support Grant by looking at the main resources available to councils, ensuring that councils delivering the same set of services receive the same percentage change in funding for those sets of services as referenced in para 2.2.5. As a result of this change, authorities with relatively more income from council tax and business rates received less revenue support grant than they would have under the previous methodology.

2.9.2 For those councils who did not benefit from the new approach, and in response to representations received as part of the provisional 2016-17 local government finance settlement, the Government introduced a Transition Grant to compensate them in direct proportion to the difference between the old methodology and new methodology.

2.9.3 Alongside this consultation document, the Government has republished an updated explanatory note on the methodology for allocating Transition Grant in 2017-18. This is available at: https://www/gov.uk/government/publications/explanatory-note-on-transition-grant-2017-to-2018. The approach remains unchanged from that published within core spending power allocations alongside the final 2016-17 local government finance settlement and all authorities are treated equally in the allocation of this grant.

Question 6: Do you agree with the methodology for allocating Transition Grant payments in 2017-18?

2.10 2017/18 Rural Services Delivery Grant

2.10.1 As part of the 2016-17 local government finance settlement, the Government announced that the Rural Services Delivery Grant. This grant of £65 million in 2017-18 will be allocated to the top quartile of local authorities on the basis of the super-sparsity indicator: a proxy for rurality which ranks authorities by the proportion of the population which is scattered widely, using Census data and weighted towards the authorities with the sparsest populations.

2.10.2 This funding will be held back from Revenue Support Grant in 2017-18 and paid as an un-ringfenced section 31 grant to the upper quartile of authorities based on the super-sparsity indicator, which the Government considers remains the best available proxy for rurality.

Question 7: Do you agree with the Government's proposed approach in paragraph 2.10.1of paying £65 million in 2017-18 to the upper quartile of local authorities based on the super-sparsity indicator?

3. Changes to local resources

3.1 Summary

3.1.1 As part of the 2017-18 local government finance settlement technical consultation, the Government consulted on a number of proposals that had implications for the local resources collected by councils.

3.1.2 Having carefully considered the representations received, this chapter confirms the Government's proposals. These include:

- council tax referendum principles for 2017-18
- the Government's approach to adjusting tariff and top ups to ensure as far as possible that local authorities have a predictable level of income regardless of the impact of the 2017 business rates revaluation
- the methodology for calculating the change in the local share and the level of tariff and top ups for local authorities piloting 100% business rates retention
- the mechanism through which funding could be transferred to a Combined Authority if all councils affected agree to the transfer.

3.2 Council tax referendum principles for principle local authorities

3.2.1 In order to balance the aim of keeping council tax low for local residents with the need for councils to raise sufficient funding to support local services, the Government proposed in the 2017-18 local government finance settlement technical consultation to set the same referendum principles as those set in 2016-17.

3.2.2 The Government has carefully considered responses to this consultation and has decided to continue with the following proposals:

- a core principle of 2%. This will continue to apply to shire counties, unitary authorities, London boroughs, the Greater London Authority, fire authorities, and Police and Crime Commissioners except those PCCs whose Band D precept is in the lower quartile of that category (see below)
- an increase to the flexibility offered on the use of the Adult Social Care precept. The policy intention set out at the time of the 2016-17 Settlement was that this would be 2 % per year up to 2019-20. In recognition of the particular pressures on adult social care services, especially in the next two years, social care authorities will now be able to introduce the rise sooner. They will have the freedom to increase by up to 3% in 2017-18 or 2018-19, but still cannot exceed 6% in total over the three-year period. This means that the total rise in bills should not be any greater. To ensure that councils are using income from the precept for adult social care, councils will be required to publish a description of their plans, including changing levels of

spend on adult social care and other services. This must be signed off by the Chief Finance Officer (section 151 officer). Councils wishing to use the extra freedom to raise their precept by 3% instead of 2% in 2017-18 must also show how they plan to use this extra money to improve social care. The Department will write to adult social care authorities with further details on the conditions of the scheme in the near future.

- shire district councils will continue to be allowed increases of less than 2% or up to and including £5, whichever is higher

- Police and Crime Commissioners whose Band D precept is in the lowest quartile of that category will continue to be allowed increases of less than 2% or up to and including £5, whichever is higher.

3.3 Council tax referendum principles for town and parish councils

3.3.1 Since the introduction of council tax referendums in 2012-13, no referendum principles have been set for local precepting authorities such as town and parish councils ("parishes"), although the Government has made it clear that we would keep this under review and take action if necessary.

3.3.2 We recognise the value of parishes and the greater role in service delivery that many are performing to deliver ambitious services for their residents. However, the increase in the average Band D council tax level of 6.1% set by parishes in 2016-17 was notably higher than those in the previous five years, as shown in Table 1 below:

Table 1: Average percentage increase in Band D council tax levels set by parishes

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Parishes	2.3%	3.9%	5.2%	4.3%	3.3%	6.1%

3.3.3 The recent technical consultation proposed an extension of referendum principles to larger, higher-spending town and parish councils. Following consideration of responses, the Government has decided to defer the setting of referendum principles. However, the Government has issued a challenge to town and parish councils to demonstrate restraint when increasing precepts that are not a direct result of taking on additional responsibilities. The Government will keep the level of precepts set by town and parish councils under review and may introduce referendum principles in the future. The Government will also consider ways in which increases can be made more transparent to local taxpayers.

3.4 Improvements to the business rates revaluation adjustment methodology

3.4.1 The next business rates revaluation takes affect from 1 April 2017. Revaluation is a revenue neutral exercise so the total rates bill will stay 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.

3.4.2 This creates change in the system 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. The following section describes how we will implement this commitment.

The adjustment for the revaluation

3.4.3 In the 2017-18 local government finance settlement technical consultation, the Government set out a methodology for adjusting tariff and top-ups for the 2017 Revaluation. https://www.gov.uk/government/consultations/local-government-finance-settlement-2017-to-2018-technical-consultation

3.4.4 In response, a number of authorities asked for improvements to be made to the methodology. The Government is minded to revise the methodology to reflect two changes:

- including the value of section 31 grants that authorities are paid to compensate them for changes to the rating system introduced at successive Autumn Statements reflecting a more complete measure of income that authorities receive under the rates retention scheme.
- adjusting the calculation to take account of inflation only after the revaluation adjustment to tariff and top-ups has been made.

3.4.5 We therefore propose to use the improved formula set out in Annex A.

3.4.6 A number of respondents were concerned that the methodology outlined in the technical consultation does not adequately capture circumstances where there is a large proportion of charities (e.g. schools, or universities) in the area whose rateable values change in a way that is significantly different from the general revaluation effect in the area. The Government has yet to be persuaded that the effects are likely to be significant and does not propose to change the revaluation adjustment further. We will however, keep the situation under review and will discuss the issue further with local government, including the practicalities of devising a fair basis for further adjustments that could be introduced at the time that we make final adjustments of tariffs and top-ups in the 2018-19 Settlement.

3.5 Adjustments to business rates in areas piloting 100% business rates retention

3.5.1 Following discussions with pilot areas, and in line with the initial agreements reached with the GLA, Greater Manchester and Liverpool authorities before Budget 2016, the intention is that the GLA, 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 pilot 100% rates retention, starting in 2017-18. The pilots will be without detriment to the resources that would have been available to individual authorities under the current local government finance regime (with any “detriment” payments funded from outside the Settlement).

3.5.2 The pilot authorities will each retain 100% of locally-raised business rates. In return they will forego Revenue Support Grant (RSG) and a number of funding streams including public health grant in Greater Manchester, rural services grant in Cornwall, Transport for London (TfL) capital grant in London. Authorities' tariffs and top-ups will be adjusted to ensure cost neutrality. Through the pilots we will also test a number of potential elements of the 100% rates retention scheme, including revised safety net arrangements. These arrangements will not impact on non-pilot authorities.

3.5.3 The detail of the changes to tariff and top-ups are currently being finalised with the pilot areas and our intention is to confirm them in the final settlement. Before the beginning of the financial year, the Government will also make changes to secondary legislation to confirm the new shares of business rates income and safety net thresholds.

Methodology for calculating the additional local share in pilot areas

3.1.5 In the 2017-18 local government finance settlement technical consultation, the Government set out a methodology for calculating the baseline funding levels, business rates baselines and tariffs and top-ups of the pilot authorities for 2017-18. Respondents to the consultation agreed with the Government's proposals and, we intend therefore to adopt the methodology proposed. The methodology will be applied after having first worked out the adjustments to tariffs and top-ups for the 2017 Revaluation as described above.

3.6 Voluntary transfers of funding to Mayoral Combined Authorities

3.6.1 The 2017-18 local government finance settlement technical consultation set out the mechanism for voluntary transfer of funding between the Mayoral Combined Authority and constituent authorities.

3.6.2 In response to the technical consultation a small number of authorities identified that they may consider this in future years, but none were intending a transfer in 2017-18. If authorities request transfers in future settlement periods, the Government intends to use the methodology set out in the technical consultation on the 2017-18 local government finance settlement to effect the transfer.

4. Draft equality statement

4.1. In the local government finance settlement 2017 to 2018: technical consultation, we sought views on the impact of the proposals for the 2017-18 settlement outlined in the consultation document on persons who share a protected characteristic. A draft equality statement for the provisional 2017-18 local government finance settlement has been published alongside this consultation document.

Question 8: Do you have any comments on the impact of the 2017-18 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

Annex A: 50% Business Rates Retention – Improved methodology for adjusting for the 2017 revaluation

A.1 Following the technical consultation on the 2017-18 local government finance settlement, the Government proposes that each authority's tariff and top-up for 2017-18 (before inflation) should be its 2016-17 tariff, or top-up (with tariffs treated as a negative number), plus an amount (J) found in accordance with the formula below. The resulting tariffs and top-ups will then be increased in line with inflation in the normal way.

$$J = C\left(1 - \frac{A}{B}\right)D$$

Where:

A	is total rateable value in all of the draft 2017 local rating lists covering the authority's area using the draft lists provided to Billing Authorities on 30 September 2016 multiplied by 0.436, which was the provisional small business non-domestic rating multiplier for 2017-18, ignoring inflation and adjusted to an assumption that the effect of the alterations referred to in paragraph 5(6) and 5(7) of Schedule 7 to the Local Government Finance Act 1988 was to have no effect on rateable values or hereditaments.
B	is the total rateable value in all of the 2010 local rating lists covering the authority's area for 23 September 2016 and measured on that day multiplied by 0.484.
C	is the sum of the non-domestic rating income for the authority for 2015/16 (line 12, page 1, NNDR3) plus the total of the reliefs awarded in that year in respect of: * the doubling of small business rates relief * the additional small business rates relief paid where a ratepayer took on an additional property * long-term empty properties * newly built empty properties * in lieu of transitional payments, and * retail relief, and on which section 31 grant was paid. The total is multiplied by 0.484/0.480 to bring it up to 2016-17 values.
D	is the local share.

We will make consequential changes to the formula for adjusting tariffs and top-ups in 2018/19 and 2019/20 as set out in the technical consultation. DCLG will continue to keep this methodology under review in order to allow scope for further adjustments to be made in 2018/19.

Levy Rates

As a consequence of changes to tariffs and top-ups for 2017-18, we also propose to re-calculate levy rates for 2017-18.

In the Non-Domestic Rating (Levy and Safety Net Payments) Regulations 2013 (SI 2013/737) (as amended), the levy rate for each authority was calculated as:

$$1 - (BFL/BRB)$$

where:

BFL was an authority's *baseline funding level* for 2013-14; and

BRB was an authority's *business rates baseline* for 2013-14.

Effectively, by changing the amount of business rates income available to each authority, the Revaluation will change the business rates baselines of councils.

We propose therefore to recalculate the levy rates of each authority, based on updated BFLs and BRBs.

BFLs are automatically uprated each year under the rates retention scheme to reflect the change in the small business rating multiplier. 2017-18 baseline funding levels are set out in the supporting table "key information for local authorities".

We plan to impute a value for business rates baselines in 2017-18. The business rates baseline for each authority will be its baseline funding level plus its 2017-18 tariff, or minus its top-up for 2017-18 (as calculated under the adjustment methodology above).

As before, the values for BFLs and BRBs will be used to calculate a levy rate on the basis of the above formula, subject to a cap of 0.5. Where the resultant levy rate, is a negative number, the levy rate for the authority will be zero.

We intend to promulgate the revised levy rates through changes to secondary legislation to be made before the start of the financial year.

Annex B: Summary of consultation questions

Question 1: Do you agree with the methodology of Revenue Support Grant in 2017-18?

Question 2: Do you think the Government should consider transitional measures to limit the impact of reforms to the New Homes Bonus?

Question 3: Do you agree with the Government's proposal to fund the New Homes Bonus in 2017-18 with £1.16 billion of funding held back from the settlement, on the basis of the methodology described in paragraph 2.5.8?

Question 4: Do you agree with the proposal to provide £240 million in 2017-18 from additional savings resulting from New Homes Bonus reforms to authorities with adult social care responsibilities allocated using the Relative Needs Formula?

Question 5: Do you agree with the Government's proposal to hold back £25 million to fund the business rates safety net in 2017-18, on the basis of the methodology described in paragraph 2.8.2?

Question 6: Do you agree with the methodology for allocating Transition Grant payments in 2017-18?

Question 7: Do you agree with the Government's proposed approach in paragraph 2.10.1of paying £65 million in 2017-18 to the upper quartile of local authorities based on the super-sparsity indicator?

Question 8: Do you have any comments on the impact of the 2017-18 local government finance settlement on those who share a protected characteristic, and on the draft equality statement published alongside this consultation document? Please provide supporting evidence.

Annex C: 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).

Business rates baseline

Determined for individual authorities at the outset of the business rates retention scheme by dividing the *local share* of the Estimated Business Rates Aggregate (England) between billing authorities on the basis of their proportionate shares, before the payment of any major precepting authority share.

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.

Safety net

Mechanism to protect any authority which sees its business rates income drop, in any year, by more than 7.5% below their *baseline funding level* (with baseline funding levels being uprated by the small business rates *multiplier* for the purposes of assessing eligibility for support).

Start-up funding assessment

A local authority's share of the local government spending control *total* which will comprise its Revenue Support Grant for the year in question and its *baseline funding level*.

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.