



Department for
Communities and
Local Government

The provisional 2018-19 local government finance settlement

Consultation Paper



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Scope of the consultation

Topic of this consultation:	This consultation covers proposals for the provisional local government finance settlement for 2018-19.
Scope of this consultation:	<p>This consultation seeks views on proposals for the local government finance settlement for 2018-19, 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</p> <p>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 2018-19.²</p>
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 19 th December 2017 to 16 th January 2018.
Enquiries:	For any enquiries about the consultation please contact Roger Palmer Roger Palmer @communities.gsi.gov.uk or 0303 444 2075
How to respond:	Please respond by completing our online survey. The survey provides an opportunity to submit further information using a file

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.

upload function on the final page. The survey can be found at the following web link:

<https://www.surveymonkey.co.uk/r/provisionalsettlement1819>

Alternatively, you can respond to the questions in this consultation by email to:

LGSettlement@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:

Roger Palmer
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 if you have any other observations about how we can improve the process please, contact DCLG Consultation Co/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 Summary

1.1.1 This chapter provides an overview of the wider reforms of local government finance which will help to provide context to the proposals for the 2018-19 local government finance settlement:

- it summarises the key themes and approaches that the Government is proposing for the 2018-19 local government finance settlement, and
- it provides background information, including on: the ongoing reforms to business rates retention and the progress of the fair funding review of relative needs and resources; the Government's commitment to understanding social care pressures; changes to council tax referendum principles.

1.2 Background

1.2.1 The Government recognises that it is locally elected councillors who understand the priorities of their communities. The 2016-17 local government finance settlement responded to what councils up and down the country called for: it delivered unprecedented four year funding allocations and the certainty necessary to unlock local reforms, as well as a path to financial self-sufficiency. We are approaching the third year of the multi-year settlement, which 97% of local authorities accepted. Local government will see an increase in funding next year, against a backdrop of a challenging public sector deficit.

The future of the local government finance system

1.2.2 The Government recognises the need to provide future certainty beyond the existing 4-year funding deal, and to meet its manifesto commitment to give councils more control of the taxes they raise locally. Central to this is **increasing the proportion of locally collected business rates that councils will retain**. The current multi-year settlement provides a path to a new system which will build on the current 50% retention scheme.

1.2.3 Over the last year, the Government has been working closely with the local government sector to identify central government grants that can be funded through retained business rates in the future, and on reforming the local government finance system where needed.

1.2.4 As previously announced, it is the Government's intention for the following grants to be funded through retained business rates: Revenue Support Grant, Rural Services Delivery Grant, GLA Transport Grant and the Public Health Grant. The Government will implement this increase in business rates retention in 2020-21. Allowing local authorities to keep business rates to the value of these grants would represent business rates retention across the local government system of at least 75% (based on the value of these grants in 2019-20). The Government also intends to use the

intervening period to develop a set of measures that support a smooth transition of funding for public health services from a grant to retained business rates.

- 1.2.5 The Government will also **continue to work with the sector to improve the way the local government finance system works**, such as tackling the impact of business rates appeals on local authorities. The Government has established a steering group and a number of working groups, chaired jointly by DCLG and the LGA, to develop reforms with the view of implementing these in 2020-21 alongside greater business rates retention.
- 1.2.6 In spring 2017 the Government launched a 'Further Consultation on 100% Business Rates Retention'. The Government's response, and a summary of the representations received, has been published alongside this consultation document and can be found at the web link below. The representations received from local authorities and others will help inform the direction of future reform.

<https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention>

- 1.2.7 Alongside these reforms, officials from DCLG continue to make progress on a **fair funding review of relative needs and resources**, in collaboration with the Local Government Association and representatives from across local government. This review will calculate new baseline funding levels based on an up-to-date assessment of the relative needs and resources of local authorities. Business rates will be redistributed according to the outcome of the new assessment, alongside the resetting of business rates baselines, subject to suitable transitional measures. Today the Government has published a consultation setting out its approach, asking councils to help shape the future methodology, which can be found here:

<https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources>

- 1.2.8 Since the Spending Review, the Government has recognised the increased pressure on **Adult Social Care Services**, which is why, at Spring Budget 2017, an additional £2 billion over 3 years was provided for adult social care.
- 1.2.9 It is important that a longer-term picture is established. An ageing society means that we need to reach a sustainable settlement for social care, which is why the Government is committing to publishing a Green Paper by summer 2018 setting out its proposals for reform. The Government has begun a process of initial engagement through which it will work with experts, stakeholders and users to shape the paper's proposals for long-term reforms.

2018-19 and 2019-20 local government finance settlements

- 1.2.10 Two years of the current multi-year settlement remain before the Government aims to implement greater business rates retention and the fair funding review of relative needs and resources. These years will offer a bridge to the new system.

1.2.11 Ahead of the implementation of greater business rates retention, **the Government is announcing the continuation of existing 100% business rates retention pilots**. At the 2017-18 local government finance settlement, agreement was reached with five areas to pilot 100% business rates retention. These were in devolution areas, part of the commitment to empower local government by transferring funding and powers away from Whitehall. Greater Manchester, Liverpool City Region, West Midlands, West of England and Cornwall will continue to pilot business rates retention and retain 100% of growth in 2018-19.

1.2.12 The 'Further Consultation' on business rates retention set out that there would be **new business rates retention pilots in 2018-19**. It is important that, in order to explore options for how greater business rates retention will work, different types of authority across the country take part in piloting. Next year, the following 10 areas will also pilot 100% business rates retention, and be able to keep that additional growth in their business rate income with no impact on the rest of local government³:

- Berkshire
- Derbyshire
- Devon
- Gloucestershire
- Kent & Medway
- Leeds
- Lincolnshire
- Solent
- Suffolk
- Surrey

1.2.13 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.

1.2.14 The Government will continue to pilot future reform of the system in 2019-20 ahead of implementing greater business rates retention in 2020-21. Further details will be provided in 2018.

1.2.15 **The Government will also make changes to the council tax referendum principles for 2018-19 and 2019-20**. Respondents to the 2018-19 local government finance settlement technical consultation argued that local authorities should be better able to meet pressures where appropriate, and be accountable for those decisions.

1.2.16 In recognition of this, as well as higher than expected inflation levels, the Government will strike a balance between addressing service pressures and giving council tax-payers the final say over excessive increases as per its manifesto commitment. The Government has decided to set the core referendum principles in

³ A full list of the constituent local authorities which make-up these pilot areas can be found in the provisional Local Government Finance Report.

line with inflation (at 3%) for all authorities, with further flexibilities for police and crime commissioners, in 2018-19 and 2019-20. The Adult Social Care Precept flexibility will remain the same as previously announced – this will form a large part of the £9.25 billion more dedicated funding for adult social care that the Government provided access to earlier this year.

1.2.17 Furthermore, some respondents to the recent 2018-19 local government finance settlement technical consultation have raised the issue of so-called ‘negative RSG’ in relation to the final year of the multi-year settlement in 2019-20. This is where changes in Revenue Support Grant have led to a downward adjustment of some local authorities’ business rates top-ups or tariffs in that year. The Government remains committed to the 4-year deal but recognises the concern of some councils around this issue. **The Government will look at fair and affordable options for dealing with ‘negative RSG’ and will formally consult on proposals ahead of next year’s settlement.**

1.2.18 The Government has made several further decisions in recognition of representations made by councils to the 2018-19 local government finance settlement technical consultation, including on the New Homes Bonus, the Rural Services Delivery Grant, and council tax precepts for newly created Mayoral Combined Authorities. These are outlined in later chapters.

1.2.19 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 third 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 2018-19 local government finance settlement. A summary of the responses to this consultation can be found at:

<https://www.gov.uk/government/consultations/local-government-finance-settlement-2018-to-2019-technical-consultation>

1.3.2 Having considered responses to that consultation, this document confirms our approach to the 2018-19 local government finance 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 2018-19 in line with the four year offer announced in 2016-17. In summary, it outlines:

- the third year of the multi-year settlement offer for those councils that accepted the Government’s offer, and arrangements for those that did not,
- the method for distributing New Homes Bonus funding,

- the profile of the Rural Services Delivery Grant in 2018-19 and the method for distribution, and
- the method for funding the Business Rates Safety Net.

Chapter 3 – Changes to local resources

1.3.4 This chapter outlines the Government's proposals for the 2018-19 local government finance settlement that have implications for the local resources collected by councils. In summary, it:

- outlines the Government's proposals for the council tax referendum principles for 2018-19, including the approach to Mayoral Combined Authorities precepts,
- sets out 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, and
- confirms 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.

Chapter 4 – Draft equality statement

1.3.5 This chapter contains a draft assessment of the impact of the provisional 2018-19 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 2018-19 in line with the four year offer announced in 2016-17. In summary, it outlines:

- the third year of the multi-year settlement offer for those councils that accepted the Government's offer, and arrangements for those that did not,
- the method for distributing New Homes Bonus funding,
- the profile of the Rural Services Delivery Grant in 2018-19 and the method for distribution, and
- the method for funding the Business Rates Safety Net.

2.2 The multi-year settlement offer

2.2.1 The 2016-17 local government finance 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 for 2016-17 and 2017-18.

2.2.2 97% of councils accepted the offer and published an efficiency plan or other supporting document.

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 payments⁴ in 2018-19 to receiving authorities (any billing authority or major precepting authority),⁵ except local policing bodies,⁶ under sections 78, 78A and 79 of the Local Government Finance Act 1988.

⁴ Revenue Support Grant.

⁵ Each of the following is a major precepting authority:

- a county council which does not have the functions of a district council,

2.2.5 A draft local government finance report for 2018-19 has also been published alongside this document which sets out the method for allocating Revenue Support Grant. 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.

2.2.7 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.

Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2018-19?

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 2018-19. The funding allocations for these authorities in 2019-20 will be revisited in due course as part of the annual settlement process covering that year. 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 New Homes Bonus

2.4.1 The New Homes Bonus (the 'Bonus') was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. Including 2018-19 allocations, over £7 billion has been allocated to local authorities through the scheme to reward additional housing supply. Although the Bonus was successful in encouraging authorities to welcome housing growth, it did not reward those authorities who are the most open to growth. In December 2016, following consultation, the Government announced reforms to the Bonus as follows:

-
- 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, and
 - a mayoral combined authority, as defined by section 107A(8) of the Local Democracy, Economic Development and Construction Act 2009.

⁶ 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).

- reduction of the number of years New Homes Bonus payments are made from 6 to 5 years in 2017-18 and to 4 years from 2018/19, and
- introduction of a national baseline for housing growth of 0.4% of council tax base (weighted by band) from 2017-18 below which the Bonus will not be paid.

2.4.2 The Government also retained the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth. In the 2018-19 local government finance settlement technical consultation, the Government indicated that decisions on the baseline for 2018-19 would be made following a review of council tax base statistics published in November.

2.4.3 After careful consideration of representations made during the technical consultation, the Government has decided not to make any additional change to the baseline, below which the Bonus will not be paid, and it will remain at 0.4% for the 2018-19 allocations. The Government will retain the option to adjust the baseline in subsequent years.

2.4.4 In the 2018-19 local government finance settlement technical consultation, the Government also consulted on withholding part of the Bonus from authorities not planning effectively for new homes. After considering responses carefully, the Government has decided not to implement any further reforms to the Bonus for 2018-19.

2.4.5 Provisional New Homes Bonus allocations for 2018-19 are being announced alongside this provisional settlement. Based on the most recent council tax base data available, the cost of New Homes Bonus payments relating to 2018-19 is forecast to be £204 million. Combining this with the cost of legacy payments provides an estimated total New Homes Bonus payment of £946 million in 2018-19. 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-2018-to-2019>

<https://www.gov.uk/government/publications/new-homes-bonus-calculator-2018-to-2019>

2.4.6 Funding for New Homes Bonus will be made up from £900 million provided from Revenue Support Grant, and an expected £46 million from departmental budgets. Final New Homes Bonus allocations for 2018-19 will be published alongside the final local government finance settlement in February 2018.

2.4.7 **Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?**

2.5 Rural Services Delivery Grant

2.5.1 As part of the 2016-17 local government finance settlement, the Government announced that the Rural Services Delivery Grant would be increased for the next

four years including payments of £80.5 million in 2016-17, £65 million in 2017-18, £50 million in 2018-19, and £65 million in 2019-20.

- 2.5.2 Since the Government set those allocations, it has recognised that cost pressures associated with service delivery in rural sparse areas, such as lack of private sector providers and poor broadband coverage should be met with a more consistent package of funding over the course of this Parliament. The Government has therefore decided to increase the grant in 2018-19 only, bringing it up from £50 million to £65 million, in line with adjacent years.
- 2.5.3 This grant of £65 million in 2018-19 will be allocated to the top quartile of local authorities on the basis of the super-sparsity indicator, 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.

Question 3: Do you agree with the Government's proposed approach of paying £65 million in 2018-19 to the upper quartile of local authorities based on the super-sparsity indicator?

2.6 Business rates safety net

- 2.6.1 The business rates safety net ensures that no authority's income from business rates fall by no more than 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 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.
- 2.6.2 The Government proposes to hold back £35 million from RSG to fund the business rates safety net for 2018-19. We propose that this amount should be deducted from the control totals for each set of services as outlined in Annex D of the Local Government Finance Report (England) 2018/19 in proportion to the size of those control totals. The level of funding held back does not determine whether payments will be made; all councils that qualify for safety net payments will continue to receive them.

Question 4: Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?

3. Changes to local resources

3.1 Summary

3.1.1 As part of the 2018-19 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 sets out the Government's proposals. These include:

- the Government's proposals for the council tax referendum principles for 2018-19,
- the approach to Mayoral Combined Authorities precepts in 2018-19,
- 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, and
- confirmation of the methodology, for the final settlement, for calculating the agreed changes to 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.

3.2 Council tax referendum principles for principal local authorities

3.2.1 In the 2018-19 local government finance settlement technical consultation, the Government sought views on maintaining the same referendum principles as set out at the 2017-18 local government finance settlement, to ensure that local residents can veto high increases in council tax via a referendum.

3.2.2 Following careful consideration of responses, and in recognition of higher than expected inflation and the pressures on services such as social care and policing, the Government has decided to make changes to the council tax referendum principles. In doing so it continues to allow taxpayers the final say over excessive increases as per its manifesto commitment:

- a core principle of 3% in 2018-19 and 2019-20,
- shire district councils will be allowed increases of less than 3%, or up to and including £5, whichever is higher in 2018-19 and 2019-20,
- 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, and

- Police precepts (including the GLA charge for the Metropolitan Police) will be allowed increases of up to £12 in 2018-19 and 2019-20.

Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018-19?

3.3 Council tax precepts for Mayoral Combined Authorities

- 3.3.1 Devolution Deals have led to the creation of 6 Mayoral Combined Authorities (MCAs) with powers such as transport and planning. MCAs 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.
- 3.3.2 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, where it has been agreed with the authority that the mayor will not be empowered to set a precept). The precept may only be set with the agreement of the Combined Authority. The new MCAs 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.
- 3.3.3 In the 2018-19 local government finance settlement technical consultation, the Government asked how the Band D council tax level of MCAs should be determined, given that no previous amount has been set. After consideration of responses to this question, the Government has concluded that it should be for each mayor to balance their ambitions and other resources and decide the level of the first precept they set in 2018-19.
- 3.3.4 We expect mayors will exercise restraint and set a council tax precept which is proportionate to their needs and not burdensome to their residents. It remains open to Government to review the level of the mayoral precepts that are set in 2018-19, and any application of council tax referendum principles in subsequent years.

3.4 Town and parish councils

- 3.4.1 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 it would keep this under review and take action if necessary.
- 3.4.2 Ahead of the 2017-18 round of council tax setting, the Government issued a challenge to parishes to demonstrate restraint when setting precept increases that were not a direct result of taking on additional responsibilities, and to make precept decisions more transparent to local tax-payers. The average increase set by the sector in 2017-18 was 6.3% and the Government indicated that continued deferral of referendum principles would be dependent upon it receiving clear evidence of how the sector is responding to the challenge.

- 3.4.3 In response, the sector provided details of a range of activities around fiscal responsibility, transparency and engagement, the promotion of good practice and use of other sources of income, county-level engagement regarding significant precept increases⁷ and publishing the *Good Councillors' Guide to Finance and Transparency*.
- 3.4.4 Having noted this work and the sector's request for longer-term certainty to aid financial planning, the Government intends to defer the setting of referendum principles for town and parish councils for three years. However, this is conditional upon:
- the sector taking all available steps to mitigate the need for council tax increases, including the use of reserves where they are not already earmarked for other uses or for "invest to save" projects which will lower on-going costs, and
 - the Government seeing clear evidence of restraint in the increases set by the sector as a whole.

3.5 The business rates revaluation adjustment methodology

- 3.5.1 The last business rates revaluation took effect from 1 April 2017. Revaluation is a revenue neutral exercise so the total rates bill stayed the same at the England level in real terms, after allowing for appeals. At the local authority level, overall bills increased or fell depending upon whether rateable values in that area performed above or below the average for England, after allowing for appeals.
- 3.5.2 This would have resulted in a change in the business rates income available to authorities under the business rates retention scheme, for reasons outside their control. Therefore, when the Government introduced the 50% business rates 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 was the same after revaluation as immediately before; thereby ensuring that the growth incentive created by the rates retention scheme and the delivery of public services will not be threatened by losses of income outside the control of authorities.
- 3.5.3 At the 2017-18 local government finance settlement the Government used a formula – originally set out at Annex A of the provisional settlement consultation document⁷ – to adjust tariffs and top-ups for 2017-18. At that time the Government made it clear that these would be further revised at the 2018-19 local government finance settlement to take account of updated data, with a final technical adjustment for 2019-20.
- 3.5.4 Since using the formula in the 2017-18 local government finance settlement, responses received from local authorities to the 2018-19 local government finance settlement technical consultation queried whether the formula unfairly distorts the

⁷ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577947/Provisional_2017-2018_local_government_finance_settlement_consultation.pdf

changes to tariffs and top-ups because of the way it takes account of the decisions authorities have made about increasing, or reducing their appeal provisions in 2016-17.

3.5.5 Having carefully considered these responses, the Government proposes to change the formula to remove the impact of one-off changes to appeal provisions in 2016-17. The methodology that the Government proposes to employ to further revise 2017-18 tariff and top-ups is set out at Annex A.

3.5.6 The revised 2017-18 tariffs and top-ups, calculated in accordance with this formula, will be indexed by the change in the small business rating multiplier between 2017-18 and 2018-19 to determine a tariff or top-up for each authority for 2018-19. Exceptionally, in 2018-19 authorities will also pay, or receive, an “adjustment”, representing the difference between their revised 2017-18 tariff or top-up, and the tariff or top-up that was set out in the 2017-18 local government finance settlement.

Question 6: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6?

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

3.6.1 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.

3.6.2 In addition, following successful bids to pilot in other areas, a further 89 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.⁸

3.6.3 Through the pilots we will also test a number of potential elements of the 100% business rates retention scheme, including revised safety net arrangements. These arrangements will not impact on non-pilot authorities.

3.6.4 New pilot authorities will each retain 100% of locally-raised business rates. In return they will forego Revenue Support Grant (RSG) and Rural Services Delivery Grant. Authorities’ tariffs and top-ups will be adjusted to ensure fiscal neutrality. 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.

⁸ A full list of the constituent local authorities which make-up these pilot areas can be found in the provisional Local Government Finance Report.

We propose to use the same methodology in 2018-19 to calculate the baseline funding levels, business rates baselines and tariffs and top-ups for the “new” 2018-19 pilots and to amend the baseline funding levels, business rates baselines and tariffs and top-ups for the pilots created in 2017-18, to reflect changes in those authorities’ grant totals between 2017-18 and 2018-19.

4. Draft equality statement

- 4.1. In the 2018-19 local government finance settlement technical consultation, we sought views on the impact of the proposals for the 2018-19 settlement outlined in the consultation document on persons who share a protected characteristic. A draft equality statement for the provisional 2018-19 local government finance settlement has been published alongside this consultation document.

Question 7: Do you have any comments on the impact of the 2018-19 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: Methodology for adjusting for the 2017 revaluation

2017-18 tariff and top-up as calculated in the Settlement

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 grant 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 2016⁹; 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;

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

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

⁹ <https://www.gov.uk/government/statistics/non-domestic-rating-high-level-estimates-of-change-in-rateable-value-of-rating-lists>

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

Recalculation of 2017-18 tariff and top-up

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:

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

- 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 RV list amendments charged against the provision for appeals and the changes in provision for appeals taken from the NNDR3 1617
- L is:
 the authority's closing balance for provisions, taken from NNDR3 1617; divided by the sum of the multipliers for all years from 10/11 to 16/17, which is 3.18; and then multiplied by the 1617 small business multiplier, 0.484
- M 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
- N 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;

2017-18 tariff and top-up adjustment

The adjustment is calculated as the difference between the adjusted tariffs and top-ups (see para 2.1) and the original 1718 tariffs and top-ups (see para 1.1)

2018-19 tariff and top-up

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

$$(A + I) \times (O / P)$$

where:

- O is the value of the small business rating multiplier in 1819;
- P is the value of the small business rating multiplier in 1718;

Annex B: Summary of consultation questions

Question 1: Do you agree with the methodology for allocating Revenue Support Grant in 2018-19?

Question 2: Do you agree with the Government's proposal to fund the New Homes Bonus in 2018-19 with £900 million from Revenue Support Grant and any additional funding being secured from departmental budgets?

Question 3: Do you agree with the Government's proposed approach of paying £65 million in 2018-19 to the upper quartile of local authorities based on the super-sparsity indicator?

Question 4: Do you agree with the Government's proposal to hold back £35 million to fund the business rates safety net in 2018-19, on the basis of the methodology described in paragraph 2.6.2?

Question 5: What are your views on the council tax referendum principles proposed by the Government for 2018-19?

Question 6: Do you agree with the methodology for calculating the revaluation adjustment to business rates tariff and top-up payments as outlined in paragraphs 3.5.1 to 3.5.6?

Question 7: Do you have any comments on the impact of the 2018-19 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.

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.