Preface

In response to the various FOIs we have received, the Department for Communities and Local Government is publishing relevant correspondence with Surrey County Council and MPs regarding its 2017-18 financial settlement and the prospect of a possible referendum on council tax. The Written Ministerial Statement, below, of 9 February explains the Government's position, which is supported by this correspondence published today.

Written Ministerial Statement

Further to the points raised in the House yesterday on Surrey County Council and local government finance, I would like to take the opportunity to put some facts on the record.

Surrey County Council's budget and council tax is a matter for the council. Surrey's elected councillors voted through their 2017/18 budget on Tuesday 7 February, based on the draft Local Government Finance Settlement. Surrey County Council have been clear that their Budget decision (setting a level of council tax which is not above the referendum threshold) was theirs alone.

As part of the statutory draft Local Government Finance Settlement consultation, the Department for Communities and Local Government discusses local government funding with councils across the country, of all types and all political colours. This happens every year, and necessarily involves councils making direct representations to the Government.

DCLG will publish the final settlement later this month, and the House of Commons will then vote on it. This is entirely transparent, and detailed funding figures for every council are published as part of that process.

Whilst the final settlement has yet to be approved, the Government is not proposing extra funding to Surrey County Council that is not otherwise provided or offered to other councils generally. There is no 'Memorandum of Understanding' between Government and Surrey County Council. In the draft Settlement published in December, Surrey's core spending power is forecast to rise by 1.4 per cent from 2015/16 to 2019/20. We believe this provides a sustainable base on which the council can plan ahead and allocate their £1.7 billion a year budget.

We are, however, conscious of the medium and long-term pressures that all councils face from a growing and aging population. The Government is therefore delivering broader reforms to local government finance – through bespoke Devolution Deals, the integration of health and social care, a Fairer Funding eview, medium and longer-term reforms to support adult social care, and the move, from 2019/20, to 100 per cent business rates retention across the country. All these reforms have been discussed in recent weeks with Surrey and other councils from across the country as part of the Local Government Finance Settlement process.

The Local Government Finance Bill, that Parliament is at present considering, will legislate to deliver the reforms to business rates. A number of pilots are already taking place from April 2017 in combined authorities and unitary councils across the country. These will take place in Liverpool, Greater Manchester, West Midlands, West of ngland, Cornwall and Greater London. The Government plans to undertake further pilots in 2018/19, in areas without a devolution deal, including two-tier council areas. The nationwide rollout will then take place across ngland in 2019/20.

Surrey County Council informed the Government that they wished to become a pilot area. The Secretary of State for Communities and Local Government told them that this was not possible for 2017/18, but said that, sub ect to due process and meeting the necessary criteria, they could participate in the 2018/19 pilot. All other councils will be free to apply to participate in these pilots, and the Government invites them to do so. The Department for Communities and Local Government has already held discussions about the 2018/19 pilots with several councils and it will be publishing more information shortly.

The Government's wider reforms to local government funding will make councils less dependent on money from Whitehall, ensuring all councils have strong incentives to support local obs and local firms, and directly benefit from the proceeds of a growing economy.

From: Sophie Broadfield
To: "Sheila Little BUS"
Cc: [redacted]
Subject: RE: Pilots
Date: 02 February 2017 11:45:00
Attachments: image001.png
image002.png

Thank you.

I've fed the ideas up to our special advisers who I understand are speaking to David Hodge later?

Sophie Broadfield
Deputy Director, Local Government Finance Reform
[redacted]

From: Sheila Little BUS [[redacted]
Sent: 02 February 2017 11:22
To: Sophie Broadfield
Cc: [redacted]
Subject: RE: Pilots

Sophie,
As discussed......

If [redacted] wants to talk to my technical guy this morning please call [redacted]

Speak later....

First calculations for NNDR as Derived from Settlement – i.e. what DCLG expects LAs to collect

2017/18	Settlement total NNDR £m	Current tariff £m	Settlement NNDR - tariff £m
Elmbridge	60.3	-21.9	38.4
Epsom and Ewell	24.4	-8.4	16.0
Guildford	82.4	-30.2	52.2
Mole Valley	41.6	-15.5	26.2
Reigate and Banstead	51.6	-18.4	33.2
Runnymede	51.2	-18.8	32.5
Spelthorne	42.0	-15.0	27.0
Surrey Heath	33.5	-11.9	21.5
Tandridge	21.4	-7.2	14.2
Waverley	38.5	-13.5	25.0
Woking	43.2	-15.3	27.9
Surrey D&B total	490.1	-176.1	313.9
Surrey		58.6	58.6
Surrey area total	490.1	-117.6	372.5

... and based on the NNDR estimates for 2017/18 we have received so far (red figures are for 2016/17)

2017/18	Settlement total NNDR £m	Current tariff £m	Settlement NNDR - tariff £m
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Sheila Little | **Director of Finance for Orbis and Surrey County Council**
Telephone: [redacted]

Email: [redacted]

east sussex

East Sussex and Surrey County Councils working in partnership

Finance is committed to providing a professional and high quality service. Please provide us with your feedback.

From: Sophie Broadfield [redacted]
Sent: 01 February 2017 16:19
To: Sheila Little BUS [redacted]
Subject: Pilots

Sheila,

Please see attached for the contact details at the other pilots. I'll dig out whether there's anything summarising what we're doing in the other areas that I can send over too.

Sophie Broadfield
Deputy Director, Local Government Finance Reform
[redacted]

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From: Sophie Broadfield
To: "Sheila Little"
Cc: [redacted]
Subject: FW: Surrey Pilot
Date: 02 February 2017 08:58:00
Attachments: Sample MOU.docx

Sheila,

See below for an email from [redacted] our lead on pilots, and attached for a sample Memorandum of Understanding. If we were to get a pilot up and running by April 2017, we'd need to go with something very similar (if not identical) to the attached – given the timescale.

You asked in another email whether all the 11 areas in Surrey would need to 'sign-up' for us to be able to go ahead. The answer to that is yes.

And I spoke to [redacted] last night and he was happy to speak to you about their pilot. I think he feels that the benefit to GM has been material (financially) and therefore it has been worth the sometimes tortuous technical detail! Of course, some of the tortuous-ness will be reduced for you, as we'll have worked things out with other places.

[redacted] number is [redacted] if anyone in your team would like to talk this through or ask questions.

Sophie

Sophie Broadfield
Deputy Director, Local Government Finance Reform
[redacted]

From: [redacted]
Sent: 01 February 2017 17:40
To: Sophie Broadfield
Subject: Surrey Pilot

Sophie,

I've anonymised a "typical" MOU; It will give them as good an idea as any of what a pilot is all about.

The points to make in any covering e-mail (if they haven't already got it) is that they;

- Forego grants – in return for 100% retained business rates income (and 100% growth)
- Their tariffs and top-ups are adjusted by the value of the grants "rolled-in" and the value of their additional 50% share
- There is a no-detriment agreement – so they cannot collectively be any worse off than they would have been under the 50% scheme.
- They get to pilot elements of the new scheme – most notably, a dafety net threshold operating at 97% (instead of 92.5%)

Needless to say, I am happo to talk to them if they have any queries or want to understand the technicalities better.

Regards

[redacted]

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100% Business Rates Retention Pilot Agreement: XXXX

This agreement sets out the terms by which the local authorities listed at Annex B (hereafter referred to as the [XXX] authorities) will pilot 100% business rates retention.

This agreement comes into effect from [1st April 2017] and expires on the national introduction of full business rates retention.

The pilot is to be without detriment to the resources that would have been available to individual XXX authorities under the current local government finance regime, over the four year Settlement period, including the resources that would have been available to the councils under the 50% business rates retention scheme. Details of this arrangement are set out under Annex A.

From 1st April 2017 the XXX authorities will retain 100%[1] of their non-domestic rating income[2] plus compensation, via section 31 grant, for Government announcements that have reduced business rates income. Total compensation due to XXX authorities will amount to100% of the value of the lost income. Tariffs and top-ups will be adjusted to ensure cost neutrality. In moving to 100% rates retention:

- DCLG will no longer pay Revenue Support Grant to the XXX authorities.

  The value of what would have been this grant in 2017/18 is set out in Annex C.[3] Under the terms of the multi-year settlement agreed with XXX authorities, the Government has agreed to provide greater certainty about Revenue Support Grant totals from 2017-18 until the end of the Parliament. Whilst RSG totals will need to take account of future events such as the transfer of functions to local authorities, transfers of responsibility between authorities and other unforeseen events, the Government expects the totals set out in Annex C for future years to be those used in future local government finance settlements.

- Government Department A will no longer pay [name of grant] to the XXX authorities

- Government Department B will no longer pay [name of grant] to the XXX authorities

- Government Department C will no longer pay [name of grant] to the XXX authorities

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[1] x% will be retained by the billing authority; y% by [tier] and z% by the Fire and Rescue Authority.
[2] As defined in the Non-Domestic Rating (Rates Retention) Regulations 2013 (SI2013/452) (as amended).
[3] Figures in Annex C are set for 3 years 2017/18 – 2019/20. These are subject to change in 2018/19 should funding allocations increase for the services funded through business rates.

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The value of grants, other than RSG, are also set out at annex c, but for 2017-18 only. These are subject to change in 2018 should funding allocations for those services change.

Business rate shares; tariffs and top ups and baseline funding levels for 2017/18 for the XXX authorities are set out in Annex C.

Unless otherwise indicated in this agreement, the levy and safety net payments due to XXX authorities will be calculated, in accordance with the Non-Domestic Rating (Levy and Safety Net) Regulations 2013 (SI 2013/737) (as amended), as if the xxx authorities were not 100% pilots. Hence, the calculations of levy and safety net payments due to the "pools" of which X, Y and Z are members, will also be made as if those authorities were operating under the 50% rates retention scheme.

Notwithstanding the calculation of levy and safety net payments under the Regulations, as set out above, the Government will additionally calculate levy and safety net payments due to individual xxx authorities on the basis of their "retained income" as 100% pilot authorities and against a zero levy rate and "safety net threshold" of 97%.

Any safety net payment due a a result of these calculations will be paid via a section 31 grant (having regard to any sums already paid to individual authorities (ie ignoring pool payments) as a result of the application of the Levy and Safety net Regulations.

The Government is committed to work with the XXX authorities to develop and deepen the pilot for 2018/19 in line with the ambitions of the authorities. For 2018/19, the Government and XXX authorities will revise the pilot to reflect any changes to funding allocations; and will consider reviewing the terms of the pilot with a view to the possibility of:

- rolling-in further grants and funding streams, (with commensurate adjustments to tariffs and top-ups), including those that might assist the XXX authorities to grow jobs and improve their skill base; and
- assisting the XXX authorities to provide the necessary infrastructure to grow jobs and skills, by creating an investment capability to support growth by means of adjustments to the operation of the pilot and the business rates retained under it.

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Annex A: No Detriment

Calculating "No-Detriment"

Introduction

1. The 100% pilot is without detriment to the resources that would have been available to the XXX authorities under the current local government finance regime over the four year settlement period.

2. In any year for which the pilot exists, to the extent that the pilot arrangements result in fewer resources being available to XXX authorities than would have been the case under the existing local government finance regime, the Government will make good the difference, as measured at the level of the pilot area.

3. The "no detriment" calculation will be undertaken following the end of the financial year and the submission of certified figures for non-domestic rating income (ie. following submission of certified NNDR3s) and any payment due from the Government will be made on the same date as any other 2017/18 reconciliation or safety net payments.

Principles

4. To calculate whether the "no detriment" clause is triggered, for each individual authority we will compare the difference between (A) and (B) for each year, where:

(A) is the sum that would have been retained by the XXX authorities under the 50% rates retention scheme in that year, and (B) is the retained business rates income actually retained under the pilot.

A and B will comprise the following:

(A)

i. 50%[4] of certified non domestic rates income for the XXX;

ii. compensation for Enterprise Zone reliefs – (currently deducted from the 'central share');

iii. the tariff/top-up payment that the authorities would have paid/received if the authorities had not been part of the 100% pilot;[5]

[4] 1% going to the Fire and Rescue Authority

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iv. any safety net payment that would have been due to the authorities under the 50% scheme based on a safety net threshold of 92.5% of Baseline Funding Level; and

v. the section 31 payments resulting from Government announcements that have impacted on retained business rates income that would have been due to the authorities under the 50% scheme;

vi. the amount of revenue support grant that would have been paid to the authorities. The amounts are listed at Annex C.

(B)

i. 100% of certified non domestic rates income;
ii. The tariff/top up payment for the authority for the year;[6]
iii. Any safety net payment, and/or s.31 payment in lieu of a safety net payment based on 97% of the baseline funding level for the year;
iv. Section 31 grants due under 100% rates retention[7], including compensation for Enterprise Zone reliefs.

The differences between (A) and (B) at the authority level will then be aggregated at the pilot level and only if A > B at the aggregate level, will a payment be due from central government to the value of that positive difference.

5. The 100% pilot will apply from 1 April 2017 and the benefits and provisions due to each authority under 100% rates retention will apply from this date. Prior year adjustments for years before 2017-18 will continue to be based on the 50% scheme. This includes:

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[5] For 2017/18, this will be a "notional" tariff and top-up based on the 2016/17 tariff/top-up, adjusted for the "Revaluation wash-through" that would have applied if the authority had not been a 100% pilot. For 2018/19, it will be the 2017/18 "notional" tariff/top-up adjusted for the revenue support grant that will have been included in in the 2018/19 pilots; for the on-going "Revaluation wash-through" and for the reconciliation of the 2017/18 "Revaluation "wash-through" adjustment; and multiplied by the change in the small business rates multiplier.

[6] For 2017/18, as set out under Annex C, and for 2018/19, the value for 2017/18 adjusted for the revenue support grant that would have been transferred in 2018/19, for the on-going "Revaluation wash-through" and for the reconciliation of the 2017/18 adjustment, and multiplied by the change in the small business rates multiplier.

[7] The calculation of section 31 grants due to authorities will be based on 100% local shares – except insofar as the existing "50%" shares will continue to be used in respect of adjustments prior to 2017/18.

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Annex B

Authorities in XXX Pilot

A	
B	
C	
D	
E	
F	
G	

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Annex C

XXX

The amount of grant to be rolled in to 100% rates retention is the RSG that would have gone to each constituent authority in each of the years 2017/18 to 2019/20:

Authority	Amount (£m) for 2017/18	Amount (£m) for 2018/19	Amount (£m) for 2019/20
A	X	X	X
B	X	X	X
C	X	X	X
D	X	X	X
E	X	X	X
F	X	X	X
G	X	X	X

Grant (Department A)

	Amount (£m) for 2017-18
A	X
B	X
C	X
D	X
E	X
F	X
G	X

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Grant (Department B)

	Amount (£m) for 2017-18
A	X
B	X
C	X
D	X
E	X
F	X
G	X

Grant (Department C)

	Amount (£m) for 2017-18
A	X
B	X
C	X
D	X
E	X
F	X
G	X

Baseline Funding Level

Authority	**Amount (£m) for 2017/18**
A	x
B	x
C	x
D	x
E	x
F	x
G	x

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Tariffs and Top Ups

Authority	Amount (£m) for 2017/18 Top-up (+ve) or Tariff (-ve)
A	x
B	x
C	-x
D	x
E	-x
F	-x
G	x