2019-20 Business Rates Retention Pilots – Explanatory Note

1. In 2017-18 and 2018-19, a number of authorities piloted 100% business rates retention. In July 2018, the Government confirmed that authorities in Greater Manchester, Liverpool City Region, Cornwall, the West of England and West Midlands Combined Authority areas would continue to retain 100% of business rates in 2019-20.

2. In July 2018, the Government launched a competitive bidding round, inviting pools of authorities to bid to pilot 75% business rates retention in 2019-20. The Government has selected fifteen areas – in Berkshire, Buckinghamshire, East Sussex, Hertfordshire, Lancashire, Leicester and Leicestershire, Norfolk, Northamptonshire, North and West Yorkshire, North of Tyne, Somerset, Staffordshire & Stoke-on-Trent, Solent, West Sussex and Worcestershire – to pilot increased business rates retention as we move towards wider reform of the system from 2020 onwards.

3. Following separate negotiations with London authorities, it has also been agreed that London will be piloting 75% business rates retention in 2019-20.

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

Foregoing other income streams

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

6. The 75% business rates retention pilot pools outlined in paragraph 2 will forego Revenue Support Grant (RSG) and, if applicable, Rural Services Delivery Grant (RSDG), from the Ministry of Housing, Communities and Local Government (MHCLG).

7. In London, the boroughs, the City of London Corporation, and the Greater London Authority (GLA) will forego RSG. GLA will also forego the GLA Transport grant from the Department for Transport (DfT).

8. In Greater Manchester, MHCLG will not pay RSG to the metropolitan districts. Nor will the districts receive Public Health Grant (PHG) from the Department of Health and Social Care (DHSC). The combined authority will forego RSG, as well as Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT.

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

10. In the West of England, Bath and North East Somerset, Bristol City and South Gloucestershire will forego RSG. The West of England Combined Authority will forego Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT.

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

12. Cornwall Council will forego RSG and the Rural Services Delivery Grant, as well as the Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT.

Ensuring Cost Neutrality

13. The 75% and 100% business rates retention pilots are cost neutral at the point of delivery, although there is a cost to the exchequer arising from the additional growth foregone. The baseline funding levels (BFLs) and business rates baselines (BRBs) are re-calculated for each of the participating authorities to reflect:

    a. the value of the funding streams that they are foregoing; and

    b. the value of their increased share of business rates.

14. For each authority, the difference between its new BFL and BRB represents the revised tariff or top-up that it will pay or receive in 2019-20.

15. BFLs, BRBs tariffs and top-ups will be calculated for existing and new pilot authorities and pools, reflecting 2019-20 grant totals.

Calculating Baseline Funding Levels (BFLs)

16. In order to calculate the revised BFL for each pilot authority for 2019-20, we sum:

    a. the value of the grant(s) that the authority will forego in 2019-20; and

    b. the authority's BFL for 2019-20 as if it had remained in the 50% rates retention scheme, i.e. the authority's 2018-19 BFL (as under 50% rates retention), uprated by the change in the small business rating multiplier between 2018-19 and 2019-20.

Calculating Business Rates Baselines (BRBs)

17. BRBs were established for each authority in the 2013-14 local government finance settlement in order to calculate authorities' tariffs and top-ups for that

year. They were effectively adjusted in respect of 2017-18 to take account of the 2017 Revaluation of Business Rates. Because there is a fixed relationship between BFLs, BRBs and tariffs/top-ups, the BRB for any authority can be calculated by taking the relevant year's BFL and either adding back the value of that year's tariff or subtracting the value of that year's top-up.

18. Therefore, in order to derive a new BRB for those pilot authorities retaining either 75% or 100% of business rates, the first step is to derive their notional BRB for 2019-20 as if the authority were remaining subject to the 50% rates retention scheme. This is done by taking the 2019-20 BFL for the authority (unadjusted for the value of the grants that the authority will forego) – i.e. the calculation at paragraph 8(b) above – and adding back the tariff or subtracting the top-up which they would have paid/received in 2019-20 if they had remained in the 50% retention scheme.

19. The notional 2019-20 BRB is then grossed-up by the increase in the authority's share of non-domestic rating income to calculate the BRB for each 75% or 100% business rates retention pilot authority. For example, in the case of a Greater Manchester, or Liverpool City Region authority, the calculation is:

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

Deriving Tariffs and Top-ups for 100% business rates retention pilot authorities

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

    a. BFL minus BRB

21. The methodology set out above ensures that the pilots are cost neutral by ensuring that the value of the additional retained business rates is matched by the value of the grants foregone, plus the change in tariffs and top-ups. As such, there is no impact on the resources available to other authorities through the Settlement, or outside it. The additional growth retained by authorities would, in the absence of the pilots, have been due to central Government.

Calculation of Core Spending Power

22. The Core Spending Power figures do not reflect the impact of pilot arrangements. This is to enable funding allocations to be presented on a consistent basis for the entire Parliament and to allow, as far as possible, like for like comparisons between pilot and non-pilot authorities in 2019-20.

23. The Settlement Key Information tables show the actual figures resulting from the methodology outlined in this note for each of the pilot authorities in 2019-20:

   a. The ‘Key information for LAs’ table shows figures that have been adjusted to reflect the business rates retention pilots;

   b. The ‘Supplementary table for pilots’ shows figures as under 50% retention; and

   c. The ‘Key Information for pools’ shows the figures at the pool level including 2019-20 75% business rates retention pilots, 100% business rates retention pilots outlined in paragraph 1 who pool with non-pilot authorities and all other pools who are not part of a pilot.