

2020-21 Authorities with Increased Business Rates Retention Arrangements – Explanatory Note

1. In September 2019, the Government confirmed that authorities in Greater Manchester, Liverpool City Region, Cornwall, West of England, West Midlands and the Greater London Authority (GLA) would retain an increased proportion of business rates in 2020-21.
2. The arrangements for these authorities with increased business rates retention have no impact on the funding available for other areas.

Forgoing other income streams

3. In all areas with increased business rates retention arrangements, authorities have agreed to forgo other funding streams in return for higher shares of business rates.
4. In London, the GLA will not receive Revenue Support Grant (RSG) from MHCLG. DfT will not pay TfL's investment grant, which instead will be paid by the GLA.
5. In the Greater Manchester area, Bolton, Bury, Manchester City, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan will not receive RSG from MHCLG or Public Health Grant from DHSC. The Greater Manchester Combined Authority will forgo RSG from MHCLG, Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT.
6. In the Liverpool City region area, Liverpool City, St Helens, Sefton, Wirral, Knowsley and Halton will not receive RSG or Improved Better Care Fund (iBCF) from MHCLG.
7. In the West of England area, Bath and North East Somerset, Bristol City and South Gloucestershire will not receive RSG from MHCLG. The West of England Combined Authority will forgo Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT.
8. In the West Midlands area, Birmingham City, City of Wolverhampton, Coventry City, Dudley, Sandwell, Solihull and Walsall will not receive RSG from MHCLG.
9. Cornwall Council will not receive RSG and Rural Services Delivery Grant from MHCLG and will forgo Integrated Transport Block Grant, Highways Maintenance Capital Grant and Highways Maintenance Efficiency funding from DfT.

Ensuring Cost Neutrality

10. All authorities with increased business rates retention arrangements are cost neutral at the point of delivery, although there is a cost to the Exchequer arising from the additional growth forgone. 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 forgoing; and
- b. the value of their increased share of business rates.

11. 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 2020-21.

12. BFLs, BRBs and tariffs and top-ups will be calculated for the authorities with increased business rates retention arrangements, reflecting 2020-21 grant totals.

Calculating Baseline Funding Levels (BFLs)

13. In order to calculate the revised BFL for each authority with increased business rates retention arrangements for 2020-21, we sum:

- a. the value of the grant(s) that the authority will forgo in 2020-21; and
- b. the authority's BFL for 2020-21 as if it had remained in the 50% rates retention scheme, i.e. the authority's 2019-20 BFL (as under 50% rates retention), uprated by the change in the small business rating multiplier between 2019-20 and 2020-21.

Calculating Business Rates Baselines (BRBs)

14. 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 adjusted 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.

15. Therefore, in order to derive a new BRB for those authorities with increased business rates retention arrangements, the first step is to derive their notional BRB for 2020-21 as if the authority were remaining subject to the 50% rates retention scheme. This is done by taking the 2020-21 BFL for the authority (unadjusted for the value of the grants that the authority will forgo) – i.e. the calculation at

paragraph 13(b) above – and adding back the tariff or subtracting the top-up which they would have paid/received in 2020-21 if they had remained in the 50% retention scheme.

16. The notional 2020-21 BRB is then grossed-up by the increase in the authority's share of non-domestic rating income to calculate the BRB for each authority with increased business rates retention arrangements. For example, in the case of a Greater Manchester, or Liverpool City Region authority, the calculation is:

- a. notional BRB under 50% rates retention divided by authority's local share of 49% and multiplied by agreed increased retention share of 99%

Deriving Tariffs and Top-ups for authorities with increased business rates retention arrangements

17. Finally, having derived revised BFLs and BRBs for the authorities with increased business rates retention arrangements, a tariff, or top-up is calculated. The calculation is:

- a. BFL minus BRB

18. The methodology set out above ensures that the authorities with increased business rates retention arrangements are cost neutral by ensuring that the value of the additional retained business rates is matched by the value of the grants forgone, 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 these authorities with increased business rates retention arrangements, have been due to central government.

Calculation of Core Spending Power

19. The Core Spending Power figures do not reflect the impact of authorities with increased business rates retention arrangements. This is to enable funding allocations to be presented on a consistent basis and to allow, as far as possible, like for like comparisons between 'increased' and 'not increased' business rates retention authorities in 2020-21.

20. The Settlement Key Information tables show the actual figures resulting from the methodology outlined in this note for each of authorities with increased business rates retention arrangements in 2020-21.

- a. The 'Key information for local authorities' table shows figures that have been adjusted to reflect the arrangements for authorities with increased business rates retention;
- b. The 'Supplementary table for authorities with increased business rates retention arrangements' shows figures as under 50% retention; and
- c. The 'Key Information for pools' shows the figures at the pool level of authorities with 'increased' business rates retention arrangements who pool with authorities with 'not increased' business rates retention and all other pools under 50% rates retention.