

Business rates baseline reset, local authority accounts 2024-25, and local government funding reforms

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Overview

- **BR baseline reset consultation (Adrian)**
- **2024/25 accounts – what to look out for (Dan)**
- **Looking ahead to the spending review and Summer consultation (Adrian)**
- **Also an update on the latest on funding reforms, including select committee (7 May 2025)**

Consultation on business rates baseline reset

- There will be a full business rates baseline reset in 2026-27
- Baselines have not been reset since 2013-14, when the Business Rates Retention System (BRRS) was first introduced
- Consultation paper is open until 2 June 2025: <https://www.gov.uk/government/consultations/local-authority-funding-reform-resetting-the-business-rates-retention-system>
- Pixel briefing note issued on 30 April 2025, and available on the website: <https://pixelfinancial.co.uk/subscribers>

- Consultation paper on the future of business rates retention and strategic issues will be published later in the year
- To include: tier splits (and the potential inclusion of mayoral combined authorities in the BRRS), risk and reward, levy and safety net payments, the duration of the reset, and factors such as business rates pooling
- Suggests the BRRS is here to stay – but these strategic decisions could change the character of the system (e.g. concentrating collection more on strategic authorities rather than district councils, using growth to fund strategic projects, less about pooling)

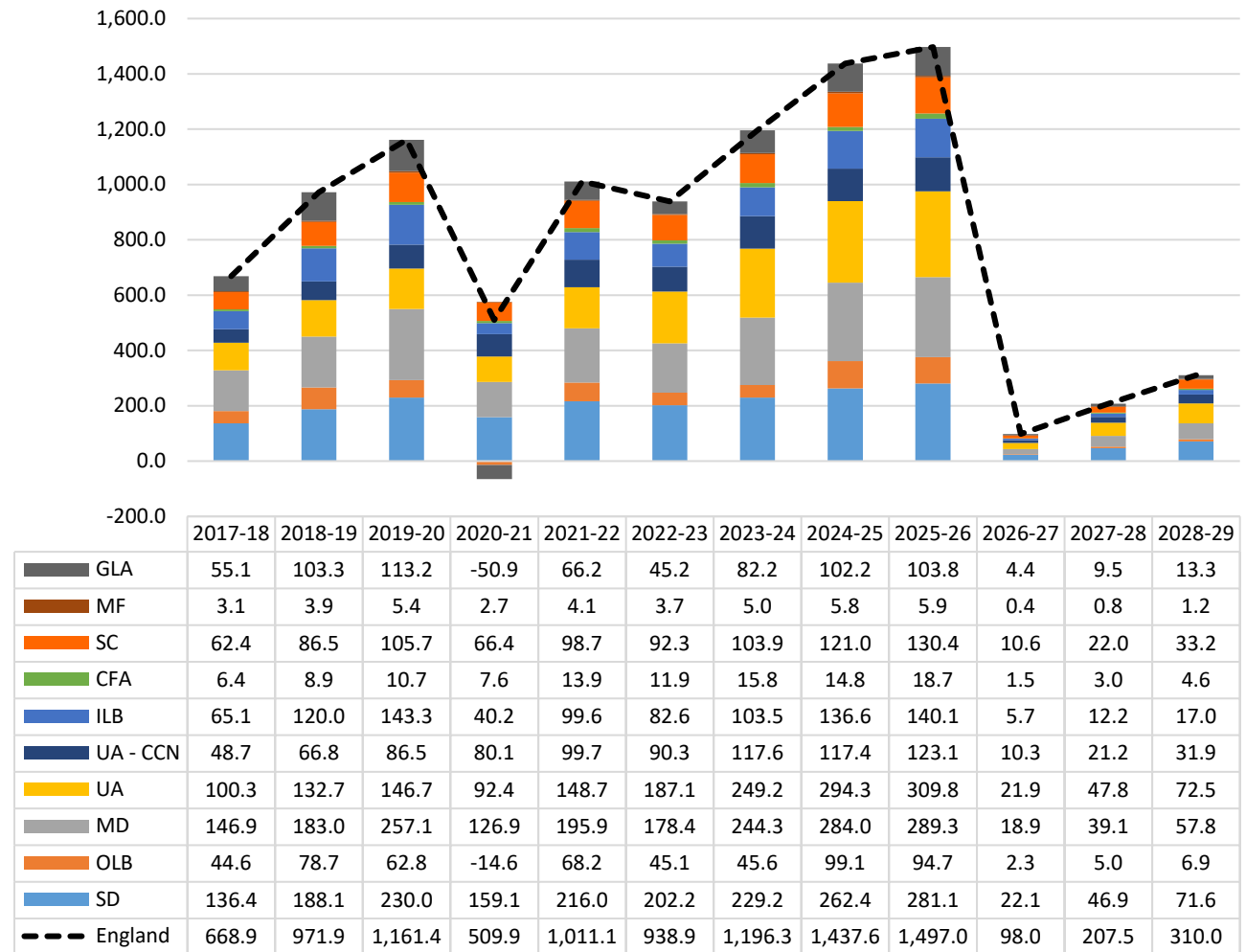
Business rates retention – is it a good thing?

- Purpose of BRRS is ““giv[ing] authorities a direct financial interest in business rates”
- No research about the effect of BRRS on local authority attitudes, behaviour or engagement with local economy
- Our view is that it is a good thing – has improved awareness of local economy.
- From a financial point of view, the additional resources (>£1.5bn) have been welcome, even if some authorities would argue the gains are “in the wrong place”
- Fair criticism – baselines were supposed to be fully reset in 2019
- Fiscal autonomy – has to start with having greater retention and more control over existing local taxes (e.g. business rates, council tax)
- Is there more support for BRRS now than in early years of the scheme? On balance yes – revenues are more stable and predictable, and more significant too. Still a complex system – but delivers significant resources
- Balance between “needs” and “resources” – this government is likely to favour the former (align business rates income with the “relative need of each authority”)
- Future operation of the system needs regular resets and – in our view – partial or rolling resets (similar to NHB)

BR baseline reset – estimated impact

- Estimate local authorities are £1.5bn above baseline in 2025-26 (based on NNDR1, per MTFP model)
- Full reset in 2026-27 removes all this above-baseline growth (falls to £98m above baseline in 2026-27, reflecting in-year growth, per Pixel estimates)
- Sector has never re-attained the levels of growth achieved before the pandemic. Retained growth was already £1.16bn in 2019-20.
- Further above-baseline growth in the 100% business rates pilots (£1.5bn in 50% scheme, and further retention in the pilots)
- Key issue is going to be how this surplus is redistributed – of which, more later...

Chart 3e - Retained Business Rates above baseline (£M) - England



Business Rates Baseline Reset

- Combination of reset – and redistribution of the BR “surplus” (est £1.5bn) back through the main settlement
- Plus the effect of resetting baselines within 100% BR pilots
- **Massive shift in resources away from Shire Districts – and towards Shire Counties and Mets**
- Net losses in two-tier areas (counties and districts together) – does this have implications for LGR and viability of proposed unitaries?

Class	Retained BR vs BFL (£M)	Returned surplus (£M)	Gain (+)/ Loss (-)
	2025-26	2026-27	
ILB	140.1	132.0	-8.2
OLB	94.7	133.1	38.3
MD	289.2	370.2	81.0
UA	212.7	229.8	17.1
UA - CCN	221.9	125.9	-96.0
SD	281.1	58.1	-223.0
SC	130.4	271.5	141.2
GLA	103.8	129.5	25.6
MF	5.9	17.0	11.1
CFA	18.7	28.2	9.4
	1498.6	1495.4	-3.3

Scope

- The consultation covers the mechanics of the reset, and indicates that the surplus will be redistributed.
- Treatment of BR income will be handled in the spending review (11 June 2025) (multipliers,
- It does not cover:
- *Tier splits, including possible shares for Strategic Authorities (will tier splits for districts/ counties change?)*
- *Measuring local authority income pre-reset to include in “overall transition package”.*
- *How risk and reward will operate. Levies, safety net, duration of the reset period.*
- *Business rates pooling. Is it viable post-reset?*
- *Impact of Local Government Reorganisation (LGR).*
- *Enhanced business rates arrangements (i.e. 100% pilot, currently only in the first wave of devo deals). Will they be available to all devo arrangements?*
- *Arrangements between mayoral combined authorities/ strategic authorities, and existing local authorities. Sharing, pooling, informal?*
- **Question 1: Are there matters related to the reset that you believe should be covered in future reset engagement which are not mentioned in this consultation?**
- Scope is reasonable but there are some very substantial issues that have not yet been consulted on – and for which we have seen no exemplifications or numbers

Approach to resetting baselines

- 2013-14 Business Rates Baseline (BRB). **Top-down approach. Estimated Business Rates Aggregate (EBRA).** Shared between authorities based on average business rates income (2010-11 and 2011-12).
- Suffered from some serious drawbacks, e.g. forecasts at national level proved to be difficult. Deduction for appeals overstated.
- Previous proposals for baseline reset (in 2018). **Bottom-up approach.** Effectively using latest available outturn (2024-25 NNDR3) to set each authority's baseline. Make assumptions for appeals/ bad debts. Granular, specific, "spot" reset.

- It will not be possible to do this in 2026-27 because:
- **New multipliers for Retail, Hospitality and Leisure (RHL) properties.** <https://bills.parliament.uk/bills/3887> Potentially 5 multipliers in total: 2 or more for RHL properties (no more than 20p lower than small BR multiplier), 1 or more higher than standard multiplier (no more than 10p higher).
- **2026 Revaluation.** There is an established methodology for adjusting baselines (per 2017 and 2023 revaluations), but too complicated alongside other changes to the baseline.

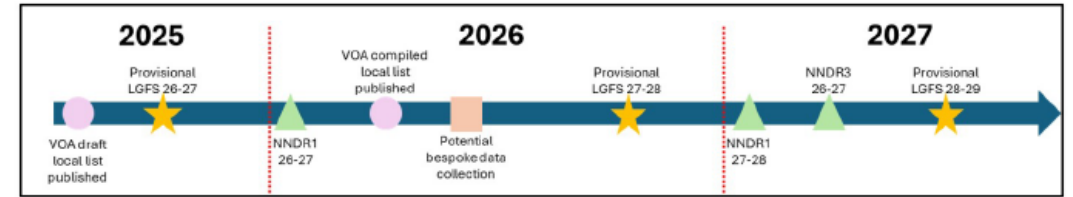
- MHCLG cannot estimate in advance the impact on Gross Rates Payable or on reliefs: "historic local authority data will not be an accurate predictor of future rating income as it will not reflect the impact of tax rate reforms and the revaluation"

Proposed approach to baseline reset

- Simplified new baselines based on gross rates payable with separate s31 grant payments for most reliefs
 - Reset is harsher because it is based on 1 April 2026 RV – rather than 31 March 2025 RV in bottom-up approach
 - Otherwise, there should be no material differences between the approaches on local authority overall financial position
 - Prioritise accuracy – provisional baseline for 2026-27, updated for actual data in final baseline in 2027-28
- New BRBs based on estimated gross rates using the draft valuation list from the VOA as at 1 April 2026.
 - Deductions for appeals and bad debts, with various options outlined.
 - Create provisional BRBs in 2026-27 based on the estimated impact of the new multipliers using SCAT codes, and then updated BRBs in 2027-28 using either NNDR1 or bespoke data from billing authorities in Summer 2026.
 - Section 31 grants paid for all reliefs, other than discretionary section 47 reliefs.
 - Deductions for freeports, enterprise zones, Investment Zones, and for Renewable Energy, broadly in line with current arrangements.

Timeline for baseline reset

- Similar approach to the revaluation adjustment
- Provisional and final adjustments to the BRB (and tariff and top-up)
- Concern about whether there will be material variances between provisional and final
- Any preference over data collection? NNDR1 if at all possible (earlier, less work)
- Use the Special Category (SCAT) codes for properties to indicate whether they would be eligible for the RHL multiplier
- Analysis showed that the SCAT codes did not accurately predict whether a property would be eligible for RHL multiplier or not
- Provisional baselines updated using actual data from either the 2026-27 NNDR1, or bespoke data collection exercise



2025

- VOA draft local list published
- Provisional LGFS 2026-27

2026

- NNDR1 2026-27
- VOA compiled local list published
- Potential bespoke data collection
- Provisional LGFS 2027-28

2027

- NNDR1 2027-28
- NNDR3 2026-27
- Provisional LGFS 2028-29

Treatment of business rates reliefs

- Section 31 grant payments for all reliefs instead of them being deducted from the baseline (as is currently the case)
- Total reliefs awarded in the NNDR1 2025-26 are worth £7.359bn, equivalent to 20.4% of Gross Rates Payable
- Of the local share of the reliefs, authorities currently receive £1.922bn in section 31 grant payments

- Charitable occupation relief (£2.331bn, 6.3% of GRP)
- Unoccupied property relief (£1.156bn, 3.1% of GRP)
- Unfunded discretionary reliefs (where authorities have used their section 47 powers) would not be covered by section 31 grant payments

- MHCLG analysis showed that getting estimates of reliefs “wrong” could be significant and also varied massively from authority to authority
- Charitable relief: grown from £1.775bn (6.0% of GRP) in 2017-18 to £2.19bn (6.5% of GRP) in 2025-26
- 1.1% of GRP in the City of London, and up to 22.2% of GRP in Oxford (19.3% in Cambridge)
- Rural authorities tend to have a higher share of charitable relief as %age GRP

- It means reliefs are fully funded both at the time of the baseline reset (per 2013-14) and any future change
- Reduces risk, helps with financial planning, and increases yield (in most authorities)
- But does it reduce the link between local authorities and their local economies?

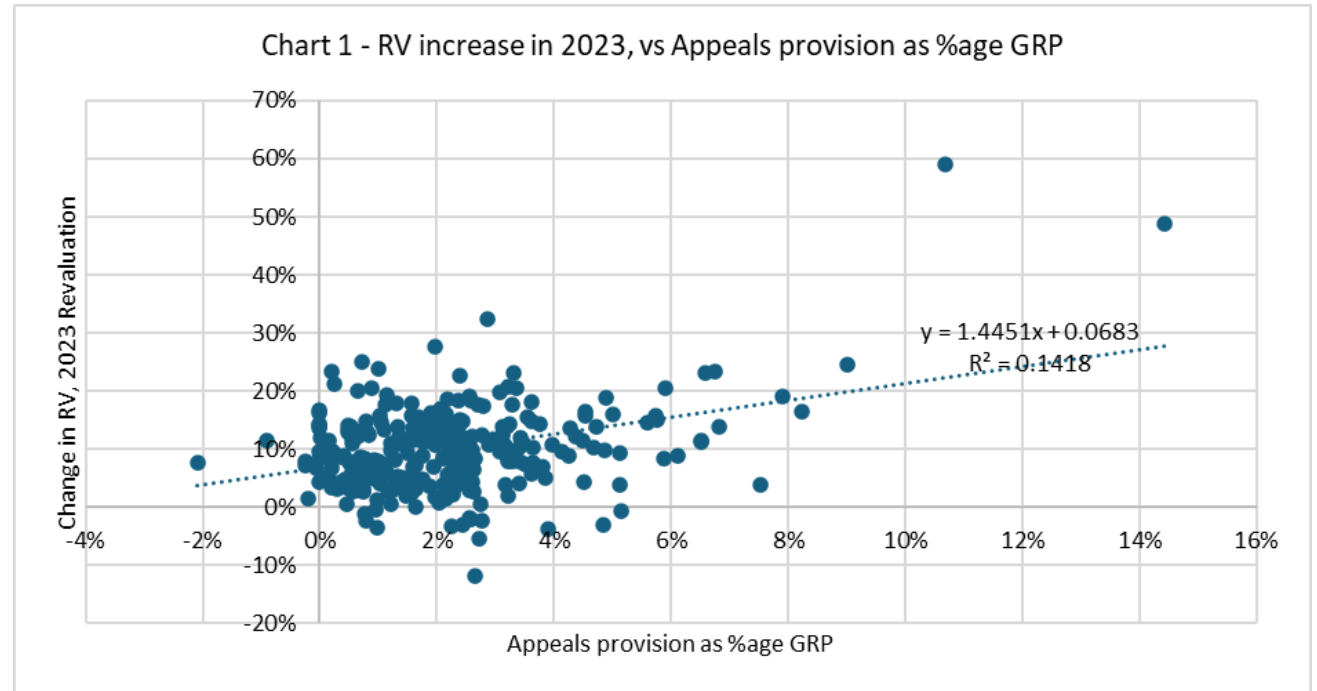
Backdated List Alterations (BLAs) (appeals)

- Previously considered bottom-up approach (2018 consultation) – and this approach used in the previous revaluations.
- Assume level of appeals based on closing balance appeals provision in Part 5 of NNDR3
- MHCLG view that “circumstances are different” because coincides with revaluation (no authority will be able to make an informed estimate of future appeals losses)
- Proposal is for a top-down methodology
- Estimate quantum of future appeals losses (something VOA do every revaluation, 3.4% of gross rates in 2023)

- Choice about whether to allocate using:
 - **Allocate using share of rateable values.** This approach effectively used in 2013-14. But “relative RV alone is not an adequate predictor of successful appeals to a new rating list”
 - **Allocate using a range of other factors.** No specific approach is proposed in the consultation paper but could include: the number/type of hereditaments in an area, and revaluation change.

Backdated List Alterations (BLAs) (appeals)

- Tested level of outstanding appeals (as %age GRP) against a number of factors
- Best-fit was with change in RV in 2023 revaluation
- Relationship is not particularly strong
- Is this the most suitable driver to allocate the appeals quantum?
- What other factor could/ should be used?
- Is the underlying data reliable?
- Levels of appeals losses on the 2023 list have been very significant in some authorities
- These have tended to be in urban areas/ with office accommodation/ central locations
- But this is more anecdotal than data based



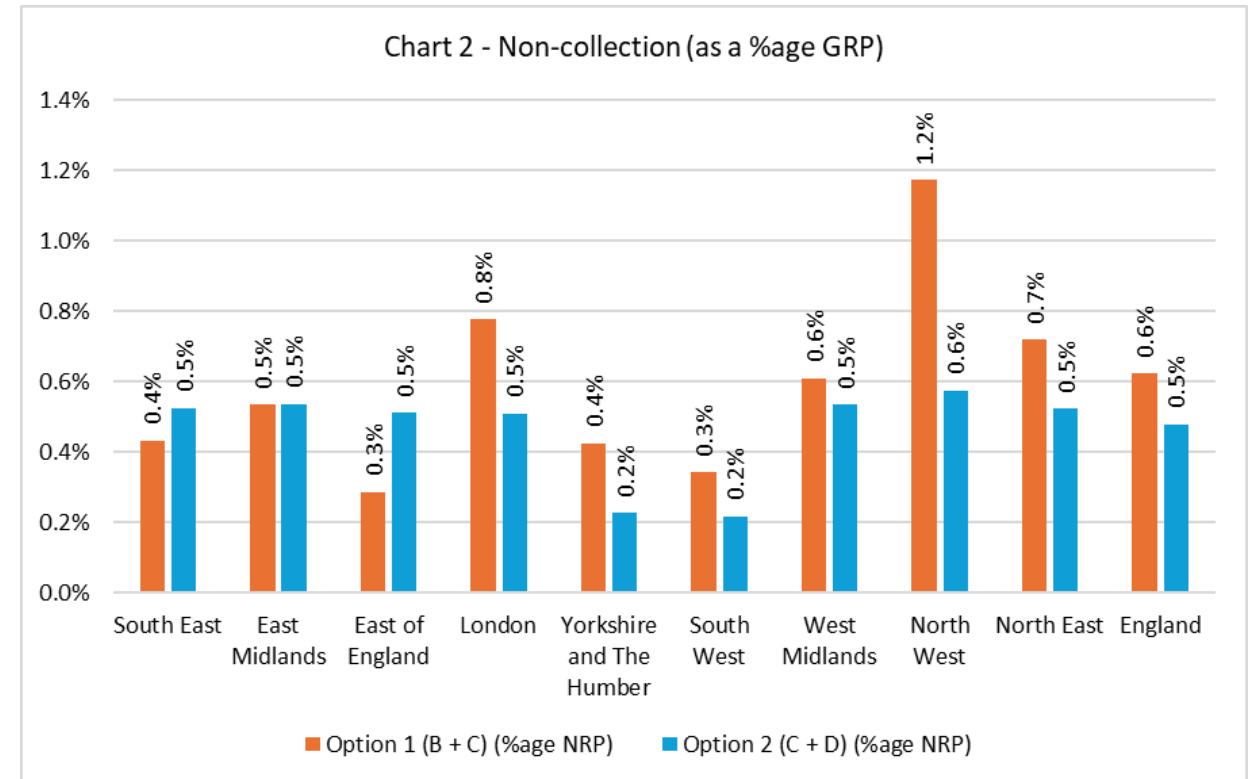
Bad Debts (non-collection)

- Consultation paper is open about whether to have a top-down or bottom-up approach
- Three potential lines from the NNDR3:
 - The amount charged to the allowance for non-collection for write-offs of bad debt (NNDR3 Part 2 Line 3, 'B')
 - Any amount needing to be written off in excess of the allowance, net of any write-ons for the year which have not been charged to the allowance for non-collection (NNDR3 Part 2 Line 4, 'C')
 - Any increase or decrease required to the allowance for non-collection (NNDR3 Part 2 Line 5, 'D').
- These lines could be used in two combinations:
 - **Option 1 (B + C)**. This would be a proxy for the amount written off in any one year, but the drawback is that C is a net figure.
 - **Option 2 (C + D)**. This would reflect the net movement in the provision, and any amounts written off not going through the provision.
- Our view is that the bottom-up approach is almost certainly too varied and unreliable
- Top-down approach would be to apply a flat percentage deduction (e.g. between 0.5% and 0.6% of GRP)

Bad Debts (non-collection)

- Is the proposal to apply a flat percentage reduction reasonable?
- 0.6% average nationally using option 1, and 0.5% average nationally using option 2
- Substantial variances at regional level on both measures, but particularly option 1
- North West, London and the North East have particularly high levels of non-collection, especially on option 1
- Should regional averages be applied?
- Are local variations more important than regional or national averages?

- Our view is that unless MHCLG can untangle the drivers, then an average deduction is the only realistic option



Cost of collection

- In 2013-14, £84m was deducted nationally from the Business Rates Baselines (BRBs), and billing authorities deduct their allocations from their non-domestic rating income
- Total value has not been reviewed since 2013-14
- Individual authority deduction is apportioned based on the number of hereditaments, total RV and an adjustment for area costs
- MHCLG is looking for evidence about the actual costs of collection
- There are currently no “granular, robust” data sources
- Can billing authorities provide any robust data?

Designated Areas

- Incredibly complicated element of the BRRS – and is usually the most complicated element of the revaluation adjustment
- 286 DAs in 120 authorities, and the amounts retained are substantial (around £257m), and has grown significantly in scale since 2013-14
- Baselines for DAs are not reset but have to be adjusted for revaluation
- But an amount has to be deducted from the local authority baseline in respect of the DA
- Problems with methodology:
 - DAs operate on basis of collectible rates (i.e. net rates) but new LA baselines will be based on GRP
 - VOA data for the LA baselines will not distinguish between DA and main scheme hereditaments
 - Some DAs are still below baseline
- Solution: deduct an estimated amount of GRP from LA baseline (minus accounting adjustments, minus DA baseline)
- Two further problems:
 - Will MHCLG pay for reliefs in DAs in same way as for the main scheme? If so, DA baselines will have to be changed (these are set in regulations)
 - How should adjustments (if any) be made for the new multipliers and indexation of them?
- Our view: some of these issues seem intractable and will need a practical approach with the affected local authorities

Renewable Energy

- MHCLG has committed to continue with deductions for renewable energy
- Good news for those authorities with (large) renewable energy properties – they will continue to retain 100% and will not be subject to the baseline reset
- The largest renewable energy deduction is in North Yorkshire Council (£16.4m), followed by North Lincolnshire (£9.5m) and the East Riding of Yorkshire (£6.8m)
- Deduction from baselines are simpler: few if any reliefs, no baselines
- Impact of new multipliers could have a more significant impact
- Proceed with a provisional deduction until better data is available for 2027-28

Implications of proposed baseline reset

- System will look very different – BRBs will be much higher because based on GRP
- Baselines for 2026-27 could be very provisional indeed – depends on quality of data from Scap codes, and from various other deductions on which MHCLG does not have good data. Prepare for significant movements between 2026-27 and 2027-28
- Without adjustments to BFLs, there will be a net tariff (all authorities will have higher tariffs or lower top-ups, and many will move from top-up to tariff)
- Authorities will not have to bear the cost and risk of increasing reliefs, especially charitable relief (easier forecasting, less risk, less erosion of revenues)
- Baselines based on a later time point (1 April 2026 rather than 31 March 2025)

- Some other issues:
- S31 grants for cap compensation
- Business rates pools
- Local Government Reorganisation (LGR)

Impact on tariffs and top-ups

- Using gross rates to determine new BRBs will result in higher tariffs and lower top-ups for most authorities
- “Some proposals in this consultation would mean that aggregate BFLs and BRBs not net to zero from 1 April 2026 onwards. This would be a departure from how the BRRS was set up in 2013-14 where aggregate BFLs equalled aggregate BRBs.”
- Baseline Funding Level (BFL) is likely to continue to be indexed. If so, any changes in SFA (or amounts rolled into SFA) will result in a change in Revenue Support Grant
- Our initial modelling indicates that the net tariff (for the 50% scheme) could increase from roughly zero (for the 50% scheme) to around £3.8bn in 2026-27. This is the result of an increase as a result of the reset (£1.5bn) and a further increase as a result of aligning the BRBs with gross rates
- Impact: increased authorities subject to levy, and business rates pools become less viable (more likely to have a net tariff)

Negative RSG (or SFA)

- Scale of potential losses in SFA for some authorities in 2026-27 could result in negative SFA or negative RSG
- Negative SFA = where the deduction for “resources” within SFA is larger than the authority’s “needs” assessment
- Negative RSG = where the authority’s SFA is lower than its Baseline Funding Level (assuming the BFL is indexed and not changed from 2025-26)
- 2018 consultation paper said no authority would have a negative SFA allocation – and previous governments have balked at the idea of negative RSG
- In theory, there is no reason why the system cannot accommodate negative values for either SFA or RSG (in practice, it can cause some oddities, and it would be better if these values remained positive)
- Politically, negative values for either indicates explicitly that council tax raised in one authority is being used to fund “needs” elsewhere (this is always implicitly the case, but...)
- In practice, there are ways around it: transfer grants into SFA. Potentially transfer public health (£3.9bn) and social care (£9.6bn), plus Recovery Grant (£600m), New Homes Bonus (£271m) and Minimum Funding Guarantee (£121m)
- This would probably result in positive SFA for most/ all social care authorities – but possibly not shire districts
- Ministers will have to make a decision about this – no indication from MHCLG about their thinking as yet
- We have allowed SFA/ RSG to “go negative” in our MTFP model so that it is clear when this happens – it is up to ministers to decide how or if they want to address these negative values

S31 grants for cap compensation

- No requirement to pay s31 grants for cap compensation from 2026-27 onwards (baseline reset funds full cost)
- Current payments are very significant (£2.695bn in Core Spending Power, plus further payments in respect of above-baseline growth)
- Assume funding stays within local government (the element within CSP is effectively for under-indexation of the baselines, i.e. BFL)

- How will this funding be redistributed? Assume within SFA but alternative methodologies are possible.
- Could it reflect current growth distribution, which would help to manage the impact of the reset? (Good idea for shire district councils!)
- Will funding for above-baseline cap compensation also remain within the sector? It should do if the above-baseline growth is also staying within the sector.
- Will future multiplier caps or freezes be funded by s31 grants? Based on past practice, only if they are not specified in the spending review.

- Our MTFP model assumptions: existing s31 cap compensation payments end in 2026-27, and the quantum is redistributed pro rata to BFL. No future payments are expected.

Business rates pools and pilots

- It is likely that business rates pools will continue to be available from 2026-27 – and that some authorities will still want to use them (to maximise retained rates). But they are much less likely to be viable after the reset:
- **Above-baseline growth will be lower in first year following the reset.** Growth will build up but will take time, and judgements on whether a pool is viable will be more marginal in the early years.
- **Top-ups and tariffs will change in 2026-27.** Revaluation in 2017 and 2023 changed the viability of many pools, particularly in counties where rateable values have increased by more than the average. In 2026-27 that effect is likely to be compounded by the reset. Authorities where previous BR growth has been highest will have the largest increases in BRB, and their resulting tariffs will increase. This will be compounded if BRBs are based on gross rates.
- **Creation of more unitaries.** Whilst not affecting 2026-27, there are two planned rounds of LGR in 2027-28 and 2028-29. Pools can still be viable after the creation of unitary authorities, but they will be much less likely to be viable.
- Future for enhanced retention is likely to be in devolution areas (where there is a mayoral combined authority).
- These are currently more likely to be in urban areas than two-tier areas (where there are more pools) – but expansion of devolution programme will change this.
- Will terms of 100% pilots change once they become more widely available? (e.g. no detriment)

Local Government Reorganisation (LGR)

- Two rounds of LGR are expected (2027-28 and 2028-29) – although it is not clear whether there will still be two-tier areas after 2028-29 (there probably will).
- If all (or most) of England has unitary authorities, then MHCLG's view is that tier splits are less important.
- However, there may still be two-tier areas after 2028-29; fire authorities will still need a share (we assume that will continue); and a decision still has to be made about Strategic Authorities.
- In the short term, the most significant impact will be that new unitaries will inherit the impact of BR reset from both their county and district predecessors
- This may influence how pre-LGR authorities see the BR reset!!

Ongoing indexation

- Pre-2024, the whole BRRS was indexed based on the small business rates multiplier (both multipliers were indexed using RPI or CPI)
- From 2024-25, ministers could index the small and standard multipliers separately
- Each authority had a different share of BR income from each multiplier, so each authority had its own weighted indexation factor

- From 2026-27, there will be at least 5 different multipliers
- MHCLG will need to estimate how much BR income each authority gets from each multiplier to estimate a weighted indexation factor
- Will this be done in advance and adjusted later? Or is this too great an update to make in 2027-28?

BR quantum and redistribution of surplus

- MHCLG has committed to redistributing BR surplus and retaining resources within the sector
- Follows policy outlined by previous governments
- Not to have done so would result in a cut in local government's resources – albeit one that would not appear in Core Spending Power
- The amounts are considerable: >£1.5bn from the baseline reset, plus a further >£2.7bn from cap compensation
 - “the government is working on the assumption that, in determining the aggregate resource figure, all resources that local government currently have available which are associated with the BRRS will remain with local government”
 - “This includes the growth currently retained by authorities over current BFLs, and the s.31 grants that have been awarded in respect of government relief schemes and for historic under-indexation of business rates multipliers.”
 - “this funding could be distributed differently across the sector as part of the delivery of funding reforms.”
 - “This would mean that all locally retained business rates income will be subject to redistribution across local government at the start of the new reset period. Specifically, all business rates income will be incorporated into a new assessment and distribution of relative need”
- This is a major decision from ministers – and one with significant consequences for funding distribution in 2026-27

MTFP model – baseline reset

- Our model still works using a bottom-up “spot” reset (based on net rates rather than GRP)
- It uses forecast 2026-27 BR income – so it is effectively linked to the same date as the proposed baselines (i.e. as at 1 April 2026) – and means that any income up until 31 March 2026 is reset
- Future version of the MTFP model will create BRB based on GRP – and have reliefs funded by s31 grants
- We will also model potential deductions for accounting adjustments. Initially we will model based on national values (i.e. 3.4% for appeals, 0.5% or 0.6% for non-collection)
- Your authority will gain if its accounting adjustments are less than these two combined figures, and lose if local amounts are higher
- **In broad terms, our current assumptions (i.e. bottom-up, “spot”) should deliver similar outcomes in 2026-27 (i.e. BR income and BRB are broadly in line).**
- **Returned surplus from BR reset and funding for s31 Cap Compensation is redistributed using BFL. You can reduce the amount redistributed (and the amount allocated to your authority in our model) in cells**

		First reset (2026-27)	Subsequent resets
97	BRRS operating assumptions		
	Baseline Reset		
98			
99	Full/ Partial Update of Business Rates Baseline	100%	50%
100	Non-Domestic Rating Income (Year)	Latest year	
101	Redistribution of surplus	BFL	
102	Baseline reset based on rates in	2025-26	
103			
104	Type of reset in 2026-27	Reset 2 "Spot"	
105			
106	Scale-back gains from BRRS (baseline reset)	100%	
107	Scale-back gains from BRRS (cap compensation)	100%	



2024/25 accounts – what to look out for

May 2025



What will the 24/25 accounts tell us about Local Government financial resilience?

- Accounts / Audit Backlog
 - Net Worth (Net Assets and Net Reserves)
 - Usable Revenue Reserves
 - Dedicated Schools Grant Deficits
 - Capital Financing Requirement (Need to Borrow) ...
 - ... and how that is made up from internal and external borrowing
-
- With all but six sets of accounts in for 2023/24, there are some clear trends that point to diminishing financial resilience – but will these continue into

Accounts / Audit Backlog

	Published Accounts Tracker									
	2022/23				2023/24				Percentage	
	Not published	Draft	Final	Disclaimer	Not published	Draft	Final	Disclaimer	Published	Finalised
ILB	0	0	9	3	0	0	8	4	100%	100%
OLB	0	4	5	11	1	3	3	13	95%	80%
Met	1	0	24	11	1	1	19	15	97%	94%
Unitary	0	2	27	29	1	6	25	30	98%	89%
County	0	0	13	8	0	0	11	10	100%	100%
Upper Tier	1	6	78	62	3	10	66	72	98%	91%
Districts	0	5	59	100	3	14	52	95	98%	90%
Total England	1	11	137	162	6	24	118	167	98%	90%

Information as at 30 April 2025

- Accounts backlog virtually disappeared (1 outstanding for 22/23, 6 for 23/24).
- Audit backlog significantly reduced but well over half of authorities have disclaimed opinions.



Accounts / Audit Backlog

Do you intend to publish your 2024/25 accounts?

- By 31 May
- By 30 June
- After 30 June

Whole of (Local) Government Accounts - 2023/24 (compared with 2022/23)

<u>2022/23</u>	<i>Usable Reserves</i>	<u>2023/24</u>		
3,698,858	General Fund Balance	3,856,590		4%
22,178,347	Earmarked Reserves	20,703,278		-7%
3,751,998	HRA Reserves	3,405,509		-9%
1,905,276	School Balances	1,769,710		-7%
5,173,260	Usable Capital Receipts	5,082,290		-2%
8,308,954	Capital Grants Unapplied	9,384,116		13%
<u>45,016,693</u>	<i>Total Usable Reserves</i>	<u>44,201,493</u>		-2%
	<i>Unusable Reserves</i>			
117,558,555	Capital Adjustment Account	116,021,925		-1%
88,649,954	Revaluation Reserve	89,961,950		1%
-10,869,575	Pensions Reserve	-10,464,449		-4%
647,967	Collection Fund Adjustment Account	405,196		-37%
-1,216,946	DSG Adjustment Account	-1,842,902		51%
-617,064	Other Adjustment Accounts	-215,401		-65%
<u>194,152,891</u>	<i>Total Unusable Reserves</i>	<u>193,866,319</u>		0%
<u>239,169,584</u>	<i>Total Reserves</i>	<u>238,067,812</u>		0%
48,749,182	Core Spending Power	53,686,446		
491%	<i>Total Reserves / CSP</i>	443%		-10%

What will 24/25 accounts say about Local Gov. financial health?

- Total net worth as a proportion of CSP reduced by 10% across local government in 2023/24.

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1,905,276	School Balances	1,769,710		-7%
5,173,260	Usable Capital Receipts	5,082,290		-2%
8,308,954	Capital Grants Unapplied	9,384,116		13%
45,016,693	Total Usable Reserves	44,201,493		-2%
	<i>Unusable Reserves</i>			
117,558,555	Capital Adjustment Account	116,021,925		-1%
88,649,954	Revaluation Reserve	89,961,950		1%
-10,869,575	Pensions Reserve	-10,464,449		-4%
647,967	Collection Fund Adjustment Account	405,196		-37%
-1,216,946	DSG Adjustment Account	-1,842,902		51%
-617,064	Other Adjustment Accounts	-215,401		-65%
194,152,891	Total Unusable Reserves	193,866,319		0%
239,169,584	Total Reserves	238,067,812		0%
48,749,182	Core Spending Power	53,686,446		
491%	Total Reserves / CSP	443%		-10%

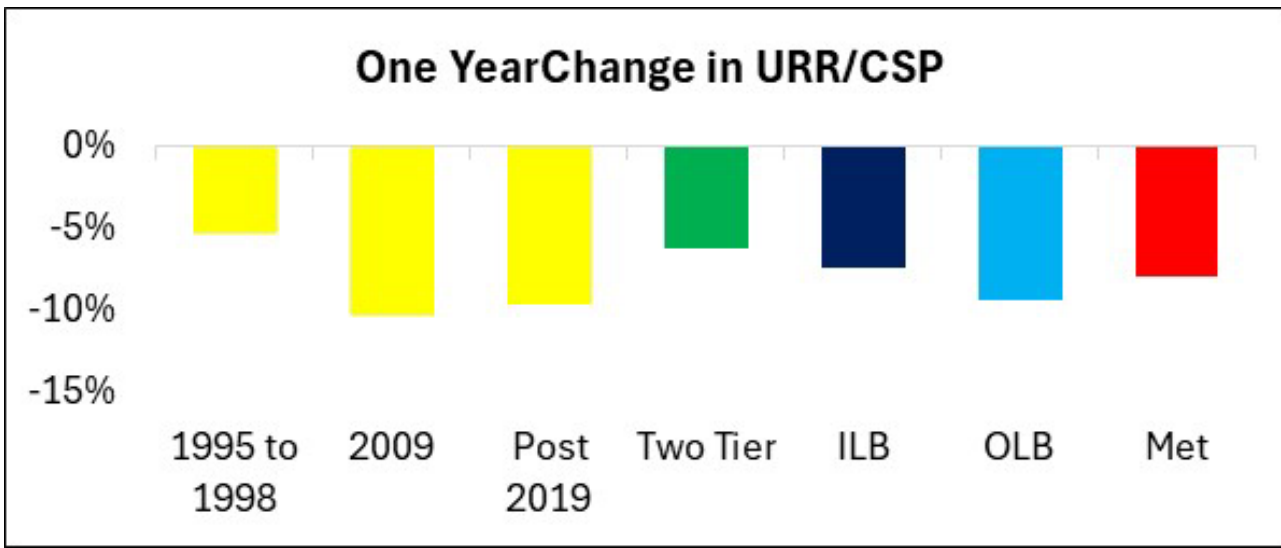
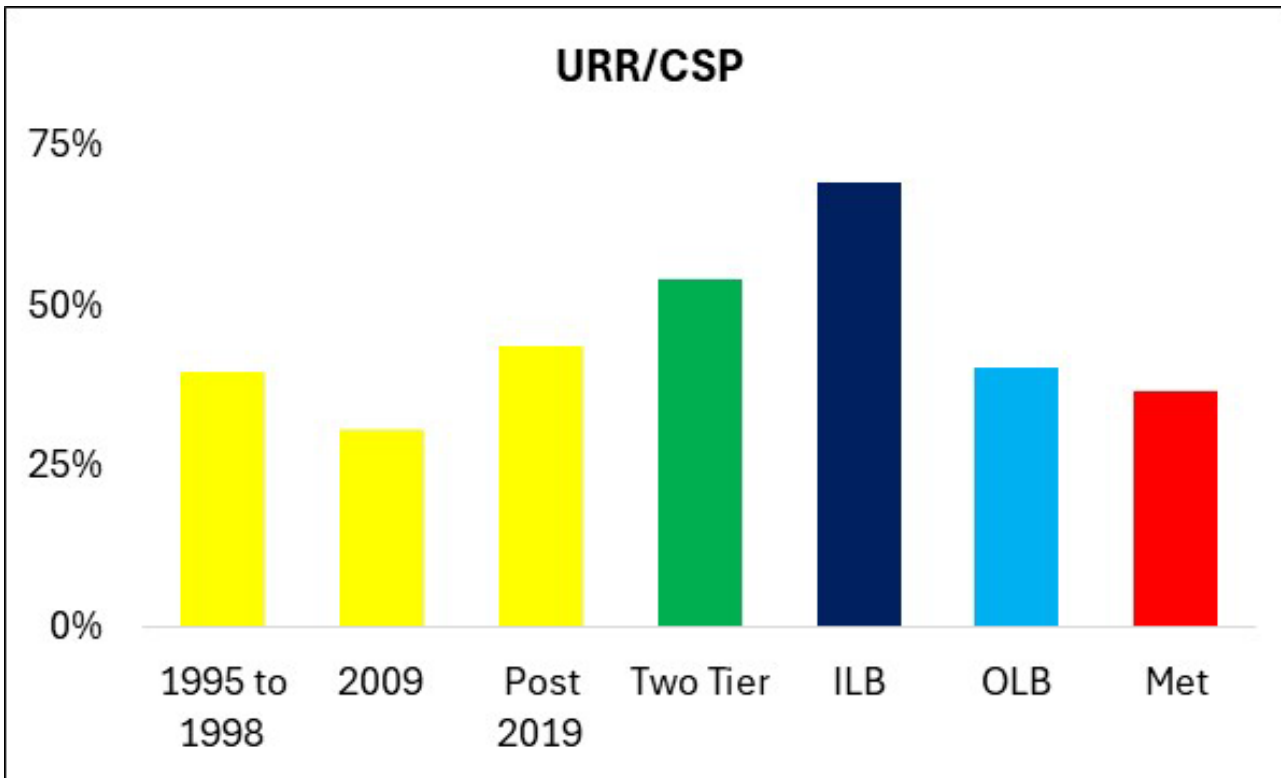
What happened in 2023/24?

- GF URR down by 5%.

- HRA reserves down by 9%.

- Collection Fund surpluses reducing.

- DSG deficits accelerating.

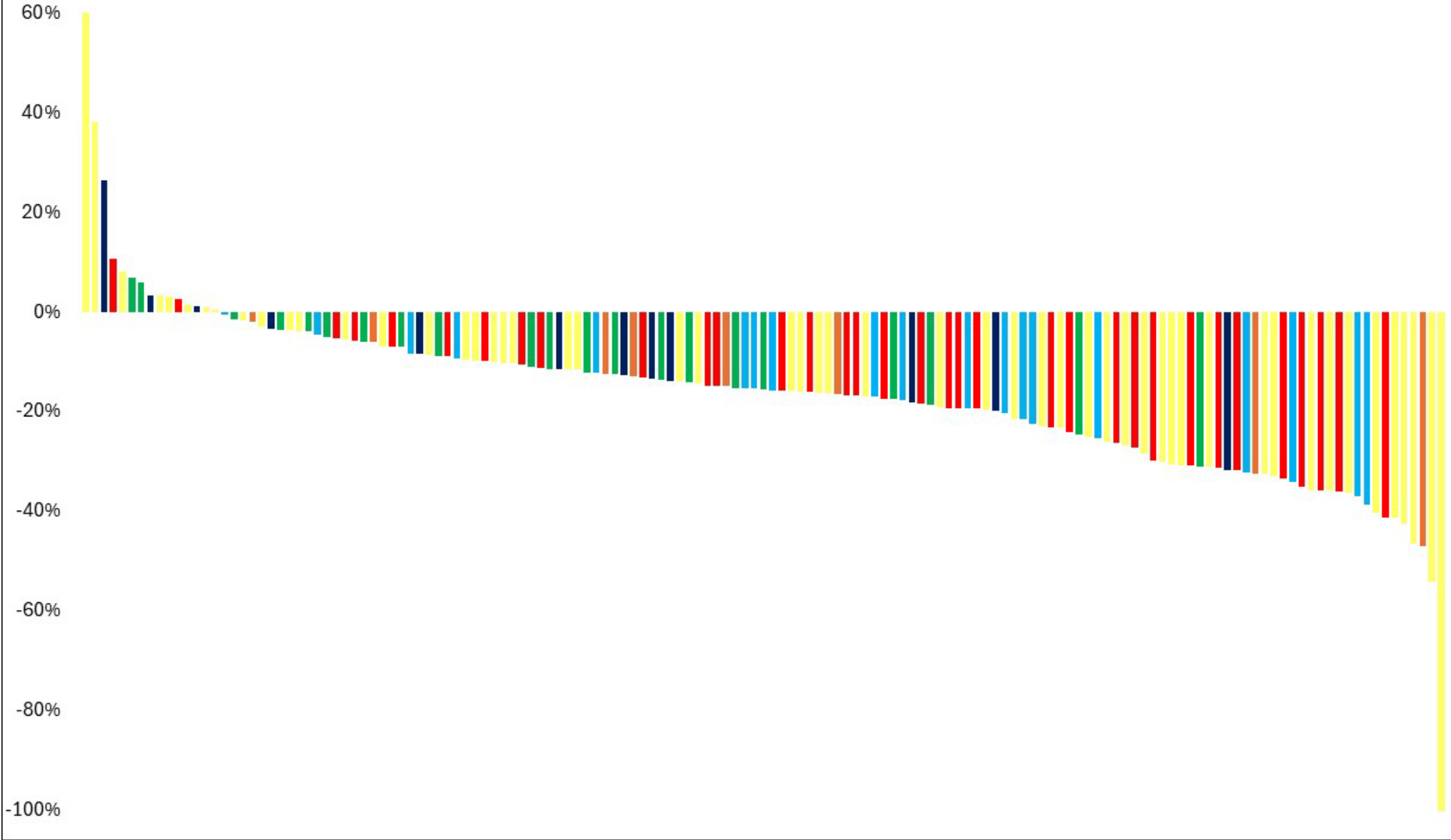


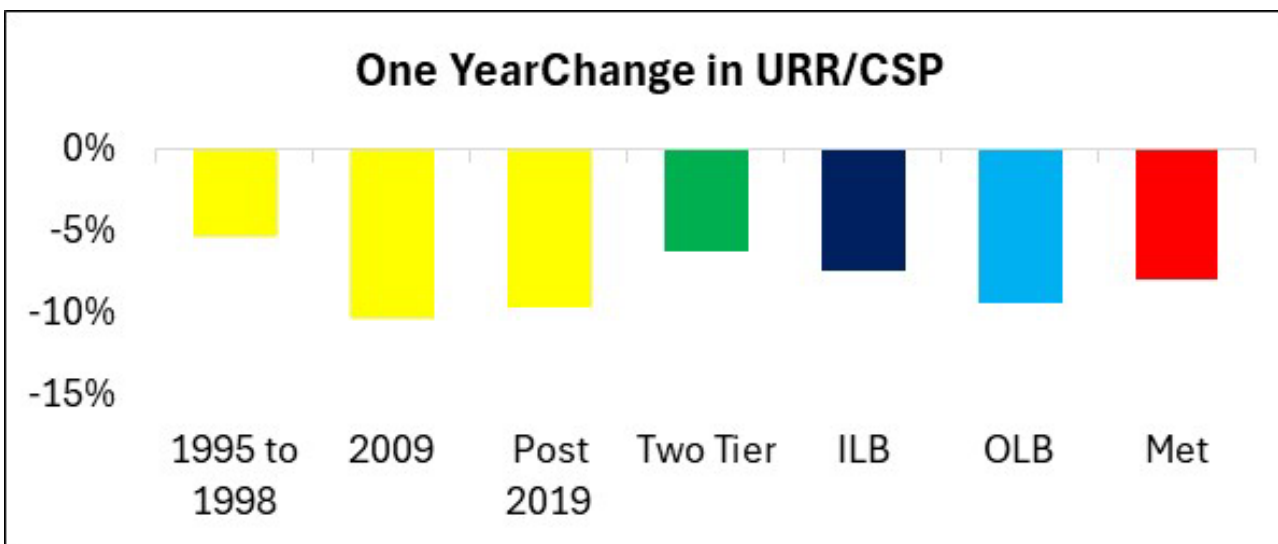
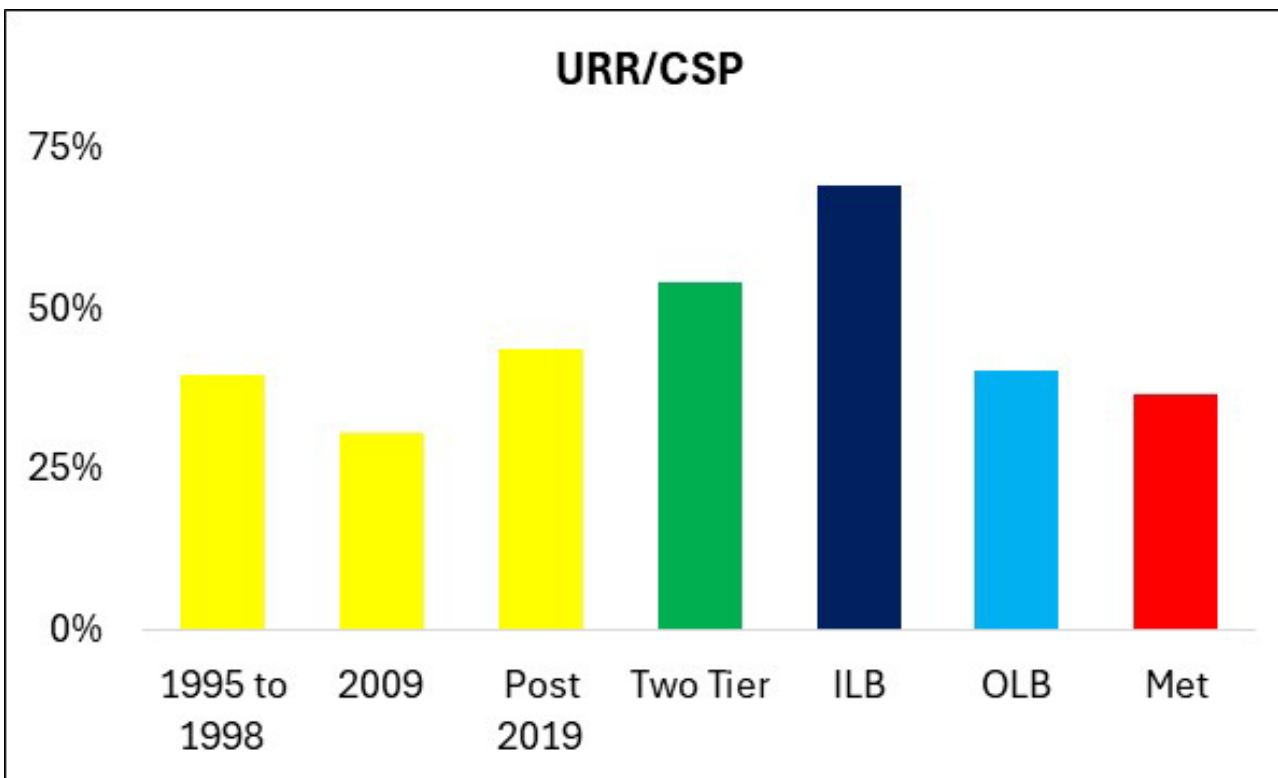
Usable Revenue Reserves

- Usable Revenue Reserves have reduced by 5% in cash terms.
- By 14% as a proportion of CSP.
- Larger reductions in more recently established unitaries.
- Smaller reductions across two tier areas (district reserves increased in 2023/24).

URR/CSP

Unitary Two Tier Met ILB OLB





Usable Revenue Reserves

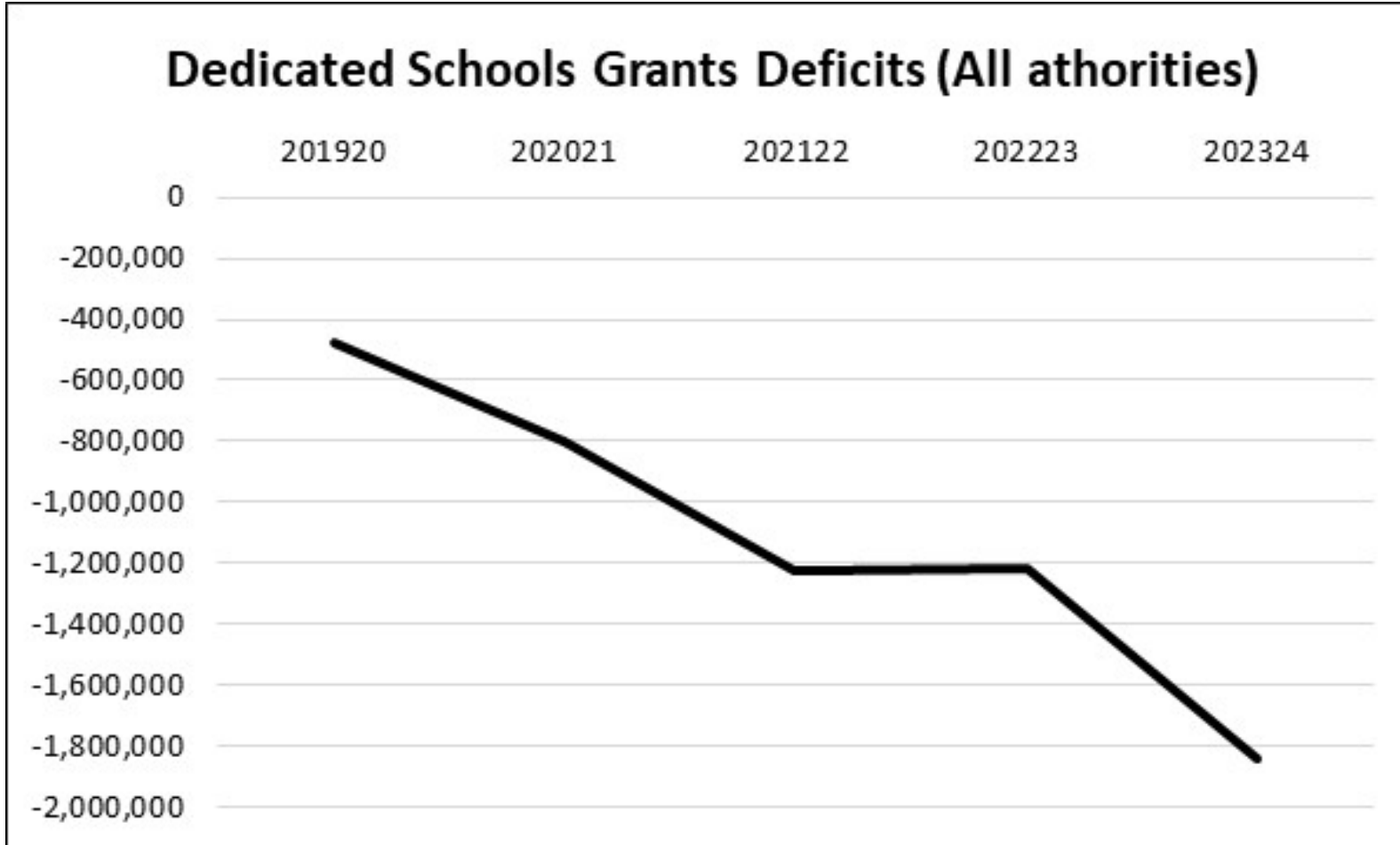
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Usable Revenue Reserves

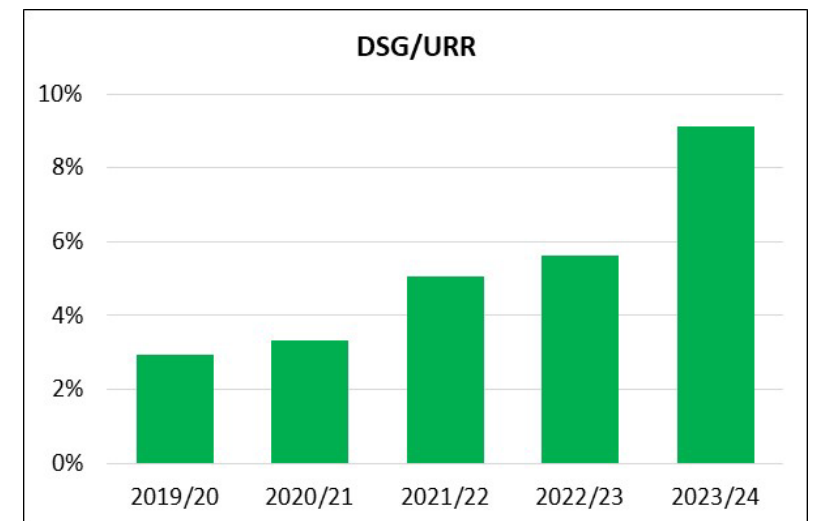
Do you anticipate that your level of usable revenue reserves in 2024/25 will ...?

- Increase
- Decrease
- Stay the same

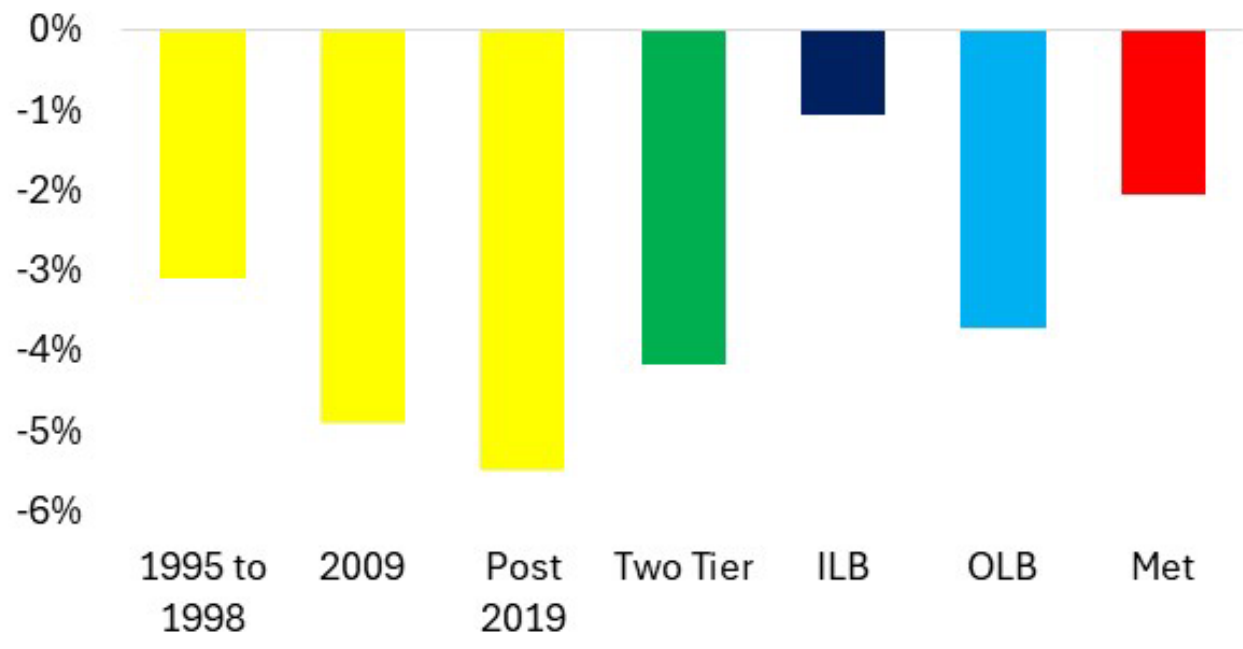
Dedicated Schools Grants



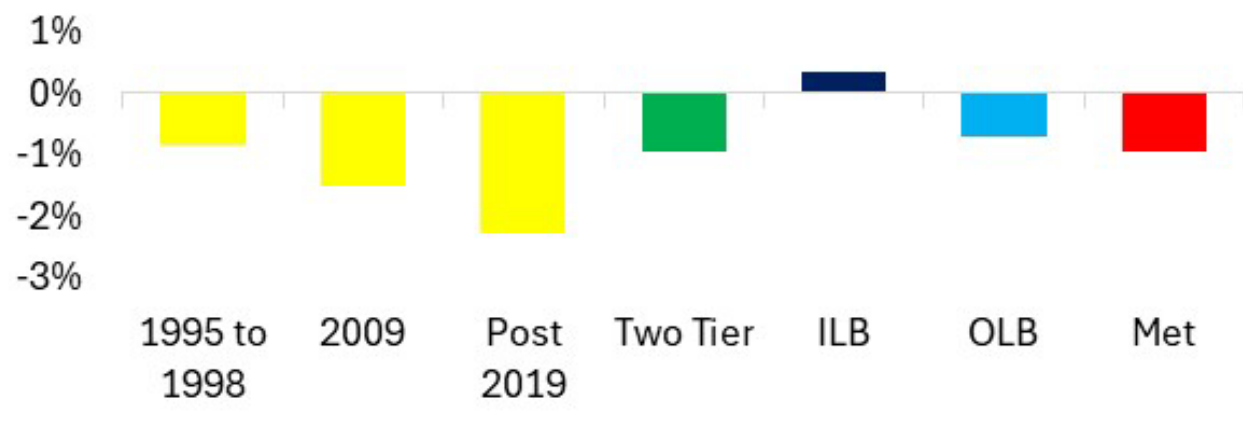
- Increased significantly in 2023/24 to just under £2bn.
- Forecast to be £3bn in 2024/25 and possibly £8bn by 2029/30.



DSG balance/CSP



One Year Change in DSG balance/CSP



DSG Deficits

- DSG deficits are highest and increasing at a higher rate across more newly formed unitaries.
- Two tier areas (Counties) also have higher deficits.

Dedicated Schools Grant Deficits

Do you anticipate that your level of usable revenue reserves in 2024/25 will ...?

- Increase
- Decrease
- Stay the same

Capital Health

All authorities

<u>2022/23</u>		<u>2023/24</u>		
120,014,431	Capital Financing Requirement	124,793,251		4%
	<i>financed by:</i>			
11,152,822	Short Term Borrowing	13,215,147		18%
71,846,915	Long Term Borrowing	73,208,855		2%
82,999,737	External Borrowing	86,424,002		4%
37,014,694	Internal Borrowing	38,369,249		4%

EFS authorities

<u>2022/23</u>		<u>2023/24</u>		
15,861,382	Capital Financing Requirement	16,684,868		5%
	<i>financed by:</i>			
1,816,049	Short Term Borrowing	1,691,077		-7%
9,164,482	Long Term Borrowing	10,414,061		14%
10,980,531	External Borrowing	12,105,138		10%
4,880,851	Internal Borrowing	4,579,730		-6%

- Need to borrow did not significantly increase in 2023/24 – 4% in cash terms and actually fell as proportion of CSP.
- But short-term borrowing has increased significantly.
- Struggling authorities (EFS) are unable to sustain internal borrowing levels and are increasing external borrowing more significantly.

Borrowing

All England

Taken out in 24/25

Maturity date less than:	Principal	Average Loan Rate (%)
1 year	7,373,910,385	4.72%
2 years	3,954,046,116	4.54%
3 years	2,969,891,260	4.07%
4 years	2,203,024,127	3.85%
5 years	2,595,526,739	3.95%
10 years	9,658,011,518	3.76%
15 years	7,765,556,167	3.62%
20 years	5,914,164,313	3.35%
over 20 years	35,061,040,022	3.22%
Total	77,495,170,647	3.62%

Maturity date less than:	Principal	Average Loan Rate (%)
1 year	4,338,748,738	4.89%
2 years	1,850,129,235	4.83%
3 years	1,044,166,571	4.81%
4 years	441,932,934	4.79%
5 years	796,141,839	4.64%
10 years	1,616,106,605	4.75%
15 years	748,449,861	4.68%
20 years	86,312,500	4.83%
over 20 years	53,095,543	4.99%
Total	10,975,083,827	4.81%

- Majority of borrowing taken out in 2024/25 is short term at rates which were higher compared with existing borrowing.
- Points to continuing pressure on internal borrowing from falling reserves and increasing DSG deficits.

Interest Payable and Interest Receivable

Financing and Investment Income and Expenditure

	2022/23	2023/24	Change
Interest Payable	3,432,322	3,820,580	11%
Interest Receivable	-1,320,174	-1,984,209	50%

- Interest rates increased a number of times during 2023/24.
- This was good for a number of authorities with low or no 'need to borrow' as returns from money market deposits much higher.
- Average interest rates on borrowing increased from 4.14% to 4.42%.
- Three quarter point cuts to interest rates in 24/25 so expect to see interest receivable reduce (less cash, lower rates) but interest payable increase (more short-term borrowing).

My predictions for 2024/25

- Accounts / Audit Backlog – Significantly greater proportion of councils will meet the deadline than previous two years.
- Net Worth (Net Assets and Net Reserves) – further reduced as percentage of CSP.
- Usable Revenue Reserves – third consecutive year of cash reductions (and significant real term reductions).
- Dedicated Schools Grant Deficits – will increase close to £3bn mark.
- Capital Financing Requirement (Need to Borrow) – modest increase but higher in London.
- Internal borrowing will reduce as external borrowing increases resulting in significant increase in net borrowing costs.

We will run a first look at the accounts session in mid July.

Spending Review, 11 June 2025

- Announcement by the Chancellor is on Wednesday, 11 June 2025
- No specific local authority allocations until December 2025

- Likely confirmation of:
 - Departmental expenditure limits (DELS)
 - Funding quantum for social care funding
 - Council tax thresholds
 - Business rates multipliers and funding streams (parameters for possible levels at which new multipliers will be set, and whether any will be frozen/ capped)

- Potentially some specific announcements on:
 - Funding for transitional support/ damping
 - Expectations around funding within the BRRS (use of the reset surplus)

Summer funding consultation

- Timing – the consultation is expected after the spending review, in “June”
- Is it really going to be published in late June? Is a date in July more likely?
- We are not sure what the format will be, what it will cover, or whether there will be exemplifications
- Authorities have been told that they will be able to use the consultation to work out what to expect in the provisional settlement
- If so, this suggests exemplifications – without “numbers” this will not be possible
- A huge amount has been loaded onto the Summer consultation – a very large range of issues need to be consulted on

Select committee, 7 May 2025

- “Then there is the underlying needs and resources assessment of what the Government perceive are council needs versus what a council can generate from local taxation, and then what the Government’s role is as the **equaliser** to the system.”
- “The needs and resources assessment that we are undertaking, by way of an example, will take into account issues such as **deprivation; the costs of rural service delivery; daytime population booms in large cities**, where they have a huge population base but maybe not a residential base in that area; and different component parts that have an impact on the cost of operation”
- “we also have a huge programme of **local reorganisation** at the same time. The underlying finances of those local authorities are critical to balancing the overall system at the end of the Parliament, which will be the third year of the multi-year settlement.”
- “but it was an indication that we believe that **deprivation is a significant contributor to demand for local public services**, which, coupled with **low tax bases**, means that central Government does need to do more in terms of redistribution and acting as the equaliser to the system.”
- “but as the Minister mentioned, there are a number of issues—**housing costs, daytime populations, transport costs** and so on— which we could include in some formulas”
- “it is fair to say that the sector has made strong representations that **housing costs** should be included.”
- “consultation in June”
- “**rural councils** will say that on an evidence based assessment it costs more to deliver public services in their areas because of the distance needed to travel from one appointment to another or to empty a bin from one address to the other. Where the evidence base supports the argument being made, we are keen to make sure that the argument is accommodated.”

Latest on funding reforms...

- Council tax equalisation
- Urban-based indicators within Foundation Formula
- Children's Services formula
- Adult social care formula

MTFP model – funding reform scenarios

Formula	Revised default (most likely)	SIGOMA (best)	Counties (best)	Inner London (best)	Shire districts (best)
Children's Services RNF	Use new Children's Services RNF	Use new Children's Services RNF	Use <u>current</u> Children's Services RNF	Use <u>current</u> Children's Services RNF	n/a
Adult RNF	Use new Adult RNF	Use <u>current</u> Adult RNF, updated for population change	Use new Adult RNF	Use <u>current</u> Adult RNF, updated for population change	n/a
"Specific" formulas	All "specific" formulas will be implemented (housing/ homelessness, concessionary travel, home-to-school transport, flood defence, etc)	No specific formulas (except flood defence, etc)	All "specific" formulas implemented.	No specific formulas (except flood defence, etc)	No specific formulas (except flood defence, etc)
Capital Financing RNF	Abolish Capital Financing RNF	<u>Retain</u> Capital Financing RNF	<u>Retain</u> Capital Financing RNF	Abolish Capital Financing RNF	Abolish Capital Financing RNF
Foundation Formula indicators/ weighting	High weighting for deprivation, re-introduce indicators for density and non-resident population	High weighting for deprivation (no density or non-resident population indicators) CHECK	Low weighting for deprivation (no density or non-resident population indicators)	High weighting for deprivation, and include density and non-resident population	Low weighting for deprivation (no density or non-resident population indicators)
Control totals	Use latest RO data to reset control totals (24-25).	Use latest RO data to reset control totals (24-25).	Use latest RO data to reset control totals (24-25).	Use latest RO data to reset control totals (24-25).	Use latest RO data to reset control totals (24-25).
Council tax equalisation	Partial equalisation (85%)	Full equalisation (100%)	Partial equalisation (85%)	Full equalisation (100%)	Partial equalisation (85%)
Population	Use latest population estimates (2023-based)	Use latest population estimates (2023-based)	Use latest population estimates (2023-based)	Use latest population estimates (2023-based)	Use latest population estimates (2023-based)

Using the MTFP model

- Key choices for assumptions are in the “Systems Assumptions” tab
- Select scenario for distribution of Settlement Funding Assessments (SFA). Shares are modelled in our Fair Funding model (v2.10). See “FFR SFA Allocations” for shares (%).
- Select assumption for damping floor (default is 5% of total resources).
- Select method of distributing specific grants (Social care grants and Public Health grant).
- Further updates following the spending review.

68	Fair Funding Review	
69	Select current SFA distribution or new Fair Funding model	Fair Funding model v2.10 METS
70		Current SFA share (%)
71		Fair Funding model version 2.7.2
72	Damping on overall resources (core spending power)	Fair Funding model v2.10 DEFAULT
73	Damping spread over 4 or 5 years	CCN scenario May 2025
74		Fair Funding model v2.10 METS
75		Fair Funding model v2.10 COUNTY
76	Public Health grant methodology (<u>from 2026-27</u>)	Fair Funding model v2.10 Inner London
77		Fair Funding model v2.10 DISTRICT
		Fair Funding model v2.10 REVISED DEFAULT

72	Damping on overall resources (core spending power)	-5.00%
73	Damping spread over 4 or 5 years	0
74		
75		
76	Public Health grant methodology (<u>from 2026-27</u>)	Public health grant distribution using new RNF
77		
78	Social care grants (<u>from 2026-27</u>)	Social care grant distribution using new Adult RNF
79		