Resources Board

Agenda

Thursday, 28 June 2018
11.00 am

Smith Square 1&2, Ground Floor, 18 Smith Square, London, SW1P 3HZ

www.local.gov.uk

Local Government Association

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Local Government Association

Resources Board
28 June 2018

There will be a meeting of the Resources Board at **11.00 am on Thursday, 28 June 2018** Smith Square 1&2, Ground Floor, 18 Smith Square, London, SW1P 3HZ.

A sandwich lunch will be available at 13.00.

Attendance Sheet:
Please ensure that you sign the attendance register, which will be available in the meeting room. It is the only record of your presence at the meeting.

Political Group meetings:
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Apologies:
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Conservative:	Group Office:	020 7664 3223	email:	lgaconservatives@local.gov.uk
Labour:	Group Office:	020 7664 3334	email:	Labour.GroupLGA@local.gov.uk
Independent:	Group Office:	020 7664 3224	email:	independent.grouplga@local.gov.uk
Liberal Democrat:	Group Office:	020 7664 3235	email:	libdem@local.gov.uk

Location:
A map showing the location of 18 Smith Square is printed on the back cover.

LGA Contact:
Benn Cain
020 7072 7420 | benn.cain@local.gov.uk

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Local Government Association

Resources Board – Membership 2017/2018

Councillor	Authority
Conservative (7)	
Cllr John Fuller (Vice Chairman)	South Norfolk District Council
Cllr Philip Atkins OBE	Staffordshire County Council
Cllr Hilary Carrick	Cumbria County Council
Cllr Roger Phillips	Herefordshire Council
Cllr Byron Rhodes	Leicestershire County Council
Cllr David Williams	Hertfordshire County Council
Cllr David Finch	Essex County Council
Substitutes	
Cllr James Gartside	Rochdale Metropolitan Borough Council
Cllr Andrew Leadbetter	Exeter City Council
Cllr Judith Oliver	North Norfolk District Council
Labour (6)	
Cllr Richard Watts (Chair)	Islington Council
Cllr Rishi Shori	Bury Metropolitan Borough Council
Cllr Sharon Taylor OBE	Stevenage Borough Council
Cllr Sian Timoney	Luton Borough Council
Cllr Tom Beattie	Corby Borough Council
Cllr Peter Marland	Milton Keynes Council
Substitutes	
Cllr Amanda Serjeant	Chesterfield Borough Council
Cllr Christopher Massey	Redcar & Cleveland Borough Council
Liberal Democrat (2)	
Cllr Claire Hudson (Deputy Chair)	Mendip District Council
Cllr Adam Paynter	Cornwall Council
Substitutes	
Cllr Simon Shaw	Sefton Metropolitan Borough Council
Independent (1)	
Cllr Clive Woodbridge	
Substitutes	
Cllr Gillian Corr	Stockton-on-Tees Borough Council

LGA Resources Board – Attendance 2017-2018

	22/9/17	4/12/17	22/1/18	05/04/18
Councillors				
Conservative Group				
John Fuller	Yes	Yes	Yes	Yes
Philip Atkins OBE	Yes	Yes	Yes	Yes
Hilary Carrick	Yes	Yes	Yes	Yes
Barry Macleod-Cullinane	Yes	Yes	Yes	Yes
Roger Phillips	Yes	Yes	No	Yes
Byron Rhodes	Yes	Yes	Yes	Yes
David Williams	Yes	No	No	Yes
David Finch	Yes	No	Yes	Yes
Labour Group				
Claire Kober OBE	Yes	Yes	Yes	Yes
Rishi Shori	Yes	Yes	No	Yes
Sharon Taylor OBE	Yes	Yes	Yes	Yes
Sian Timoney	No	Yes	Yes	No
Tom Beattie	Yes	No	No	Yes
Sarah Hayward	Yes	No	No	No
Peter Marland	No	Yes	Yes	Yes
Lib Dem Group				
Claire Hudson	Yes	No	Yes	Yes
Adam Paynter	No	Yes	Yes	No
Independent				
Graham Whitham	No	Yes	Yes	Yes
Substitutes/Observers				
Amanda Serjeant	Yes	Yes		
Christopher Massey	Yes			
Simon Shaw	Yes			
Clarence Barrett	Yes			
James Gartside			Yes	
Andrew Leadbetter		Yes	Yes	
Judy Oliver				Yes

Agenda

Resources Board

Thursday 28 June 2018

11.00 am

Smith Square 1&2, Ground Floor, 18 Smith Square, London, SW1P 3HZ

Local Government Association

Date of Next Meeting: Friday, 14 September 2018, 1.00 pm, Smith Square 3&4, Ground Floor, 18 Smith Square, London, SW1P 3HZ

Resources Board

28 June 2018

Fair Funding Review and Business Rates Retention Update

Purpose

For comment.

Summary

This report updates members on progress on the Fair Funding Review and Business Rates Retention reform. In particular, it provides a detailed update on the delivery of the LGA's work programme on the Fair Funding Review since the April 2018 meeting of LGA Resources Board.

Recommendation

That members of LGA Resources Board note this update.

Action

Officers to proceed with delivery of the LGA work programme on business rates retention and the Fair Funding Review as directed by the LGA Leadership Board, Executive and the Business Rates Retention and Fair Funding Review Task and Finish Group.

Contact officer:	Nicola Morton
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Fair Funding Review and Business Rates Retention Update

Introduction

1. This report updates members on progress on the Fair Funding Review and Business Rates Retention reform, since the April 2018 meeting of the LGA Resources Board. In particular, it provides a detailed update on the delivery of the LGA's work programme on the Fair Funding Review.

2. Since the previous meeting of the LGA Resources Board, James Brokenshire MP has become the Secretary of State for Housing, Communities and Local Government. At the time of writing, this has not resulted in a change to the Government's work on these two reforms.

Fair Funding Review – delivery of the LGA Fair Funding Review work programme

3. In November 2017 the LGA's Executive and Leadership Board agreed a LGA work programme on the Fair Funding Review. A high level update on this work programme is attached as **Appendix A** and the following paragraphs provide more detail.

Criteria for evaluating future Fair Funding Review proposals

4. Members of the LGA Leadership Board and Executive agreed to the production of a set of criteria against which the LGA could evaluate proposals emerging from the Fair Funding Review. These criteria will be used by officers and the LGA Fair Funding Review and Business Rates Retention Task and Finish Group ('Task and Finish Group') to evaluate future proposals emerging from the Fair Funding Review and provide recommendations to members of Leadership Board and Executive on whether a model, or aspects of it, could be supported by the LGA.

5. Officers worked with the Task and Finish Group to develop the criteria against which models should be assessed and to turn these into an evaluation template to be used as part of the assessment process. The template was agreed by the LGA Leadership Board during its April 2018 meeting. The template is attached as **Appendix B**.

6. The criteria include, but are not limited to:

   6.1. Simplicity, transparency and accuracy;

   6.2. Principles of good formula design, such as future-proofing, minimal use of judgement, completeness and robustness of data; and

   6.3. Distributional consequences, including the maximum shifts in funding levels for any one local authority covered by the Fair Funding Review.

Divergence of relative needs over time and use of population projections

7. One of the criticisms of the current system is that resources do not keep track with needs over time. With input from the LGA, the University of Essex reviewed the data that was

used in the funding formula system in 2013/14, the point at which the needs baseline was set and used to fix tariffs and top-ups (other than being updated by inflation each year) until the point of a reset. Colleagues from the University examined the potential to update the underlying data without changing the weightings in the formulae to estimate how much relative needs of local authorities can change over a period of time.

8. There were significant constraints on the availability of data. In particular, much of the information in the 2013 formulae came from sources that no longer exist, or were based on one-off modelled datasets which had not been refreshed by the Government since. For example, a number of welfare statistics were not available due to the introduction of Universal Credit. As a result, the main focus was on refreshing population data.

9. The University of Essex analysis resulted in a change in relative needs shares (prior to adjusting for council tax/transition/damping) for individual councils within a range of an increase of 19 per cent, and a drop of up to 17 per cent. For 56 per cent of authorities, the change would have been within plus or minus 4 per cent. For 35 per cent of authorities the change is greater than 5 per cent in either direction.

10. The Fair Funding Review and Business Rates Task and Finish Group noted the caveats to this analysis due to data availability and considered a number of alternative options in terms of whether and how to try to lessen the divergence. The group expressed a preference for using population projections in the formula to try and account for future divergence of needs. This would in effect mean that tariffs and to-ups are different each year but this is known at the start of the reset period.

11. During their April 2018 meeting, members of Leadership Board endorsed this view. Since this meeting, the University of Essex has accessed data from the schools census and updated that in the formulae. This led to even greater divergence of relative needs than was previously presented to LGA Leadership Board and the Task and Finish Group. The greater divergence further reinforces the Leadership Board's decision to use population projections in the formulae.

12. The University of Essex has published a working paper setting out detailed analysis and recommendations. This is a University of Essex report. LGA officers provided advice on the methodological approach and suggested points of focus but it is not an LGA report. This work was carried out at no cost to the LGA.

13. LGA officers presented these two pieces of work to a meeting of the LGA/MHCLG joint technical working group on the Fair Funding Review in May and they are now on the LGA business rates retention hub. This work was well received by members of the group.

Relative needs assessment and council tax adjustment models

14. As agreed at Leadership Board the LGA has commissioned two separate models:

    14.1. A needs distribution model to allow local authorities to see the impact of different cost drivers and differential weightings within needs formulae;

    14.2. A council tax equalisation model to identify the impact of adjustments for council tax and council tax support on individual authorities.

15. These models will provide member authorities with a set of tools to evaluate the impact of future proposals or to enable them to build proposals of their own. The LGA will also use these tools to see if we can reach agreement on some of these issues.

16. In March 2018, the LGA appointed TRL Insight to deliver both of these models. At the time of writing the LGA Leadership Board had agreed that the Chairman and Group Leaders will provide final clearance for these technical models to be shared with all member authorities and this was due shortly.

Transition options appraisal

17. As agreed at previous meetings of the LGA's Leadership Board and Executive, officers have started the commissioning process for an analysis of ways in which the transition from the current pattern of funding to the one implied by the Fair Funding Review results could work. This will help member authorities and the LGA develop policy on this issue.

Fair Funding Review technical working group update

18. The officer-led Fair Funding Review Technical Working Group has met twice since the beginning of March.

19. Over the course of the two meetings the group discussed:

    19.1. Factors to consider when taking council tax income into account such as council tax support. The LGA Task and Finish Group will discuss the treatment of council tax in more detail at its next meeting. This will also be discussed at a future meeting of the MHCLG / LGA Steering Group.

    19.2. An adult social care relative needs formula based on work commissioned by the Government in 2013. This work took place in parallel to the research to develop a distribution formula for funding of new burdens of the 2015 Care Act, and the implementation of a cap on costs of care. Officials from the Department for Health and Social Care are undertaking a peer review of the research and LGA officers expect to see this work published later in 2018.

    19.3. Progress of the recently commissioned DfE/MHCLG research into a children's services formula.

    19.4. A draft summary paper from MHCLG on the key issues that were raised during the consultation on relative needs which was published in December 2017. The overall pattern of responses was reflective of the LGA's own response which was outlined in the April 2018 Resources Board meeting. For example, stakeholders stressed the importance of transparency and fairness, noted the need to explore the inclusion of a specific formula for non-HRA housing services, to consider inclusion of both population density and population sparsity in funding formulae where there is an evidence base to do so, and to 'sense check' the results of the statistical analysis with service delivery experts.

    19.5. A paper from the Department for Health and Social Care on the Public Health Grant. The Department's current preferred approach is to use the funding formula which was consulted on, but never implemented, in 2016. The Advisory Committee on Resource Allocation will review the case for this model. It was agreed that this work needs to be more closely aligned with the Fair Funding Review.

19.6. A fire and rescue formula, which is being created through a partnership of the National Fire Chiefs' Council, the Home Office and MHCLG officers.

19.7. As noted above, an update on the LGA's Fair Fund Review work programme, in particular the evaluation template and the work on divergence of relative needs.

The next steps of the Fair Funding Review

20. The Government's work is building towards a wider consultation on the Fair Funding Review, expected in autumn 2018. The consultation is likely to cover:

20.1. The Government's preferred options for the relative needs assessment, in particular the foundation formula and the number and types of service-specific formulae including the cost drivers being explored for each of the formulae.

20.2. The Government's emergent thinking on adjusting for relative resources.

20.3. Potentially, initial thoughts on the transition mechanism.

21. This is in line with the LGA's work programme on the Fair Funding Review, with the core LGA work programme and meetings of the Business Rates Retention and Fair Funding Review Task and Finish Group all helping explore policy options ahead of the publication of the consultation document.

Business Rates Retention

<u>Commissioning a Business Rates Retention model</u>

22. As part of the work of the officer-level systems design technical working group, the Government is publishing a number of technical papers on the design of the 75 per cent business rates retention system. Comments on these will feed into a full technical consultation in late 2018.

23. This would involve the Government asking for stakeholder input on issues such as:

23.1. The setting and measurement of business rates baselines.

23.2. The extent and frequency of business rates resets.

23.3. Dealing with losses due to appeals.

23.4. The level of the safety net and how it is funded.

23.5. The split of business rates income in two-tier areas.

24. During the April 2018 meeting of the LGA Leadership Board, members agreed to the commissioning of a business rates retention model to allow the LGA and member authorities to assess the impact of a number of system design issues. Officers are in the process of commissioning this work.

Other Business Rates Retention updates

25. The joint MHCLG / LGA officer Business Rates Retention Steering Group continues to meet regularly to oversee the programme of further Business Rates Retention and the Fair Funding Review. Working under the Steering Group, the Systems Design Working Group has begun detailed consideration of the issues. Since the last meeting of Resources Board the groups have discussed:

    25.1. Retained growth in business rates in 2018/19, which the Government estimated as £1.3 billion above the baseline at a national level.

    25.2. Funding appeals centrally. MHCLG is seeking views on a paper on dealing with appeals which appears to suggest that there is concern about the level of complexity within the business rates retention system and that, though addressing appeals losses is desirable, the level of complexity created will need to remain a consideration. An LGA response to this paper is on the agenda for this meeting.

26. Further discussions at the Systems Design Working Group leading up to a consultation paper later in 2018 will concern resets, measuring growth and revaluation, transitional arrangements and pooling, data and accounting and operationalisation.

27. MHCLG is expected to publish a prospectus shortly inviting bids for 2019/20 further business rates retention pilots. At this stage no further details are known. MHCLG is working with 17/18 and 18/19 pilots to consider their experiences and will be commissioning external work on lessons to be learnt from the existing pilots.

28. Officers have continued to press MHCLG colleagues to provide feedback to areas which were unsuccessful in their bids to become a 2018/19 pilot.

Implications for Wales

29. There are no direct implications for Wales arising from this report as business rates retention and the Fair Funding Review apply to England. The distribution of funding to Welsh local authorities, is a devolved matter in Wales.

Financial implications

30. Members of Leadership Board have previously approved spending of LGA reserves on the LGA work programme on the Fair Funding Review and commissioning of a Business Rates Retention model.

31. Other work outlined in the paper above is part of the LGA's core programme of work and as such has been budgeted for in the 2018/19 budget.

Appendix A - High-level progress update on the LGA Fair Funding Review and Business Rates Retention work programme

Project	Purpose and description	Quick update
Criteria for assessing proposed distribution models and methodologies	To give the LGA a structured and consistent way to assess new distribution models.	Complete
Formula grant: update the data	Update the data in the current distribution model (where updated data is available) to see the impact of this on individual allocations separate to any methodology changes. In effect this would provide an updated baseline to inform a discussion on how long the formulae remain 'future proof' without any review of weightings. To help the LGA and member authorities form policy on the data used in the formulae and the frequency of distribution resets, or other ways to 'future proof' the mechanism.	Complete
Distribution model: develop a distribution model	A model to allow local authorities to see the impact of different key cost drivers and differential weightings. To help the LGA and member councils evaluate the impact of various Government and stakeholder proposals on their council and to allow them to put forward their own proposals	At the time of writing, final clearance by LGA Chairman and Group Leaders was expected shortly
Council tax equalisation: develop an equalisation model	A model to identify the impact of adjustments for council tax and council tax support on individual authorities. To inform LGA policy and to help individual member councils evaluate Government proposals.	At the time of writing, final clearance by LGA Chairman and Group Leaders was expected shortly
Damping /transition mechanisms	An analysis of historic damping / transition mechanisms and a model to inform discussions on the guiding principles of transition. To inform LGA and member authorities' policy.	Request for quotation published, suppliers invited to bid
Business Rates Retention model	A model to enable LGA and local authorities to assess the impact of system design choices in areas including: • The setting of business rates baselines; • The extent and frequency of business rates resets; • Dealing with losses due to appeals; • The level of the safety net and how it is funded; and • The split of business rates income in two-tier areas.	By the time of the Resources Board suppliers should be in the process of being appointed.

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Appendix B - Proposal Evaluation Form

Fair Funding Review Proposal Evaluation Form	
Name of proposal	
Proposed by	
Proposal produced on	
Any useful links	
General description	
To include commentary on how needs and resources are reflected.	
Key strengths	
Key weaknesses	
Simplicity and transparency	
Number of formulae	
Services covered by the formulae	
Number of cost drivers used in total	
Does the model calculate final allocations transparently? (1 – strongly disagree, 5 – strongly agree)	
Is the proposed model easy to explain to a member of the public? (1 – strongly disagree, 5 – strongly agree)	
Comments	
Completeness	
Does the needs assessment account for all relevant types of authority? (y/n)	
Is there a resources adjustment calculation for each authority or a deliberate exclusion of a resources adjustment? (y/n/ not applicable)	
Are there exemplifications available for all local authorities covered by the Fair Funding Review? (y/n)	
Comments	
Credibility and future proofing	
Data used is up-to-date (1 - strongly disagree, 5 - strongly agree)	
Comments	

Data used is easy to update in the future (1 - strongly disagree, 5 - strongly agree)			
Comments			
It is clear if and where judgement has been used and the reasons for doing so (1 - strongly disagree, 5 - strongly agree)			
Comments			
There is little judgement in the system(1 - strongly disagree, 5 - strongly agree)			
Comments			
Data is not subject to historic fluctuations (1 - strongly disagree, 5 – strongly agree)			
Comments			
Model considers ways to future-proof the system (1 - strongly disagree, 5 - strongly agree)			
Comments			
Data used in the model cannot be affected by council policy decisions (1 – strongly disagree, 5 – strongly agree)			
Comments			
Number of positive answers on completeness (out of 3)			
Average score			
Criteria scoring '2'			
Criteria scoring '1'			
Comments on potential incentives that the model will provide (positive and perverse)			
Any further comments			
Distributional impact			
Maximum percentage reduction for any one authority			
Maximum percentage increase for any one authority			
Authority type	Highest percentage change	Lowest percentage change	Average percentage change

Local Government Association

Shire counties Shire districts English unitaries Metropolitan districts London boroughs Fire and rescue authorities Greater London Authority Combined authorities			
Authority region	Highest percentage change	Lowest percentage change	Average percentage change
London South East South West North East North West East Midlands West Midlands Yorkshire and Humberside East of England			
Conclusion			
Final general comments			
Suitable for discussion at Leadership Board and Executive? (Yes/No)			
If no, comments on what could be improved			
Reviewed by			

Resources Board

28 June 2018

Dealing with Losses Due To Appeals

Purpose of report

For decision.

Summary

This paper updates Resources Board members on the discussions on dealing with losses due to appeals under greater business rates retention and asks members to agree and comment on the submission at **Appendix A**.

Recommendation

That members of Resources Board comment on and agree the submission to MHCLG at **Appendix A**.

Action/s

Officers to reflect any comments in the submission to MHCLG.

Contact officer: Mike Heiser

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Resources Board

28 June 2018

Dealing with Losses Due To Appeals

Introduction

1. The issue of spreading the risk of valuation losses across the local government sector to reduce volatility has been considered as part of the discussions between central and local government on the implementation of greater business rates retention from April 2020.

2. The risk from appeals has been the principal risk which has emerged under the 50 per cent business rates retention system. Before the introduction of the current rates retention system, all business rates raised locally were paid to central government. Losses on appeal, therefore, were borne centrally. When the 50 per cent rates retention system was established in 2013, authorities bore 50 per cent of the risk of appeals including backdated appeals, and were expected to make provisions for expected appeals losses, in line with normal accounting practice.

3. The Government adjusted for this nationally by reducing the business rates and funding baselines by £1.9 billion in 2013/14. That is the baselines were £1.9 billion lower assuming that there would be this amount of successful appeals (as all appeals on the 2010 list have not yet been settled we do not know whether this was sufficient). This was apportioned between authorities proportionately to their individual business rates baselines and not in accordance with the risk of appeals. So technically nationally and locally the impact of appeals was adjusted for. However, this is not particularly explicit and some authorities experience losses larger than their appeals adjustment and some experience losses smaller than the adjustment.

4. It is estimated that there was a total of £2.6 billion in appeals provision as at 31 March 2017. Not all of this may be needed, as over 70 per cent of appeals to the 2010 list which have been resolved (which amount to over 950,000) have resulted in no changes to the list. There are still over 130,000 appeals outstanding from the 2010 list. There is no information on whether the appeals that are still to be resolved are more or less likely to result in a change to a valuation.

5. A new system for appealing, Check, Challenge and Appeal (CCA) was introduced in April 2017. This requires business rate payers to go through a number of stages before an "objection" to a valuation becomes an appeal. It also, in theory removes the incentive for speculative appeals. It is too early to tell whether CCA has been effective in reducing appeals because it takes time to go through the pre-appeal processes, the systems to support it are not fully in place and it appears that rating agents, and consequently the Valuation Office Agency (VOA), have been focussing on appeals to the 2010 list. Therefore, councils have found that CCA has made it more difficult to assess the level of provision they need to make for appeals.

MHCLG proposals

6. The 2017 Local Government Finance Bill, which provided the enabling legislation for 100 per cent business rates retention, contained a new power for Government to hold a

provision to pay authorities for losses due to appeals. This would have meant that payments would be made to authorities to compensate them for valuation losses, when those losses occurred. The Bill fell with the dissolution of Parliament prior to the General Election last year and, therefore, the new power will not be available for April 2020. However, MHCLG officials consider that current powers to pay section 31 grant could be used instead to compensate for losses due to appeals.

Identifying valuation changes due to appeals

7. The main technical issue is to identify which losses are due to appeals and which are due to other reasons. MHCLG thinks that changes in rateable value that are due to physical changes, such as during the construction of an extension or refurbishment of a property, should not be protected in this way. However changes due to appeals which are completely beyond authorities' control could be protected.

8. At present, authorities are informed only of the change to the rateable value and the date from which this change takes effect. The information received by authorities on valuation changes does not identify the reason for this change e.g. as a result of valuation change or some other reason. The VOA has stated that it cannot provide this information to authorities or the MHCLG as they do not have the systems in place to identify the reasons nor could they easily put these in place. They also note that it may be better to base this on an objective measure rather than a VOA assessment of the reason for the change.

9. The proposal from the MHCLG and the VOA is that authorities should be compensated for those valuation changes which are backdated to the start of a list. The reason being that most challenges/appeals due to valuation methods are, if successful, backdated to the start of the list. Changes which are not backdated are not likely to be due to an appeal and according to MHCLG authorities should not be compensated for them. The proxy is not perfect but MHCLG are indicating that, in the absence of an alternative approach, they see it as the only feasible option. Therefore, the danger of arguing against this approach is that there is no alternative.

Funding valuation losses

10. The LGA and local authorities have pushed for business rates income from the central list to be used to fund valuation losses due to appeals. However, MHCLG consider that this would not be fiscally neutral, as central list income is already used indirectly to fund various grants to local government. In order to ensure fiscal neutrality, they say, funding these losses through central list income would need to be considered as part of the next Spending Review in 2019. We will consider whether it is a priority to continue to lobby for this including as part of Spending Review campaign.

11. Another way to fund valuation losses centrally would be to top-slice a certain amount from the total quantum of business rates. This could help reduce appeals volatility. It would have to be kept under review regularly and it could only be reconciled once all challenges/appeals on a given list had been resolved. The size of top-slice would need to consider the cumulative impact of funding other system design elements, such as the safety net, through a similar top-slice.

Other Issues concerning the centralisation of appeals loss

12. The introduction of 75 per cent business rates retention will fall in the middle of the 2017 list. MHCLG therefore suggest that the implementation of a central provision be made in 2021 when the next valuation takes place. This would mean that all appeals under the 2010 and 2017 lists would continue to be dealt with under local provisions until that time. MHCLG consider that to introduce it before the 2021 revaluation would require them to centralise local authorities' current provisions and this, or MHCLG picking up the cost, would not be fair to authorities that do not have many outstanding appeals. They recognise that making provisions to cater for 75 per cent of potential loss from 2020 will be challenging, and will consider further how other mechanisms within the system, such as the safety net, can be used to facilitate the transition.

13. MHCLG consider that centralising the impact of appeals is complex and they will need to take into account the recommendations of the Andrew Hudson Review[1] once it is complete. The local government side at the joint groups on business rates retention believe that the government must deal with the impact of appeals on local government despite any complexity.

14. In the paper to the joint MHCLG and LGA business rates retention groups, MHCLG stated that it is currently carrying out scoping work and would like to invite authorities to submit their views on how appeals should be dealt with in the future and propose any alternative approaches to separating losses as a result of valuation changes from those that result from development. MHCLG has asked for submissions by 1 July 2018. Officers propose that the LGA make a submission, in order to make the key point that we think that the proposed way of dealing with appeals is better than the current system because it reduces the risk to authorities and it reduces the need for authorities to hold provisions to cover appeals. This outweighs the risk of further complexity. The draft submission reflects the comments of the LGA's Task and Finish Group of Business Rates Retention and the Fair Funding Review and is attached as an **Appendix A** for members comment and approval.

Reform beyond 2020

15. As stated above, the 2017 Local Government Finance Bill contained a power which would have allowed the Government to hold a provision to compensate authorities for losses due to appeals. The Government may reintroduce this when parliamentary time permits. Members of the joint MHCLG and LGA groups on further business rates retention are generally in sympathy with these aims.

Recommendations and Next Steps

16. That members of Resources Board comment on and approve the submission to MHCLG at **Appendix A**.

[1] This is the independent review of the processes and procedures that underpin the MHCLG's governance of the business rates system.

Implications for Wales

17. Local government funding is a devolved matter and further business rates retention applies only to England. The Welsh Local Government Association would work on these matters in Wales.

Financial implications

18. The work described in this paper is part of the core LGA work programme and as such is budgeted for within 2017/18 budgets.

Resources Board

28 June 2018

The Gender Pay Gap in Local Government

Purpose of report

For direction.

Summary

This paper presents a summary analysis of the data on the gender pay gap recently made available by the Government Equalities Office based on mandatory reporting for medium-sized and larger organisations.

Despite data limitations, Local Government as a whole comes out of the exercise reasonably well. There is an opportunity to present a good message on progress and also highlight the type of support and advice that the LGA is able give to Councils to help them continue to address any gender pay gap issues.

Recommendation

That Members of the Resources Board indicate whether or not the idea of a "member champion" on diversity issues should be identified

Action

Officers will continue work in support of councils dealing with gender pay issues and proceed according to member direction on the idea of a member champion.

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Resources Board

28 June 2018

The Gender Pay Gap in Local Government

Background

1. The Government introduced a mandatory requirement for all organisations with 250 or more employees to submit certain data on their gender pay gap with a commitment to make the data available publicly. The data were published by the Government Equalities Office (GEO). The first reporting deadline passed recently and as a result there has been considerable media comment about the state of play in key organisations and sectors. The emerging media narrative for some sectors is one of widespread institutional sexism and this appears to be driving calls for firm action, though it should be noted that the data set has considerable limitations.

2. Relevant organisations were required to publish the following data:

   2.1 the difference between the mean hourly rate of pay of male full-pay relevant employees and that of female full-pay relevant employees;

   2.2 the difference between the median hourly rate of pay of male full-pay relevant employees and that of female full-pay relevant employees;

   2.3 the difference between the mean bonus pay paid to male relevant employees and that paid to female relevant employees;

   2.4 the difference between the median bonus pay paid to male relevant employees and that paid to female relevant employees;

   2.5 the proportions of male and female relevant employees who were paid bonus pay; and

   2.6 the proportions of male and female full-pay relevant employees in the lower, lower middle, upper middle and upper quartile pay bands.

3. The most obvious weakness in the requirements is that the mean and median realte to the whole workforce rather than comparable groups with similar jobs in the same pay bands; much detail has been sacrificed in favour of simple headline figures but that can be acceptable if the outcome drives organisational change.

4. A further practical weakness in the public presentation of the data set is that there has been no attempt to classify organisations in a useful agreed way and extracting data on councils or any other group is a cumbersome process. We have been able to obtain data on 318 English Councils and a summary of the key findings from our analysis follows. The full analysis has now been published on the LGA website and is available as an annex for information.

Data summary

5. **Mean gender pay gap**

   5.1 On average, women were paid 6.8 per cent less than men.

   5.2 The values varied between -14.1 per cent (women were paid more than men) and 31.7 per cent.

   5.3 Women were, on average, paid less than men in 264 authorities; in 55 the reverse was true.

6. **Median gender pay gap**

   6.1 On average, women were paid 5.0 per cent less than men.

   6.2 The values varied between -50.3 per cent (women were paid more than men) and 34.0 per cent.

   6.3 Women were, on average, paid less than men in 211 authorities, in 25 the pay gap was zero, and in 83 women were paid more than men.

7. In national guidance, ACAS explains that mean averages are useful because they place the same value on every number they use, giving a good overall indication of the gender pay gap, but very large or small pay rates or bonuses can 'dominate' and distort the answer. For example, mean averages can be useful where most employees in an organisation receive a bonus but could be less useful in an organisation where the vast majority of bonus pay is received by a small number of board members.

8. Median averages are useful to indicate what the 'typical' situation is i.e. in the middle of an organisation and are not distorted by very large or small pay rates or bonuses. However, this means that not all gender pay gap issues will be picked up. For example, a median average might show a better indication of the 'middle of the road' pay gap in a sports club with a mean average distorted by very highly paid players and board members, but it could also fail to pick up as effectively where the pay gap issues are most pronounced in the lowest paid or highest paid employees

9. We have not produced a public analysis of the figures relating to bonus payments; so few councils actually pay bonuses that the figures are not terribly meaningful.

10. We have been checking the reported figures in other sectors and the median pay gap across the civil service is - 12.7 per cent. There are some notable differences between departments however:

    10.1 DHSC: - 13.3 per cent

    10.2 MHCLG: - 9.8 per cent

10.3 MoJ: - 10.6 per cent

10.4 Home Office: - 15.1 per cent

10.5 Homes England: - 19.6 per cent

10.6 The DWP has a median gap of 0 per centand two-thirds of its top quartile staff are women.

11. It is worth noting that our own Earnings Survey, last conducted in 2015/16 has tracked the local government pay gap for a while. Our last available figures showed an effective pay gap of zero based on median full-time equivalent hourly earnings. There is no necessary contradiction between the two data sets because our figure is based on a population of actual individual jobs across a large sample of councils whereas the averages from the GEO data set are based on reported pay gaps at organisational level. The GEO figures therefore give equal weighting to councils with small workforces where the pay of senior staff has more of an effect on the figures.

Issues

12. Although as we have seen the GEO figures lack a degree of accuracy, we cannot ignore the fact that they point to certain continuing problems. What our own earnings survey reflects is the specific success of equal pay reviews based on job evaluation which took place via our NJC agreement from 2004 onwards. At an estimated cost of £5 billion to date, the sector eliminated obvious job-by-job pay inequality with no Government funding. The achievement through the national agreement involved a considerable cost saving of at least 30 per cent over the compensation figures that could have been expected if cases had gone to Employment Tribunals. Making the necessary changes by agreement and compromise also had an industrial relations benefit. We have not monitored the situation for a while but last time we did, only a handful of councils had ongoing equal pay problems, though some were significant.

13. The GEO work may perhaps have identified some councils where there are on-going straightforward equal pay issues. However, the more fundamental issue may be that of occupational segregation where women have tended to focus on certain occupations and there are simply more men at senior levels and in higher-skilled full-time roles; this will require different organisational responses.

14. Whilst occupational segregation is a wider economic and societal problem and solutions probably begin in early education, there are many steps that are already being taken to improve career development and the working environment. Our own current and proposed “returners” programmes are designed to support returners from career breaks and we also collaborate with Timewise to encourage employers to build flexibility into their basic approach to business. The team will take look to identify good practice in

councils with zero or negative pay gaps. We are also updating our offer around job evaluation and this will be of assistance in dealing with traditional equal pay issues. We should use this opportunity therefore of giving a considered view of the new pay gap data for the sector and provide a refreshed approach to our offer.

15. The workforce team will continue to develop an offer to help councils with gender pay issues. We are keen to hear members' views on the idea of identifying a "member champion" on diversity issues including gender as well as race and disability. The member champion would provide the necessary public profile for this work and represent the LGA in political level discussions. If Resources Board members approve of the idea, it will be recommended to the Leadership Board for action.

Implications for Wales

16. The regulations do not straightforwardly apply in Wales but the situation is a little complex. The public sector regulations apply to public bodies in England, and non-devolved public bodies in Scotland and Wales. However, devolved Scottish and Welsh public authorities that are listed in Schedule 19 to the Equality Act 2010 are subject to their own devolved regulations, which already include gender pay gap reporting. If a devolved authority isn't listed in Schedule 19 however, it will be covered by the private and voluntary sector regulations which are GB-wide. Our analysis is for England only because of the way the data are reported.

    16.1. Although national pay negotiations are a non-devolved issue, the WLGA does of course have its own programme covering workforce development issues in Wales.

Financial Implications

17. It is assumed that any projects that develop from the strategy will be staffed and funded from grant funding agreed under the Memorandum of Understanding with MHCLG.

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Local Government Association

LGA location map

Local Government Association
18 Smith Square
London SW1P 3HZ

Tel: 020 7664 3131
Fax: 020 7664 3030
Email: info@local.gov.uk
Website: www.local.gov.uk

Public transport

18 Smith Square is well served by public transport. The nearest mainline stations are: Victoria and Waterloo: the local underground stations are **St James's Park** (Circle and District Lines), **Westminster** (Circle, District and Jubilee Lines), and **Pimlico** (Victoria Line) - all about 10 minutes walk away.

Buses 3 and 87 travel along Millbank, and the 507 between Victoria and Waterloo stops in Horseferry Road close to Dean Bradley Street.

Bus routes – Horseferry Road

507 Waterloo - Victoria

C10 Canada Water - Pimlico - Victoria

88 Camden Town - Whitehall - Westminster - Pimlico - Clapham Common

Bus routes – Millbank

87 Wandsworth - Aldwych

3 Crystal Palace - Brixton - Oxford Circus

For further information, visit the Transport for London website at **www.tfl.gov.uk**

Cycling facilities

The nearest Barclays cycle hire racks are in Smith Square. Cycle racks are also available at 18 Smith Square. Please telephone the LGA on 020 7664 3131.

Central London Congestion Charging Zone

18 Smith Square is located within the congestion charging zone.

For further details, please call 0845 900 1234 or visit the website at **www.cclondon.com**

Car parks

Abingdon Street Car Park (off Great College Street)

Horseferry Road Car Park Horseferry Road/Arneway Street. Visit the website at **www.westminster.gov.uk/parking**