

## **Further Business Rates Retention and the Fair Funding Review**

### **Purpose**

For discussion.

### **Summary**

This report provides an update on the LGA's work on further business rates retention and the Fair Funding Review, including a reflection on the impact of the absence of a Local Government Finance Bill in the Queen's Speech and what that might mean for the LGA's work programme.

### **Recommendation**

That the LGA Leadership Board are asked to note this report and provide a general steer for the LGA's activity on further business rates retention and the fair funding review.

### **Action**

LGA Officers to proceed as directed.

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## **Further Business Rates Retention and the Fair Funding Review**

### **Background – The Queen’s Speech**

1. The Local Government Finance Bill, intended to provide the legislative framework for the introduction of further business rates retention, did not complete its passage before the dissolution of Parliament prior to the General Election. The Queen’s Speech, announced on 19 June, set out the Government’s legislative programme for the next two years. It did not include a reintroduction of the Bill, however its provisions to introduce a new fibre-optic cabling relief have been reintroduced through a separate Bill on 4 July.
2. Since the announcement, the Ministers have expressed a preference to seek ways to give local government more control over the money it raises. This is in line with the Government’s pre-election manifesto, but not a confirmation that the Government will continue with this particular reform.
3. Analysis by LGA officers suggests that it is possible for a system of further retention of business rates to be introduced without new primary legislation.
4. The Fair Funding Review, and the implementation of its results, does not require primary legislation. It can also go ahead without introduction of further business rates retention, and the Government has signalled that it will continue with the review.
5. The following sets out the proposed approach to business rates retention reforms that the officers could follow in the coming months. Members of the Board are invited to provide their comments on the content below.

### **Possible next steps – business rates retention**

6. In its previous meeting, the Leadership Board expressed support for the LGA continuing to work with the sector and the Government to build a case to deliver further business rates retention, if needs be without primary legislation, and officers will continue to work towards this objective.
7. The pause in the process opens up a strong opportunity to argue for extra business rates to be localised without the transfer of responsibilities, with retained resources to be used to plug existing funding gaps instead and to make sure the Fair Funding Review works for all.
8. There is a further opportunity to consider options not previously being considered by government , for example the retention fo some component of revenue support grant or the continuation of some funding through specific grants if businesss rates is not seen as the right means of defunding some services or to facilitate equalisation.
9. The suspension of the reforms also means that the regular settlement process will continue for the time being. There is a need for the Government to provide certainty of funding to councils beyond 2020 – a new long-term settlement could be forged to reflect this and any decisions on public finance made at the Autumn Budget later this year.

### Technical system design

10. The absence of a Bill means that it is not possible to move the basis on which the business rates multiplier increases from Retail Price Index (RPI) to Consumer Price Index (CPI) inflation. It is also not possible to introduce a new infrastructure supplement which would have allowed mayoral combined authorities to increase the multiplier locally by up to 2p for local infrastructure investment.
11. However, as mentioned above, analysis by LGA officers suggests the 'bare bones' system of further business rate retention can be introduced without primary legislation, and the pilots already in operation are evidence of this.
12. There is now a risk that any significant modelling resource invested unilaterally by the LGA to develop technical detail before decisions are made by the Government on its next steps might not provide a return on the resources spent. On the other hand, investing in modelling different solutions could put us in a better position to offer solutions designed by the sector.

### New responsibilities

13. The Government's and the LGA's work on the transfer of responsibilities through the mechanism of business rates is effectively halted. We will continue to lobby for further devolution of certain responsibilities and the resources that go with them for example in relation to skills and employment. As mentioned above, the pause in the reforms presents an opportunity for the LGA to put forward a stronger position on the extra business rates income being retained without any extra responsibilities, with funding used to plug existing funding gaps instead.

### Accounting and accountability

14. This workstream was in its early stages, awaiting for more substantive decisions to be made as part of other workstreams. However, there are improvements that could be made to the current system of data collection and reporting on business rates, including a publicly accessible 'retention calculator' which would show how each council is doing under the current system. This work can continue even if the reforms on further retention do not progress.

### **The Fair Funding Review**

15. The Government has decided to resume its work on the Fair Funding Review. The next meeting of the officer working group is scheduled for 19 July and officers will provide updates to Leadership Board as appropriate.
16. Among factors where the LGA needs to develop a view, there are three key points:
  - 16.1. The LGA could argue that instead of new responsibilities, extra income from business rates could be used to avoid cliffedges in individual council funding levels arising from the results of the review, making the outcome less controversial.
  - 16.2. The LGA needs to consider its position on the timing of the introduction of the results of the review. Under the current 50% retention system, the Government

had committed to a reset in 2020, so the results of the review could be timed to coincide with this. Extending the timescale to 2021 would give more time for the Government to deliver a thorough review, but it would entrench the given funding profiles even further. The LGA could also continue to push for introduction by April 2019 as was originally planned. During a plenary session on the fair funding review at the annual LGA conference, the majority of delegates present expressed a preference for 2020 as the implementation date.

- 16.3. The LGA could reconsider its overall approach to producing proposals for the review. At the session mentioned above, the majority of delegates present expressed a preference for the LGA to build its own proposals for a distribution methodology even if it meant some members seeing their funding reduce. This could be combined with the proposal in 16.1 to ensure that the new funding distribution is achieved only through different speeds of funding growth and avoiding reductions for some members.

### **Recommendations**

17. Members of the Leadership Board are asked to note this report and provide a general steer for the LGA's activity on further business rates retention and the fair funding review.

### **Financial Implications**

18. This is part of the LGA's core programme of work and as such has been budgeted for.

### **Implications for Wales**

19. There are no direct implications for Wales arising from this report. Business rates retention is a devolved matter in Wales.