

**Appendix A - Background briefing for Resources Board Members –
Business Rates Retention and the Fair Funding Review**

Background

1. In October 2015, the then-Chancellor of the Exchequer announced that, by the end of the Parliament:
 - 1.1 English local authorities would be able to collectively retain all income from business rates collected by local government;
 - 1.2 To keep the reform package cost-neutral, the Government would phase out grants (such as the revenue support grant) and transfer new responsibilities to local government;
 - 1.3 Individual local authorities would be able to keep all growth in business rates until a point of reset; and
 - 1.4 Combined Authorities with directly elected mayors would have the power to levy up to an additional 2p to help fund infrastructure projects. All local areas would have the power to reduce the national multiplier locally.
2. In January 2016, the Government announced a fundamental Fair Funding Review which is looking at the distribution of income between individual local authorities, and how relative need to spend on services is assessed to underpin this distribution. The results of the Review will inform the funding baselines for the further business rates retention system.
3. The announcement of the 2017 General Election resulted in the fall of the Local Government Finance Bill, which would have provided the enabling legislation for 100 per cent business rates retention. The 2017 Queen's Speech, covering a two year period, did not reintroduce the Bill. In December 2017, the Government announced that:
 - 3.1 It will introduce 75 per cent business rates retention; and
 - 3.2 The Fair Funding Review will be implemented from the same date.
4. At this stage it is unclear whether the original associated reforms, such as introduction of multiplier flexibilities or abolition of the levy, will be implemented. The former in particular would need primary legislation, which is unlikely in the short and medium term.
5. This briefing provides a brief summary of the various strands of the work on business rates retention and provides further background on the work of the Task and Finish Group.

LGA Governance

6. In March 2016, the LGA's Leadership Board agreed the following:
 - 6.1 The LGA will work jointly with DCLG on further business rates retention;
 - 6.2 The LGA will publish Government papers on further business rates retention on the LGA website; and
 - 6.3 To set-up of a Member level Task and Finish group to steer the work of the LGA on the reform, including policy development.
7. As agreed by Leadership Board, the LGA established a Business Rate Retention Task and Finish Group to help develop and steer the LGA's position on further business rates retention.
8. In addition, the LGA's Leadership Board is maintaining an active role and is receiving reports on the progress of business rates retention reform and the Fair Funding Review at every meeting. The proposals are also being discussed at Executive on a regular basis.. Ultimately the sign off of consultation responses and LGA policy on further business rates retention and the Fair Funding Review rests with Leadership Board and Executive.

Further business rates retention

Responsibilities and quantum

9. The Government's aim is that the move to further local government retention of business rates will be fiscally neutral at the point of implementation. To achieve 75 per cent business rates retention from April 2020 the government is intending to phase out a number of specific grants, and fund them through business rates instead. These, have been discussed with the sector and are:
 - 9.1 revenue support grant;
 - 9.2 GLA transport capital grant;
 - 9.3 rural services delivery grant; and
 - 9.4 public health grant.
10. The LGA, and local authority officers on the responsibilities working group, have been clear that the sector does not want to take on any additional responsibility as part of the move to further business rates retention. This appears to have been ruled out by the Government for the time being.

11. Overall the LGA's position has been that existing pressures and responsibilities – estimated to result in a funding gap of £5.8 billion by the end of the decade - should be funded through greater business rates retention. There is also a concern that linking any funding of health and social care services with business rates will mean that growth in demand for services will quickly outstrip any growth in business rates.

System Design and Multiplier Flexibilities

12. Key systems design issues are related to striking the balance between needs and incentives, controlling for risks such as those arising from appeals and the balance between the central and local lists.
13. The main tool for achieving a balance between needs and incentives is how frequently the system is reset and how much growth authorities are allowed to carry over from one reset period to the next. The Task and Finish Group has supported, subject to further analysis, a system of partial resets once every few years, where a proportion of growth is kept at reset and a proportion is used to reset the baseline for those authorities which have lost business rates. The Group has not yet agreed a position on the precise length of time between resets but felt there might be a need for a full reset on an infrequent basis.
14. There are currently almost 300,000 unsolved business rates appeals. Since 50 per cent business rates retention was implemented local government has had to fund 50 per cent of losses due to appeals. The Task and Finish Group, and the majority of local government, support a national provision for appeals funded from income from the central list.

The Government's Fair Funding Review

15. The outcome of the Fair Funding Review will help establish a needs baseline for each authority under further business rates retention. This will be used to compare to the business rates baseline of each authority to determine tariffs and top-ups i.e. how much income will be redistributed around the country to equalise for needs and resources. The review does not cover absolute need or the minimum cost of providing services.
16. The Fair Funding Review covers a wide range of issues and interactions with other work streams. The Government has identified core issues for the review as:
 - 16.1 Defining Need It focusses on determining the methodology and approach to measuring relative need to spend on services. For example, the shape of the formula, the number of formulae, what indicators should be included and how they should be weighted.
 - 16.2 Treatment of resources - how to take locally raised resources, such as council tax, into account when determining funding baselines.

- 16.3 Features of the system - the interaction with wider business rates retention reform; for example, business rate resets.
- 16.4 Transition - how councils will move from the current funding / income position to the future one.
- 17. The LGA focusses on facilitating the conversations between member authorities and the Government so that all parts of the sector have an opportunity to state their case. Current LGA policy position on the Fair Funding Review is to call for the Government to:
 - 17.1 Ensure that no local authority sees its funding reduce as a result of the review.
 - 17.2 Deliver a simpler system of assessing relative funding needs. This should not come at a cost to fairness.
 - 17.3 Carefully consider the basis on which relative ability to benefit from council tax is taken into account.
 - 17.4 Set a clear time limit on transition from the current funding baselines to new ones.