

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

### **Purpose**

For information and discussion.

### **Summary**

This report updates members on progress of the LGA's work related to business rates retention and the Fair Funding Review. In particular, it seeks members' comments on, and approval of, the LGA's response to the Government's consultation on assessing relative needs as part of the Fair Funding Review.

### **Recommendations**

That the LGA Leadership Board:

- a) Note the report;
- b) Provide comments on, and clearance of, the LGA's response to the Government's consultation on the Fair Funding Review attached as **Appendix A**; and
- c) Agree the final signoff procedure as set out in paragraph 8.

### **Action**

Officers to proceed as directed.

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

### **Introduction**

1. This report updates members on progress of the LGA's work on Business Rates Retention and the Fair Funding Review since the last meeting of Leadership Board. In particular, it seeks members' comments on and clearance of the LGA's response to the Government's consultation on assessing relative needs as part of the Fair Funding Review.

### **Fair Funding Review – LGA consultation response**

2. Following our calls to inject further pace into the process of the Review to maintain its credibility with our members, the Government published a [consultation on the design of the relative needs assessment](#) alongside the provisional local government finance settlement on 19 December 2017.
3. The consultation does not cover the relative resources adjustment, transition or other technical matters. We expect these to be addressed through a series of technical papers throughout 2018 and the expanded LGA work programme will be used to feed into these discussions.
4. Instead, the consultation covers the following themes:
  - 4.1. The extent to which a single formula could be used to assess relative spending needs.
  - 4.2. Which services might require specific formulae to assess their relative spending needs.
  - 4.3. What cost drivers could be used in these formulae.
  - 4.4. What techniques could be used to give weightings to different cost drivers as well as the formulae against one another.
5. The previous Fair Funding Review and Business Rates Retention [update to Leadership Board in January 2018](#) included some more detailed commentary on the content of the consultation document. The draft response has been prepared based on the discussions in those meetings and a meeting of the Fair Funding Review and Business Rates Retention Task and Finish Group.
6. The draft response has been further refined based on comments from the County Councils Network (CCN), the District Council Network (DCN), SIGOMA, London Councils, the Association of Local Authority Treasurers' Societies (ALATS), the LGA Chairman, Group Leaders and the Fair Funding Review and Business Rates Retention Task and Finish Group.
7. The final draft response is attached as Appendix A. Members of Leadership Board are asked to provide their comments on the response and agree the final sign off process as set out in paragraph 8.

8. LGA Executive will receive this report and proposed response for their comments and clearance on 8 March. Officers will work with LGA Political Group Offices on clearing the final version of the response which reflects comments of both LGA Leadership Board and Executive, in time for the 12 March deadline for responses.
9. It is important to highlight that elements of the responses to questions 8, 10 and 20 would potentially constitute new LGA policy.
  - 9.1. Following suggestions from Leadership Board and Executive in January, the response to question 8 calls on the Government to consider population density (where effects are over and above deprivation), daytime and student populations.
  - 9.2. The response to question 10 suggests that cost pressures which are material for a small number of local authorities, but not a significant part of local government spending at a national level, should be dealt with outside of the Fair Funding Review – unless the cost drivers match one of the other formulae.
  - 9.3. The response to question 20 suggests that results of any statistical analysis should be ‘sense checked’ by service delivery experts, such as service directors – as well as a wider independent assurance process on the workings of the model.

## **Other Fair Funding Review and Business Rates Retention updates**

### Business rates retention and LGA/MHCLG Officer-led Steering Group

10. The Business Rates Retention Steering Group is now meeting regularly to oversee the programme of Business Rates retention, including the introduction of 75 per cent business rates retention in April 2020, longer term issues for the introduction of 100 per cent retention which will require primary legislation, and the Fair Funding Review work. Working under the Steering Group, the Systems Design Working Group has begun detailed consideration of the issues.
11. The System Design Working Group met in February and focussed on the central rating list. This followed consultation last year that concluded that the central list should primarily contain hereditaments which, due to their nature, are not suitable for being assessed on the local rating list.
12. Following this meeting, MHCLG will develop criteria which can be used to determine what properties should be on the central list and what should be on the local lists. This mechanism will be shared with the Working Group and with the Steering Group. MHCLG will then use the criteria to identify properties to be moved between lists, in consultation with the Valuation Office Agency (VOA) and local government. There will be a consultation on the hereditaments to be moved in spring 2019.
13. Further discussions at the Systems Design Working Group leading up to a consultation paper in September 2018 will concern tier splits (with representation from interests representing counties and districts), the safety net, appeals and loss payments, resets, measuring growth and revaluation, transitional arrangements and pooling, data and accounting and operationalisation.

14. Following the approval of 10 new pilots for 2018/19, MHCLG is expected to invite applications for pilot status in 2019/20. At this stage it is not known what criteria will be used for assessment.

#### Fair Funding Review technical working group update

15. The technical working group on the Fair Funding Review met on 16 January 2018. It is co-chaired by LGA and MHCLG officers and attended by local authority officers representing all types and regions of local authorities, including representatives of SIGOMA, CCN, DCN and the Rural Services' Network among others.
16. The meeting focussed on the best available statistical techniques that could be used to weight cost drivers in a relative needs formula against one another, in order to reflect their relative importance in determining local authorities' 'need to spend'.
  - 16.1. Firstly, the members noted a paper by the Ministry of Housing, Communities and Local Government (MHCLG) which described the principles behind various statistical techniques that could be applied when developing relative needs formulae, such as expenditure-based regression, outcomes-based regression, multi-level modelling and others.
  - 16.2. Secondly, the members discussed and agreed in principle a proposal from the analysis unit of the Society of County Treasurers that an alternative way to identify cost drivers and derive weightings would be through consultation of focus groups and panels which could include finance professionals as well as service directors. The group noted while this approach is subject to its own advantages and disadvantages, it may be helpful in sense-testing the results of the statistical analysis.
  - 16.3. Finally, the group discussed the current leading options for needs assessment for the specific service areas outlined in the Government's consultation on relative needs. The group considered more sophisticated analytical techniques such as multi-level modelling (which looks at data relationships at ward level rather than local authority level), which may be appropriate for social care services. The group also reiterated support for ways to sense-test the conclusions of the statistical analysis.
17. These points represent a consensus of the local authority officers at the meeting and have been adopted in the LGA's consultation response as above.
18. The next meeting of the technical working group will return to discussions on treatment of resources such as council tax, as well as the formula for adult social care.

#### Other LGA work on the Fair Funding Review

19. Jointly with MHCLG officials, the LGA is running a series of regional workshops on the Fair Funding Review consultation which allow local authority officers and politicians to feed into the Government's consultation directly. At the time of Leadership Board, five regional events will have taken place in Newcastle, Exeter, Birmingham, London and Cambridge, with a final event planned for Manchester on 20 March. Officers will provide a summary of the events at a future meeting.

20. At the time of writing, officers were in the process of appointing suppliers to deliver aspects of the additional LGA work programme on the Review as agreed by Leadership Board and Executive. A full progress update, with some deliverables, will be provided to Leadership Board for its next meeting – but a quick summary of progress is set out in **Appendix B**.

#### The Business Rates Retention Task and Finish Group

21. The LGA Business Rates Task and Finish Group met on 25 January. It discussed:

21.1. **A general progress update and refreshed Terms of Reference.** Members of the Group decided to rename the Group to the Fair Funding Review and Business Rates Retention Task and Finish Group to reflect the importance of the Fair Funding Review to members of the LGA.

21.2. **A proposed set of evaluation criteria the LGA could adopt when assessing Government and sector-led Fair Funding Review proposals.** This is part of the additional LGA work programme on the Review as agreed by Leadership Board and Executive. Members will receive a final proposal and evaluation template for clearance at the next meeting of Leadership Board.

21.3. **The recommended points to make in LGA's response to the Government's Fair Funding Review consultation.** This is covered by this report as above and in **Appendix A**.

21.4. **An initial discussion of how council tax could be treated within the Review.** Officers will provide some 'what if' analysis of a selection of options to the Group at a future meeting.

22. The Task and Finish Group is next meeting on 8 March, and will discuss how various incentives can be reflected in the Business Rates Retention system, and how unintended consequences can be avoided.

23. The Group will also discuss analysis on how the relative needs assessments of individual councils might diverge over time, to inform LGA views on how often the system could be re-set following implementation in 2020.

#### **Implications for Wales**

24. There are no direct implications for Wales arising from this report. The funding of Welsh local authorities is a devolved matter in Wales.

#### **Next steps**

25. Officers will proceed to finalise the LGA response to the Government's consultation on the Fair Funding Review on the basis of the discussions at Leadership Board and Executive. Final changes will be cleared through the LGA Political Group Offices in time for the 12 March deadline for submissions.

26. Members of Leadership Board and Executive will be provided with a progress update on the additional LGA Fair Funding Review programme at the next meeting of the respective bodies.
27. The LGA will continue to work closely with the Government on further business rates retention and the Fair Funding Review, including responding to future consultations and technical discussion papers.

#### **Financial implications**

28. With the exception of the work mentioned in **Appendix B**, for which additional funding has been previously agreed by the Leadership Board and Executive, the work is part of the LGA's core programme of work and as such has been budgeted for in 2017/18 budgets.