

06 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 including the LGA's work on these policies.

### Recommendation

That the LGA Leadership Board comment on the report.

### Action

Officers to proceed with delivery of the LGA work programme on business rates retention and the Fair Funding Review in line with Leadership Board's comments.

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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 meeting of the LGA Leadership Board, including the LGA's work on these policies.
2. Since the previous meeting of the LGA Leadership 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's Fair Funding Review work programme

3. A high level update on work towards the LGA work programme on the Fair Funding Review and Business Rates Retention is attached as Appendix A and the following paragraphs provide more detail. Members of LGA Executive will receive a more detailed update at the 7 June meeting as Executive last met in March.
4. As a result of discussions at the April meeting of Leadership Board, [the template for evaluation of future Fair Funding Review proposals](#) has been finalised and adopted and will be used when new proposals emerge as part of the Fair Funding Review. It will be used by officers and the LGA's 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 the model, or aspects of it, could be supported by the LGA.
5. Separately, the University of Essex has published a working paper on its work on updating the data used in the 2013/14 funding baselines. This analysis led to the recommendation by the Task and Finish Group on Business Rates Retention and the Fair Funding Review, endorsed by Leadership Board, to use population projections in future funding baselines.
6. Since Leadership Board met, the University of Essex was able to access data from the schools census and update 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, with the range now between a reduction of relative needs of 27 per cent and an increase of relative needs of 19 per cent. The greater divergence further reinforces the Leadership Board's decision to use population projections in the formulae.
7. 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.

8. The Business Rates Retention and Fair Funding Review Task and Finish Group will be receiving a demonstration of the relative needs and council tax adjustment models at its June meeting. As per the procedure agreed by Leadership Board, the Chairman and Group Leaders will then be asked to sign off the publication of these technical pieces of work.
9. As agreed with Leadership and Executive, officers have started the commissioning process for an analysis of options for implementing the transition of funding allocations from one pattern to another, to help develop LGA policy on this issue.

#### Other Fair Funding Review updates

10. The Fair Funding Review Technical Working Group met on 18 May and discussed the following matters:
  - 10.1. The group noted a summary paper from MHCLG regarding 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. 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.
  - 10.2. The group discussed 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, and there is an opportunity for members of the technical working group to provide more detailed comments on the substance of the formula after consulting their respective membership groups. It was agreed that this work needs to be more closely aligned with the Fair Funding Review.
  - 10.3. The group had an update on the development of a specific fire and rescue formula, which is being created through a partnership of the National Fire Chiefs' Council, the Home Office and MHCLG officers.
  - 10.4. As noted above, LGA officers provided an update on the LGA Fair Funding Review work programme, in particular the evaluation template and the work on divergence of relative needs. This work was well received by members of the group.

#### The next steps of the review

11. 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:

- 11.1. 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.
  - 11.2. The Government's emergent thinking on adjusting for relative resources.
  - 11.3. Potentially, initial thoughts on the transition mechanism.
12. 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**

#### Commissioning a business rates retention model

13. Following the decision of the Leadership Board at its April meeting to commission a business rates retention model to enable the effect of possible systems design changes to be estimated, this work is in the process of being commissioned. Further updates will be given to LGA Leadership Board at a future meeting.

#### Other business rates retention updates

14. The Business Rates Retention Steering Group and the Systems Design Working Group continue to meet regularly to oversee the programme of further business rates retention and the Fair Funding Review. Since the last meet of Leadership Board the groups have discussed:
- 14.1. Retained growth in business rates in 2018/19, which the Government estimated as £1.3 billion above the baseline at a national level. MHCLG were asked to provide further information on trends in retained business rates, the effect of the levy and pools on retained rates. This more complete work will be published on the LGA website when it is available.
  - 14.2. Tier splits, safety nets and levies in the 75 per cent system. MHCLG is working directly with the County Councils Network, the District Councils Network and county and district treasurer associations, on developing a proposal for a future tier split for consideration by the Working Group and Steering Group.

- 14.3. 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. As the impact of appeals on local authorities is one of the key concerns with the business rates retention system, we are encouraging all authorities to respond to the MHCLG request for comments by 1 July 2018. We have brought this to the attention of our members through the Chief Executives and Chairman's bulletins and the LGA Finance bulletin in May. The LGA is also seeking opportunities to stress the importance of finding a better way to deal with the impact of appeals directly with Government.
15. 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.
16. MHCLG is expected to publish a prospectus shortly inviting bids for 2019/20 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.
17. 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**

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

### **Financial implications**

19. 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 model.
20. 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 2017/18 and 2018/19 budgets.

## 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.	<a href="#">Complete</a>
Formula grant: update the data	<p>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.</p> <p>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.</p>	<a href="#">Complete</a>
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	<p>Demonstration to the members of the Business Rates Retention and Fair Funding Review Task and Finish Group in June;</p> <p>Final clearance by LGA Chairman and Group Leaders shortly thereafter</p>
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.	<p>Demonstration to the members of the Business Rates Retention and Fair Funding Review Task and Finish Group in June;</p> <p>Final clearance by LGA Chairman and Group Leaders shortly thereafter</p>
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

Project	Purpose and description	Quick update
Business Rates Retention model	<p>A model to enable LGA and local authorities to assess the impact of system design choices in areas including:</p> <ul style="list-style-type: none"> <li>• The setting of business rates baselines;</li> <li>• The extent and frequency of business rates resets;</li> <li>• Dealing with losses due to appeals;</li> <li>• The level of the safety net and how it is funded; and</li> <li>• The split of business rates income in two-tier areas.</li> </ul>	Commissioning process started