

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.

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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

Commissioning a Business Rates Retention model

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.