

Local Government Finance Update

Purpose

For comment.

Summary

This report updates members on progress of the Fair Funding Review and further Business Rates Retention, as well as other local government finance items not covered elsewhere on the agenda of the Resources Board.

Recommendation

That Members of the Resources Board note this update.

Action

Officers to proceed with delivery of the LGA work programme on matters set out in the paper as recommended by the Board.

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Fair Funding Review and Business Rates Retention Update

Introduction

1. This report updates members on progress of the Fair Funding Review and further Business Rates Retention, as well as other local government finance items not covered elsewhere on the agenda of the Resources Board.
2. Policy on further Business Rates Retention and the Fair Funding Review is being developed through the Task and Finish Group on Business Rates Retention and the Fair Funding Review, Leadership Board and Executive.

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.
4. Work on [evaluation criteria](#) and the [divergence of relative needs over time](#) is now complete.

Relative needs assessment and council tax adjustment models

5. As agreed at Leadership Board, the LGA commissioned two separate models:
 - 5.1. A needs distribution model to allow local authorities to see the impact of different cost drivers and differential weightings within needs formulae;
 - 5.2. A council tax equalisation model to identify the impact of adjustments for council tax and council tax support on individual authorities.
6. These models 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.
7. Following clearance by the Task and Finish Group and LGA Group Leaders, [the models have been published](#) and shared with member authority chief executives and chief finance officers.

Transition options review

8. As agreed at previous meetings of the LGA's Leadership Board and Executive, officers have commissioned a review of transition methods previously used in the distribution of funding from central government and a model to assess the impact of different methods of moving from the current pattern of funding to the one following the Fair Funding

Review and introduction of 75 per cent retention. Suppliers have been appointed to produce this work which we expect to be completed in September.

Fair Funding Review technical working group update

9. The officer-led Fair Funding Review Technical Working Group, attended by officers from all types of local authorities covering all regions and co-chaired by LGA and MHCLG officials, met on 10 July. Over the course of the meeting the group discussed:
 - 9.1. The Area Cost Adjustment, its role in future relative needs adjustment formulae and ways to update the analysis;
 - 9.2. Principles for future transitional arrangements from one pattern of funding to another. As referred to above the LGA has commissioned work on this issue;
 - 9.3. Treatment of historic supported capital borrowing which predates the 2003 prudential borrowing system. There used to be a specific formula to take this into account in the pre-2013 formula grant system. The technical working group supported using principles similar to the previous formula, with notional debt levels used instead of actuals.

The Government's next steps for the Fair Funding Review

10. The Government's work is building towards a wider consultation on the Fair Funding Review, expected in autumn 2018. Government officials have elaborated on the issues the consultation might explore as part of papers to the July 2018 officer-led Steering Group.
11. The following is subject to Ministerial decision on the scope of the consultation, including the extent to which the Government would identify preferred options at this stage.
12. On the relative needs assessment, the consultation might cover:
 - 12.1. The structure of the assessment, including options for tier-specific foundation formulas and formulas to assess specific services. The Government might express a preferred option on this.
 - 12.2. The leading cost drivers for inclusion in the above, and a description of proposed analytical techniques to weight them against one another;
 - 12.3. Commentary on the area cost adjustment.
13. On the relative resources assessment, the consultation might cover high level approaches to:
 - 13.1. Measuring the council tax base, in particular treatment of mandatory and discretionary council tax discounts. This includes local council tax support schemes;

- 13.2. The choice of notional or actual council tax levels to be used when calculating the adjustment;
- 13.3. Treatment of other income, such as sales, fees and charges.
14. On transition, the consultation might cover:
- 14.1. High level principles that could underpin the choices of transition mechanism, such as stability, speed, transparency and time limits;
- 14.2. The definition and measurement of 'baseline' and 'target' between which the transition mechanism would be applied to.
15. 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

16. In April Leadership Board agreed to the LGA commissioning a business rates retention model to enable the effect of possible systems design changes to be estimated. Following a tendering exercise LGFutures were commissioned to produce the model. A working version was demonstrated at the meeting of the Business Rates Retention Task and Finish Group on 12 September. Following feedback from the Task and Finish Group officers will work with the suppliers to make refinements to the model. Following political clearance of the model it will be placed on the LGA Business Rates Retention Hub alongside the other models commissioned by the LGA. Further updates will be given to Resources Board at a future meeting.

2019/20 pilots

17. The prospectus inviting areas to bid to become a further business rates retention pilot was published on 24 July 2018. Applications for 75 per cent pilots are being invited with a closing date of 25 September 2018. It should be noted that the five 2017/18 devolution pilots will continue at 100 per cent and there will be separate discussions covering London. Non-London 2018/19 pilots will need to reapply if they wish to be a pilot in 2019/20. Unlike in 2017/18 and 2018/19 there will not be a no-detriment clause. At the time of writing, LGA and MHCLG officers were organising a joint event on 3rd September where senior officers from authorities considering making applications will have the opportunity to learn more about the pilots and process.

Other business rates retention updates

18. 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 is continuing its detailed consideration of the issues and an Implementation

Working Group has been set up to consider some of the more technical aspects of implementing further business rates retention. Since the last meeting of Resources Board the groups have discussed:

- 18.1. Different options for resets, including consideration of how to balance desirable criteria such as simplicity, rewarding growth and allowing for needs;
 - 18.2. Options for pooling, looking at how pools can be incentivised in the absence of a levy. Local authority representatives felt that fiscal freedoms, such as the ability to change the conditions of grants and to vary the capital and revenue split, would be the most powerful.
 - 18.3. A proposal for simplifying business rates retention. It was agreed that further work needed doing on this and it will be the topic of future papers to the groups. We will keep members up to date on these discussions.
19. Further discussions at the Systems Design Working Group will inform a consultation paper expected to be published later this year. This is expected to consist of a proposed overall package, individual elements of the system such as resets, tier splits, safety nets and treatment of appeals, and also a consideration of what long term reforms, requiring primary legislation, would be beneficial.

Other matters

20. In July Cipfa published a consultation on proposals to produce a financial resilience index for English councils. Resources Board lead members approved the LGA's response ([link?](#)) to the consultation. While we welcome any tools that help councils monitor and measure their finances we are concerned that such an index will be used (incorrectly) as a performance table for councils even though this is not Cipfa's intention. We have therefore started discussions with Cipfa about alternative ways that the data could be published.
21. Following calls from the LGA and from others in the sector, the Government is consulting on a statutory override for councils to the implementation of aspects of International Reporting Standard 9 (IFRS 9). The proposed response to the consultation is an item elsewhere on today's agenda.
22. Following the success of this year's conference in January, the date for the next LGA annual Local Government Finance Conference has been confirmed. It will be held on Tuesday 9 January 2019 in the conference suite at 18 Smith Square. The focus of the conference will be the Spending Review 2019, together with the Fair Funding Review and further Business Rates Retention.

Implications for Wales

23. There are no direct implications for Wales arising from this report as business rates retention and the Fair Funding Review apply to England, and the Cipfa resilience index and the IFRS statutory override are for England only. The distribution of funding to Welsh local authorities is a devolved matter in Wales.

Financial implications

24. 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.
25. 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.