

Fair Funding Review and Business Rates Retention Update

Purpose

For information and agreement.

Summary

This report updates members on progress on the Fair Funding Review and Business Rates Retention reform since the September meeting of the Leadership Board.

Recommendation

That members of the Leadership 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 further Business Rates Retention, since the September 2018 meeting of the LGA Executive.
2. The work on further Business Rates Retention and the Fair Funding Review is being considered by the LGA's Task and Finish Group prior to, or alongside, consideration by 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. As per the previous updates, work on the [relative needs and resources models](#), [the evaluation criteria](#), and the [divergence of relative needs over time](#) is now complete.

Transition work

5. LG Futures was appointed to deliver a summary of potential mechanisms for transition from the current pattern of funding to one that will result from the Fair Funding Review. As the latter will not be clear until 2019 at the earliest, this work will allow the building of hypothetical scenarios to help with the review of potential transition options.
6. Members of the Business Rates Retention and Fair Funding Review Task and Finish Group discussed the progress of this work and the early draft of the underlying model in their September meeting. The final model will be signed off the Chairman and Group Leaders as agreed at their September meetings. The summary of the potential transition options will be discussed at a future meeting of the Task and Finish Group, Leadership Board and Executive. The work will be published as soon as possible after sign off has been completed.

The Government's next steps for the Fair Funding Review

7. The MHCLG/LGA co-led finance officer technical working group on the Fair Funding Review had a regular meeting on 21 September. The meeting focussed on four main topics – density, rural pressures, Concessionary Travel, and the use of ONS forward population projections. The first three papers were items from local authority groups. The population paper was a MHCLG item.
8. There was general agreement about the use of population projections in future formulae a position which was agreed by Leadership and Executive earlier this year. MHCLG will

reflect on the discussions on the four papers and take account of them in drafting a forthcoming consultation paper which is yet to be cleared by Ministers.

9. As reported at previous meetings, 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.
10. 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.
11. On the relative needs assessment, the consultation might cover;
 - 11.1. the structure of the assessment, including options for tier-specific foundation formulae and formulae to assess specific services. The Government might express a preferred option on this;
 - 11.2. the leading cost drivers for inclusion in the above, and a description of proposed analytical techniques to weight them against one another; and
 - 11.3. commentary on the area cost adjustment.
12. On the relative resources assessment, the consultation might cover high level approaches to;
 - 12.1. measuring the council tax base, in particular treatment of mandatory and discretionary council tax discounts. This includes local council tax support schemes;
 - 12.2. the choice of notional or actual council tax levels to be used when calculating the adjustment; and
 - 12.3. treatment of other income, such as sales, fees and charges.
13. On transition, the consultation might cover;
 - 13.1. high level principles that could underpin the choices of transition mechanism, such as stability, speed, transparency and time limits; and
 - 13.2. the definition and measurement of 'baseline' and 'target' between which the transition mechanism would be applied to.
14. 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.

15. In particular, the Task and Finish Group has recently had a number of detailed discussions on the issues set out in paragraph 12. The report to the December meetings of Leadership Board and Executive will provide a summary of the emerging consensus proposed for adoption as LGA policy.

Business Rates Retention

Commissioning a Business Rates Retention model

16. In April 2018 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 and Fair Funding Review Task and Finish Group on 12 September and their comments have been fed back to the suppliers.
17. Officers are now able to recommend that the Chairman and Group Leaders sign off the Business Rates Retention model this month. Following this, the model will be shared with member authorities and placed on the LGA Business Rates Retention Hub alongside the other models commissioned by the LGA. Further updates will be given to your Board at a future meeting.

2019/20 further Business Rates Retention pilots

18. As reported at your previous meeting, the prospectus inviting areas to bid to become a further business rates retention pilot in 2019/20 was published on 24 July 2018 and closed on 25 September 2018. 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 needed to reapply if they wished to be a pilot in 2019/20. Unlike in 2017/18 and 2018/19 there is no no-detriment clause. The outcome of the 2019/20 round is expected to be known later in the year.

Other Business Rates Retention updates

19. The joint MHCLG / LGA Systems Design Working Group had a further joint meeting with the Implementation Working Group, a group which has been established to work on the most technical aspects of the system, on 13 September. At the previous meeting of the groups two authorities presented a paper on how to simplify Business Rates Retention. At the September meeting, MHCLG tabled a paper on how retaining growth could work under the proposal for a simplified system.
20. The Business Rates Retention Steering Group is due to consider a MHCLG paper summarising the simplified system at its meeting on 16 October. This will also be considered by the LGA's Task and Finish Group on Business Rates Retention and the Fair Funding Review on 18 October. Further updates will be brought to future meetings of Leadership Board and Executive.
21. Further discussions at the Systems Design Working Group will inform a consultation paper which is expected to consist of a proposed overall package on 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.

22. The Business Rates Retention Steering Group, at its meeting on 16 October, is due to consider papers on the work described in the previous paragraphs as well as papers on the Fair Funding Review and verbal updates on 2019/20 pilots and on the Spending Review. A verbal update will be given at this meeting.

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. 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 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.

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.	Complete
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>	Complete
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	Complete
Council tax equalisation: develop a model	<p>A model to identify the impact of adjustments for council tax and council tax support on individual authorities.</p> <p>To inform LGA policy and to help individual member councils evaluate Government proposals.</p>	Complete
Damping /transition mechanisms	A summary of historic damping / transition mechanisms and a model to inform discussions on the guiding principles of transition. To inform LGA and member authorities' policy.	<p>Model due to be signed off by the Chairman and Group Leaders, following which it will be placed on the LGA Business Rates Hub.</p> <p>Summary paper to be discussed and agreed at the Tanks and Finish Group before being discussed at Leadership board and Executive.</p>

Project	Purpose and description	Quick update
<p>Business Rates Retention model</p>	<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"> • The setting of business rates baselines; • The extent and frequency of business rates resets; • Dealing with losses due to appeals; • The level of the safety net and how it is funded; and • The split of business rates income in two-tier areas. 	<p>Model due to be signed off by the Chairman and Group Leaders, following which it will be placed on the LGA Business Rates Hub.</p>