

Business Rates Retention and Fair Funding Review Update

Purpose of report

For information.

Summary

This report provides a summary of progress on the Fair Funding Review and Business Rates Retention work programmes.

Recommendations

That members note the report.

Action

Officers will proceed with delivery of the LGA work programme on Further 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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Business Rates Retention and Fair Funding Review Update

Background

1. This report provides a summary of progress on the Fair Funding Review and Business Rates Retention work programmes. In particular, this paper covers the following:
 - 1.1. Discussions at the April 2019 LGA/MHCLG officer-led Steering Group;
 - 1.2. Progress on the alternative administration model of business rates retention;
 - 1.3. A summary of consultation responses received by the Government to the December consultations on business rates retention and the Fair Funding Review; and
 - 1.4. LGA submission to the HMT inquiry on business rates.
2. Members of Leadership Board and Executive have previously agreed deliverables of an expanded LGA work programme on business rates retention and the Fair Funding Review. Progress is set out in **Appendix A**.

The LGA/MHCLG Officer-led Steering Group

3. The officer-led LGA/MHCLG Business Rates Retention Steering Group, consisting of senior local authority officers, met again on 9 April. This group also covers matters related to the Government's review of relative needs and resources (sometimes called the 'Fair Funding Review'). In the meeting, the group discussed:
 - 3.1. The summary of consultation responses on the Fair Funding Review and Business Rates Retention (covered below).
 - 3.2. The Area Cost Adjustment (to be discussed by the LGA Business Rates Retention and Fair Funding Review Task and Finish Group).
 - 3.3. The alternative ways of administering the Business Rates Retention system and MHCLG's intention to discuss with the wider sector (covered below and to be discussed by the LGA Business Rates Retention and Fair Funding Review Task and Finish Group).
 - 3.4. The forthcoming Spending Review and the range of scenarios interacting with the reform of the system (covered elsewhere on the agenda).
 - 3.5. The impact of different levels of notional council tax and how the level might be determined.
4. The Group noted that more detail, analysis and exemplifications are necessary for all the areas of the reforms. Steering Group members requested the papers go to the Needs and Redistribution Technical Working Group and System Design Working Group to look further into the detail with a view to the issues coming back to the Steering Group at a future meeting.

5. The technical working groups mentioned above shall be reconvened following a break due to the consultation process and the local government finance settlement.

Alternative administration model for business rates retention and modelling tool

6. MHCLG has been developing thinking on the alternative administration of business rates retention including exploring an alternative approach using data taken directly from the Valuation Office Agency. They have also been considering how to take mandatory and discretionary reliefs into account.
7. The officer working groups and the Business Rates Retention and Fair Funding Review Task and Finish Group will continue to discuss this. Officers will continue to keep the Leadership Board / Executive updated.
8. LGA officers have commissioned LGFutures, who produced the previous modelling tool on business rates retention, to produce a further model showing how the alternative administration model might work, comparing the results of this new method to the current system. This is being discussed with the Business Rates Retention and Fair Funding Review Task and Finish Group on 6 June following which it is planned to present it to the Chairman and Group Leaders for sign off and publication on the LGA website.

December 2018 consultations: Summary of responses received by MHCLG

9. The Government received over 300 responses to the Fair Funding Review consultation and 282 responses to the business rates retention consultation, both published in December 2018.
10. MHCLG have produced a summary of comments received and these are available on the LGA website ([business rates retention](#), [fair funding review](#)). MHCLG will publish formal summaries, including a full account of all comments received, later in the year.
11. **Appendix B** sets out a small selection of the main comments made by key representative groups as assessed by the Government. Many of the responses appear to match the views expressed by the LGA.

HMT Inquiry into business rates and their impact on business

12. On 2 February 2019 the Treasury Select Committee launched an inquiry into business rates to scrutinise how Government policy has impacted business. The Committee is examining how business rates policy has changed, including Business Rates Retention, alternatives to property-based taxes such as the proposed digital services tax, and how changes to business rates could impact businesses.
13. A summary of the submission was provided at your last meeting and the submission [has now been published by the Select Committee](#). The LGA has been invited to give evidence on 5 June. Officers will provide a verbal update on this at the meeting.

Next steps

14. Members are asked to note this report.

15. Officers will 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.

Implications for Wales

16. Local government funding is a devolved matter and business rates retention and the Fair Funding Review policies are limited to English local authorities.

Financial Implications

17. This is part of the LGA's core programme of work and as such has been budgeted for in core work programme 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.	Complete
Formula grant: update the data	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. 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.	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	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.	Complete
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.	Complete
Business Rates Retention model	A model to enable LGA and local authorities to assess the impact of system design choices in areas including: <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. 	Complete
Alternative Administration Model of Business Rates Retention	A model to enable LGA and local authorities to assess the impact of the alternative administration of Business Rates Retention.	Due for sign off in June 2019.

Appendix B: highlights of December 2018 consultation responses received by MHCLG

Business Rates Retention Reform Consultation

1. There were 282 responses to the December 2018 consultation on business rates retention. MHCLG provided a summary of responses at the April meeting of the officer level Steering Group and this is summarised below. MHCLG will publish a formal summary later in the year.

Resets

2. Most responses, broadly in line with the LGA response, supported phased resets to help with financial planning, get rid of 'cliff edges' and allow for a smoother transition. A small number of authorities' favoured partial resets.
3. Some supported a shorter reset period to support sustainability, whilst others argued for a longer period to provide a strong growth incentive. It was noted that six years would align with revaluation cycles.
4. The majority of responses called for more modelling and worked examples to illustrate the impact of each option on different authority types, before any final decision is made.

Safety Net

5. There was broad consensus on the continuation of the safety net as a percentage below the Baseline Funding Level. The majority also supported an increase in the level of the safety net, although some expressed concern about funding an increased safety net through a top slice of the system.

Levy

6. The Government gave examples of the levy being set at 100 per cent, 150 per cent, 200 per cent and 250 per cent. Some argued for a higher levy threshold whilst others would like it to be lowered. The LGA response did not express a view on a particular threshold level.

Tier splits

7. There was strong support from the sector for the ability to negotiate and set tier splits locally. Most would like to see a default national tier split to be set by the Government where agreement is not reached. This was in line with the LGA response. Some responses suggested a ratio of 50:50 to recognise the shared partnership for delivering economic growth in a two-tier area and others that no council should be worse off as a result of changes to tier splits.

Pooling

8. Most respondents agreed that there are benefits to pooling and they would like it to be incentivised but no strong themes emerged on what the most appropriate incentives might be.

Central and Local Lists

9. Most agreed with the criteria outlined in the consultation which the LGA response supported. The majority wanted a commitment from the Government that local authorities will be compensated for movements between lists. At the Steering Group meeting officials reported that they had not received many suggestions for specific hereditaments to be moved between lists.

Appeal and other valuation changes

10. The Government has not found a way of mitigating the impact of provisions on authority's day to day ability to spend and that the alternative approach is the only way to address appeals volatility. Many respondents, whilst noting this, would like local authorities to have the flexibility to identify significant valuation change not due to developmental change that was not backdated to the first day of the list.

Reforming the administration of the system

11. The majority of responses indicated broad support in principle for the alternative system. Many called for a further consultation with detailed modelling before any final decisions are to be made. Some wanted a phased reset in 2020/21 and a one-year delay in its implementation in order to 'ensure a smooth transition to this new way of working'.

Setting up the reformed system

12. This question covered how the system would be set up if the alternative system is not adopted. There were mixed views, with most supporting using authorities' own estimate of provisions. Many were concerned about basing the reset on a single years' data and suggested that at a full reset the baseline should be based on at least the last two years.

Other comments

13. Some respondents took the opportunity of the consultation to raise concerns about the full reset in 2020/21, suggesting that it should be delayed, including to align with the next revaluation, or undertaken on a partial basis by way of sharing growth more evenly across the system.

Review of relative needs and resources (Fair Funding Review)

Measuring relative needs

14. The majority of responses from representative groups indicated broad support for the direction of the review's approach, with greater simplicity, but not at the expense of accuracy.
15. There was a broad consensus from all key representative groups, excluding one, that deprivation should be included as a cost driver in the Foundation Formula, weighted by evidence.

16. There was support for separate Adult Social Care and Children and Young People's Services formulas and calls for further detail on the proposals be made available as soon as possible. The use of analysis at sub-council level for these formulas was welcomed by some groups as more robust.
17. There was consensus on the need for a specific formula if Public Health is incorporated into the 75 per cent Business Rates Retention scheme. However, there were mixed views on the use of the 2015 Advisory Committee on Resource Allocation (ACRA) new Public Health formula. There was a call for more analysis to be done on the formula to confirm it is fit for purpose.
18. There were very mixed views on the approach to Concessionary Travel and Home to School Transport, and whether they were best suited to a service specific approach, or inclusion within the Foundation Formula.
19. The weighting of the Area Cost Adjustment was highlighted as an important issue by most representative groups, and they asked for clarity on this as soon as possible. Some highlighted the need to avoid double counting of sparsity where service specific approaches contain this factor already, such as in the Public Health formula, or an updated fire formula.

Relative resources

20. All replying representative groups agreed that the Government should continue to take account of non-discretionary council tax discounts and exemptions and the income forgone due to the pensioner-age element of local council tax support (LCTS) in the measure of tax base.
21. There was a strong consensus that working age LCTS should be accounted for in the resources adjustment. The highest consensus was around a formula-based approach which captures demand for LCTS schemes for working-age households.
22. There was strong consensus around the use of a notional council tax; no representative body advocated the use of an actual measure of council tax level. But there were mixed views on where to set the notional council tax level.
23. There was consensus that actual council tax collection rates should not be used, as this would penalise authorities which are effective at collecting council tax.
24. Several groups did not express a preference on the tier split of notional council tax. Of those who did, the majority agreed with the use of average shares as this would not penalise authorities for factors outside their control.
25. Most representative groups agreed with the approach using a single measure of council tax resource which would be fixed over the period between resets.
26. Most representative groups agreed that sales, fees and charges should not be taken into account. However, there were mixed views on whether surplus parking income should be taken into account.

Transitional Arrangements

27. There was broad agreement on the transition principles in the consultation document. Some felt transition may need to be flexible so different classes of authority can be treated differently. Several groups insisted transitional arrangements should unwind over time, and it was highlighted that damping remains in the current system from the 2013-14 allocations and before.
28. Two groups called for no authority to be financially worse off as a result of the review. Some also called for additional funding for transition, whilst others called for low-council tax councils to be given flexible referendum principles to allow themselves to fund the difference between their current and new funding positions.
29. There were differing views on the baseline for transition, with some suggesting including business rates growth and New Homes Bonus and other grants in the baseline and two groups suggesting different treatment for 'negative RSG'.

Other common themes

30. Many representative groups highlighted the lack of certainty from 2020-21 onwards and asked for exemplifications to be provided as soon as possible.
31. A key theme of responses from representative groups was the need to secure a sufficient level of local government funding through the 2019 Spending Review to support the future sustainability of local government. Several groups advocated an increase in funding to ensure 'no losers' as a result of the proposed reforms.
32. The need for 'sense-checking' of the methodology was reiterated, with suggestions that developments are informed by the use of independent technical statistical expertise that can provide robust challenge as work progresses.