

## Business Rates Retention and Fair Funding Review Update

### Purpose of report

For direction.

### Summary

This report provides a summary of progress on the Fair Funding Review and Business Rates Retention work programmes since the last meeting of Leadership Board.

#### Recommendations

That members approve the LGA policy position regarding the fire and rescue services' relative needs formula (paragraphs 8-10).

#### Action

Officers will proceed with the 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 since the last meeting of Leadership Board.
2. In particular, this paper covers the following:
  - 2.1. Discussions at the LGA's Task and Finish Group on Business Rates Retention and the Fair Funding Review;
  - 2.2. Discussions at the recent meetings of LGA/MHCLG technical working groups; and
  - 2.3. Progress on the alternative administration model of business rates retention.
3. 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 as set out in **Appendix A**. The programme is now complete but will be kept under review as MHCLG work on these policies progress.

### Fair Funding Review: fire and rescue services formula

4. In its 6 June meeting, members of the LGA Task and Finish Group on Business Rates Retention and the Fair Funding Review discussed the various options for the treatment of the fire and rescue services relative needs formula as part of the Fair Funding Review.
5. Fire and rescue services are proposed by the Government to be assessed under a service specific formula, as part of the overall relative needs assessment of individual local authorities.
6. The December 2018 consultation document said that the Government is considering three options on the shape of the fire and rescue services formula:
  - 6.1. Retaining the existing formula, but update the data wherever possible (eg population numbers) to arrive at refreshed values for each council;
  - 6.2. Replacing the current formula with a simple formula based on total population (with an extra weight for population aged 65+) and deprivation; or
  - 6.3. Replacing the current formula with a new formula, developed by looking at patterns between spending, need and local characteristics at ward level or smaller ('multi-level modelling').
7. A table which summarises each option is attached as **Appendix B**.

8. The Task and Finish Group discussed the paper, and noted that:
  - 8.1. The simplified formula (option 2) would be too simplistic for a service that is based on assessed risk rather than traditional concepts of 'demand'.
  - 8.2. Option 3 was preferred, but it was noted that it was probably not possible to deliver such a complex project in time for April 2020. Multi-level modelling exercises usually involve extensive additional research and data collection, with the whole process normally taking well over a year.
9. As a result, the Task and Finish Group proposed that LGA should support the combined option of:
  - 9.1. In the short term, using the current formula with updated data (option 1); and
  - 9.2. Calling on the Government to start work immediately on a completely refreshed formula using multi-level modelling techniques (option 3), with results to be introduced at the next possible opportunity.
10. This matches what officers understand to be the preferred position of the Chief Fire Officers' Association.
11. **Members are asked to approve this to be the official LGA policy position.**
- Technical working group on needs and redistribution**
  12. This working group, co-chaired by LGA and MHCLG and consisting of senior local authority finance officers, acts as a sounding board for the Government's work on the Fair Funding Review.
  13. This group has been reconvened after a pause (last meeting was in late 2018), and the following items were discussed at the 25 June meeting:
    - 13.1. Summary of consultation responses received by the Government (already shared with Leadership Board and Executive);
    - 13.2. Progress on the development of a new children and young people's services formula which will be peer reviewed;
    - 13.3. Progress on the development of new Area Cost Adjustments; and
    - 13.4. The impact of higher or lower levels of notional council tax used in the council tax adjustment.
  14. In the meeting, members requested further information be provided on the children and young people's formula and the area costs adjustments and suggested that the results

should be sense checked. On notional council tax members asked for a future discussion on how this will be set.

15. These issues will be discussed in more detail at the July meeting of the LGA's Task and Finish Group before bringing their policy recommendations to a future meeting of Leadership Board and Executive.

#### **Business rates retention systems design working group**

16. Discussions with MHCLG on the development of the alternative administration model of business rates retention have been continuing in joint meetings of the Systems Design and Implementation Working Groups. The groups are meeting monthly and have met once since the last meeting of Leadership Board and Executive. A further meeting is scheduled for 18 July. Papers can be found on the [LGA website](#).
17. The groups discussed how the alternative model, which will adjust for the effect of provisions and appeals on local authorities, could be operationalised and what this would mean for local authority budgeting, resourcing and operating systems. The groups also discussed how the levy and safety net would operate under the alternative model.
18. The alternative model will be a substantive item on the agenda of the July meeting of the LGA's Task and Finish Group on Business Rates Retention and the Fair Funding Review. A summary of the key issues discussed and any policy recommendations will be brought to future meetings of Leadership Board and Executive.

#### **Illustrative model of the Alternative administration model for business rates retention**

19. The LGA commissioned a further modelling tool from LGFutures, comparing an illustrative version of the alternative administration model of business rates retention with the existing system. Unlike the previous business rates retention excel tool, this is backward rather than forward looking and covers the years from 2013/14 to 2019/20. For each authority, it enables users to see how they did under the existing system and how they might have done had a version of the alternative model, which adjusts for provisions for appeals, been adopted. It is not possible at this stage to build a model that removes the effect of appeals on local authorities although it is possible for authorities to enter their own information on appeals.
20. The model, which will be placed on the LGA website shortly, was cleared by the LGA Chairman and Group Leaders as per the procedure for the previous Business Rates Retention model and the Fair Funding Review models, having previously been agreed with the LGA's Task and Finish Group.
21. As highlighted above, MHCLG is still exploring how the alternative model of business rates retention could work and as this progresses we will explore what enhancements and improvements can be made to the modelling tool.

### **Next steps**

22. Members are asked to approve the LGA policy position regarding the shape of the fire and rescue services' relative needs formula (paragraphs 8-10).

23. 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**

24. 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**

25. 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
<b>Criteria for assessing proposed distribution models and methodologies</b>	To give the LGA a structured and consistent way to assess new distribution models.	<a href="#">Complete</a>
<b>Formula grant: update the data</b>	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.	<a href="#">Complete</a>
<b>Distribution model: develop a distribution model</b>	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	<a href="#">Complete</a>
<b>Council tax equalisation: develop a model</b>	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.	<a href="#">Complete</a>
<b>Damping /transition mechanisms</b>	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.	<a href="#">Complete</a>
<b>Business Rates Retention model</b>	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"> <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>	<a href="#">Complete</a>
<b>Alternative Administration Model of Business Rates Retention</b>	A model to enable LGA and local authorities to assess the impact of the alternative administration of Business Rates Retention.	Complete – published shortly

### Appendix B. Proposed options for assessing relative needs for fire and rescue services

Option	Short description	Factors	Comments
<b>Use the existing formula but update the data (option 1)</b>	This would mean that the review only updates the values of the factors used in the formula (eg population) but does not review the weightings of those factors.	Total population Coastline Population density Population sparsity Risk index (working age adults with no qualification, working age adults with no employment, standardised mortality ratio <75 years, recipients of income support, income based Jobseekers' Allowance or the Guarantee element of pension credit) Control of Major Accident Hazards (COMAH) sites per person Property and societal risk top-up (estimated by the Secretary of State, based on buildings information derived from the Valuation Office Agency and property and societal risk frequency for other buildings information from the 2006 Fire Services Emergency Cover [FSEC] Toolkit) Community fire safety top-up (consisting of factors such as pupils aged 5-10, residents living in areas with a greater need for fire safety education, population aged 65+) Area cost adjustment	The simplest and quickest approach.  However,  It does not assess whether the formula is still reflective of spending/demand patterns.  Not all of the data can be updated

Option	Short description	Factors	Comments
<b>Build a new simple formula (option 2)</b>	This would focus on a smaller number of factors, with weightings decided through the use of past expenditure-based regression which tries to produce a 'best fit line' between variables and past spending at council level.	To be determined but the current shortlist (as included in the Government's December 2018 consultation document) includes:  Total population  Deprivation  Proportion of residents aged 65 and over  Area Cost Adjustment	Would lead to a simplified formula, and is a quick exercise.  However,  The indicator set does not include a wider range of factors that are considered to be related to risk
<b>Build a new formula using multi-level modelling (option 3)</b>	This would include a robust analysis of spending and risk at 'lower super output area' (up to approx. 10,000 residents).	To be determined by the analysis  (to include an area cost adjustment)	A statistically robust approach which is capable of including wider set of 'risk' factors assuming they are statistically significant.  However,  Takes time and is expensive – unlikely to be deliverable in time for implementation from April 2020