Local Government Association

Resources Portfolio

Agenda

Friday, 23 September 2016
2.00 pm

Smith Square 3&4, Ground Floor, Local
Government House, Smith Square, London,
SW1P 3HZ

www.local.gov.uk

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Resources Board
23 September 2016

There will be a meeting of the Resources Board at **2.00 pm on Friday, 23 September 2016** Smith Square 3&4, Ground Floor, Local Government House, Smith Square, London, SW1P 3HZ.

A sandwich lunch will be available at 1.00pm for those members that have requested lunch.

Attendance Sheet:
Please ensure that you sign the attendance register, which will be available in the meeting room. It is the only record of your presence at the meeting.

Political Group meetings:
The group meetings will take place in advance of the meeting. Please contact your political group as outlined below for further details.

Apologies:
Please notify your political group office (see contact telephone numbers below) if you are unable to attend this meeting.

Conservative:	Group Office:	020 7664 3223	email:	lgaconservatives@local.gov.uk
Labour:	Group Office:	020 7664 3334	email:	Labour.GroupLGA@local.gov.uk
Independent:	Group Office:	020 7664 3224	email:	independent.group@local.gov.uk
Liberal Democrat:	Group Office:	020 7664 3235	email:	libdem@local.gov.uk

Location:
A map showing the location of Local Government House is printed on the back cover.

LGA Contact:
Ciarán Whitehead
0207 664 3107 / Ciaran.Whitehead@local.gov.uk

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Resources Board – Membership 2016/2017

Councillor	Authority
Conservative (8)	
Cllr John Fuller (Vice Chairman)	South Norfolk District Council
Cllr Nigel Ashton	North Somerset Council
Cllr James Jamieson	Central Bedfordshire Council
Cllr Mary Malin	Kettering Borough Council
Cllr Barry Macleod-Cullinane	Harrow Council
Cllr Roger Phillips	Herefordshire Council
Cllr David Renard	Swindon Borough Council
Substitutes	
Cllr Lynne Duffy	Wychavon District Council
Cllr Andrew Leadbetter	Exeter City Council
Cllr Judith Oliver	North Norfolk District Council
Labour (7)	
Cllr Claire Kober OBE (Chair)	Haringey Council
Cllr Rishi Shori	Bury Metropolitan Borough Council
Cllr Aaron Shotton	Flintshire County Council
Cllr Sian Timoney	Luton Borough Council
Cllr Tom Beattie	Corby Borough Council
Cllr Sarah Hayward	Camden Council
Cllr Peter Marland	Milton Keynes Council
Substitutes	
Cllr Norman Keats	Knowsley Metropolitan Borough Council
Cllr Abdul Jabbar	Oldham Metropolitan Borough Council
Cllr Christopher Massey	Redcar & Cleveland Borough Council
Independent (2)	
Cllr Clarence Barrett (Deputy Chair)	Havering London Borough Council
Cllr Linda Van den Hende	Havering London Borough Council
Substitutes	
Cllr Bob Dutton OBE	Wrexham County Borough Council
Liberal Democrat (2)	
Cllr Claire Hudson (Deputy Chair)	Mendip District Council
Cllr Simon Shaw	Sefton Metropolitan Borough Council
Substitutes	
Cllr David Brown	Borough of Poole

Local Government Association

Agenda

Resources Board

Friday 23 September 2016

2.00 pm

Smith Square 3&4, Ground Floor, Local Government House, Smith Square, London, SW1P 3HZ

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Date of Next Meeting: Monday, 5 December 2016, 2.00 pm, Rooms A&B, Ground Floor, Layden House, 76-86 Turnmill Street, London, EC1M 5LG

Resources Board
23 September 2016

Membership and Terms of Reference for 2016/2017

Purpose

For discussion and decision.

Summary

For members to note the membership and agree the Terms of Reference of the Board for 2016/17.

Recommendation

The Board is asked to: formally note membership and of the Board and the terms of reference.

Action

Officers respond accordingly to members' direction.

Contact officers:	Ciarán Whitehead
Position:	Member Services Officer
Phone no:	0207 664 3107
E-mail:	Ciaran.Whitehead@local.gov.uk

Resources Board – Membership 2016/2017

Councillor	**Authority**
Conservative (8)	
Cllr John Fuller (Vice Chairman)	South Norfolk District Council
Cllr Nigel Ashton	North Somerset Council
Cllr James Jamieson	Central Bedfordshire Council
Cllr Mary Malin	Kettering Borough Council
Cllr Barry Macleod-Cullinane	Harrow Council
Cllr Roger Phillips	Herefordshire Council
Cllr David Renard	Swindon Borough Council
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Liberal Democrat (2)	
Cllr Claire Hudson (Deputy Chair)	Mendip District Council
Cllr Simon Shaw	Sefton Metropolitan Borough Council
Substitutes	
Cllr David Brown	Borough of Poole

Resources Board
23 September 2016

Terms of Reference: Resources Board

The LGA's Resources Board will shape and develop the Association's policies and programmes in line with the LGA priorities in relation to: Local Government Finance; Welfare Reform; Responding to issues arising from the referendum decision to leave the European Union and Workforce issues.

Specific responsibilities

- <u>Local Government Finance</u>: issues relating to the financing of local government expenditure.
- <u>Responding to issues arising from the referendum decision to leave the EU:</u> issues relating to post-Brexit domestic and securing funding to English areas up to 2020.
- <u>Welfare Reform:</u> issues relating to welfare reform.
- <u>Workforce Issues:</u> including pay and reward; productivity; pensions; the role and responsibilities of the employers the LGA represent; workforce development; and equalities and other strategic workforce challenges.

Operational accountabilities

Boards will seek to involve councillors in supporting the delivery of these priorities (through task groups, Special Interest Groups (SIGs), regional networks and other means of wider engagement); essentially operating as the centre of a network connecting to all councils and drawing on the expertise of key advisors from the sector.

The Resources Board will be responsible for:

1. Ensuring the priorities of councils are fed into the business planning process.
2. Developing a work programme to deliver their brief, covering lobbying, campaigns, research, improvement support and events and linking with other boards where appropriate.
3. Sharing good practice and ideas to stimulate innovation and improvement.
4. Representing and lobbying on behalf of the LGA, including making public statements on its areas of responsibility.
5. Building and maintaining relationships with key stakeholders.
6. Involving representatives from councils in its work, through task groups, Commissions, SIGs, regional networks and mechanisms.
7. Responding to specific issues referred to the Board by one or more member councils or groupings of councils.

8. Providing views, as appropriate, to inform the decision making responsibilities of the national negotiating committees and the Local Government Pension Committee.

The Resources Board may:

- Appoint members to relevant outside bodies in accordance with the Political Conventions.
- Appoint member champions from the Board to lead on key issues.

Quorum

One third of the members, provided that representatives of at least 2 political groups represented on the body are present.

Political Composition

Conservative group:	7 members
Labour group:	7 members
Independent group:	2 members
Liberal Democrat group:	2 members

Substitute members from each political group may also be appointed.

Frequency per year

Meetings to be five times per annum.

Reporting Accountabilities

The LGA Executive provides oversight of the Board. The Board may report periodically to the LGA Executive as required, and will submit an annual report to the Executive's July meeting.

Resources Board Priorities and Work Programme

Purpose

For discussion and agreement.

Summary

This report outlines proposals for the Board's priorities and key areas of work, set against the available resources.

Recommendations

That the Board:

i. agree its priorities and work programme for the 2016/17 meeting cycle;

ii. notes its Member Champions for 2016/17.

Action

Officers to progress the Board's agreed priorities and projects in line with available resources.

Contact officers:	Sarah Pickup
Position:	Deputy Chief Executive
Phone no:	0207 664 3109
E-mail:	Sarah.Pickup@local.gov.uk

Resources Board Priorities and Work Programme

Background

1. Local Government Association's (LGA) Boards engage with and develop a thorough understanding of councils' priorities in relation to their particular programme area. They also help shape our business plan and, through extensive engagement with councils, oversee programmes of work that deliver the strategic priorities set by the LGA Executive.

2. The LGA's Resources Board shapes and develops the Association's policies and programmes in line with the LGA priorities in relation to: Local Government Finance; Strategic Finance; Welfare Reform; and Workforce issues.

3. At this first meeting of the Resources Board, members are asked to consider the policy priorities for the work programme for the coming year. In making these decisions, members are asked to consider two issues:

   3.1 That the LGA Leadership Board will be meeting on 14 September to discuss the LGA's priorities and work programme in relation to EU exit. It is likely that individual boards will be asked to lead on aspects of work that fall within their terms of reference.

   3.2 Specific policy priorities based on the remit of this Board.

Board Work Programme and Resources

4. This report sets out a suggested work programme for the Board that will help deliver the LGA's Business Plan priorities. Members are asked to consider the following priorities and projects listed in the below table as the Board's focus for the coming year.

Work Stream: Workforce **This work stream is organised into three strands: pay and negotiations support; pension policy and strategic workforce issues**	
Pay and negotiations	• Continue to support councils in obtaining value for money in their pay bill by negotiating fair and affordable pay agreements • Begin the work of developing and agreeing a new pay structure for Local Government Services taking account of the National Living Wage • Continue to support negotiations for Education, Fire and Police services • Continue to coordinate responses to consultation on changes to employment law and regulations with a growing emphasis on the potential consequences of Brexit
Pensions	• Combining the £200bn assets of the 89 pension funds in England

	and Wales into 7 or 8 pools and work on legislation for Secretary of State to intervene in investment matters. Valuations will see employer cost increases beyond current average 25% of payroll. • Also focused on potential for Freedom and Choice extension into LGPS and possible £1bn bill for increases to Guaranteed Minimum Pensions
Workforce Strategy	• Continue to advise and assist councils in modernising their approaches to organisational design, pay and rewards and other workforce development issues • Focus on workforce issues arising from public service reform such as integration and devolution • Continue to provide support to councils to address skills gaps and skill shortages issues, focusing on apprenticeship take up/standards and skills shortages in social work and town planning for example • Focus on support for councils needing to improve their HR services • Review and enhance our chargeable support offer

Work Stream: Local Government Finance	
Local Government Finance	**Business Rates Retention** – a long term work programme looking at issues such as responsibilities to be transferred to be funded through business rates, designing the retention system, and the needs review to form the needs baseline that will underpin the system. This work is also being considered by the Business Rates Task and Finish Group, Leadership Board and Executive. This is the main priority for the work of the Local Government Finance Team.
	Other Business Rates Issues – focussing, in the most part on, changes to the appeals system including: Check, Challenge and Appeal; digitalisation of valuation; and other issues such as flexibility around reliefs. Given the impact of these changes on local authority income this work is a priority.
	Local Government Finance Settlements – analysis of the annual local government finance settlement, on the day briefing, responding to the consultation/s, parliamentary work and the annual finance conference.
	Local Government Finance Contributions to set pieces: Spending Reviews, contribution to Autumn Statement and Budget submissions.
	Capital Financing - To influence thinking and formulate policy improvements to suggest to Government in the area of financing capital and infrastructure, and to contribute to national reviews of capital finance, including the forthcoming PAC hearing on the sustainability of local government capital finance

Work Stream: Responding to issues arising from the referendum decision to leave the EU	
	Securing the current quantum of £5.3bn funding to English local areas up to 2020.
	Resource Board contribution to review of regulations and technical issues and identification of priorities that we need on the table in the Brexit talks

	Post-Brexit domestic regional aid, i.e. securing an equivalent of funding to English local areas beyond 2020.

Work Stream: Welfare Reform & Life Chances	
	Research into the local impacts of continued welfare reform and Universal Credit roll-out (due to report Autumn 2016)
	Making the case for adequate and appropriate funding for the local safety net
	Homelessness prevention and housing affordability (in partnership with EEHT Board). Developing a programme of lobbying and improvement work in response to the externally commissioned report.
	Ongoing work on support for the most disadvantaged jobseekers (in partnership with Cities and P&P Boards). In particular devolution of funding to support the most disadvantaged jobseekers.
	Resourcing early intervention and support for families with (young) children (in partnership with CYP and CWB Boards)
	Intergenerational fairness (monitoring policy developments in relation to welfare and pensions)

Board Member Champions for the Board's work

5. Last year, the Board trialled operating a system of Member Champion roles. Board member champions take responsibility for a specified subject area or programme and act as the spokesperson, with the assistance of officer support. Whist this approach was not suited to all aspects of the Board's work, feedback suggested it had worked well in certain areas. Lead Members have therefore identified a number of areas which they feel would benefit from greater member involvement.

6. The suggested Board champion roles are set out below, alongside those areas which Lead Members' will be championing. Board Members are invited email Ciarán.Whitehead@local.gov.uk to express an interest undertaking any of the remaining roles. Expressions of interests will be determined by Lead Members and in line with the LGA's political proportionality.

    6.1 Local Government Finance (x2)

    6.2 EU funding

    6.3 Welfare Reform

    6.4 Skills

    6.5 Pensions

Financial implications

7. This programme of work will be delivered with existing resources. Additional supporting projects may be commissioned subject to funds being available from a small directorate / team budget.

Resources Board

23 September 2016

Check, challenge, appeal - Reforming business rates appeals - consultation on statutory implementation

Purpose

For approval.

Summary

This paper introduces the LGA response to the government's consultation on detailed regulations implementing the new Check Challenge and Appeal system for business rates.

Recommendation

That the Resources Board agree the LGA response to the consultation as attached

Action

Officers to forward the response as agreed to DCLG.

Contact officer:	Mike Heiser
Position:	Senior Adviser (Finance)
Phone no:	020 7664 3265
Email:	Mike.heiser@local.gov.uk

Resources Board

23 September 2016

Check, challenge, appeal - Reforming business rates appeals - consultation on statutory implementation

Background

Check Challenge Appeal

1. Business rates valuations are normally carried out every five years, although, exceptionally, the revaluation scheduled for 2015 was postponed until 2017. Revaluation involves assessing a property to ensure that economic changes in property values are reflected in rateable value. Between revaluations rateable values only change, other than for inflation, as a result of appeals or physical changes to the property or location (for example an extension to a factory, or a change in the environment such as a new road).

2. Typically over 50 per cent of non-domestic properties are subject to appeal following a revaluation. There have been 900,000 appeals since the 2010 revaluation, with over 300,000 still outstanding.

3. From April 2017 the Government is introducing a new system for dealing with challenges to rateable values. Ratepayers will be required to firstly ‘check’ the facts that their rateable value is based on. They may then go on to put in a formal challenge which must be accompanied by an alternative valuation and all the evidence to support it. Only after these steps have been completed can a valuation be appealed. A ratepayer will not be able to introduce new evidence at appeal stage. There will also be a fee for submitting an appeal, and fines for ratepayers that provide false information knowingly, recklessly or carelessly.

4. Following an initial consultation on the proposals, the Government has confirmed its intention to implement the reform and a more detailed consultation on the draft regulations was published on 16th August, the closing date is 11th October. This also sets out the precise role of local government, and gives it a new right to:

    4.1. receive information relating to challenges,

    4.2. receive the results of challenges; and

    4.3. provide information to the VOA which may be of assistance in resolving these challenges.

5. However local government will no longer be able to join appeals which do not relate to their own premises, and this is something about which the LGA has heard concern.

6. It remains to be seen exactly what impact the reform will have on the scale and volume of appeals, and on when they are lodged. The Government’s overall aim is to reduce the number of appeals. Some in local government feel that it will only lead to a more drawn out process and will not reduce the requirement to make provisions.

7. In its draft response the LGA states that with the move to local retention of business rates, resolving the appeals issue is one of the highest priorities for local government. Therefore the key test of the success of the new system will be if it leads to less uncertainty for local government and a material reduction in provisions.

8. We also express our concerns that the Valuation Office Agency should have sufficient resources to deliver the proposals (the current large backlog of appeals suggests that they currently do not have the required level of resources), and for all current appeals to be resolved within 12 months of 1st April 2017.

The questions in the consultation

9. As can be seen from the response, the consultation has seven questions. The key ones are:
    9.1. Q1 asks whether the change to regulations implements the government's policy intention. The draft response says that the draft regulations do put in place the check challenge and appeal system but still expresses concern that the process could still be dragged out. It recommends a time limit on proposals of six months from when the list comes into force in most cases, thus mirroring the situation in Scotland.

    9.2. Q5 proposes a modified approach to dealing with material changes of circumstances (physical changes to an area such as a new road which may affect rateable value). It proposes that a ratepayer should submit a check as soon as possible and then will have 16 months to submit a proposal. The draft response recommends that this be reduced to 6 months, in line with our response to Q1.

    9.3. Q6 concerns a change to appeals against valuations, which will result in the Valuation Tribunal only ordering a change to rateable value when the valuation appealed against is outside the bounds of reasonable professional judgement. The draft response recommends that we agree with this on the grounds that it will reduce the number of appeals over small differences in valuation.

    9.4. Finally Q7 concerns the local authority role. As stated above, the regulations propose new rights to receive information relating to challenges, to receive the results of challenges; and to provide information to the VOA which may be of assistance in resolving these challenges as well as greater access to appeals lodged with and determined by the Valuation Tribunal for England. The LGA welcomes these rights. However councils will no longer have the right to make proposals which do not relate to their own premises. The LGA has heard concern about this from local government, particularly in the context of business rates retention. The draft response proposes that billing authorities should continue to have rights to make proposals under the regulations.

Recommendation

10. The Board are asked to approve the attached response **Appendix A** and request officers to forward it to DCLG.

Check Challenge Appeal; Reforming Business Rates Appeals – consultation on statutory implementation

Xx October 2016

1. The Local Government Association (LGA) welcomes the chance to comment on this consultation paper.
2. The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.
3. This response has been agreed by the LGA Resources Board.

Introduction

4. There are almost 300,000 appeals outstanding, the majority submitted at the end of the cycle. This is causing uncertainty for councils leading to the need for provisions, which DCLG estimates at £2.5 billion as at 31st March 2015. These affect council's financial position, lead to less grant for some authorities through the need to fund the business rates safety net through a top slice and therefore to more reductions in expenditure than would otherwise be the case. The LGA calls on the Government to provide sufficient resources for the Valuation Office Agency for these to be resolved within 12 months of 1st April 2017.

5. With the move to local retention of business rates, resolving this issue is one of the highest priorities for local government.

6. We therefore welcome the fact that government is proposing to reform appeals. The government's aim is that the new 'Check Challenge Appeal' system should lead to a system which is easy to navigate particularly for small businesses and which promotes early engagement. The Check stage is to validate the facts and can lead to the Valuation Office Agency (VOA) changing the list. At the Challenge stage the ratepayer makes their own proposal based on evidence and can then enter in discussion with the VOA where the VOA may accept the ratepayer's proposal. Only after this stage is exhausted can the ratepayer make an Appeal to the Valuation Tribunal for England.

7. As we said in our response to the previous consultation, the key test of success of this proposal will be if it leads to less uncertainty for local government and a material reduction in provisions. These proposals go

Submission

some way to addressing current issues but more could be done to streamline the system further.

8. The LGA welcomes early involvement of ratepayers and swift resolution of any differences. However, we would also repeat our previous comment that the key point with any new process within the Valuation Office Agency (VOA) will be whether they have sufficient resources to deliver the proposals. It is clear from the current large backlog of appeals, that the VOA does not currently have the required level of resources.

9. The LGA has heard from authorities that they are concerned that they will no longer be able to make proposals themselves in properties where they may be the billing authority but they are not themselves the ratepayer. As we say in our response to question 7, we propose that authorities should retain these rights.

10. The LGA also looks forward to the next steps following the discussion paper on more frequent valuations. As we said in our response to this discussion paper, if a substantial proportion of valuations could be done via the provision of data on-line which had to be signed as true and fair and updated every year – not only would it be more efficient but it might remove the need for 5 yearly revaluation, at least for mainstream property types.

11. Detailed answers to the questions asked in the consultation are:

Q1. Do you agree that the draft Regulations put in practice the agreed policy intention as set out in the Government policy statement?

The draft regulations do put in place a system where a challenge (‘a proposal’ in the regulations) will have to have been proceeded by a check (‘a request for information’ in the regulations). They also provide that the ratepayer must provide full information when they make a proposal. However we are still concerned that the time periods allow for the process to be dragged out. The LGA would support a time limit for proposals of six months from the time the list comes into force (with exceptions for material changes of circumstances, which are dealt with below, and new ratepayers). This would mirror the situation in Scotland.

Q2. We would welcome your views on the approach to implementing fees for the appeal stage.

The LGA agrees that fees should be payable at the appeal stage and that these should be less for small businesses. The fees proposed seem reasonable. We also agree that there should be a discounted appeal fee for small businesses.

Q3. We would welcome your views on the approach to implementing penalties for false information.

We agree that there should be penalties for false information. In our response to the previous consultation we said that there could be a scale with 0.1% of the rateable value or £250, whichever is the higher. Allowance should be made for small businesses and when incomplete information has been submitted in haste. We would repeat this suggestion

Q4. We would welcome your views on the approach to implementing the package for small businesses and small organisations.

We agree that the definition set out – those with a headcount of less than 10 or a turnover of less than £2 million seems reasonable.

Q5. We would welcome your views on the approach to dealing with Material Changes in Circumstances.

We agree that a check / request for information should be received as soon as possible following a material change of circumstances. However we think that allowing a ratepayer 16 months to submit a challenge / proposal is too much – these should be received in 6 months from the 'material date' of the change.

Q6. We would welcome your views on the amended approach to determining appeals against valuations.

The key change in the regulations is that the Valuation Tribunal for England should only order a change in rateable value only when the valuation appealed against is outside the bounds of reasonable professional judgement. The LGA agrees that tribunals should not be caught up in determining small differences in valuations. We therefore support this change to the regulations.

Q7. We would welcome your views on the role of local authorities in the reformed system.

The regulations propose new rights to receive information relating to challenges, to receive the results of challenges; and to provide information to the VOA which may be of assistance in resolving these challenges as well as greater access to appeals lodged with and determined by the Valuation Tribunal for England. The LGA welcomes these rights. However we do express concern that local government will no longer have the right to make proposals which do not relate to their own premises. The LGA has heard concern about this from local government, particularly in the context of business rates retention. We would propose that billing authorities should continue to have rights to make proposals under the regulations.

The consultation also mentions the new provision for councils to receive information from the Valuation Office Agency on business rates, which they have not previously been able to receive due to HMRC privacy requirements. The LGA looks forward to taking part in discussions with Government and the HMRC on a detailed framework for implementation, which will include those companies who are contracted to work with local authorities

Local Government Association
October 2016

LGA Resources Board

23 September 2016

Local government finance update

Purpose

For discussion and direction.

Summary

This report provides an update on the LGA's work on local government finance policy matters. It focuses on developments over the summer on increased business rates retention and the LGA's approach to the Autumn Statement submission.

Recommendation

That members of the Resources Board note this report, comment on its contents and agree any further action.

Action

LGA Officers to proceed as directed.

Contact officer:	Nicola Morton
Position:	Head of Programmes: Local Government Finance
Phone no:	020 7664 3197
Email:	nicola.morton@local.gov.uk

LGA Resources Board

23 September 2016

Local government finance update

Background

1. This paper provides an update on the LGA's work on local government finance policy matters, including the work on business rates retention and the Autumn Statement.

Summer consultations on business rates retention reform

2. In early July, the Government published a summer consultation on early considerations regarding the reform of business rates retention. It covers all key aspects of the reform regarding systems design, phasing out of grants and transfer of new responsibilities.

3. The consultation is the Government's initial formal invitation to submit views on the scope and detail of the reform and is structured around a number of themes, in particular:

   3.1. The phasing out of grants and transfer of new responsibilities to local government to make the reform revenue neutral;
   3.2. Aspects of system design, such as managing appeals risk, splitting business rates between tiers of local government and system resets;
   3.3. Flexibilities to lower the multiplier or introduce an infrastructure levy;
   3.4. Accounting and accountability for public spending.

4. Alongside the summer consultation on business rates retention reforms, the Government also published a call for evidence on its Fair Funding Review which is focused on the needs and redistribution aspect of the reforms. The results of the Review will form part of the process of calculating funding baselines when further business rates retention introduced.

5. The LGA's responses, items 5a and 5b, have been developed on the basis of:

   5.1. Previous discussions in both Leadership Board and Executive.
   5.2. The views of the LGA's Business Rates Task and Finish Group, a cross board, cross party member level group.
   5.3. A Forum for elected finance and resources portfolio holders on the consultation proposals.
   5.4. Six joint LGA and DCLG regional events on the consultation paper, for elected members and officers attended by over 250 people.
   5.5. Discussion in the joint LGA and DCLG Steering and Working Groups.
   5.6. Feedback received from authorities through other routes.

6. The deadline for responses to these papers is 26 September.

7. The key points made in the LGA response to the main consultation are:

   7.1. It is important for the new system to be implemented in a way which balances rewarding councils for growing their local economies but avoids areas less able to generate business rates income suffering as a result. Some sort of partial reset could provide a way forward. It is not possible at this stage to say what this balance should be until further modelling work has been undertaken to look at the impact on authorities.

7.2. Newly retained business rates must be used to address the existing funding gap facing local government by 2020, before any further responsibilities are considered. Once existing pressures and responsibilities have been fully funded, we believe the remaining business rates income should also allow councils to be funded for responsibilities linked to driving economic growth in local areas.

7.3. The LGA considers that the new retention system should be designed in a way that so that appeals do not pose such a risk to authorities as they do at the moment. One way of doing this could be through a national provision for appeals, funded through the central list, so that councils do not have to make their own provision.

7.4. Councils need more flexibility on reliefs. The current system does not incentivise growth and should be reviewed, including mandatory rate relief for charities and empty properties. This would allow authorities to help target incentives in way that would incentivise growth and reduce avoidance.

7.5. All authorities, not just directly elected mayors, should have the power to increase the business rates multiplier.

8. The key points in the LGA response to the call for evidence on the fair funding review are:

8.1. As a national membership organisation representing local authorities with differing views, the LGA has not in the past taken a view on distributional matters. While we are working with the Government on this Review, the LGA’s objective is to ensure that the review is open, transparent and allows all parts of the sector submit an evidence-based case.

8.2. The LGA is clear that simplification of the existing system is an important goal, but it should not come at the cost of fairness. The LGA believes that adjustments for council tax raising capacity should remain an important part of the system, but does not have a view on the approach to how this should be delivered.

8.3. There needs to be a transition scheme which is underpinned by extra funding from Government for those with the sharpest cuts.

8.4. A single local authority is still the most appropriate geographic unit for assessing need and distributing funding. However, there could be flexibility for areas to opt in to receive funding for a larger area, in a single fund to be distributed within the area, when this is agreed by the relevant local authorities.

Resources Portfolio Forum

9. On 18 July, the LGA held a forum open to all resources portfolio holders in member authorities, discussing the business rates retention reform and seeking views of politicians. It was led by Cllrs Fuller and Barrett and attended by more than 50 councillors.

10. The lively discussion on the day considered the main aspects of the reform:

10.1. The transfer of responsibilities and phasing out of grants;
10.2. Issues related to systems design, such as appeals risk, resets and the safety net; and
10.3. The Fair Funding Review.

11. Minutes of the Forum are attached to this report. Comments made by delegates were fed into the LGA's consultation responses outlined above.

Autumn Statement Submission

12. The Government has announced that the 2016 Autumn Statement will be delivered by the Chancellor of the Exchequer on 23 November. It will set out revised forecasts for the economy and is likely to feature changes to fiscal plans of the Government. For example, the target to achieve a budget surplus by 2020 has already been abandoned.

13. The Government is seeking contributions to the Autumn Statement process by 7 October.

14. In its meeting on 13 September, the LGA Leadership Board commissioned a submission which focuses on the following key themes:

    14.1. The financial pressure facing councils, not least the growth in demand for social care.
    14.2. The need to ensure Business Rate Reform helps address this pressure and better equips councils to drive growth rather than provide cover for additional demand-led social care services.
    14.3. The need for national housing policy to be adjusted to revitalise rapid council house building and widen investment in all tenures if there is to be any hope of delivering at pace and scale.
    14.4. The fact that the Government's offer to guarantee EU structural and investment funding for projects signed-off before the Autumn Statement, falls well short of the LGA's call for certainty regarding the full £5.3 billion local areas are due to receive by 2020.
    14.5. The need to maintain momentum on devolution deals and provide a platform for place based leadership and driving sub-national growth, in particular through a fully devolved employment and skills system.

15. The limited time available to submit a response means the deadline will have passed by the time of the next Resources Board. However, members are invited to comment on the major local government finance issues, for inclusion in the LGA's submission. The final response will be approved by the LGA's Group Leaders as agreed by the Leadership Board on 14 September 2016.

Recommendation

16. That the Resources Board note this update, comment on its contents and agree any further action.

Financial Implications

17. This is part of the LGA's core programme of work and as such has been budgeted for.

Self-sufficient local government: 100% Business Rates Retention

26 September 2016

The Local Government Association (LGA) welcomes the opportunity to respond to the Government's consultation on further business rates retention.

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been agreed by the LGA's Leadership Board, Executive and Business Rates Task and Finish Group.

We support the Government's intention to allow local authorities in England to retain more business rates. This is a wide-ranging reform and we have been working closely with the Government on the details of proposals over the last six months.

We are pleased the Government has recognised the need to ensure existing responsibilities and any new devolved responsibilities will be funded under the new system. At the outset, it is important to emphasise that newly retained business rates must be used to address the projected funding gap facing local government by 2020, before any further responsibilities are considered. Our estimate of this gap amounts to at least £5.3 billion in 2019/20, including a shortfall for adult social care alone of £1.3 billion.

Once existing pressures and responsibilities have been fully funded, we believe the remaining business rates income should also allow councils to be funded for responsibilities linked to driving economic growth in local areas. Handing over responsibility for skills and transport services is the most logical fit as it would allow local areas to close skills gaps, improve public transport and boost local economies.

It is important for the new system to be implemented in a way which balances rewarding councils for growing their local economies but avoids areas less able to generate business rates income suffering as a result.

There are currently almost 300,000 unresolved appeals, and further appeals can be expected with each revaluation. The LGA considers that the new retention system should be designed in a way so that appeals do not pose such a risk to authorities as they do at the moment. One way of doing this could be through a national provision for appeals, funded

Submission

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through the central list, so that councils do not have to make their own provision.

Councils need more flexibility on reliefs and there need to be improvements to the system to help local authorities reduce avoidance of business rates. The current system does not incentivise growth and should be reviewed, including mandatory rate relief for charities and empty properties. This would allow authorities to help target incentives in way that would incentivise growth and reduce avoidance.

The LGA welcomes the proposal for directly elected mayors in combined authorities to be given the ability to raise an infrastructure levy but all councils should be given this power to target support in particular areas, industries or above or below a certain rateable value.

Responses to specific questions

Our responses to each of the questions are set out in detail below.

Question 1: Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

See comments below on each grant / responsibility identified in the consultation paper. As a general point, all funding should be transferred free of ringfences.

Revenue Support Grant (RSG)
RSG has been reduced significantly since 2010 and the 2016 Local Government Finance Settlement signals further reductions over the current spending review period. We support transferring RSG to be funded from retained business rates in future, provided that the level of funding is not reduced further.

Rural Services Delivery Grant
As a general unringfenced grant paid to eligible councils, we believe this is suitable for funding from retained business.

Greater London Authority Transport Grant
Although this grant is only paid to the GLA it is clearly linked to economic growth and therefore, we would support this being funded through business rates retention. It sets a precedent that funding for transport functions in other parts of the country should also be funded through business rates retention, and that capital funding can also be included in the list of grants to be transferred.

Public Health Grant
Councils face significant spending reductions to their public health budget up to 2020/21. Public health funding will be cut by 9.7 per cent by 2020/21,

(£331 million in cash terms), in addition to the in-year cut of £200 million for 2015/16, announced in November 2015. We agree that Public Health should be funded from business rates in future on the basis that is unringfenced and on the basis of no further reductions in funding.

Improved Better Care Fund
This funding is specifically for social care but it will be part of the pooled Better Care Fund budget. It is also in an area that has experienced significant growth in demand and this is forecast to continue. Given these factors and the relationship between the additional Better Care Fund monies and the social care council tax precept, this may not be a suitable area for funding from retained business rates..

Independent Living Fund (ILF)
This is the grant to cover the cost of former recipients of the ILF funding who are now the responsibility of local authorities. As an existing unringfenced grant it should be straightforward to transfer to be funded from business rates, providing funding levels are not reduced.

Early Years
This is an area where there are differing views within the sector. Growth in demand is unlikely to be linked to business rates, nevertheless it is an area where councils would like greater control. Some are of the view that the significant changes currently underway in the provision of free childcare, schools funding and 'academisation' and the uncertainty this creates make this an unsuitable area for funding from business rates.

This is a significant sum and there are more arguments in favour of this being funded through business rates retention than in favour of attendance allowance.

Youth Justice
Some of this has been included in the Greater Manchester devolution deal. We would be in favour of this being devolved to all local authorities and that could include funding via business rates.

Local Council tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy
These are areas for which councils already have responsibility and for which some funding is provided by grants from central government. Both are areas that have experienced significant reductions in recent years without sufficient compensating reductions in workloads, and the service is significantly subsidised by councils. Funding these from business rates would be an effective way of baselining funding at a stable level, which the LGA would support.

Attendance Allowance (transfer of equivalent spending power not transfer of welfare benefit)
This could create a significant long term burden that would grow at a rate well in excess of any growth in business rates. The transfer of responsibility for this, and funding this from business rates, is not supported by the LGA.

Question 2: Are there other grants / responsibilities that you consider

should be devolved instead of or alongside those identified above?

Local government already faces significant financial pressures up to 2020, and beyond, from the services it already provides. These pressures are being placed on councils through legislative or demographic changes and are therefore beyond the control of local authorities. Councils will struggle to provide additional new services if these pressures are not adequately funded; once the business rates reforms have been implemented, councils principal sources of income will be council tax and business rates alone, and these are unlikely to grow at the same rate as demand for services. Examples of pressures up to 2020 include:

- General inflation / increases in demand (£4.4 billion by 2019/20)
- National Living Wage (£1.56 billion by 2019/20)
- Apprenticeship levy (£207 million per year)
- Reduction in the Education Services Grant (up to £300 million by 2019/20)
- Deprivation of Liberty Safeguarding (DOLS) (£170 million per annum)

When compared against the changes in core spending power made available as part of the 2016/17 final local government finance settlement, this leaves councils with a projected funding gap of £5.3 billion, with adult social care alone facing a shortfall of £1.3 billion even after the social care council tax precept and the additional funding through the Better Care Fund are taken into account. These projections do not reflect pre-existing underfunding of services. We will share with central government our work to identify these funding pressures which we believe are a conservative estimate.

The remaining 50 per cent of business rates funding should be used to address these pressures before consideration is given to new services to be funded through business rates.

The consultation does not mention the main Dedicated Schools Grant (DSG), and there could be a further pressure here as an unintended consequence of other changes. Elements of DSG are used to fund central services such as Special Educational Needs (SEN) or other services provided to schools by councils; if DSG is allocated directly to schools at its present value, councils would lose resources that are currently used to pay for essential central education functions such as SEN. This would place an additional unfunded burden on local authorities and must be taken into account with the move to further business rates retention.

Funding for transport infrastructure, as well as skills and employment support are local government's emerging priority areas to be funded from further business rates retention. We would like to engage further with Central Government on exploring and identifying the appropriate skills and employment support programmes.

Highways and Transport, Housing, and Sport

The Government's announcement that Transport for London Capital Grant will be funded through business rates retention sets a clear precedent that funding for highways and transport functions in other parts of the country should also be funded through business rates retention. We believe the following areas should be devolved to local government and funded from business rates:

- Highways Infrastructure investment (see response to question 4)
- Bus Service Operators Grant (see response to question 4)
- Housing investment currently managed by the Homes and Communities Agency
- Funding for sport

Skills and Employment Support

For skills and employment support, it is clear a wider reshaping of the system is required to better drive economic growth in local areas. Local government should have a much greater role in commissioning appropriate skills and employment initiatives for their areas, collaborating with other local authorities where possible. As part of these reforms, the way in which income from business rates is used to fund these responsibilities needs to be considered. However, funding certain aspects of the current system from business rates, without a redesign, would only serve to prolong a fragmented and costly system.

The Government should work with the local government sector to re-shape the whole system for employment welfare and skills support. This work should then be used to identify existing funding to ensure the criterion of fiscal neutrality is met; the current system is complex. This is a major piece of work and we believe final decisions about use of business rates funding for service responsibilities should not be made until it is concluded. With that as a caveat, we consider that the following areas, or elements of them, should be devolved to local government and funded from business rates:

- Adult Education Budget (see response to Question 4)
- Adult Education Support. In particular the National Careers Service
- Work and Health programme Employment support for claimants of Jobseekers Allowance and Employment and Support allowance
- Discretionary Housing Payments and the Universal element of Universal support

Question 3: Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

This is an area that needs careful consideration. The geographical composition of a combined authority areas may not always fit with needs and services provided locally. The impact on, and opportunities for, areas that do not have combined authorities or devolution deals, also needs to be considered. Local Authorities should not be forced into governance structures that are not suitable locally. The default position should be devolution to individual council level unless agreed otherwise locally.

Question 4: Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

The funding of devolution deals needs to be kept separate from the funding of services through retained business rates. Services that are transferred to local government to be funded through retained business rates should be done so on a national basis as part of an overall national devolution deal, and this should include the areas identified in the answer to question 2 above. When additional devolution is agreed for individual areas as part of a local devolution deal, this should be funded by an additional transfer of funds from the relevant government department and not through retained business rates. The effect of funding differential devolution through retained business rates would be to create additional complexities, reduced transparency, and an inequality of funding and opportunity between authority areas, and may reduce the potential of authorities that are not in combined authority areas to develop their business rate base.

Investment funds for devolution deals
As regular funding committed over a long period connected to economic growth, in theory this is suitable for funding from retained business rates in devolution deal areas, which are the only areas where it will apply. However, as stated above, we believe only responsibilities that can be devolved nationally to all similar tier authorities should be funded through business rates retention.

Adult Education Budgets
As an area closely linked to skills and economic growth this is suitable for funding from business rates. This should also apply in areas that do not have a devolution deal, though it needs to be considered as part of a wider reshaping of the whole employment, skills and welfare system.

Transport Capital Grants (and Bus Services Operators Grant)
As an area closely linked to economic infrastructure growth this is suitable for funding from business rates. As all this funding except for the Bus Services Operators grant is already devolved to Councils in the form of grants, this should also apply in areas that do not have a devolution deal.

Local Growth Fund
Although this is closely linked to economic growth, the project nature of the investment means that amounts could vary considerably from year to year and area to area. As such it is not suitable for funding from business rates.

Question 5: Do you agree that we should continue with the new burdens doctrine post- 2020?

It is essential that local government is funded separately by the government for new and the existing burdens that it faces.

Question 6: Do you agree that we should fix reset periods for the system?

The arguments for fixed reset periods are that it gives more predictability and certainty, when compared with the alternative which is that the government should set rules or criterion for triggering a reset – for example the proportion of authorities on the safety net. The emerging view is that fixed reset periods are seen as more predictable.

Question 7: What is the right balance in the system between

rewarding growth and redistributing to meet changing need?

The LGA agrees that there has to be a balance between rewarding growth and changes in the needs basis. A partial reset could provide a way forward and would be better than either a frequent full reset or an infrequent full reset alone although the latter might be needed at some point. It is not possible at this stage to say what this balance should be until further modelling work has been undertaken to look at the impact on authorities and on geographical areas. The period of the partial reset should ideally be the same as the funding period for local government. In an era of fixed term five year parliaments this could be five years.

Question 8: Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

A partial reset has two sides – the needs basis and the business rates baseline. The key decision will be how much of the retained growth is kept. This should be set to ensure that authorities which lose over the period of the reset are returned to the baseline at the point of partial reset. The LGA would also like to see options explored where a needs reset is carried out more frequently than a business rates baseline reset.

Question 9: Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Some form of mechanism to balance the ability to raise business rates and underlying needs is necessary. The current system of top-ups and tariffs, based on revised needs and business rates baselines, has the advantage that it is fairly well understood. It is also updated in line with the increase in the multiplier each year to provide some protection to top-up authorities.

Question 10: Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

The justification for adjusting retained income for authorities is that no authority should benefit, or another authority lose out, solely due to the effects of revaluation. The LGA supports this.

The issue of how revaluations are dealt with in the system will become even more important if the government goes ahead with proposals for more frequent revaluations.

It could be further argued that in years when there is a revaluation with an increase in total rateable value a full assessment should be made of pressures, including that on council tax, before deciding on the level of the multiplier. This could also be achieved by allowing more flexibility on the multiplier in non-revaluation years, separately from any infrastructure levy.

Question 11: Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

We support giving Mayoral Combined Authorities the additional powers to have a single top-up and tariff for the area, if that is agreed with the mayor and its constituent authorities.

This flexibility should not be restricted solely to Mayoral Combined Authorities; but that any contiguous group of authorities should be able to make a case for these powers, in a similar way to how pooling works at present, as long as it does not impact on other local authorities.

Question 12: What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

The case for the current 80:20 tier split in two tier areas was to give more incentive to districts in two tier areas, taking into account that counties are responsible for social care spending, which is protected through the system of adjusting top-ups and tariffs in line with the multiplier.

We are aware that representatives of districts and counties are discussing this and it should be set on the basis of discussions and agreement between them.

Similarly any revision to the tier split of 60:40 between London Boroughs and the GLA should be agreed in discussions between the relevant authorities.

Question 13: Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

As a result of consultation it was agreed that fire funding would be included in the 50 per cent business rates retention scheme. This ties fire authorities closer to the decisions of billing authorities in their areas and other preceptors such as counties. Fire and rescue authorities may have built business rates growth into their financial plans. Others consider that this exposes fire to a level of risk which services such as the police do not have to bear, and that fire authorities have little influence over the economy locally. A further consideration is that in some areas fire will become the responsibility of the mayoral combined authority, which, any infrastructure levy aside, does not currently receive any share of business rates.

There is a mixed view in the sector and the LGA would look to the views of those of its members which have responsibility for fire services.

Question 14: What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

The text above this question in the consultation paper relates to enterprise zones. The LGA agrees that enterprise zones should continue to be treated in the same way as in the current arrangements.

Councils need more flexibility on reliefs. 96 per cent of the value of reliefs is for mandatory rather than discretionary reliefs; with over 90 per cent being accounted for by reliefs for charities (50 per cent, empty premises

(26 per cent) and small businesses (14 per cent). This can distort the local market. One reason for the large bill for charity relief is that all charities are treated the same irrespective of size and resources. In addition, this has been subject to abuse through being used as a device for business rates avoidance, for example through exploiting the rules of charitable relief and empty property relief.

Recently, academies and parts of the NHS have made attempts to receive charity relief. Any reliefs from the public sector such as academies and health service, would, as the rules stand at the moment, affect locally retained income, and yet these are largely transfers within the public sector. Such reliefs, if awarded, should be dealt with differently to charities and funded centrally.

There should be a review of business rates relief resulting in making more reliefs discretionary as opposed to mandatory. For example, councils could target empty property relief better if it was made discretionary. If they had appropriate powers, councils could use them to encourage new or continued occupation through either ‘carrot’ approaches such as new occupation relief or ‘stick’ strategies such as shortening the duration of empty property relief to one sector or geographical area in comparison to the current nationally prescribed period.

This review should also consider how reliefs interact with the ability to grow the business rates base in authorities; this could include, for example, areas where many properties in addition, benefit from small business rates relief.

Question 15: Would it be helpful to move some of the ‘riskier’ hereditaments off local lists? If so, what type of hereditaments should be moved?

The LGA is aware that there are mixed views on this question. Some argue that large hereditaments such as power stations should be moved onto a central list. Others argue that this would remove incentive from councils. If a council goes out to attract or agrees to a power station, for example, they would argue that it should keep the business rate gains.

Question 16: Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

The LGA has heard mixed views on this question in local government. Some see it as unnecessarily complicated. One way forward could be to test the workings of area level lists with any willing pilots.

Question 17: At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

We consider that there should be a national provision for business rates appeals, funded using income from the central list, so that authorities do not have to make provisions individually. The LGA welcomes further proposals from Government in making this idea operational.

Question 18: What would help your local authority better manage risks associated with successful business rates appeals?

There are currently 300,000 appeals outstanding from the 2010 list. The LGA has supported the introduction of the new Check Challenge Appeal system but it is not yet clear what effect this will have on appeals. As part of this reform, there should be tighter deadlines for when appeals have to be lodged.

The LGA considers that the government should devote resources to ensuring that the Valuation Office Agency (VOA) can resolve all outstanding appeals within the 12 months from when the new list comes into effect in April 2017 so that there is not a backlog when the new system is introduced. We also consider that there should be a review of the role and functioning of the VOA, including its line of accountability.

There is a strong case for any outstanding appeals when the system starts to be held at a national level and managed nationally. The LGA argued that this should have happened with outstanding appeals when the 50 per cent retention system was set up.

In addition it is essential that loopholes are closed to help local authorities tackle business rates avoidance. In 2015 the LGA undertook some work, on behalf of the Government, to help identify the types and scale of business rates avoidance. We identified over a dozen different types of avoidance which reduces the amount of money that can be spent on local services. We would like to work with the Government on measures to address these loopholes prior to the introduction of further business rates retention.

Question 19: Would pooling risk, including a pool-area safety net, be attractive to local authorities?

The LGA considers that authorities should be given the option of pooling risk as long as it doesn't have a detrimental effect on authorities outside of the pool-area. We would like to see options explored on how this could be done on a voluntary basis.

Question 20: What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

It is essential that there continues to be some sort of safety net mechanism that protects authorities from significant drops in income, for example, due to the closure of a large business within a local authority's boundary. The level of this protection needs to be considered alongside different options for dealing with risk, and needs to be based on DCLG modelling of the options and interactions between them.

One option which could be explored would be one where the percentage protection is expressed as a proportion of the business rates baseline for top-up authorities and the funding baseline for tariff authorities.

Question 21: What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

The LGA considers that any authority should be given the flexibility to reduce the multiplier.

We think that authorities should be able to target this within their areas; for example, to specific areas or industries or above or below a particular rateable value threshold.

The cost should be borne by the authority that takes the decision and if agreed between authorities arrangements for cost sharing can be put in place locally.

Question 22: What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

We think that authorities should be able to target multiplier reductions within areas; for example, to specific areas or industries or above or below a particular rateable value threshold. This could work alongside existing local discount powers.

Question 23: What are your views on increasing the multiplier after a reduction?

The LGA does not support any form of capping of business rate increases following a decision to reduce the multiplier.

Question 24: Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

The LGA does not believe that neighbouring authorities should be given any veto on the use of the power to reduce the multiplier, however, consideration needs to be given to the impact of reductions on neighbouring authorities such as the potential for displacement.

Question 25: What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

This is a matter that should be left for local decision.

Question 26: What are your views on how the infrastructure levy should interact with existing BRS powers?

There is currently only one BRS scheme in existence, in Greater London, for financing Crossrail.

We consider that there should be a review of the consent requirements for BRS looking to bring this in line with whatever is agreed for the infrastructure levy.

Consideration needs to be given as to how this power to relates to other powers such as that to raise a Community Infrastructure Levy (CIL).

Question 27: What are your views on the process for obtaining approval for a levy from the LEP?

The LGA has heard views that levies should not be subject to a veto from LEPs as business members may not be representative of business interests locally and are nominated rather than elected. In addition there is complexity when the boundaries between the authority and the LEP are not co-terminous.

We would like to see consultation with relevant LEPs and local business interests, before a levy is approved, but other than that the decision on whether or not to apply a levy should be for the authority. We do not support any wider requirements for businesses to vote before a levy is approved.

Question 28: What are your views on arrangements for the duration and review of levies?

We agree that levies ought to be set for a period to be agreed at the start and subject to regular review. We would not be in favour of statutory prescription as to how long a levy should last.

Question 29: What are your views on how infrastructure should be defined for the purposes of the levy?

The LGA would like to see as wide a definition as possible. For example this might include housing.

Question 30: What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

We agree that multiple levies ought to be possible up to an agreed limit.

Question 31: Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

The LGA considers that the power to introduce an infrastructure levy should be open to all authorities and not only to combined authorities.

Question 32: Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

The LGA has long called for multi-year funding settlements for local government and welcomed the principle of the four-year settlement, announced in February this year. It is important that long-term settlements are an integral feature of the reformed business rate retention system including any specific grant funding that will be available and that local authorities retain the opportunity to respond to a draft settlement.

The date of the consultation and final settlements in recent years have been too late to enable effective budget planning and consultation. The consultation on the provisional settlement should take place over the summer preceding the forthcoming financial year, with the final settlement being confirmed after the consultation, in September or October. This would give authorities six months to plan for any changes. This process and timeline should be enshrined in legislation to provide greater certainty and stability for that local authorities.

Question 33: Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

The balance between national and local accountability must be clear from the outset of the scheme to ensure that overlaps in accountability are minimised. As the Government announced last October, the reforms 'will mean that all income from local taxes will go on funding local services'. As such, whilst accountability for maintaining the system should remain with national government, accountability for decisions on how business rates income is spent should rest with local authorities. Therefore grants that are transferred into business rates retention should not be ringfenced. Also they should not be identified by central government within the quantum as 'pots' for funding specific services. This could lead to explicit or implicit ringfencing.

Numerous accountability mechanisms for local government will continue to operate, most importantly through democratically elected councillors. We would expect others, such as the annual accounts and audit process, and regular reporting of budgeting and spending to DCLG, to continue to play an important role. Therefore, parliamentary approval and scrutiny of spending funded by business rates should be more limited than at present.

Question 34: Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

It seems sensible that the Collection Fund should continue to be a feature of the new system. However, to aid transparency, the arrangements should be simplified as much as possible. Again, the design of the scheme will determine the details of the final arrangements, but there are several important issues that need to be considered including:

- The way in which risks associated with appeals are dealt with including provisions.
- Differences between the accounting and timing of safety net and levy payments in the General Fund and the Collection Fund
- Accounting for section 31 grants (paid in compensation for temporary changes to reliefs) in the Collection Fund, rather than the General Fund.

Question 35: Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

Altering the way in which the balanced budget calculation is built up, to simplify the process, would improve transparency and accountability. The calculation must be based on the way in which local authorities actually set their budgets. The key building blocks of the calculation should be council tax, business rates, income from other sources (including government grants), and transfers to or from reserves.

Question 36: Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

The main methods for collecting data on forecast and outturn business rates income, the NNDR 1 and NNDR 3 forms, will need to be completely redesigned as part of the introduction of the scheme. Following the implementation of 50 per cent business rates retention, these forms were altered, but not fundamentally redesigned, adding to their complexity.

It is important that new data collection activities should link to accounting arrangements, rather than requiring two different systems. However, it is, crucial that any changes to the reporting system improve the functionality of reporting and do not impose additional burdens on local government. Wherever possible forms should be pre-populated with data from central government, to ensure a consistent approach. Forms should be made available to local authorities well in advance of the deadline for completing them, so that they have as much time as possible to produce the information needed. Furthermore, the reporting forms should not be subject to alterations by Government at short notice. Any changes should be made well in advance and consulted on in the usual way through the CLIP-F group.

Fair Funding Review: Call for evidence on Needs and Redistribution

26 September 2016

Submission

Local Government House, Smith Square, London SW1P 3HZ
Email info@local.gov.uk
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The Local Government Association (LGA) welcomes the opportunity to respond to the Government's Call for evidence on Needs and Redistribution.

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been agreed by the LGA's Leadership Board, Executive and Business Rates Task and Finish Group.

We are working jointly with the Department for Communities and Local Government on the introduction of further business rates retention and the Fair Funding review. The LGA will continue to encourage an open conversation between the Government and the sector on these issues. The review needs to continue to be as open as possible and listen to all representations.

Above all, the LGA calls on the Government to give due regard to all responses from the sector received on the call for evidence.

- The LGA is clear that simplification is an important goal, but it should not come at an unacceptable cost to fairness.

- The LGA believes that adjustments for council tax raising capacity should remain an important part of the system.

- There needs to be a transition scheme which is underpinned by extra funding from Government for those with the sharpest cuts.

Our response outlines some suggestions for further exploration, mostly informed by representations we have received to date.

Responses to specific questions

Our responses to each of the questions are set out in detail below.

Question 1: What is your view on the balance between simple and complex funding formulae?

Over the years, the system for allocating shares of funding has become ever-more complex, to a point where it is difficult to explain how a local authority's funding levels from the Government are determined. The fourblock model is particularly complex and has led to authorities losing funding through changes that should not affect them.

A mechanism that is easier to understand is an important aspiration for any new system. This will aid transparency and accountability, but does not necessarily mean that the formulae must be minimalistic. Fairness should be the primary objective of the redistribution system. If a distribution can be achieved through a simpler approach that would be welcome but not if this is at an unacceptable expense to fairness.

Fairness versus simplicity are not the only principles that need to be considered when developing a new needs baseline. Other principles that need to be considered, such as responsiveness to changing needs and predictability also need to be considered.

The Government must examine all the evidence and listen to the views of the sector when identifying cost factors and design principles to take into account as part of the Fair Funding Review.

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

We have received representations about adults’ and children’s social care services as focus points for particular and more detailed service formulae. The Department of Health has not yet published the results of the review of Relative Needs Formulae for personal social services. Potentially the result of this review could form the framework for, or become, the determinant of adult social care relative needs in the new system.

Views have been expressed that other services such as transport and road maintenance could be assessed separately. We also note that the technical working group on needs and redistribution is also considering how to approach environmental and cultural services. However, there are divergent views in the sector on whether service-specific formulae are required; this should be explored with due regard to the balance between simplicity and fairness as outlined above.

Question 3: Should expenditure based regression continue to be used to assess councils’ funding needs?

Question 4: What other measures besides councils’ spending on services should we consider as a measure of their need to spend?

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

It is essential that all approaches are considered and assessed on their merits. The LGA does not have firm preferences on detailed statistical techniques involved but would be concerned about increasing levels of non-evidence based judgement used in the formulae.

Representations we have received to date show a mixed opinion on past expenditure-based regression. One opinion is that this could reinforce the current funding pattern as available government funding is a major constraint on spending after sustained reductions. On the other hand, as a modelling technique it is fairly straightforward to undertake and explain.

We would recommend looking at how funding formulae are derived in other sectors, such as health and police, and in other countries to see if there are alternative approaches and techniques that could be explored.

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

One consistent concern that has been highlighted in representations that we have received is the need to make sure that the redistribution mechanisms are future-proof given the expectation that the system may include long term fixed-period resets. This means that the Government needs to consider not only the current profile of relative needs, but also how it is likely to change in the future.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

The LGA believes that adjustments for council tax raising capacity should remain an important part of the system. We do not have a view on the exact approach with which council tax is taken into account.

In terms of business rates, the LGA agrees that there has to be a balance between rewarding growth and changes in the needs basis. Some sort of partial reset could provide a way forward possibly linked to a full reset over a longer timeframe. It is not possible at this stage to say what this balance should be until further modelling work has been undertaken to look at the impact on authorities.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

We have heard representations about the transitional mechanism sometimes being a more important feature of the redistribution system than the actual formulae that provide 'target shares'. However, it is clear that for some local authorities a single step-change might prove to be too drastic if the review results in very significant swings. For some, it might take a significant amount of time for growth in business rates to compensate for the reduced baseline. There are mixed views on the length of time it should take to reach target shares as measured by the formula, and this should be reviewed once exemplifications of the impact of the review are published.

To minimise the impact of transition, but keep some progression towards the needs baselines, the Government could consider using some funding from the central share to smooth the path for authorities with the sharpest reductions.

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger

geographical area than the current system – for example, at the Combined Authority level?

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

It is difficult to see how the whole of England could be grouped in this manner at this point. This could impede collaboration where the process is at an earlier stage and where the governance structures have not yet evolved.

We therefore believe that a single local authority is still the most appropriate geographic unit for assessing need and distributing funding. However, there should be flexibility for areas to opt in to receive funding for the whole area, in a single fund to be distributed within the area, when this is agreed by the relevant local authorities and where there is no impact on neighbouring areas.

Question 13: What behaviours should the reformed local government finance system incentivise?

Question 14: How can we build these incentives in to the assessment of councils' funding needs?

In the immediate period after the implementation of reform, it might be desirable to avoid unnecessary complexity in the relative needs assessment. In addition, behaviours such as collaboration, integration and efficiency are already ingrained in local government because of the scarcity of resources available to deliver services.

Instead of building 'stretch/shrink targets' into relative needs assessments, it might be worth exploring whether certain behaviours could be encouraged or incentives sharpened through other system design features. Local government is always looking for more efficient and joined up ways to deliver services. Various procedural and bureaucratic obstacles to collaboration and integration across public sector boundaries are the biggest disincentive.

Note of Resources Portfolio meeting

Title:	Resources Board
Date:	Monday 18 July 2016
Venue:	Bevin Hall, Ground Floor, Local Government House, Smith Square, London, SW1P 3HZ

Item	**Decisions and actions**	**Action**

1 **Welcome**

It was noted that due to ill health, Cllr Kober (Resources Portfolio Chair) was unable to attend the meeting and therefore Cllr Fuller (Resources Portfolio Vice-Chairman) would take the Chair for the meeting.

Cllr Fuller welcomed all those present to the meeting and introduced the cross party panel of members that would be speaking as part of the programme, as well as key LGA officers. He summarised the learning objectives for the day and encouraged members to share their views to inform the LGA’s joint working with the Department for Communities and Local Government (DCLG) and the LGA’s response to the Government’s Business Rates Retention consultation that had been launched on 5 July.

2 **Introduction**

Cllr Fuller delivered a PowerPoint presentation providing a high level overview of the proposed reforms announced by the Chancellor in October 2015, the LGA’s approach to further business rates retention and the member and officer engagement structures underpinning it. Nicola Morton (Head of Local Government Finance) outlined the key milestones in the timetable for implementation – including the Government’s recently launched summer consultation - and highlighted how local authorities could input their views.

3 **New opportunities?**

Cllr Fuller provided a detailed presentation covering issues including: projections of the total income likely to be available from business rates; the principles underpinning any transfer of additional responsibilities to be funded through business rates; new responsibilities proposed in the Government consultation paper; and potential new and existing cost pressures.

There followed a question and answer session in which the following issues were discussed:

Ministerial Personnel

- The potential impact of the recent Ministerial changes on the Government’s business rates reform programme.

Business Rates Appeals

- The appeals system was highlighted as a key area for reform, with particular reference to ‘cost shunting’ between public sector bodies.

System design

- Questions were asked about the freedom councils would have in designing the system, including the possibility of bespoke systems for particular localities and the potential for a *minimum retained share guarantee* for authorities.

- There was a query whether promised community benefit payments for large infrastructure projects would still be made under the business rates retention scheme.

Transfer of services

- There was support for designing a fair system that both balances need as well as giving a powerful incentive for growth to all authorities, with no members in favour local authorities taking on the administration of attendance allowance as one of the potential new responsibilities.

In drawing this item to a close, Cllr Fuller outlined the key principles established by the LGA’s Member Task and Finish Group, which the room support as the right direction of travel.

4 Getting the design right

Cllr Headley and Cllr Barrett provided a detailed presentation on the range of issues to be considered in scoping out how the new system could work. In doing so Cllr Headley covered: balancing growth and redistribution; revaluation and reset frequency; appeals; implications for different local government structures and Fire & Rescue Authorities; review of central and local rating lists; safety nets; and the Government’s needs review. Cllr Barrett’s half of the presentation covered local tax flexibilities as well as the needs and redistribution aspects of the reforms.

There followed a question and answer session in which the following issues were discussed:

Funding

- The impact of increasing cost pressures on the overall quantum of funding and the need to address misconceptions that there would be an increase in funding available for local authorities as a result of the reforms.

- That the proposals included the possibility of removing Fire and Rescue Authorities from the business rates system and funding them directly from a Home Office grant.

Structures and Geography

- Members shared their differing perspectives on groupings of authorities collaborating on a regional or Combined Authority level. Particular reference was made to the balance between transfers of responsibilities being sensitive to local strengths and equitability of devolution across the country, and the need for interconnectivity between neighbouring authorities as part of the growth agenda.

- The need for clarity regarding the role of Parish Councils in the reforms and the potential associated implications for accountability.

Needs and redistribution

- It was acknowledged that any new system was unlikely to be a panacea, however there was support for it seeking to: address the in-built inequalities in the current system; fairly incentivise growth; manage a proportionate level of risk; and take into account the growing knowledge economy as well as traditional property based businesses.

New responsibilities

- On balance, there was a general consensus that new responsibilities should: be guided by the needs of local areas; support economic growth; and link to shared priorities of both local government and the business community. With this in mind, there were grave concerns about the Government's suggested transfer of welfare related responsibilities in its consultation paper.

Reset

- The challenges of incentivising growth within a system with fixed term full resets were highlighted.

Safely net

- The importance of a form of safety net was highlighted to compensate for significant unplanned changes within a local economy, such as the closure or relocation of a large employer.

5 Summary and close

Cllr Fuller brought the programme to a close by highlighting the wide range of topics had arisen during the day and summarising the emerging themes that would inform the LGA's response to the consultation.

Appendix A -Attendance

Position/Role	Councillor	Authority
The Panel		
Vice-Chairman in the Chair	Cllr John Fuller	South Norfolk District Council
Deputy-chairman	Cllr Clarence Barrett	Havering London Borough Council
Task Group Member	Cllr Michael Headley	Bedford Borough Council
Resources Portfolio Members	Cllr Adrian Hardman	Worcestershire County Council
	Cllr David Renard	Swindon Borough Council
	Cllr Sharon Taylor OBE	Stevenage Borough Council
	Cllr Peter Marland	Milton Keynes Council

There were approximately 50 other members from local authorities present.

Document is Restricted

LGA Resources Board

23 September 2016

2017/18 Local Government Finance Settlement Technical Consultation

Purpose

For discussion and direction.

Summary

This report provides an outline of the Department for Communities and Local Government's (DCLG) technical consultation on the 2017/18 local government finance settlement. The consultation sets out the Government's proposed approached to the 2017/18 settlement, the second year of the four-year offer for local government.

Recommendation

That the Resources Board provide their views on the proposals in the DCLG consultation paper to help inform the LGA's response to the consultation.

Action

LGA Officers to proceed as directed.

Contact officer:	Nicola Morton
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Phone no:	020 7664 3197
Email:	nicola.morton@local.gov.uk

LGA Resources Board

23 September 2016

2017/18 Local Government Finance Settlement Technical Consultation

Background

1. In December 2015, as part of the announcement of the 2015/16 local government finance settlement, the then Secretary of State for Local Government, Greg Clark MP published details of a four-year settlement offer for local authorities. The offer is open to any authority which submits an efficiency plan to the Department for Communities and Local Government's (DCLG) by the deadline of 14 October 2016.

2. Under the terms of the offer, barring exceptional circumstances, local authorities will receive the allocations set out for each year of the offer. The constituent elements of the multi-year offer, for the remaining years of the Parliament, will be confirmed by the Government, for qualifying councils, soon after 14 October. However, the normal statutory consultation process for the local government finance settlement, will continue to take place each year, with the publication of provisional and final settlements. Those authorities which choose not to accept the offer will be subject to the existing annual process for determining the level of government funding they receive.

Consultation Outline

3. The Secretary of State for Communities and Local Government, Sajid Javid MP, announced the publication of the technical consultation to Parliament in a written ministerial statement on 15 September.

4. The consultation sets out the Government's proposed approach for the 2016/17 settlement and covers the following main issues:

   4.1. Multi-years settlements

   4.2. Distribution of funding for the improved Better Care Fund

   4.3. Council tax referendum principles and their extension to town and parish councils

   4.4. Adjustments to top-up and tariffs to cancel out the impact of business rates revaluation

   4.5. Methodology

   4.6. The voluntary transfer of funding streams within devolution deal areas to combined authorities

5. Each of these issues are set out in more detail in the sections below:

Multi-Year Settlements

6. The consultation reconfirms the Government's commitment to the multi-year settlement offer, first announced in December 2015. As noted above, for those councils which accept the offer by the 14 October deadline, the Government intends to confirm the

constituent elements of the offer for qualifying councils, as soon as practicable after the deadline. The current offer includes: Revenue Support Grant; business rates tariff and top-up payments; Rural Services Delivery Grant and Transition Grant.

7. The Government is also considering expanding the existing multi-year offer to include more grants, to provide councils with more security over a larger proportion of their funding for the rest of this Parliament. The consultation invites suggestions for other grants that could be included, in addition to those in the existing offer.

Improved Better Care Fund

8. The improved Better Care Fund (iBCF) was announced as part of the Spending Review in November 2015. The funding will be worth £105 million in 2017/18, rising to £800 million in 2018/19 and then £1.5 billion in 2019/20; the final year of the Spending Review period.

9. The Government published it proposed allocation methodology for the iBCF in the consultation on the 2016/17 local government finance settlement, in December 2015. The current consultation proposes that this methodology is adopted from 2017/18.

10. The methodology takes into account the varying ability of councils to raise income through the adult social care precept. The funding available for the iBCF will be allocated to each authority according to their share of the national total determined by the 2013 adult social care relative needs formula, adjusting for the income which could be raised from the additional social care council tax flexibility.

11. The consultation seeks views from local government on whether the proposed methodology is supported.

Council Tax Referendum Principles

12. Each year the Government publishes council tax referendum principles; the threshold at which a council tax increase triggers a referendum. As in 2016/17, the referendum threshold is proposed at 2 per cent for all local authorities.

13. However, as in 2016/17, shire districts will be able to increase the Band D charge by up to, and including, £5, or up to 2 per cent, whichever is higher. Those Police and Crime Commissioners with council tax charges in the lowest quartile will have similar flexibility.

14. Authorities with adult social care responsibilities will be able to charge an additional 2 per cent increases for adult social care services, as in 2016/17.

15. For the first time, DCLG is also proposing that referendum principles will apply to town and parish councils for which the Band D charge is higher than £75.46 (the lowest Band D charge by a district council) and the total precept raises over £500,000. However, those town and parish councils where a service had been transferred from a local authority would not be subject to the referendum principle, providing certain conditions are satisfied. The Government is also prepared to consider extending the referendum principles to all town and parish councils.

Business Rates Revaluation Adjustment

16. A new valuation list for non-domestic properties takes effect from April 2017. Business rates valuations are normally carried out every five years, although, exceptionally, the revaluation scheduled for 2015 was postponed until 2017. Revaluation involves assessing a property to ensure that economic changes in property values are reflected in rateable value. Between revaluations rateable values only change, other than for inflation, as a result of appeals or physical changes to the property or location.

17. The revaluation will have the effect of altering the business rates income all local authorities receive. In the development of the 50 per cent rates retention system, the Government indicated that tariffs and top-up would be adjusted following a revaluation, to ensure, as far as possible, that authorities' retained income is the same after revaluation as immediately before.

18. The consultation paper proposes a detailed methodology for identifying and isolating the amount by which business rates income in the authority will change solely as a result of the revaluation. DCLG proposes to use these figures to adjust tariffs/top-ups in order to cancel out the impact of revaluation.

Adjustments to business rates in areas piloting 100 per business rates retention

19. In the 2015 Autumn Statement the Government announced London, Manchester and Liverpool would pilot approaches to 100 per cent business rates retention from April 2017. Pilot areas will test mechanisms for the full roll-out, including ending entitlement to certain grants, devolving additional responsibilities and adjusting existing business rate tariffs and top-ups.

20. The methodology for calculating changes in the local share of retained business rates and the level of tariff and top ups agreed in pilot areas is outlined in the consultation paper. It is designed to ensure that no authorities elsewhere in the country are adversely affected by the pilots.

Voluntary transfers of funding to Mayoral Combined Authorities

21. The consultation proposes allowing areas with mayoral combined authorities the option to request adjustments to the calculation of grant and business rates payments, to reflect changes in the way existing duties are carried out by authorities. Any changes would be subject to the agreement of all authorities affected by the changes. The consultation seeks views on whether any combined authorities are seeking voluntary transfers.

Consultation Process

22. The consultation runs for six weeks, closing on 28 October 2016. The LGA plans to submit a response to the consultation, and has asked for comments from member authorities by 7 October. However, the six-week consultation period means the response will have to be submitted before the next Resources Board meeting.

Recommendations

23. That members of the Resources Board provide their views on the proposals in the DCLG consultation paper to help inform the LGA's response to the consultation.

Financial Implications

24. This is part of the LGA's core programme of work and as such has been budgeted for.

Local Government Association

LGA location map

Local Government Association
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Fax: 020 7664 3030
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Website: **www.local.gov.uk**

Public transport

Local Government House is well served by public transport. The nearest mainline stations are: Victoria and Waterloo: the local underground stations are **St James's Park** (Circle and District Lines), **Westminster** (Circle, District and Jubilee Lines), and **Pimlico** (Victoria Line) - all about 10 minutes walk away.

Buses 3 and 87 travel along Millbank, and the 507 between Victoria and Waterloo stops in Horseferry Road close to Dean Bradley Street.

Bus routes – Horseferry Road

507 Waterloo - Victoria

C10 Canada Water - Pimlico - Victoria

88 Camden Town - Whitehall - Westminster - Pimlico - Clapham Common

Bus routes – Millbank

87 Wandsworth - Aldwych

3 Crystal Palace - Brixton - Oxford Circus

For further information, visit the Transport for London website at **www.tfl.gov.uk**

Cycling facilities

The nearest Barclays cycle hire racks are in Smith Square. Cycle racks are also available at Local Government House. Please telephone the LGA on 020 7664 3131.

Central London Congestion Charging Zone

Local Government House is located within the congestion charging zone.

For further details, please call 0845 900 1234 or visit the website at **www.cclondon.com**

Car parks

Abingdon Street Car Park (off Great College Street)

Horseferry Road Car Park Horseferry Road/Arneway Street. Visit the website at **www.westminster.gov.uk/parking**