

## **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.

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## **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.