

The Fair Funding Review and Business Rates Retention

Purpose of report

For discussion.

Summary

This paper provides a progress update on the Government's Fair Funding Review and business rates retention reforms, including an update on the LGA's own work on these issues.

Recommendation

That members of Executive provide comments on the paper.

Action

Officers to revise the work plan based on the discussion and to deliver against its objectives, overseen by the LGA Business Rates Task and Finish Group with regular updates to Leadership Board and Executive.

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Fair Funding Review

The Government's consultation on progress to date

1. At the time of writing, the Government had not published the expected consultation on the progress of the Fair Funding Review. This consultation was originally planned for spring 2017, and subsequently delayed due to the General Election. The work of the DCLG / LGA officer level technical working group has resumed. As a result, the Chairman wrote to the Chancellor of the Exchequer and the Secretary of State for Communities and Local Government ahead of the Autumn Budget, urging the Government to publish the consultation as soon as possible. In the letter, the Chairman pointed to the importance of maintaining momentum on the Fair Funding Review.

Technical working group

2. The Fair Funding Review technical working group met on 16 November. The papers are available [on the LGA website](#).
3. A significant part of the meeting was devoted to discussing potential options on adjustments for relative ability to benefit from council tax income. There was no overall consensus, however the Government will explore an approach that combines an assessment of both overall council tax income and actual council tax as a potential compromise. Officers will provide some worked examples to the Business Rates Retention Task and Finish Group, and to the LGA Leadership Board and Executive. This is covered by the LGA's expanded work programme (see below).
4. The group also discussed the viability of a relative needs assessment that would be contained in a single formula for all services. The group agreed that this approach would be too crude and not capture enough nuance in circumstances of different local authorities. However, the group felt that an approach which combines some services into a single formula assessment, while keeping service-specific formulae for key areas, could potentially be a useful simplification without an undue impact on fairness. We expect the Government to explore this in more detail in its upcoming consultation.

The LGA's work programme on the Fair Funding Review

5. At the last meetings of the LGA Leadership Board and Executive members, signed off a proposed additional LGA work plan for the Review (see [Appendix 1](#)).
6. The aim is to deliver on a significant part of this work programme over the next six months. Officers will work with the Business Rates Retention Task and Finish Group to deliver the programme, overseen by the Leadership Board and Executive.

7. In the first instance, officers will discuss the following issues with the Business Rates Retention Task and Finish Group at the next possible opportunity, followed by Leadership Board and Executive:
 - 7.1 Develop the key criteria for assessing proposed distribution models and methodologies to give the LGA a structured and consistent way to assess new distribution models.
 - 7.2 High level principles governing transition. Officers will prepare a case study example of a change in the pattern of distribution and illustrate a number of scenarios of how the transition could happen, their impact (in particular on outliers) and potential cost to the Treasury where there are protections. While there is no way to predict exactly what the pattern of changes, as a result of the Fair Funding Review, this analysis will help members develop an understanding of the relative merits and drawbacks of options at a high level.
 - 7.3 Different ways of adjusting for relative ability to benefit from own income, in particular council tax. The Government is starting to consider this in more detail and the technical working group had an in-depth discussion about principles. Officers will provide a number of scenarios, discussing their strengths and challenges, to members. This will include some exemplifications of what each scenario might mean to anonymised local authorities in order to discuss any potential consensus that the LGA could develop on this issue.
8. In addition, on 27 November the LGA held an event for officer representatives of various working groups on business rate retention and the fair funding review to discuss the progress of the review to date, focusing in particular on the issues that are likely to be mentioned in the Government's forthcoming consultation. Due to the timing of the meeting, officers will provide a verbal update to members at the meeting.
9. Key items discussed were potential ways to adjust for council tax, a viability assessment for a 'single formula' approach as well as a discussion on the expanded LGA work programme.

Business Rates Retention

10. The joint DCLG / local government officer Steering Group on Business Rates Retention met for the first time since the General Election on 3 October. The group considered the possibilities for further business rates retention that can be enacted without primary legislation and the possible timetable for this. The earliest implementation date is now 2020/21.
11. Following on from the Steering Group, the Responsibilities Working Group met once to finalise the outputs from the group's work. The Responsibilities Working Group reconsidered the transfer of existing grants for Public Health, GLA Transport, Revenue Support Grant and Rural Services Delivery Grant which total about £6.5 billion. In line with the LGA's view that further retained business rates should be used to fund the local government funding gap, the group will not recommend any new services to be transferred and funded from business rates. Instead any further devolution of services to

local government should be funded by an alternative mechanism, such as grant. This has been reported back to the Steering Group, and the Responsibilities Working Group has been suspended until needed.

12. The reconvened Systems Design Working Group met on 15 November and mapped out a programme of meetings to September 2018. It will initially focus on further business rates retention reforms which can be introduced using secondary legislation and so are suitable for a short term reform package. It will then consider longer term options for reform which need primary legislation.
13. The LGA will be reconvening the cross party member led Task and Finish Group on Business Rates Retention in early 2018 to help take forward the LGA's work on greater business rates retention and the Fair Funding review.

Financial Implications

14. With the exception of the additional work outlined in **Appendix 1**, this work is part of the LGA's core programme of work and as such has been budgeted for in 2017/18 budgets.
15. The additional work outlined in **Appendix 1** will require additional resources, for which approval of Leadership Board and Executive was received at the October 2017 meetings.

Implications for Wales

16. There are no direct implications for Wales arising from this report. The funding of Welsh local authorities is a devolved matter in Wales.

Next steps

17. The LGA will continue to work closely with Government on further business rates retention reform and the Fair Funding Review, including responding to future consultations and technical discussion papers.
18. Officers will produce work set out in paragraph 7 for the next two meetings of the Business Rates Task and Finish Group and will update LGA Leadership Board and Executive on those discussions.

Appendix 1. Additional LGA work on the Fair Funding Review

Project	Purpose and description	In-house or commissioned?
Key criteria for assessing proposed distribution models and methodologies	To give the LGA a structured and consistent way to assess new distribution models.	In-house with the support of the Task and Finish Group, Leadership Board and Executive
Damping/transition mechanisms	An analysis of historic damping / transition mechanisms and a model to inform discussions on the guiding principles of transition. To inform LGA and member authorities' policy.	Commissioning
Council tax equalisation	A model to identify the impact of adjustments for council tax and council tax support on individual authorities. To inform LGA policy and to help individual member councils evaluate DCLG proposals.	Commissioning, with particular analysis in-house as covered in paragraph 9.
Distribution model: develop a distribution model	A model to allow local authorities to see the impact of different key cost drivers and differential weightings. To help the LGA and member councils evaluate the impact of various Government and stakeholder proposals on their council and to allow them to put forward their own proposals	Commissioning
Distribution model: update the data	Update the data in the current distribution model (where updated data is available) to see the impact of this on individual allocations separate to any methodology changes. In effect this would provide an updated baseline to inform a discussion on how long the formulae remain 'future proof' without any review of weightings. To help the LGA and member authorities form policy on the frequency of distribution resets, or other ways to 'future proof' the mechanism.	Commissioning