

## **Fair Funding Review and Business Rates Retention Update**

### **Purpose**

For information.

### **Summary**

This report updates members on progress on the Fair Funding Review and Business Rates Retention reform since the June meeting of the LGA Executive.

### **Recommendation**

That members of LGA Executive note this update.

### **Action**

Officers to proceed with delivery of the LGA work programme on Business Rates Retention and the Fair Funding Review as directed by the LGA Executive, Executive and the Business Rates Retention and Fair Funding Review Task and Finish Group.

**Contact officer:** Sarah Pickup  
**Position:** Deputy Chief Executive  
**Phone no:** 020 7664 3141  
**Email:** [sarah.pickup@local.gov.uk](mailto:sarah.pickup@local.gov.uk)

## **Fair Funding Review and Business Rates Retention Update**

### **Introduction**

1. This report updates members on progress on the Fair Funding Review and further Business Rates Retention, since the June 2018 meeting of LGA Executive.

### **Fair Funding Review – delivery of the LGA Fair Funding Review work programme**

2. In November 2017 the LGA's Executive and LGA Executive agreed a LGA work programme on the Fair Funding Review. A high level update on this work programme is attached as Appendix A and the following paragraphs provide more detail.
3. As per the previous update, work on evaluation criteria and divergence of relative needs over time is now complete.

### Relative needs assessment and council tax adjustment models

4. As agreed at LGA Executive the LGA has commissioned two separate models:
  - 4.1. A needs distribution model to allow local authorities to see the impact of different cost drivers and differential weightings within needs formulae;
  - 4.2. A council tax equalisation model to identify the impact of adjustments for council tax and council tax support on individual authorities.
5. These models provide member authorities with a set of tools to evaluate the impact of future proposals or to enable them to build proposals of their own. The LGA will also use these tools to see if we can reach agreement on some of these issues.
6. The models were cleared through the LGA's Task and Finish Group on Business Rates Retention and Fair Funding Review, and Group Leaders.

### Transition options appraisal

7. As agreed at previous meetings of the LGA's LGA Executive and Executive, officers have started the commissioning process for an analysis of ways in which transition from the current pattern of funding to the one following the Fair Funding Review and introduction of 75 per cent retention could work.
8. An appointment is expected to be made on the week commencing 16 July, with a delivery deadline of early September.

### **Fair Funding Review technical working group update**

9. The officer-led Fair Funding Review Technical Working Group, attended by officers from all types of local authorities covering all regions and co-chaired by LGA and MHCLG

officials, was due to meet on 10 July. Over the course of the meeting the group is due to discuss:

- 9.1. The Area Cost Adjustment, its role in future relative needs adjustment formulae and ways to update the analysis;
- 9.2. Principles for future transitional arrangements from one pattern of funding to another;
- 9.3. Treatment of historic supported capital borrowing which predates the 2003 prudential borrowing system. There used to be a specific formula to take this into account in the pre-2013 formula grant system.

### **The next steps of the Fair Funding Review**

10. As previously reported to LGA Executive, the Government's work is building towards a wider consultation on the Fair Funding Review, expected in autumn 2018. The consultation is likely to cover:
  - 10.1. The Government's preferred options for the relative needs assessment, in particular the foundation formula and the number and types of service-specific formulae including the cost drivers being explored for each of the formulae.
  - 10.2. The Government's emergent thinking on adjusting for relative resources.
  - 10.3. Potentially, initial thoughts on the transition mechanism.
11. This is in line with the LGA's work programme on the Fair Funding Review, with the core LGA work programme and meetings of the Business Rates Retention and Fair Funding Review Task and Finish Group all helping explore policy options ahead of the publication of the consultation document.

### **Business Rates Retention**

#### Commissioning a Business Rates Retention model

12. As previously agreed by LGA Executive and Executive, officers have commissioned a model on business rates retention, which should allow the modelling of features of the system such as setting business rates baseline, reset periods, treatment of losses due to appeals, the level of the safety net and how it is funded, and any levy. Such a model would allow LGA officers to evaluate emerging proposals on the design of further Business Rates Retention as well as provide more informed analysis to the Task and Finish Group, LGA Executive and Executive when considering the LGA's own position. It will also be shared with member authorities.
13. LG Futures have been appointed to produce this model which we expect to be completed by the end of August.

Other Business Rates Retention updates

14. The prospectus for inviting bids for pilots in 2019/20 is still awaited. At this stage no further details are known. Officers have continued to press MHCLG colleagues to provide feedback to areas which were unsuccessful in their bids to become a 2018/19 pilot.
15. As reported to your last meeting, MHCLG was seeking views on a paper on dealing with the impact of appeals centrally. We encouraged authorities to respond to the MHCLG request for comments, and submitted an [LGA response](#) which was cleared by the Task and Finish Group on Business Rates Retention and Fair Funding and Resources Board. The LGA reiterated its support for a centrally managed appeals system as it would reduce the need of authorities to hold provisions to cover appeals. We also stressed the importance of dealing with the impact of appeals on local authorities despite any complexity this creates.
16. The joint MHCLG / LGA officer level Systems Design Working Group met on 27 June to consider the following:
  - 16.1. A paper on different options for resets, including consideration of how to balance desirable criteria such as simplicity, rewarding growth and allowing for needs;
  - 16.2. A paper on options for pooling from MHCLG, looking at how pools can be incentivised in the absence of a levy. Options include allowing pools to carry over more at resets than authorities not in a pool, allowing areas within pools to keep all business rates (along the lines of the previous policy of local growth zones). Local authority representatives felt that fiscal freedoms, such as the ability to change the conditions of grants and to vary the capital and revenue split, would be the most powerful.
  - 16.3. A paper on the criteria for placing non-domestic properties on the local or central list. Proposed criteria would include; the nature and use of the property, its size and geographical spread and its suitability for inclusion on local lists. MHCLG are also considering the possibility of a further criterion, which could be used to transfer properties which are volatile and where the optimal operational solution is for that hereditament to be listed in the central list. They are working on this with a group of authorities particularly affected.

**Implications for Wales**

17. There are no direct implications for Wales arising from this report as business rates retention and the Fair Funding Review apply to England. The distribution of funding to Welsh local authorities is a devolved matter in Wales.

**Financial implications**

18. Members of LGA Executive have previously approved spending of LGA reserves on the LGA work programme on the Fair Funding Review and a Business Rates Retention model.

19. Other work outlined in the paper above is part of the LGA's core programme of work and as such has been budgeted for in the 2018/19 budget.

**Appendix A. High-level progress update on the LGA Fair Funding Review and Business Rates Retention work programme**

<b>Project</b>	<b>Purpose and description</b>	<b>Quick update</b>
Criteria for assessing proposed distribution models and methodologies	To give the LGA a structured and consistent way to assess new distribution models.	<a href="#">Complete</a>
Formula grant: update the data	<p>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.</p> <p>To help the LGA and member authorities form policy on the data used in the formulae and the frequency of distribution resets, or other ways to 'future proof' the mechanism.</p>	<a href="#">Complete</a>
Distribution model: develop a distribution model	A model to allow local authorities to see the impact of different key cost drivers and differential weightings. To help the LGA and member councils evaluate the impact of various Government and stakeholder proposals on their council and to allow them to put forward their own proposals	Complete
Council tax equalisation: develop an equalisation model	A model to identify the impact of adjustments for council tax and council tax support on individual authorities. To inform LGA policy and to help individual member councils evaluate Government proposals.	Complete
Damping /transition mechanisms	An analysis of historic damping / transition mechanisms and a model to inform discussions on the guiding principles of transition. To inform LGA and member authorities' policy.	Suppliers to be appointed w/c 16 July
Business Rates Retention model	<p>A model to enable LGA and local authorities to assess the impact of system design choices in areas including:</p> <ul style="list-style-type: none"> <li>• The setting of business rates baselines;</li> <li>• The extent and frequency of business rates resets;</li> <li>• Dealing with losses due to appeals;</li> <li>• The level of the safety net and how it is funded; and</li> <li>• The split of business rates income in two-tier areas.</li> </ul>	Suppliers appointed; work expected to be delivered by Autumn 2018