

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

### **Purpose**

For information and agreement.

### **Summary**

This report updates members on progress on the Fair Funding Review and Business Rates Retention reform since the July meeting of the Leadership Board.

### **Recommendation**

That members of Leadership Board note this update and that the Leadership Board agree to the procedure for signing off the transition work and the business rates retention model as outlined in paragraphs 6 and 14 of the report.

### **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 Leadership Board, 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 July 2018 meeting of Leadership Board.
2. The work on further business rates retention and the Fair Funding Review is being considered by the LGA's Task and Finish Group prior to, or alongside, consideration by Leadership Board and Executive.

### **Fair Funding Review**

#### Delivery of the LGA Fair Funding Review work programme

3. In November 2017 the LGA's Executive and Leadership Board 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.
4. As per the previous updates, work on the [relative needs and resources models](#), [the evaluation criteria](#), and the [divergence of relative needs over time](#) is now complete.

#### Transition work

5. As agreed at previous meetings of the LGA's Leadership Board and Executive, officers have commissioned a review of transition methods previously used in the distribution of funding from central government and a model to assess the impact of different methods of moving from the current pattern of funding to the one following the Fair Funding Review and introduction of 75 per cent retention. Suppliers have been appointed to produce this work which we expect to be completed in October. The model will be demonstrated and discussed at the September meeting of the LGA Task and Finish Group on Business Rates Retention and Fair Funding Review.
6. Officers propose that:
  - 6.1. The paper by the suppliers on transition options will be reviewed and discussed by the Task and Finish Group and then be brought to Leadership Board and Executive for consideration; and
  - 6.2. Given the difficulty of presenting the Excel model to a large group, the final version of the model is signed off by the LGA's Chairman and Group Leaders and published at the earliest possible opportunity.

#### The Government's next steps for the Fair Funding Review

7. The Government's work is building towards a wider consultation on the Fair Funding Review, expected in autumn 2018. Government officials have elaborated on the issues the consultation might explore as part of papers to the July 2018 officer-led Steering Group.

8. The following is subject to Ministerial decision on the scope of the consultation, including the extent to which the Government would identify preferred options at this stage.
9. On the relative needs assessment, the consultation might cover:
  - 9.1. the structure of the assessment, including options for tier-specific foundation formulae and formulae to assess specific services. The Government might express a preferred option on this;
  - 9.2. the leading cost drivers for inclusion in the above, and a description of proposed analytical techniques to weight them against one another; and
  - 9.3. commentary on the area cost adjustment.
10. On the relative resources assessment, the consultation might cover high level approaches to:
  - 10.1. measuring the council tax base, in particular treatment of mandatory and discretionary council tax discounts. This includes local council tax support schemes;
  - 10.2. the choice of notional or actual council tax levels to be used when calculating the adjustment; and
  - 10.3. treatment of other income, such as sales, fees and charges.
11. On transition, the consultation might cover:
  - 11.1. high level principles that could underpin the choices of transition mechanism, such as stability, speed, transparency and time limits; and
  - 11.2. the definition and measurement of 'baseline' and 'target' between which the transition mechanism would be applied to.
12. 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

13. In April Leadership Board agreed to the LGA commissioning of a Business Rates Retention model to enable the effect of possible systems design changes to be estimated. Following a tendering exercise LGFutures were commissioned to produce the model. A working version will be demonstrated at the meeting of the Business Rates Retention Task and Finish Group

on 12 September. Following feedback from the Task and Finish Group officers will work with the suppliers to make refinements to the model.

14. It is suggested that due to the technical nature of the model and therefore the difficulty of demonstrating the model to a large group that the Chairman and Group Leaders sign off the Business Rates Retention model. Following this the model will be shared with member authorities and placed on the LGA Business Rates Retention Hub alongside the other models commissioned by the LGA. Further updates will be given to your Board at a future meeting.

#### 2019/20 further Business Rates Retention pilots

14. The prospectus inviting areas to bid to become a further business rates retention pilot in 2019/20 was published on 24 July 2018. Applications for 75 per cent pilots are being invited with a closing date of 25 September 2018. It should be noted that the five 2017/18 devolution pilots will continue at 100 per cent and there will be separate discussions covering London. Non-London 2018/19 pilots will need to reapply if they wish to be a pilot in 2019/20. Unlike in 2017/18 and 2018/19 there will not be a no-detriment clause. At the time of writing, LGA and MHCLG officers were organising a joint event on 3 September where senior officers from authorities considering making applications will have the opportunity to learn more about the pilots and process.

#### Other business rates retention updates

15. The Business Rates Retention Steering Group met on 23 July. It considered two papers on Systems Design issues, concerning pooling and resets. These issues were summarised in the general update on Business Rates Retention at your last meeting.
16. The Systems Design Working Group had a joint meeting in July with the Implementation Working Group, a group which has been established to work on the most technical aspects of the system. The main paper on the agenda was a proposal for simplification of the system drafted by some local authority officers who are members of the Systems Design Working Group. In brief, this would split the business rates retention system into a mainstream and a reward element. It was agreed that further work was needed on this and papers would be brought to future meetings of the groups before being considered Steering Group and the LGA's Task and Finish Group on Business Rates Retention and the Fair Funding Review. Further updates will be brought to future Leadership Board meetings.
17. Further discussions at the Systems Design Working Group will inform a consultation paper which is expected to consist of a proposed overall package on elements of the system such as resets, tier splits, safety nets and treatment of appeals, and also a consideration of what long term reforms, requiring primary legislation, would be beneficial.

#### **Appendices**

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

**Implications for Wales**

19. 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**

20. Members of Leadership Board have previously approved spending of LGA reserves on the LGA work programme on the Fair Funding Review and a Business Rates Retention model.
21. 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**

Project	Purpose and description	Quick update
<b>Criteria for assessing proposed distribution models and methodologies</b>	To give the LGA a structured and consistent way to assess new distribution models.	<a href="#">Complete</a>
<b>Formula grant: update the data</b>	<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>
<b>Distribution model: develop a distribution model</b>	A model to allow local authorities to see the impact of different key cost drivers and differential weightings. To help the LGA and member councils evaluate the impact of various Government and stakeholder proposals on their council and to allow them to put forward their own proposals	<a href="#">Complete</a>
<b>Council tax equalisation: develop a model</b>	<p>A model to identify the impact of adjustments for council tax and council tax support on individual authorities.</p> <p>To inform LGA policy and to help individual member councils evaluate Government proposals.</p>	<a href="#">Complete</a>
<b>Damping /transition mechanisms</b>	An analysis of historic damping / transition mechanisms and a model to inform discussions on the guiding principles of transition. To inform LGA and member authorities' policy.	Suppliers appointed; work expected to be delivered in autumn 2018.
<b>Business Rates Retention model</b>	<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 in autumn 2018