

Fair Funding Review and Business Rates Retention Update

Purpose

For information and decision.

Summary

This report provides a summary of recent events on the Fair Funding Review and Business Rates Retention work programmes.

Recommendation

That members note the report and agree that the Chairman and Group Leaders sign off the LGA commissioned model of the alternative administration of Business Rates Retention as outlined in paragraph 11.

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.

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Fair Funding Review and Business Rates Retention Update

Introduction

1. This report updates members on progress on the Government's review of local authority relative needs and resources (commonly known as the 'Fair Funding Review') and further Business Rates Retention, since the January 2019 meetings of Leadership Board and Executive.
2. The work on further Business Rates Retention and the Fair Funding Review is being considered by the LGA's Task and Finish Group on Business Rates Retention and the Fair Funding Review, alongside consideration by Leadership Board and Executive.
3. A high level update of the work commissioned as part of the LGA's work programme on the Fair Funding Review and Business Rates Retention reform is set out in **Appendix A**.

Recent Consultations on the Fair Funding Review and Further Business Rates Retention

4. The MHCLG consultations on the [Review of local authority needs and resources](#) (commonly called the 'fair funding review') and [Business Rates Retention Reform Sharing risk and reward, managing volatility and setting up the reformed system](#) ran from 13 December 2018 to 21 February 2019.
5. Following discussion and agreement at Leadership Board and Executive in January 2019 the final [LGA responses to the Needs and Resources](#) and [Business Rates Retention](#) consultations were signed off by the Chairman and Group Leaders and submitted to MHCLG by the closing date.

Regional consultation events

6. During January and February 2019, the LGA ran a series of joint LGA / MHCLG regional events on the Needs and Resources and the Business Rates Retention consultations to allow delegates to hear from MHCLG and LGA officers, to ask questions and to give feedback on the proposals. Events were held in Birmingham, Bury St Edmunds, Leeds, London, and Taunton and were attended by over 220 delegates representing over 150 local authorities and local authority organisations.

Next steps on the Fair Funding Review

7. The Technical Working Group on the review of relative needs and resources (commonly known as the 'fair funding review') will resume meeting following the close of the MHCLG consultation. MHCLG are expected to publish further technical documents as papers to the group. These are likely to include papers on the Area Cost Adjustments, the impact of using different notional council tax levels in the analysis and initial results from the MHCLG / DfE commissioned research on children's services which will feed into development of a new Children and Young People's Services formula.

8. Following the consultation which has just closed, a final consultation on the reform of the system including baseline funding levels and transition will be published hopefully before summer recess 2019, with final policy decisions expected as part of the 2020/21 Provisional Local Government Finance Settlement expected in December 2019.
9. In the meantime, we are exploring these and other relevant issues with the LGA Task and Finish Group on Business Rates Retention and the Fair Funding Review with a view to developing LGA policy. Regular updates will be given to Leadership Board and Executive and approval will be sought from the Leadership Board and Executive based on the recommendations of the Task and Finish Group.

Next steps on Business Rates retention

10. Discussions will continue in the Systems Design and Implementation Working Groups. Following the consultation which has just closed, as with the Fair Funding Review, we are expecting further consultation on options before final decisions are announced as part of the 2020/21 Provisional Local Government Finance Settlement expected in December 2019. Regular updates will be given to Leadership Board, Executive and the Task and Finish Group on Business Rates Retention and the Fair Funding Review.
11. The LGA published a [Business Rates Retention model](#) last year and has commissioned LG Futures Ltd to produce a further model on the alternative administration of the system. This was discussed by Leadership Board and Executive as part of the LGA response to the Business Rates Retention consultation which closed in February 2019. The model will allow the LGA and member authorities to explore the impact of the proposed alternative administration model of Business Rates Retention. It is recommended, that as with the previous models on Business Rates Retention and the Fair Funding Review, this model be signed off by the Chairman and Group Leaders.

Implications for Wales

12. Local government funding is a devolved matter and Business Rates Retention and the Fair Funding Review are limited to English local authorities.

Financial implications

13. The previously published models on Business Rates Retention and the Fair Funding Review have, with the agreement of Leadership Board and Executive, been funded from a combination of reserves and underspends. The LGA model of the alternative administration of Business Rates Retention is being funded through effective management of 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
Criteria for assessing proposed distribution models and methodologies	To give the LGA a structured and consistent way to assess new distribution models.	Complete
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>	Complete
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 a model	<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>	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.	Complete

Project	Purpose and description	Quick update
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"> • The setting of business rates baselines; • The extent and frequency of business rates resets; • Dealing with losses due to appeals; • The level of the safety net and how it is funded; and • The split of business rates income in two-tier areas. 	Complete
Alternative Administration Model of Business Rates Retention	<p>A model to enable LGA and local authorities to assess the impact of the alternative administration of Business Rates Retention.</p>	<p>Commissioned and due for completion by end of March 2019.</p>