

## Local government finance update

### Purpose of report

For direction.

### Summary

This report provides an update on progress on local government finance work including the Fair Funding Review, Business Rates Retention and a range of audit issues.

#### Recommendations

That members note the progress update.

#### Action

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

Under the direction of the Board, officers will continue to monitor any developments in local audit including engaging with the Redmond Review and the NAO's review of the code of audit practice.

**Contact officer:** Nicola Morton  
**Position:** Head of Local Government Finance  
**Phone no:** 0207 664 3197  
**Email:** nicola.morton@local.gov.uk

## **Local government finance update**

### **Background**

1. This report provides an update on the progress of the Fair Funding Review and business rates retention work programmes and other local government finance issues, in particular issues affecting local audit.

### **Fair Funding Review and business rates retention**

2. The Government's work on further business rates retention and the review of relative needs and resources (commonly referred to as the Fair Funding Review) continues through the joint MHCLG / LGA working groups:
  - 2.1. The Steering Group on Business Rates Retention and the Fair Funding Review
  - 2.2. The System Design and Implementation Working Groups – focuses on business rate retention
  - 2.3. The Technical Working Group on Needs and Redistribution – works on the Fair Funding Review
3. These groups, co-chaired by the LGA and MHCLG, consist of senior local authority officers and act as sounding boards for the Government's work on these policies. All papers discussed at the meetings of these groups can be found on the [LGA website](#).
4. Discussions with MHCLG on reform to the system of business rates retention have been continuing in joint meetings of the Systems Design and Implementation Working Groups. Recent meetings have focussed on the alternative model of business rates retention, which would compensate local authorities for business rates appeals, including how to take account of reliefs, the levy and safety net, and the impact of the 2021 revaluation.
5. The Technical Working Group on Needs and Redistribution was reconvened in June after a pause (the previous meeting was in late 2018). The group has recently considered a summary of consultation responses received by the Government, progress on the development of a new children and young people's services formula, new Area Cost Adjustments; and council tax equalisation.
6. The LGA continues to develop policy on further business rates retention and the Fair Funding Review through the cross party Task and Finish Group chaired by the Chair of the Resources Board. All policy recommendations from the Task and Finish Group on Business rates Retention and the Fair Funding Review go to Leadership Board and Executive for their approval before becoming LGA policy.

7. Leadership Board and Executive recently endorsed the Task and Finish Group's recommendation on the approach to a Fire and Rescue Formula. LGA policy on this formula is to call on the Government to update the data in the current fire and rescue formula, and for the Government to start work immediately on a longer term project to completely refresh the formula using multi-level modelling techniques with results to be introduced at the next possible opportunity. This policy decision was based on what is achievable within current timescales for implementing the results of the Fair Funding Review, and matches what officers understand to be the preferred position of the Chief Fire Officers' Association. More information can be found in a [report](#) to Leadership Board.
8. We will continue to keep Resources Board updated on LGA policy development related to the Fair Funding Review and business rates retention, as well developments in the Government's work on these policies.

#### Impact of the 2019 Spending Round on the progress of reforms

9. In early August, the Chancellor of the Exchequer announced the multi-year Spending Review has been delayed to 2020. Instead, a [one year Spending Round](#) will be announced on 4 September. This Spending Round will set day-to-day spending budgets for Government departments for 2020/21 only. Our work on the Spending Round is covered elsewhere on the agenda, but there is clearly a specific interaction with wider local government finance reforms.
10. In advance of the Spending Round, the LGA Chairman wrote to the Chancellor and Secretary of State for Housing, Communities and Local Government, seeking clarity on the timescales for implementing the Fair Funding Review and further business rates retention. These letters also included our call for resources to meet next year's inflationary and demand pressures to help sustain council services until a full Spending Review. The Spending Round is covered in more detail elsewhere on the agenda.
11. Officers will continue to monitor the situation and update members. Any announcements in the Spending Round relating to further business rates retention and the Fair Funding Review will be covered in the item on your agenda on the Spending Round.

#### **Audit Issues**

12. At the May 2019 meeting of the Resources Board, members raised concerns about the decision by Ernst and Young to delay the audit of accounts for a number of local authorities in the East of England and East Midlands. At the request of the Resources Board, the Chair of the Board wrote to both the Local Government Minister and to Public Sector Audit and Appointment (PSAA) to raise concerns about the impact of the delay on the local authorities affected and to seek assurances that they would not be penalised for

this. In the letter we also pointed out that when the tighter audit timetable was introduced the LGA had raised concerns that the limited supply of auditors and overlap with other bodies' timetables (particularly NHS) could result in the systems being vulnerable to problems like those now occurring. In the letter we asked that the deadline be reviewed and pushed back to 30 September for future years.

13. In his response, the Minister confirmed that affected councils would not incur additional audit costs as a result of the delay and that the reporting of any affected performance metrics would take the delays, due to the auditors, into account. The response from PSAA agreed that it is necessary to ensure that the affected clients are not criticised for missing the target deadline date. Copies of the letters and the responses received are appended to this report (please see Appendix B).
14. Since then it has been widely reported there have been delays in finalising the audits of many other local authorities' accounts this year, including those audited by other firms. This is being monitored and discussed with PSAA, and discussed with a number of affected councils who have contacted us or responded to information in our bulletins.

#### **Review of Code of Audit Practice and Local Audit Review.**

15. In May, Resources Board agreed the [LGA's response](#) to the first part of the [National Audit Office \(NAO\) consultation](#) on the local code of audit practice. The NAO has now published the results of the consultation and its [response](#). The second [consultation](#), on the actual draft code, was launched at the end of August, and closes on 22 November, with the new code due to be laid before Parliament in early 2020. We plan to bring the LGA's response to the November meeting of the Board for clearance.
16. Separately, the Government has [announced](#) a review of the audit framework in England to be led by Sir Tony Redmond. The review will look at the effectiveness of current audit arrangements and the transparency of reporting with a final report anticipated in March 2020. Officers have already had an initial informal meeting with Sir Tony Redmond and the LGA will engage fully with the review.

#### **Next steps**

17. Members are asked to note this update paper.
18. Officers will proceed with the 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.

19. Under the direction of the Board, officers will continue to monitor any developments in local audit including engaging with the Redmond Review and the NAO's review of the code of audit practice.

**Implications for Wales**

20. Local government funding is a devolved matter and business rates retention and the Fair Funding Review policies are limited to English local authorities. We will engage with the Welsh LGA on matters that relate to both England and Wales.

**Financial Implications**

21. This is part of the LGA's core programme of work and as such has been budgeted for in core work programme budgets.

**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>
<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.	<a href="#">Complete</a>
<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>	<a href="#">Complete</a>
<b>Alternative Administration Model of Business Rates Retention</b>	A model to enable LGA and local authorities to assess the impact of the alternative administration of Business Rates Retention.	To be published shortly