

Business Rates Retention and Fair Funding Review Update

Purpose of report

For direction.

Summary

This report provides a summary of progress on the Fair Funding Review and Business Rates Retention work programmes since the last meetings of Leadership Board and Executive.

Recommendations

That members note the progress update, including the announcement by the Secretary of State that implementation of further business rates retention and the Fair Funding review will be delayed until 2021/22.

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 Business Rates Retention and Fair Funding Review Task and Finish Group.

Contact officer: Sarah Pickup
Position: Deputy Chief Executive
Phone no: 020 7664 3109
Email: sarah.pickup@local.gov.uk

Business Rates Retention and Fair Funding Review Update

Background

1. This report provides a summary of progress on the Review of Relative Needs and Resources (commonly called the Fair Funding Review) and Business Rates Retention work programmes since the last meetings of Leadership Board and Executive.
2. Members of Leadership Board and Executive have previously agreed deliverables of an expanded LGA work programme on business rates retention and the Fair Funding Review as set out in Appendix A. The programme is almost complete but will be kept under review as MHCLG work on these policies progress.

Relevant Announcements in the 2019 Spending Round

3. In letters to the Chancellor and Secretary of State for Communities and Local Government, in advance of the 2019 Spending Round (further information on these letters can be found in the item on the 2019 Spending Round and 2020 Spending Review), the LGA Chairman asked for urgent clarity on when further business rates retention and the outcome of the Fair Funding Review would be implemented. In a letter sent to Leaders and Chief Executives on the day of the 2020 Spending Round announcement, the Secretary of State for Housing, Communities and Local Government confirmed a decision has been taken to delay the implementation of both reforms until 2021/22.
4. In our [on the day briefing on the 2019 Spending Round](#) we welcomed the clarification on the timing of the implementation of the reforms as it will allow time for the remaining decisions over the design of the reforms to be made by the Government including consultation with local authorities. We also asked for:
 - 4.1. the Government to commit to removing the impact of appeals on local authorities as part of the reforms;
 - 4.2. exemplifications of what the reforms mean for individual local authorities as soon as possible to enable authorities to effectively plan for the changes;
 - 4.3. Appropriate transition mechanisms to be put in place to avoid unsustainable shocks to any one local authority to ensure that no council sees their funding reduce.
5. We will continue to work with MHCLG and local authorities on these reforms.

6. Officers understand from MHCLG that the 100 per cent business rates retention pilots which had ratified devolution deals (Cornwall, Greater Manchester, Liverpool City Region West of England, West Midlands) and were introduced in 2017/18, will continue in 2020/21. The 2019/20 75 per cent business rates retention pilots which were a one year exercise will not continue in 2020/21.

Alternative model of administration of business rates retention

7. Discussions with MHCLG on the development of the alternative administration model of business rates retention have been continuing in joint meetings of the Systems Design and Implementation Working Groups. Papers from the August meeting of the group can be found on the [LGA website](#) and include:
 - 7.1. The impact of a 2021 revaluation, and once every three years after that, on the alternative model.
 - 7.2. The relationship between growth and the Collection Fund (the statutory account through which the local authority collects business rates and distributes it to itself, preceptors and the government).
 - 7.3. How to adjust for business rate reliefs in the alternative model if VOA data is used to set the business rate baseline.

Review of relative needs and resources

8. There have been no meetings of the Business Rates Retention Steering Group, or the Technical Working Group on Needs and Redistribution, since the July 2019 meetings of LGA Leadership Board and Executive.
9. At the last meetings of Leadership Board and Executive we reported that the Government has been working on new Area Cost Adjustment (ACA) factors which are intended to compensate authorities for the additional costs of delivering services in some areas. In the past these additional costs have related to salary and business rates costs. Going forward, the refreshed ACAs will also be the primary way the Government will try to reflect the sparsity and density of local areas, particularly through journey time measurements and measurements of distance of postcodes from major town hubs.
10. A detailed paper on the Government's work on ACAs was discussed with the LGA's Task and Finish Group on Business Rates Retention and the Fair Funding Review at its July meeting. Members of the Task and Finish Group requested some additional analysis. Following this step, a full update will be provided to future meetings of Leadership Board and Executive.

Next steps

11. Members are asked to note this update paper.
12. 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.

Implications for Wales

13. Local government funding is a devolved matter and business rates retention and the Fair Funding Review policies are limited to English local authorities.

Financial Implications

14. 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

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	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 data used in the formulae and the frequency of distribution resets, or other ways to 'future proof' the mechanism.	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	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.	Complete
Business Rates Retention model	A model to enable LGA and local authorities to assess the impact of system design choices in areas including: <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	A model to enable LGA and local authorities to assess the impact of the alternative administration of Business Rates Retention.	To be published shortly