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 this update paper.

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.

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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.

**LGA Work Programme**

1. Members of Leadership Board and Executive have previously agreed deliverables of an expanded LGA work programme on further business rates retention and the Fair Funding Review as set out in Appendix A.
2. The final tool in the current work programme, [the alternative business rates retention illustrative model](https://www.local.gov.uk/alternative-business-rates-retention-illustrative-model-0), commissioned from LGFutures, has now been [published](https://www.local.gov.uk/alternative-business-rates-retention-illustrative-model-0) on the LGA website. The model is based on currently available data and decisions have still be taken on the data to be used and how authorities may be rewarded under the scheme. Therefore, it is an illustrative model of how the system could work. As the Government’s work develops and decisions are made on specific aspects of how the system could work we will consider opportunities to modify the illustrative model to take account of these policy developments.
3. The LGA Chairman and Group Leaders have agreed to the publication of the local authority level analysis of the potential impact of the new adult social care and public health formulas. This analysis has been previously confidentially shared at regional and tier level with Leadership Board and Executive. The exact shape of this release is being finalised and, as agreed with the Chairman and Group Leaders, the Strategic Management Team will provide final clearance for this. The Chairman and Group Leaders also agreed for any subsequent local authority analysis of the impact of other formulas to be published as well.
4. The primary purpose of publishing this analysis is to help councils respond to future consultations, rather than aid their financial planning. This is because individual formulae - even for major services – are not indicative of the overall outcome, as other factors, such as the Government’s decisions on which specific formulas distribute more of the funding in comparison to others, the adjustments for council tax and the new area cost adjustments will have a significant impact.

**Officer-led Steering Group**

1. The Business Rates Retention Steering Group, co-chaired by LGA and MHCLG and attended by local authority representatives, oversees the work of the technical working groups. It met on 1 October, the first meeting since April 2019 and discussed:
   1. The 2019 Spending Round and the approach to the 2020/21 Settlement, including the aim to issue the Technical Consultation as soon as possible. The consultation is a separate item on your agenda.
   2. The approach to and methodology for a Children and Young People’s Services formula. MHCLG noted the importance of ensuring the sector is provided with appropriate information and support to enable greater understanding.
   3. The area cost adjustment. Members noted that inclusion of remoteness is a major change based on theory. MHCLG said they welcomed views on both sides of the argument and were looking to the sector to provide evidence in support, or contrary to, the theoretical principle.
   4. Updates regarding the Alternative Model from recent Working Group meetings, including what data to use and the impact of resets and revaluations.
2. As previously reported to Leadership Board and Executive, on the day of the 2020 Spending Round announcement, the Government confirmed it will delay the implementation of Further Business Rates Retention and the Fair Funding Review until 2021/22. This was reiterated in the Government’s technical consultation on the 2020/21 local government finance settlement. At the Steering Group meeting MHCLG were asked for an updated timeline for the work including the timing and nature of future consultations.
3. We will continue to engage with MHCLG and local government through the Steering Group and other Working Groups on Business Rates Retention and the Fair Funding Review.

Next steps

1. Members are asked to note this update paper.
2. 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**

1. 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

1. Work undertaken currently is part of the LGA’s core programme of work and as such has been budgeted for in core work programme budgets.
2. Extensions to the LGA’s work programme might carry additional resource implications depending on their nature – LGA Leadership Board will be informed and provide clearance should this be the case.

**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](https://www.local.gov.uk/sites/default/files/documents/Criteria%20for%20evaluating%20fair%20funding%20review%20proposals%20%28NR%20TWG%2018%2010%29.pdf) |
| **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](https://www.local.gov.uk/sites/default/files/documents/Divergence%20of%20relative%20needs%20over%20time%20%28NR%20TWG%2018%2009%29.pdf) |
| **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](https://www.local.gov.uk/fair-funding-review-modelling-tools) |
| **Council tax 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](https://www.local.gov.uk/fair-funding-review-modelling-tools) |
| **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](https://www.local.gov.uk/fair-funding-review-modelling-tools) |
| **Business Rates Retention model** | A model to enable LGA and local authorities to assess the impact of system design choices in areas including:   * 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](https://www.local.gov.uk/business-rates-retention-model) |
| **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. | [Complete](https://www.local.gov.uk/alternative-business-rates-retention-illustrative-model-0) |