

Business Rates Retention and Fair Funding Review Update

Purpose of report

For direction.

Summary

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 meeting of Executive Advisory Board.

Recommendations

The Executive Advisory Board are asked to 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.

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 to ensure that the reforms are objective and transparent and that there is extensive engagement with local government.

Members of the Executive Advisory Board will receive an update on the Resources Board discussions at a future meeting as mentioned in paragraph 10.

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Business Rates Retention and Fair Funding Review Update

Introduction

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 meeting of Executive Advisory Board.
2. This report discusses the recent LGA publication of some fair funding review analysis. It is discussed in more detail below, but it is important to reiterate that this analysis only looks at one segment of one of the parts of the fair funding review, so no conclusion can, or should, be drawn about the potential overall outcome of the review for any local authority

Review of relative needs and resources

3. As previously reported to Executive Advisory Board, the Government has delayed the implementation of Further Business Rates Retention and the Fair Funding Review until 2021/22. MHCLG officials have been asked to provide an updated timeline for the work including the timing and nature of future consultations.
4. In the absence of exemplifications from Central Government, on 24 January, the LGA [published illustrations](#) of the impact of the proposed new adult social care relative needs formulas which are being considered by the Government for implementation in April 2021. There are several limitations and caveats associated with this analysis:
 - 4.1. This analysis only looks at one segment of one of the parts of the fair funding review, so no conclusion can, or should, be drawn about the potential overall outcome of the review for any local authority.
 - 4.2. It does not signal any potential change of distribution of funding in the year 2020/21.
 - 4.3. This analysis does not represent LGA policy, an LGA policy proposal, or an LGA preference – instead it is an attempt to provide some information to our member councils that would help gauge the likely impact of the Fair Funding Review on the relative distribution of adult social care funding. All of the analysis is based on publicly available information and sources.
 - 4.4. These illustrations should not be treated as definitive exemplifications. A number of caveats is set out in the ‘introduction’ tab of the spreadsheet. Each of those will mean that the official exemplifications coming from central government will be different.
 - 4.5. We are clear that the results of the review must be introduced alongside additional funding. No outcome of the review will be sustainable if overall resources are insufficient to maintain services as councils have seen significant reductions in funding and are facing significant cost pressures in the future. The LGA is calling for no local authority to see its funding reduced as a result of the review.

- 4.6. Given the potential changes in funding for each individual council, the Government should publish official illustrations as soon as possible to enable meaningful financial planning. There has to be a clear timetable on when various consultations will be published, decisions made and the review concluded ahead of April 2021.
5. This was followed by separate information releases from other stakeholders:
 - 5.1. On 25 January, the LGA Labour Group released its exemplifications of what the percentage changes illustrated by the LGA could mean in cash terms (this was [published by the Guardian](#)). This required an assumption to be made about how much funding would be distributed by each formula.
 - 5.2. On 31 January, the [Local Government Chronicle featured information](#) from a confidential briefing by the County Councils' Network to its members on its modelling of the overall impact of the Review.
6. These analytical releases stimulated the political debate on the direction of the Review. In particular, this featured heavily in the 5 February Parliamentary debate on local government finance. Closing the debate, the Minister for Local Government and Homelessness confirmed that the Government hoped to share the emerging results of their work with the sector by the end of the month, with a full consultation in the spring.
7. The next meeting of the needs and redistribution technical working group was initially scheduled for 25 February. However, due to the revised timing of the 2020/21 Final Local Government Finance Settlement debate, it has now been re-scheduled for 25 March.

Business rates

8. Discussions on the alternative model of business rates retention, which provides a way of adjusting for appeals through splitting the calculations relating to equalisation and retention, have been continuing with MHCLG and local government in joint meetings of the Systems Design and Implementation Working Groups. This model will allow the Government to compensate local authorities for the impact of business rate appeals under business rates retention. We are expecting a consultation on this and other matters related to the design of further business rates retention in Summer 2020. In the meantime, MHCLG officials are offering technical presentations on the alternative model to representatives from local government. The aim of these meetings is to improve understanding of the alternative model and to seek views on the model.
9. All LGA policy on further business rates retention and the Fair Funding Review is being developed through the LGA's Task and Finish Group, and the Executive Advisory Board. The Task and Finish Group is due to meet on 12 March 2020 to discuss aspects of the alternative model such as the treatment of provisions for appeals. Any policy recommendations will be brought to a future meeting of the Executive Advisory Board for discussion and approval.
10. On 5 February, the Minister for Local Growth and the Northern Powerhouse [repeated](#) the Government's commitment to a fundamental review of business rates and as part of that work, the need to consider carefully the link between the review and retention by local

councils. We have called for councils to be fully involved in this review. The Resources Board, as commissioned by Executive in October 2019, is considering LGA policy on business rates, and possible wider sources of income, at its meeting on 3 March. Resources Board will be having a further discussion on this at their meeting on 12 May to allow for any potential announcements on the business rates review, made in the Chancellor's Budget, to be considered. This follows a joint meeting of lead members of Resources, City Regions and People and Places Boards last month on broader LGA work on devolution and the financing of local government. At this joint meeting lead members agreed that this work would be led by Resources Board reporting to the Executive Advisory Board. An update report will be provided to a future meeting of Executive Advisory Board.

11. In the [Queen's Speech in December 2019](#), the Government announced a number of new discretionary business rates reliefs for 2020/21 relating to the retail discounts, pubs and local newspapers. The Financial Secretary to the Treasury confirmed in a [Written Ministerial Statement](#) that these will be fully funded, including new burdens funding for administrative and IT costs. This is something the LGA called for. The Government expects local authorities to ensure the reliefs are applied for the start of the 2020/21 billing period. The Government published a [Business Rates Information Letter](#) giving further details with links to amended [guidance for the retail discount](#) and [pubs relief guidance](#) for local authorities.
12. As reported to Executive in January, the LGA [published](#) the results of a 2019 survey on Business Rates avoidance on 7 January 2020. The LGA estimated that around one per cent of total business rates income, or £250 million, is lost to business rates avoidance each year and [called](#) on the Government to bring forward changes to legislation to tackle this avoidance, along the lines of those being proposed in Wales and Scotland which are planned to be implemented in April 2021. On 29 January, the MHCLG minister welcomed the LGA survey in a [written answer](#) to a parliamentary question and said the Department would work with the LGA to evaluate its findings and better understand the causes of business rates avoidance.

Next steps

13. Members are asked to note this update paper.
14. Officers will proceed with the delivery of the LGA work programme on Further Business Rates Retention and the Fair Funding Review.
15. 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 to ensure that the reforms are objective and transparent and that there is extensive engagement with local government.
16. Members of the Executive Advisory Board will receive an update on the Resources Board discussions at a future meeting as mentioned in paragraph 9.

Implications for Wales

17. Business rates retention and the Fair Funding Review policies are limited to English local authorities. However, the business rates review might include announcements that relate to Welsh local government. The Welsh LGA takes the lead on this work where it has a direct impact on Welsh councils, although we have been exploring and will continue to explore opportunities to work together with the Welsh LGA on the business rates review, business rates avoidance and the changes introduced in Wales.

Financial Implications

18. 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. Should the Business Rates Retention and Fair Funding Review work programmes have additional budgetary implications, the LGA Board will be alerted and will be asked for approval where this arises.