

Cabinet

14 February 2019

Business Rates Retention Reform and A Review of Local Authorities' Relative Needs & Resources – Responding to the Government's Consultation

Recommendations

That Cabinet:

- 1) Comments on the proposed principles that should underpin the Council's response to the consultation papers, as outlined in Section 2, and approve their use in drafting the County Council's response to the Government's consultation papers.
- 2) Agrees the County Council's approach on the formal response to the consultation papers attached at **Appendix A** and **Appendix B**, as explained in Section 3.2.
- 3) Authorises the Assistant Director – Finance & ICT in consultation with the Joint Managing Director (Resources) to make any final amendments needed to the response, in line with agreed principles, before it is submitted to reflect any late information.
- 4) Authorises the Assistant Director – Finance & ICT in consultation with the Joint Managing Director (Resources) to use a similar approach for any future consultations on the Fair Funding Review and Business Rates Retention reform.

1. Background

Fair Funding Review

- 1.1. On 13 December 2018, alongside the Provisional Local Government Finance Settlement the Ministry for Housing, Communities and Local Government published the next stage consultation in the Fair Funding Review (FFR). The

FFR aims to determine and introduce a new funding mechanism, including how to treat resources and any transitional arrangements, in time for the 2020-21 Local Government Finance Settlement (i.e. in 12 months' time). This will coincide with implementation of 75% Business Rates Retention, a business rate baseline reset and the 2019 Spending Review.

- 1.2. The earlier consultation in December 2017 concentrated on establishing cost drivers and principles for a new formula whereas this new consultation is concerned a little more about the methodology and construction of the new allocation formulae.
- 1.3. The consultation proposes to introduce a population-driven foundation formula to determine allocations for a number of service areas but there will also be several service-specific formulae. There are also a number of areas included in the document where the MHCLG are minded to not implement specific formulae – these include Home to School Transport, Concessionary Travel and Homelessness.
- 1.4. With regard to the relative resource adjustment the Government propose using a notional council tax figure but are asking for views on what level that should be as well as the treatment of tax base for resource adjustments.
- 1.5. There are no firm plans yet for the transitional arrangements but the MHCLG have said they would like arrangements to be time limited and affordable. They are considering options where transitional arrangements unwind at different speeds depending on local circumstances (income and pressure) or the “distance from target”.

Business Rates Reform

- 1.6. Also on 13 December 2018, alongside the Provisional 2019-20 Local Government Finance Settlement, the Ministry of Housing, Communities and Local Government (MHCLG) published its Business Rates Retention (BRR) Reform consultation.
- 1.7. The consultation seeks views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system. The reform of the BRR system will sit alongside the work of the Fair Funding Review (FFR). Nevertheless, the consultation makes clear that MHCLG also believes that the BRR reforms stand on their own merit.

1.8. At present the planned BRR Reform timetable for 2019 and early 2020 is as follows:

- Winter 2019 – Regional events and sector engagement
- February 2019 – Consultation Deadline
- Spring 2019 – Analysis of Responses and continuation of work with the Sector.
- Summer/Autumn 2019 – Consultation on Implementation and Transition
- Winter/Spring 2020 – MHCLG to work with LAs in preparation for April 2020.

2. Principles For A New System

2.1. The range and complexity of the issues outlined in Section 1 means any response the County Council makes to the Fair Funding Review and Business Rates Reform consultation papers will often need to be extremely technical and detailed. It is therefore proposed that the set of core principles which were approved by the Portfolio Holder (Finance & Property) on 8 March 2018 continue to frame our response to any consultation paper regarding Fair Funding and Business Rates Retention. This will continue to ensure consistency over time and provide a basis against which to assess any options that may come forward for consideration.

2.2. Overall for the County Council it is proposed that we should respond to the consultation on the basis that the proposals in our response are in the best interest of Warwickshire County Council and our district/borough authorities.

2.3. Within this overarching principle there are a number of other more specific principles outlined below:

- Local authorities deliver a wide range of important services used by residents on a daily basis, and provide essential support for the most vulnerable people in our society. The local government funding system must therefore offer appropriate levels of stability and assurance to councils to support financial planning.
- Local authorities should have greater control over the money they raise and strong incentives to deliver services efficiently in a way that promotes local economic growth.

- Local Government is a democratic system and must ensure sufficient flexibility for local members to use funding in accordance with local priorities and in response to local demand.
- Funding allocations should reflect the relative 'need to spend' both currently and in the future. Past spending patterns cannot deliver this.
- Funding allocations should take into account the capacity of authorities to fund local services through local income but this factor should not be used in both the relative need and relative wealth elements of the formula as this results in double counting.
- The system should be more transparent whilst providing as much discretion as possible to local councils over the use of resources so as to empower the transformation of local services and ensure that councillors are accountable for deciding how funding is used locally.
- Distribution of resources should reflect 'common sense' understanding in the differences in need between authorities and should be as simple as is practicable. To support this the link between local circumstances and funding allocations will need to be more visible.
- The new funding formula should be based on the most up-to-date data that is available.
- The new funding formula should be an objective assessment that is not influenced by local decision making or ministerial discretion.

2.4. It is also proposed that the set of core principles which were approved by Cabinet on 8 September 2016 continue to frame our response to any future responses to consultations on the *technical* aspects of Business Rates reform as listed below:

System Design

The new system should:

- Be fair between types of authorities, geographical areas and over time and with other taxpayers
- Be transparent
- Ensure no detrimental effect between authorities/areas that have early/differential adoption and all other areas
- Be clear on how risk is shared and recognised in the system
- Provide an incentive to generate economic growth

- Include a mechanism for dealing with shocks to the system

Needs (Fair Funding)

The new needs and redistribution assessment should:

- Be transparent
- Be fair between types of authority, between tiers and between geographical areas
- Be sustainable and predictable between services and authorities over time
- Reflect actual and relative cost pressures and drivers on the demand for local authority services. (For the County Council this means a new assessment of need does not just replicate the historic patterns of underfunding that have led to the wide variation in council tax levels across the country).

Devolution of responsibilities

The responsibilities devolved to local government should:

- Build on the strengths of local government
- Support the drive for economic growth
- Support improved outcomes for service users and local people
- Consider the medium term financial impact on local government
- Ensure the cost of any new responsibilities are covered by the resources available

3. Responding to the Government's Consultation

- 3.1. The deadline for responding to the consultation paper is 21 February 2019. The normal approval process for responses to consultations is via portfolio holders. But, given the potential impact of these changes on the future financing of the County Council, it is felt Members more widely need to know what is happening.
- 3.2. Given the synergies and in order to ensure our response achieves maximum effect, our approach is to make a response which is consistent with the majority of other shire counties. At the time of publication information regarding the wider shire county response to the consultation questions has yet to be received. Once received we will be in a position to fully populate **Appendix A** and **Appendix B** ensuring alignment with the principles in Section 2 at all times. If this is available before the Cabinet meeting on 14

February the draft responses will be circulated to members. Otherwise the final response will be circulated to the Portfolio Holder and spokespeople for comment.

- 3.3. This report seeks agreement to the principles to be used as the basis of the council's response and recommends the approach explained in Section 3.2 for preparing answers to the questions outlined in **Appendix A** and **Appendix B** as the response to the consultation.

4. Background Papers

- 4.1. None

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The following Elected Members have been consulted on this report prior to its publication: Cllr Butlin, Cllr Boad, Cllr Birdi, Cllr O'Rourke, Cllr Timms,

Fair Funding Review Consultation Response

Question 1): Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?

Question 2): What are your views on the best approach to a Fire and Rescue Services funding formula and why?

Question 3): What are your views on the best approach to Home to School Transport and Concessionary Travel?

Question 4): What are your views on the proposed approach to the Area Cost Adjustment?

Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?

Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?

Question 7): Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?

Question 8): Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?

Question 9): What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?

Question 10): Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?

Question 11): Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?

Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?

Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?

Question 14): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?

Question 15): Do you have views on how the baseline should be constructed for the purposes of transition?

Question 16): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

Business Rates Retention Reform Consultation Responses

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?

Question 2: Please comment on why you think a partial/ phased reset is more desirable.

Question 3: What is the optimal time period for your preferred reset type?

Question 4: Do you have any comment on the proposed approach to the safety net?

Question 5: Do you agree with this approach to the reform of the levy?

Question 6: If so, what do you consider to be an appropriate level at which to classify growth as 'extraordinary'?

Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

Question 8: Should a two-tier area be able to set their tier splits locally?

Question 9: What fiscally neutral measures could be used to incentivise pooling within the reformed system?

Question 10: On applying the criteria outlined in [Annex A](#), are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.

Question 11: On applying the criteria outlined in [Annex A](#), are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

Question 13: Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

Question 14: What are your views on the approach to resetting Business Rates Baselines?

Question 15: Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments