



CABINET - 8TH FEBRUARY 2019

**RESPONSES TO CONSULTATIONS ON LOCAL AUTHORITIES'
RELATIVE NEEDS AND RESOURCES AND BUSINESS RATES
RETENTION REFORM**

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. The purpose of this report is to set out and seek approval of the proposed responses to consultations from the Ministry of Housing, Communities and Local Government on “A review of local authorities’ relative needs and resources” and “Business Rates Retention Reform”.

Recommendation

2. It is recommended that the draft responses to the consultations on “A review of local authorities’ relative needs and resources” and on “Business Rates Retention Reform” as set out in Appendices A and B to this report be approved for submission to the Ministry of Housing, Communities and Local Government.

Reason for Recommendation

3. To respond to two key consultations on proposals that are expected to change the Local Government funding system significantly so that the Council’s views are known.

Timetable for Decisions (including Scrutiny)

4. The responses to the consultations on “A review of local authorities’ relative needs and resources” and on “Business Rates Retention Reform” need to be submitted by 21st February 2019.

Resource Implications

5. There are no resources implications arising directly from the recommendations in this report.

6. At this stage it not possible to assess the impact of either consultation on the resources available to the County Council. The Government plans to issue further consultations on both areas of work in the summer or autumn of 2019, ahead of the 2019/20 Provisional Local Government Finance Settlement in December 2019. In addition, the overall financial context will be set by the Comprehensive Spending Review, expected to be issued in the autumn.

Circulation under the Local Issues Alert Procedure

7. None.

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PART B

Background

8. The Government introduced the current Business Rates Retention system in April 2013. Local authorities generally retain 50% of business rates income whilst the Government receives 50%.
9. The Department for Communities and Local Government (DCLG) issued a four-year Local Government Finance Settlement on 8th February 2016, covering the financial years 2016/17 to 2019/20. Subsequent Settlements have generally been made within the framework of that four-year Settlement, although additional funding has been provided, mainly for Adult Social Care, via one-off grants. Settlement funding, consisting of business rates income and revenue support grant, for the County Council has reduced from £112m in 2015/16 to £61m in 2019/20.
10. The Government intends to introduce a revised system of 75% business rates retention by local government from April 2020. This will require adaptations to the current business rates retention system and also the review of the calculation of relative needs and resources to derive baseline amounts for each local authority.
11. On 13th December 2018, alongside issuing the Provisional 2019/20 Local Government Finance Settlement, the Government published two consultations, titled “A review of local authorities’ relative needs and resources” and “Business Rates Retention Reform”. The consultation period for both runs until 21st February 2019.

Response to the Consultation on “A review of local authorities’ relative needs and resources”

12. The consultation on the review of local authorities’ relative needs and resources seeks views on a number of aspects of the Fair Funding review. The consultation outlines the proposed structure of new formulae to calculate the relative needs of authorities, including a “foundation formula” to cover a range of services, including waste services, public transport, libraries and planning. In addition formulae are proposed for Adult Social Care, Children and Young People’s Services, Public Health, Highways Maintenance, Fire and Rescue, Legacy Capital Finance and Flood Defence and Coastal Protection.
13. The consultation seeks views on how local authorities’ ability to generate income is accounted for in the Fair Funding system, particularly how council tax is reflected. There is a wide range of “actual” levels of council tax, with high grant funded London authorities having particularly low levels of council tax compared with county councils and other authorities. The consultation seeks views on the use of a notional council tax level, which should help to address this disparity. The consultation also seeks views on the inclusion of other forms of income, particularly from car parking, where again London

authorities especially have larger amounts of income which are not available to other authorities elsewhere.

14. Lastly, the consultation seeks views on the transition process. The Fair Funding review is likely to lead to significant changes in grant funding levels for many authorities. The Government is likely to operate a transition process, where authorities move to their new grant funding positions over a period of time, by a number of steps.
15. The County Council has long argued that the formulae used to assess needs and to distribute Settlement Funding has been unfair. Leicestershire has been the lowest funded County Council for many years. Whilst it is accepted that there will be variations in relative needs, the current scale of variations is much too wide. The opportunity to contribute to this consultation is therefore welcomed and the proposed response generally supports the direction that the Government is taking.
16. However, some aspects of the proposals are incomplete, for example there are no details of indicators under consideration for the Children and Young People's Service formula and at this stage no exemplifications have been provided, so it is not possible to gauge to what extent the proposals will affect the funding of the County Council.
17. The proposed response to the consultation is set out in Appendix A to this report.

Response to Consultation on the Business Rates Retention Reform

18. The consultation on Business Rates Retention Reform asks for comments on proposals on various aspects of the Business Rates Retention Scheme, as part of Government plans to reset the Scheme from April 2020, with an increase from 50% to 75% in the element of growth retained by local authorities. The consultation discusses options on the nature and timing of subsequent resets and reforms to the levy and safety net processes and the treatment of providing for appeals.
19. The consultation also seeks views on an alternative approach to the administration of the scheme which would simplify or remove some aspects of the current scheme. Finally, the consultation asks for views on the operational steps that may be necessary to set accurate business rates baselines for the reset in 2020.
20. The County Council has argued since the current Business Rates Retention Scheme was introduced in 2013 that the 80:20 split between district and county authorities is not appropriate and should effectively be reversed, to reflect the scale of spending by each tier. The Government decided to protect counties (and social care services) from risk, but setting the split at 80:20 removed any significant incentive for counties to grow the local business economy and does not reflect the responsibility of county councils for infrastructure investment.

21. The proposals in the consultation are subject to further development by Ministry of Housing, Communities and Local Government, in liaison with the Local Government Association and working groups with local government representation. A further consultation is expected later in the year, which should give a clearer indication of the impact of the new scheme on the resources of the County Council.
22. The proposed response to the consultation is set out in Appendix B to this report.

Equality and Human Rights Implications

23. There are no direct implications from the response to the consultations.

Risk Assessments

24. The risks around the funding implications of the proposals within the consultations will be addressed in the Council's Medium Term Financial Strategy.

Background Papers

Review of Local Authorities' Relative Needs and Resources

<https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources>

Business Rates Retention Reform

<https://www.gov.uk/government/consultations/business-rates-retention-reform>

Appendices

Appendix A – Response to the consultation on the Review of Local Authorities' Relative Needs and Resources

Appendix B – Response to the consultation on Business Rates Retention Reform

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