

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**31 January 2019**

**Report of the Director of Finance & ICT**

**BUSINESS RATES RETENTION REFORM AND FAIR FUNDING REVIEW  
CONSULTATIONS**

(STRATEGIC LEADERSHIP, CULTURE AND TOURISM)

**1 Purpose of the Report**

To provide Members with details of the Government's technical consultation documents regarding Business Rates Retention (BRR) Reform and Fair Funding Review (FFR).

**2 Information and Analysis**

On 13 December 2018, alongside the Provisional 2019-20 Local Government Finance Settlement, the Ministry of Housing, Communities and Local Government (MHCLG) published its BRR Reform consultation.

The reform of the BRR system will sit alongside wider changes to the local government finance system which the Government aims to introduce in 2020-21. This includes the work of the Fair Funding Review (FFR) for which another consultation was published on the same day.

**Business Rates Retention Reform**

The consultation brings together previous work and seeks local authorities' views on options to reform the business rates retention system from 2020-21 and the balance between risk and reward in the future system.

As reported to Cabinet on 25 January 2018 the Council, together with the eight district/borough councils in the county, Derby City Council and Derbyshire Fire and Rescue Authority, was successful in becoming a 100% business rates retention pilot. The pilot is generating additional one-off income in 2018-19 to the county of Derbyshire, over and above the business rates income the Council receives through the local government finance settlement. The Council's share of the gain is currently forecast to be approximately £17.8m, however because of the volatility of local business rate income streams this will not be confirmed until the end of the 2018-19 financial year.

The Government is committed to further business rates retention and in 2017 announced it was to introduce 75% business rates retention from 2020-21 in a fiscally neutral way. It should be noted that the Council, as part of a Derbyshire pool, bid to participate in a 75% business rates retention pilot for 2019-20, before a national 75% regime comes into force in 2020-21. The Derbyshire pool was unsuccessful in its pilot bid.

This consultation, reflects the work of the BRR Reform Steering Group, the Systems Design Working Group (SDWG) and the Implementation Working Group (IWG) over the past year. It includes the government's views and options on:

- Resets
- Safety Net
- Levy
- Tier Splits
- Central and Local Lists
- Valuation Changes (Appeals)
- The administration of the system

The Government's ambition for BRR remains two-fold: to give local government greater control over the money it raises and to enable local authorities to support local economic growth.

The consultation focuses on the way the business rates retention system works, not on how further business rates retention will be delivered or the transition to the reformed system. 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 Government is proposing to consult further in Summer/Autumn 2019 on the transitioning and implementation arrangements. Decisions will be taken, following this consultation, outlining the reforms to be implemented in 2020-21.

The consultation includes 15 questions, which are shown at Appendix One.

The consultation closes on 21 February 2019.

## **Fair Funding Review**

Alongside the BRR Reform the Government announced the latest stage of the Fair Funding Review (FFR) consultation. The Council's response to the first stage of the consultation was the subject of a report to Cabinet on 26 April 2018.

Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of a local authority's relative needs and resources. The overarching methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013-14.

The current methodology is very complex and involves 15 relative need formulas and several tailored distributions for services previously supported by specific grants. These formulas involve over 120 indicators of 'need', reflecting factors previously identified as driving the costs of service delivery.

Since the introduction of the 50% business rates retention system, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures and that the funding formulae is overly complex and lacks transparency, the Government announced in 2017 a review to address concerns about the fairness of current funding distributions. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities should be assessed under a 100% business rates retention system.

The FFR aims to determine and introduce a new funding mechanism, including how to treat resources and any transitional arrangements, which will determine new baseline funding allocations for local authorities, for the purposes of 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.

There will be a further consultation in 2019 on the Government's preferred approach. The MHCLG paper also says that it aims to publish indicative allocations ahead of the 2020-21 provisional settlement, to aid councils' medium term financial planning.

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. The consultation paper refers to the CLG committee's conclusion that a simpler needs assessment formula could provide a good approximation to the outcomes of a more complex model. In his introduction, James Brokenshire (Secretary of State for Housing, Communities and Local Government) states that he wishes to see a formula that "draws a more understandable link between the need for services and local funding".

The consultation takes a three-pronged approach by proposing to simplify the assessment of local authorities' relative need; considering the type of adjustment required (relative to the resources available to fund local services) and proposing a set of principles that will be used to design potential transitional arrangements

and examine how the baselines for the purposes of transition should be established.

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 not to implement specific formulae – these include Home to School Transport, Concessionary Travel and Homelessness.

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.

There are no firm plans 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 develop at different speeds depending on local circumstances (income and pressure) or the “distance from target”.

The consultation includes 16 questions, which are shown at Appendix Two.

The consultation closes on 21 February 2019.

### **3 Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

### **4 Background Papers**

Business Rates Retention (BRR) Reform: Sharing risk and reward, managing volatility and setting up the reformed system: Ministry of Housing, Communities and Local Government

Fair Funding Review (FFR): Technical consultation on the assessment of local authorities’ relative needs, relative resources and transitional arrangements: Ministry of Housing, Communities and Local Government

### **5 Key Decision**

No.

## **6 Call-in**

Is it required that call-in be waived in respect of the decisions proposed in the report? No

## **7 Officer's Recommendations**

That Cabinet notes the details of the BRR reform and FFR technical consultation documents and agrees that the Director of Finance & ICT, in consultation with the Cabinet Member for Strategic Leadership, Culture and Tourism responds on the Council's behalf to the consultations.

PETER HANDFORD

Director of Finance & ICT

**APPENDIX 1**

**Business Rates Retention (BRR) Reform**

- 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, 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, 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?

**APPENDIX 1**

**Business Rates Retention (BRR) Reform**

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.

## APPENDIX 2

**Fair Funding Review (FRR)**

- 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?



**APPENDIX 2**

**Fair Funding Review (FRR)**

- 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.