

Finance and Corporate Services Scrutiny Board (1)  
Cabinet  
Council

6<sup>th</sup> February 2019  
12<sup>th</sup> February 2019  
19<sup>th</sup> February 2019

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

**Director Approving Submission of the report:**

Deputy Chief Executive (Place)

**Ward(s) affected:**

None

**Title:**

Consultation Responses: Business Rates Retention Reform and Review of Local Authorities' Relative Needs and Resources

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**Is this a key decision?**

No

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**Executive Summary:**

The Government issued two consultation documents on 13<sup>th</sup> December 2018 entitled "Review of Local Authorities' Relative Needs and Resources" and "Business Rates Retention Reform". The consultations form part of the Government's over-haul of local government finance which is due to take effect in the financial year 2020/21. This will incorporate an overall settlement determined by the 2019 Spending Review, new baseline funding allocations for individual local authorities informed by an up-to-date assessment of their relative needs and resources and the impact of a new 75% Business Rates retention model. Responses are required by 21<sup>st</sup> February 2019 and the Council's proposed responses are attached as Appendices 1 and 2.

The significance of the outcome of such a consultation make it important for the Council to add its own response. The majority of the consultation questions focus on detailed technical aspects of the potential funding arrangements. Given the lack of transparency of the current funding model and the length of time that it has been in operation, it is not possible to draw firm conclusions on the likely impact of any changes to funding arrangements implied by the Council's responses. The expectation should be that such a review results in a system that is evidence based, robust and fair and the Council's proposed responses are aimed at achieving such an outcome.

**Recommendations:**

Finance and Corporate Services Scrutiny Board (1) is recommended to:

- 1) Consider the report and make any recommendations to Cabinet

The Cabinet is recommended to:

- 1) Consider comments and recommendations from the Finance and Corporate Services Scrutiny Board (1).
- 2) Recommend to Council that they approve the attached consultation response to be sent to the Ministry of Housing, Communities and Local Government.

Council is recommended to:

- 1) Approve the attached consultation response to be sent to the Ministry of Housing, Communities and Local Government.

**List of Appendices included:**

Appendix 1: Consultation response - Review of Local Authorities' Relative Needs and Resources  
Appendix 2: Consultation response – Business Rates Retention Reform

**Other useful background papers:**

None

**Has it been or will it be considered by Scrutiny?**

Yes - Finance and Corporate Services Scrutiny Board (1), 6<sup>th</sup> February 2019

**Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

**Will this report go to Council?**

Yes 19<sup>th</sup> February 2019

**Report Title:** Consultation Response: Business Rates Retention Reform and Review of Local Authorities' Relative Needs and Resources

**1. Context (or background)**

1.1 The Government issued two consultation documents on 13<sup>th</sup> December 2018 entitled "Review of Local Authorities' Relative Needs and Resources" and "Business Rates Retention Reform". The consultations form part of the Government's over-haul of local government finance which is due to take effect in financial year 2020/21. This will incorporate an overall settlement determined by the 2019 Spending Review, new baseline funding allocations for individual local authorities informed by an up-to-date assessment of their relative needs and resources and the impact of a new 75% Business Rates retention model. Responses are required by 21<sup>st</sup> February 2019 and the Council's proposed responses are attached as Appendices 1 and 2.

**2. Options considered and recommended proposal**

2.1 There are two options, to respond or not to respond. Given the significance of the outcome of such a consultation it is important for the Council to add its own response and this is the recommended option.

2.2 The responses are attached at Appendices 1 and 2. The expectation should be that such reviews result in a system that is evidence based and fair. On this basis the proposed responses to the consultation questions are intended to be technical in nature and/or are framed in such a way that are directed at achieving a rational and fair outcome. It is in the interests of Coventry and of the wider local government community to achieve such an outcome. If the consultations result in models that were distorted by particular interest groups this would not provide a robust basis for the local government finance mechanism going forward.

2.3 The response incorporates the following broad elements:

- Notwithstanding 'how' resources are allocated in any new system, the most important factor is 'how much' funding is available. This will be determined by the Spending Review rather than the outcome of these consultations.
- The system must continue to protect authorities with higher needs and which may end up being 'losers' between baseline resets.
- The new arrangements should push for a more dynamic system with regular refreshes, up to date data, baseline resets and quicker 'transitions' (e.g. not damping that goes on for ever).
- The response makes the point that arguments from some authorities around sparsity and negative Revenue Support Grant (RSG) are not evidence based and should not be allowed to distort the outcomes.
- Councils should gain the benefit or bear the cost of local decision making (so resource needs should be assessed using notional assumptions of Council Tax not actual levels and not adjusting for local decisions on Council Tax Support).
- The response argues against fees and charges being adjusted for within the system on the basis that it is impossible to measure their impact reliably.
- The response argues for partial and phased element of resets and for Councils to keep the majority of Business Rates growth that results from local economic growth.

**3. Results of consultation undertaken**

3.1 No specific consultation has been undertaken.

#### **4. Timetable for implementing this decision**

- 4.1 The consultation responses are required to be made by 21<sup>st</sup> February 2019. The revised local government finance system is due to come into force from financial year 2020/21.

#### **5. Comments from Director of Finance and Corporate Services**

##### **5.1 Financial implications**

From 2020/21, local government finance settlements will be determined by the way in which the finance model is constructed, influenced by some of the issues dealt with in the consultations. Although local councils will be in a position to influence their overall financial position to some degree, in most cases this will be a secondary consideration to the resource starting point provided by the model. The proposed response does not seek to challenge the fundamental premise of a redistributive system.

The indicative position suggested by the information available at a whole Government level is that local government funding will continue to be under pressure beyond 2019/20. This will be further informed by the Government's Spending Review which will be announced sometime over the summer of 2019 and the results of the review of the overall local government finance system in the autumn of 2019.

##### **5.2 Legal implications**

There are no specific legal implications resulting from the report.

#### **6. Other implications**

Any other specific implications

##### **6.1 How will this contribute to achievement of the Council's Plan?**

The consultation will not impact directly on the Council's Plan but future funding decisions will determine the financial parameters within which the Council will operate from 2020/21.

##### **6.2 How is risk being managed?**

There is some risk that any revised local government funding model may adversely affect the Council. It is not possible to predict the outcome of this and the Council will continue to adopt relatively prudent financial assumptions for 2020/21.

##### **6.3 What is the impact on the organisation?**

The consultation will not impact directly on the organisation but future funding decisions will determine the financial parameters within which the Council will operate from 2020/21.

##### **6.4 Equalities / EIA**

Future funding decisions will determine the financial parameters within which the Council will operate from 2020/21 based on an assessment of needs across a number of areas of activity. This could have a positive or negative impact on the level of resources allocated to services to people including groups with protected characteristics but it is not possible at this stage to predict this.

##### **6.5 Implications for (or impact on) the environment**

The consultation will not impact directly on the environment.

## 6.6 Implications for partner organisations?

The consultation will not impact directly on partner organisations.

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## Consultation Response: Review of local authorities relative needs and resources

Coventry City Council supports the principle that a local government finance system should enable the delivery of decent services to local people. Such a system relies upon two fundamental factors - an adequate overall allocation of resources and a robust and equitable system to allocate those resources.

On the first of these measures, reduced revenue funding over recent years and increased demand pressures across local government have led to an overwhelming view in the sector that the current level of funding is insufficient. The Government has not provided an indicative value for the overall level of local government funding beyond 2019/20 although independent analysis of future Government funding levels suggests that local government will continue to suffer reductions. Therefore, however equitable the resource allocation system, the Council's concern is that the majority of local authorities will be faced with an inadequate level of funding from 2020/21.

There is a point worth repeating that the significant level of uncertainty, the very large potential scale of change and the lateness with which local government is likely to be informed of settlement information make this a very unsatisfactory process from councils' point of view, notwithstanding any transition arrangements. This is no way to run very large public sector organisations.

The Council notes, with disappointment, the Government's continued support in the areas of rural delivery grant and so called negative RSG 'compensation'. These have no evidence base to support them and they do not appear to contribute to delivery of a fair funding settlement within the existing system. It will be crucial that such spurious constructs are not included in the proposals going forward.

It is recognised that the consultation involves complex issues that even experienced and expert practitioners have found challenging. For the most part the worlds of Business Rates Retention and Needs and Resources may have been considered in isolation from each other. However, there are some issues that may enable at least a degree of synergy in terms of the timing and nature of baseline refreshes (for instance, the interaction of partial and phased resets). If this has not already been considered our view is that it is worth at least cursory consideration to see if a more holistic funding system can be developed.

Detailed responses to the consultation questions are included below:

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?

In broad terms the approach taken in the relative needs assessment appears to be logical and the Council has only a small number of comments on the proposals. The Council's view is that as a minimum deprivation should be included as a cost driver across a significant proportion of the overall relative needs assessment but, in particular and preferably, deprivation should be incorporated within the Upper Tier Foundation Formula.

The consultation refers to future proofing being one of the key elements of the needs assessment. In this respect Coventry has experienced very significant recent cost increases in relation to homelessness which we understand have been felt in a number of other authorities. If this is a theme raised by other authorities we would request consideration of whether this issue is adequately reflected within the new system.

It is fair to say that the length of time that has elapsed since the needs assessment was refreshed and the opaqueness that exists in the current system makes it impossible for an objective and evidence based view to be drawn on a comparison between the current and newly proposed systems.

It is also worth noting that, to the extent that the needs assessment has previously provided for the absolute needs of local communities, the reductions in funding within the system over recent years mean that the relative needs assessment will inevitably result in the allocation of an insufficient overall level of funding.

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

Coventry is not a Fire and Rescue Authority and does not have an authority specific view on a Fire and Rescue funding formula.

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

The Council supports the proposed approach to carry out further analysis on potential alternative approaches in order to determine whether this approach adequately reflects local authorities' relative needs.

4. What are your views on the proposed approach to the Area Cost Adjustment?

The Council supports the principle of an Area Cost Adjustment to reflect differences in local cost bases, where this is supported by sufficient significance and variability. However, in our view the Area Cost Adjustments should not be determined through any separate or parallel statistical analysis, which could risk double counting the importance of factors such as rurality/sparsity/remoteness. We acknowledge that the factors listed in the consultation, in relation to ACAs, could all have the potential to explain variations in spending pressure. However they should be brought into the same overall statistical assessment of factors, rather than analysed separately.

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?

We agree that the Government should continue to take account of existing non-discretionary elements in the measurement of the council tax-base. We also agree that an adjustment should be introduced in relation to the income foregone due to the pensioner-age element of local council tax support. It is important that these adjustments are applied annually based on the most up to date information available.

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?

The Council favours an approach that enables the financial impact of local decisions to be contained at a local level. Therefore an assumptions based approach should be used to measure the impact of discretionary decisions. This will involve an assumption that a common approach has been taken across all authorities in order to avoid taking direct account of local policy choices.

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?

In line with the response to question 6. We do not agree that the Government should take account of the income foregone due to local council tax support for working age people. There is no logic in enabling Council's to have local discretion over such a scheme and then adjusting for this at a national level.

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?

Consistent with the response to question 7, the Council agrees with the consultation's view that a notional assessment of council tax levels should be applied when making the relative resources adjustment. Using a notional council tax level, would mean that local authorities with similar tax bases and a similar assessment of relative needs would receive broadly similar baseline funding levels, irrespective of their actual council tax levels.

Our understanding is that the existing resource allocation system (as originally implemented) was based on the use of the arithmetic mean of a notional council tax level. If this is not the chosen method, the Council's preference would be for the notional approach to be applied in a way that supports greater equalisation of funding relative to assessed need.

It is worth adding that the Council's view is that the argument set out in the consultation document around authorities paying 100% of their business rates baseline as a tariff is a bogus one. This position is purely an arithmetic outcome which does not in itself demonstrate that affected authorities have been in any way disadvantaged by funding formula (current or future).

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

The Government should use an assumed collection rate not actual collection rates. In this way councils will remain incentivised to maximise collection.

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?

Coventry is not a multi-tier authority and does not have an authority specific view on the allocation of council tax between tiers.

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?

We do not agree that the Government should apply a single measure fixed over the period. Such an approach increases the likelihood of significant resource changes at the end of each reset period instead of these being experienced more incrementally each year. Instead the Council would prefer to see projections of council tax resources included within a revised system. This could include projections on a partial basis or on a phased basis, potentially in line with one of the approaches being explored for business rates resets.

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

The Council recognises and has some sympathy with the case set out in the consultation document for taking into account local authorities' ability to raise sales, fees and charges when assessing local authority relative resources. However, the arguments against doing

this are persuasive ones. The Council's view is that the relatively limited scale of such income, the challenges of measuring it, the degree of potential volatility and the disincentive impact on councils are such that sales, fees and charges should not be taken into account when measuring relative resources.

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?

Legislation already exists for applying surplus parking income and a range of other sources of income. The Council's view is that it would be inappropriate to treat any one of these income sources in an exceptional way.

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

Transition arrangements in the form of damping, continue to exist in the existing funding arrangements despite the fact that these arrangements were established many years ago. Therefore, while recognising the need for a degree of funding stability the Council's view is that the need for transition arrangements to be time-limited is of paramount importance. Transparency should be a fundamental expectation of transitional arrangements and should include the total level and individual council levels of transitional funding.

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

We welcome the intention to engage with the sector to arrive at the best measure for setting the baseline. However, the Council would be strongly opposed to the baseline including elements of funding that are not and have never been supported by an evidence based assessment of needs and resources. These include damping that has not been unwound from previous resets of the local government finance system. It also includes more recent funding decisions (sometimes in the form of specific grants) in relation to Rural Services Delivery Grant and Negative RSG 'compensation'. The Council's view is that these elements have been included in recent settlements in response to vocal submissions from parts of the local government community but which are not justified by the available evidence base in terms of an assessment of needs and resources.

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.

The content of the consultation does not provide a basis for making any specific comments on this aspect.

## Consultation Response: Business rates retention reform

Coventry City Council supports the principle that a local government finance system should enable the delivery of decent services to local people. Such a system relies upon two fundamental factors - an adequate overall allocation of resources and a robust and equitable system to allocate those resources.

On the first of these measures, reduced revenue funding over recent years and increased demand pressures across local government have led to an overwhelming view in the sector that the current level of funding is insufficient. The Government has not provided an indicative value for the overall level of local government funding beyond 2019/20 although independent analysis of future Government funding levels suggests that local government will continue to suffer reductions. Therefore, however equitable the resource allocation system, the Council's concern is that the majority of local authorities will be faced with an inadequate level of funding from 2020/21.

There is a point worth repeating that the significant level of uncertainty, the very large potential scale of change and the lateness with which local government is likely to be informed of settlement information make this a very unsatisfactory process from councils' point of view, notwithstanding any transition arrangements. This is no way to run very large public sector organisations.

It is recognised that the consultation involves complex issues that even experienced and expert practitioners have found challenging. For the most part the worlds of Business Rates Retention and Needs and Resources may have been considered in isolation from each other. However, there are some issues that may enable at least a degree of synergy in terms of the timing and nature of baseline refreshes (for instance, the interaction of partial and phased resets). If this has not already been considered our view is that it is worth at least cursory consideration to see if a more holistic funding system can be developed.

Detailed responses to the consultation questions are included below:

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

The Council has previously indicated its support for a partial reset of the Business Rates system as one way of ensuring recognition of the growth made by authorities since the last reset. We remain of the view that for local communities to feel the benefits of economic growth, authorities must be able to build the majority of the resulting income into their base budgets. A phased reset introduced alongside a partial reset may help to smooth the impact of volatile movements and we would welcome the intention to undertake further modelling to better understand the implications of such options.

The Council's response to the relative needs and resources consultation that has run alongside this one has proposed consideration of a similar scheme for Council Tax, that is, one that incorporates a combination of partial and phased resets. There could be benefits in deploying similar and congruent approaches across Council Tax and Business Rates that would help both schemes and the sector's understanding of the overall system.

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

Our view is that the system could contain an element of both approaches which would help to avoid significant shocks both within and at the end of each reset period.

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

It is essential that if resets are to remain as part of the system, that these are timely to enable baselines to be aligned to resourcing needs – in line with revaluations would make sense. We have previously indicated support for resets at maximum intervals of five years although the Government's subsequent announcement that revaluations will take place every three years provides an updated position on this. If phased annual resets are introduced, this will effectively take away the need for fixed periodic resets.

It is worth repeating our previously stated view that any system should ensure that any authority which experiences a reduction in income must not be required to retain any losses after a reset has taken place.

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

The indicated safety nets that apply to each of the existing schemes appear to be in within a sensible and manageable range. The Council's view is that the safety net should continue to be funded through a levy on growth so that those authorities that benefit most from the scheme should be asked to cover the cost to those that benefit the least.

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

We support a system that combines a strong growth incentive that enables authorities to retain a significant proportion of the growth that can reasonably be attributed to their management of their local economy and plans to levy growth that is considered to be extraordinary.

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

Without ready-access to the supporting information it is difficult to draw an objective conclusion on this subject. However, even the lowest of the suggested options appears to be towards the high-end of a reasonable range for consideration.

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?

Coventry is not a multi-tier authority and does not have an authority specific view on the allocation of council tax between tiers.

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

Coventry is not a multi-tier authority and does not have an authority specific view on the allocation of council tax between tiers.

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

The Council would expect support for existing devolutionary plans to be a key part of future Government plans. However, we are not convinced that pooling is necessarily an essential feature of plans for devolutionary collaboration.

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.

The Council is not aware of any such hereditaments.

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.

The Council is not aware of any such hereditaments.

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?

The Council understands that the Government is proposing all changes to an authority's local list backdated to the first day of the list (i.e. the beginning of the revaluation cycle) are regarded as a proxy for valuation only change. This will inevitably result in an imperfect system, recognising that any proxy cannot be 100% accurate. However, in the absence of better information the Council accepts that use of a proxy is likely to be the best compromise solution to this issue.

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

The Council recognises the significant complexity in the proposals considered under this question and the significant amount of work undertaken by the Business Rates Retention System Design Working Group. In the relatively short time-scale available to consider this consultation it is difficult to give definitive views on the proposed way forward and the alternatives discussed. However, the Council does not have any fundamental objections to several of the key elements of the proposal such as earlier provision of NNDR data and subsequent floating top-up and tariff payments.

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

The Council's view is that the approach to this subject area should be informed by the historical data on appeals provisions available to the Government. This would give an indication of the number and value of outliers created by different approaches. Therefore it seems sensible for the Business Rates Retention Implementation Working Group to continue to work towards a preferred solution as suggested.

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.

The content of the consultation does not provide a basis for making any specific comments on this aspect.