



REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

LOCAL GOVERNMENT FINANCE

Purpose of the Report

1. To update Members on two current Government consultations in respect of Local Government Finance covering Business Rates Retention Reform and Local Authorities' Relative Needs and Resources, to seek comments from Members for inclusion in the County Council's responses to these consultations and to authorise the S151 Officer, in consultation with the Chair of Finance & Major Contracts Management Committee, to send final responses by the deadline of 21 February 2019.

Background

2. The current arrangements for local government funding were last updated in 2013, when the partial business rate localisation was introduced. In October 2015 the government announced their intention to introduce 100% business rate retention at a local level and phase out the main local government grants. To achieve the reforms, it was identified that the whole local government finance system would require to be reviewed and changed. The Ministry of Housing, Communities and Local government (MHCLG) working with the Local Government Association (LGA) set up a number of technical working groups to shape and progress the necessary reforms.
3. MHCLG launched a consultation with councils and stakeholders in July 2016: Self Sufficient Local Government 100% Business Rates Retention and simultaneously published a Call for Evidence on Needs and Redistribution (Fair Funding Review). The County Council's responses to these two consultations were approved at Finance and Property Committee in September 2016. The summary of responses was subsequently published by the MHCLG in February 2017.
4. A subsequent report to Full Council on 23 November 2017 provided a further update and sought approval to an approach to Government to attempt to secure fair funding levels for the residents of Nottinghamshire. Progress since then has been slow and, as noted in the 2019/20 Budget report elsewhere on this agenda, the current 4 year Comprehensive Spending Review is coming to an end with future Fair Funding and Business Rates Retention issues still unresolved.
5. The current 'Four Block' model used to determine the relative needs of each authority is complex. The Four blocks relate to relative needs, relative resources, a central allocation and floor damping. Formula Grant, including Revenue Support Grant (RSG) and share of

business rates redistribution are distributed using this model. The blocks representing services are:

- The Relative Needs Amount (intended to compensate for differences in needs of each local authority area)
 - The Relative Resources Amount (intended to compensate for differences in the relative strength of the Council Tax tax-base in different areas)
 - The Central Allocation (in effect a common allocation per head to all authorities with the same responsibilities)
 - The Grant Floor Adjustment (a net nil re-allocation of grant between local authorities to ensure that every local authority receives a minimum annual increase in funding, regardless of the outcome of the preceding three blocks).
6. It should be noted that the two consultations covered in more detail below are mainly concerned with how local government funding is allocated between authorities, not with the level of local government funding overall.

Business Rates Retention Reform

7. The consultation is seeking views on the Government's objective to introduce 75% business rates retention from 2020 in a fiscally neutral way.
8. As noted in the summary, shown in **Appendix A**, 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."
9. The consultation covers two broad areas:
- The right balance of risk and reward in the business rates retention system. Local authorities should continue to receive the benefit of growth they achieve in their local areas.
 - Summarises the work undertaken to develop options to mitigate volatility in income and address the impact of appeal losses and valuation change on local authorities.
10. The consultation is mainly technical in nature however one of the key issues is the split of Business Rates between tiers of local government, and views are sought as to whether local areas should be able to set a different split to the national one, and what the fall-back position should be if local agreement cannot be reached.

Local Authorities' Relative Needs and Resources

11. The consultation seeks views on the assessment of local authorities' relative needs, relative resources and transitional arrangements.

12. The summary presentation produced alongside the full consultation is attached as **Appendix B**.
13. The key areas where views are sought are on the proposals to:
- Replace the four block model referred to in the introduction with an allocation based on a per capita Foundation Formula, alongside seven service-specific funding formulas (Appendix B, page 4)
 - Continue with an Area Cost Adjustment to reflect differences in labour and business rates costs, and to allow for the impact of 'Accessibility' and 'Remoteness'. (Appendix B, page 5)
 - Adjust the relative needs share funding between Authorities by a 'relative resources adjustment' to take account of councils' ability to raise local resources (council tax, sales, fees and charges). (Appendix B, pages 6 – 8)
 - Transition, based on a 2019/20 baseline, to new target allocations in a manageable and sustainable way. The process should be clear and understandable and take place over a fixed period of time to enable new allocations to be reached as soon as practicable.

Statutory and Policy Implications

14. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

That Members

- 1) Provide comments for inclusion in the response from Nottinghamshire County Council to the consultations detailed in this report.
- 2) Authorise the S151 Officer, in consultation with the Chair of Finance & Major Contracts Management Committee, to send final responses to the consultations by the deadline of 21 February 2019.

NIGEL STEVENSON

SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE AND IMPROVEMENT

For any enquiries about this report please contact:

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Constitutional Comments (GR 01.02.2019)

Pursuant to Nottinghamshire County Councils constitution the Finance & Major Contracts Management Committee has the delegated authority to both receive this report and make the recommendations contained within it.

Financial Comments (KP 01.02.2019)

There are no direct financial implications arising from the contents of the report. The outcome of the consultations, and the final proposals, will be reported to a future meeting.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- MHCLG Consultation - Business Rates Retention Reform
- MHCLG Consultation - A review of local authorities' relative needs and resources

Electoral Division(s) and Member(s) Affected

All