

Manchester City Council Report for Information

Report to: Resources and Governance Scrutiny Committee - 7 March 2019

Subject: Responses to Government Consultations on Local Government Funding Reform

Report of: The City Treasurer

Summary

This report provides an overview of the proposed reforms to Local Government Financing and the Council's response to the two most recent government consultations which are:

- i. Business Rates Retention Reform: Sharing risk and reward, managing volatility and setting up the reformed system
- ii. A review of local authorities' relative needs and resources: Technical consultation on the assessment of local authorities' relative needs, relative resources and transitional arrangements

Recommendations

The Committee is requested to note the responses to the two most recent government consultations

Wards Affected:

All

Contact Officers:

Name: Carol Culley
Position: City Treasurer
Tel: 0161 234 3406
E-mail: c.culley@manchester.gov.uk

Background documents (available for public inspection):

Links to government consultation Papers:

Business Rates Retention Reform: Sharing risk and reward, managing volatility and setting up the reformed system

A review of local authorities' relative needs and resources: Technical consultation on the assessment of local authorities' relative needs, relative resources and transitional

arrangements

Appendices:

Appendix 1 - Manchester's response to 'Business Rates Retention Reform: Sharing risk and reward, managing volatility and setting up the reformed system'

Appendix 2 - Manchester's response to 'A review of local authorities' relative needs and resources: Technical consultation on the assessment of local authorities' relative needs, relative resources and transitional arrangements

1 Overview

- 1.1 Local authority funding in England has undergone considerable upheaval in the last nine years since 2020/11. Central government grant funding has been substantially reduced; after falling in real terms to 2015, council tax has begun to rise; as well as new grants being introduced in response to the well reported pressures in Social Care funding. Since 2013, business rate retention has also rewarded councils with a share of growth in business rate revenues.
- 1.2 In October 2015 the Government committed to further reforms to Business Rates retention followed by consultations in July 2016, February 2017 and December 2018. In February 2016, the Government announced there would be a review of relative needs and resources, followed by consultations in July 2016, December 2017 and December 2018.
- 1.3 The two recent consultation papers on relative needs and resources and Business Rates reform are the next steps in the Government's programme of reform to local finance which aims to provide a fairer and more transparent mechanism for allocating formula grant and to give councils greater control over the money they raise locally. The Government aims to implement both sets of reforms in the 2020/21 local government finance settlement, time-scales for the completion of this work are very tight.
- 1.4 From 2020/21, there will be significant changes to Local Government financing which includes:
 - New Spending Review period starts 2020/21, the outcomes should be published in Summer 2019.
 - Funding formula for distributing funding between local authorities is changing
 - Changes to how business rates are managed – currently the City Council retains 100% of growth generated during the valuation period, although this is then lost at reset of base. Currently Government is generally seeking a move to 75% retention.
 - Potential changes to funding for adult social care with the Green Paper now expected in Spring 2019.

2 Manchester City Council Involvement

- 2.1 The issues are technical and complex, and will have significant impact by the early 2020s. It was recognised early on that the council would need to input to the principles and design of the future funding systems to try and achieve the best outcomes for the city.
- 2.2 The Council is engaging with central government and other interested bodies through formal consultation responses and working groups to ensure the impact of the potential changes on local government, and particularly cities is recognised. This includes responding to the Local Government Association green paper for adult social care and wellbeing, technical provisional

settlement consultation response and numerous Fair Funding and Business Rates redesign workshops and consultations as well as contributing to papers considered by the Fair Funding Technical working group.

- 2.3 In relation to Business Rates Reform Manchester has been involved in a number of schemes to maximise the resource available in the region including the creation of a Business Rates Pool across Greater Manchester (GM) and Cheshire, the Business Rates Growth Retention Scheme 2015 and a three year 100% retention pilot from April 2017 to March 2020.
- 2.4 With regard to the review of relative need and resources the Council is working closely with the Ministry of Housing, Communities and Local Government (MHCLG), Local Government Association (LGA) and other Local Authorities (particularly Core Cities) to ensure the circumstances of metropolitan cities are represented in the review, specifically in relation to the impact of deprivation on the need to spend.

3 A review of local authorities' relative needs and resources

- 3.1 The current funding baselines for local Authorities in England are based on an assessment of their relative needs and resources which were last updated in the 2013/14 settlement. There are concerns that this formula is unfair, out of date and overly complex therefore the government is seeking to develop a more robust and up to date approach for distributing funding across councils. This is the third consultation paper on the approach and is split over three sections which are relative needs, relative resources and the principles of transition arrangements. There have also been regional consultation events involving MHCLG and the LGA which Manchester has attended and made representations.

Relative Needs

- 3.2 Having considered the trade-off between simplicity, transparency and precision the Government is minded to deploy a population based Foundation Formula for upper and lower tier authorities, alongside seven service-specific funding formulas. The table below summarises which of the proposed formulas apply to the different classes of authority.

RELATIVE NEED FORMULAS		SHIRE AREAS			METROPOLITAN AREAS	LONDON	OTHER
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	Fire authorities ⁴
Foundation Formula	Upper tier	●	●		●	●	
	Lower tier	●		●	●	●	
1) Adult Social Care		●	●		●	●	
2) Children and Young People's Services		●	●		●	●	
3) Public Health		●	●		●	●	
4) Highways Maintenance		●	●		●	●	
5) Fire & Rescue ⁵		●	●				●
6) Legacy Capital Finance		●	●	●	●	●	●
7) Flood Defence and Coastal Protection		●		●	●	●	

- 3.3 As a Metropolitan authority Manchester would receive funding through all of the formulas except Fire and Rescue.

The **Foundation Formula** would have only one cost driver which is per capita population, and would cover the following services:

- Upper tier services – waste disposal, public transport, libraries, leisure, planning and upper-tier central services
- Lower tier services – waste services, environment, homelessness, sports and recreation and lower-tier central services.

- 3.4 The biggest change to the proposals since the last consultation relate to the government's preference to exclude deprivation as a cost driver within Foundation Formula. The previous consultation in December 2017 proposed this should be included to reflect the fact that deprived individuals, and particularly income deprived individuals, are more likely to access certain services than more prosperous individuals, leading to higher costs. There was broad consensus among respondents of the need to take deprivation into account; 86% were in agreement, with only 9% against.

- 3.5 Manchester is against this proposal which would significantly impact on the resources available to support its residents, as set out in the response to Question 1 Appendix 2. Independent analysis by LG futures showed removing deprivation from the current formula in relation to these services would decrease unitaries' assessed needs by an average of 1.9%, all else being equal. However the position for Manchester is much worse with a negative impact on assessed needs of 7.4%. Alongside this they found removing additional population (visitor and commuter) from the current formula would increase unitaries' assessed needs by an average of 0.1% with the impact on Manchester more significant at 4.7%.

- 3.6 The consultation paper proposes to include funding for Homelessness, Unaccompanied Asylum Seekers and concessionary travel within the Foundation Formula, allocated on a population basis which would not reflect the significant variation in need for these services across the country.
- 3.7 Outside the foundation formula there will be specific formulae for the seven services listed in the table above with the **Childrens formula** not yet developed and further technical papers to be provided on **Adult Social Care and Public Health**.

Relative Resources

- 3.8 A key feature of the current funding mechanism is that it offsets the relative needs of each authority with a negative measure of relative resources. In other words, it tries to take account of both the needs of local authorities and their resources (i.e. their capacity to raise council taxes) in determining the funding they should receive.
- 3.9 This is known as 'equalisation' which is a key component of a fair funding system and should take into account the totality of Council Tax resources raised, with adjustments for the impact of high student numbers and the full costs of the Council Tax Support Scheme.
- 3.10 The consultation confirms the Government's intention to take account of local authorities' relative resources under the new system. There is some discussion on how income from council taxes should be assessed and views are sought on how discounts, council tax support and council tax collection rates should be taken into account. Manchester proposes the impact of deprivation on levels of council tax support and collection rates should be considered and that actual council tax rate rather than a notional rate should be used, otherwise the amount of council tax income assumed will be overestimated.

Transition

- 3.11 Transition has always been a feature of the system in recognition of the fact that there needs to be a mechanism to protect against significant losses which can destabilise an area. Manchester broadly agrees with the four principles set out in the paper (stability, transparency, time limited and flexibility) specifically it should take account of all changes to actual spending power including the business rates reset, loss of 100% pilot income and council tax raising ability.

4 Business Rates Retention Reform

- 4.1 The current system that allows councils in aggregate to retain 50% of business rates was introduced in 2013. It was designed to encourage councils to grow their local economies and benefit from the extra income generated, but has proved extremely complex to operate. The consultation is in three parts and seeks views on the balance of risk and reward, managing volatility,

and how best to set up the system for 2021/21. The consultation is both wide-ranging and, in parts, quite technically complex.

- 4.2 This new consultation states explicitly that the transfer of risk and reward – allowing growth or decline to be reflected in a council's income – will remain at the heart of the reformed system and confirms that the Government has two aims for business rates retention:
- to give local government greater control over the money it raises
 - to support local economic growth
- 4.3 The current system has been widely criticised for its complexity and also for its volatility which leaves councils vulnerable when large ratepayers close unexpectedly, and many councils having to make very high provisions to take account of the effect of rateable value appeals made by local ratepayers. The consultation looks at how some of these problems can be overcome including a new proposal to introduce variable business rates baselines and “floating” top-ups and tariffs which, it claims, would remove many of the uncertainties around how much business rates income is retained.
- 4.4 The three major advantages of the proposed change are said to be:
- It would remove the impact of appeals and valuation changes – top-ups and tariffs¹ would be adjusted every year to take account of councils' estimates of provisions and appeals losses so they would no longer have an impact upon usable income.
 - It would guarantee that local authorities growth or decline is not masked by the effect of appeals losses and provisions.
 - It would allow the use of Section 31 grants² to be reduced – in many cases any new policy initiatives could be financed through adjustments to top-ups and tariffs.

5 Conclusion

- 5.1 These consultations highlight the fact there remains a considerable amount of work to be done before the 2020/21 settlement is announced next Autumn. In relation to the review of needs and resources structures are proposed for many of the new formulae, but those for children's services and fire and rescue are still awaited. Weightings between service areas and between cost drivers are still to be determined as are the details of the area cost adjustments, the relative resources calculation and transitional arrangements.

¹ In the current system top-ups and tariffs have been fixed for seven years and represent the difference between the funding level for every local authority (calculated by government) and its expected business rates income (baseline).

² Business Rates Section 31 grants reimburse councils for the loss of income due to government policy changes.

The outcome of research on children's services is still awaited and further technical papers are promised for adult social care and public health.

- 5.2 On Business Rates reform the consultation does not consider how councils will transition to the reformed system or how the reforms will be put into operation. Those issues are to be addressed in a future consultation paper.
- 5.3 The Spending Review is also due to report in 2019/20 and will set out the quantum of funding that the above systems will operate within. Until this information is available there can be no reliable exemplification of the impact of the combined changes.
- 5.4 Inevitably questions have been raised regarding the tightness of the time available to develop, consult and exemplify any proposals. This makes budget planning for 2020/21 and beyond extremely challenging.