



The Chartered Institute of
Public Finance & Accountancy

Grant Funding, Revenue Modelling and F.M. Assessment

Thursday 29 November - York

Welcome, Introductions & Overview of the Day

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Local Government Finance

The case for Reform

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The state of public finances

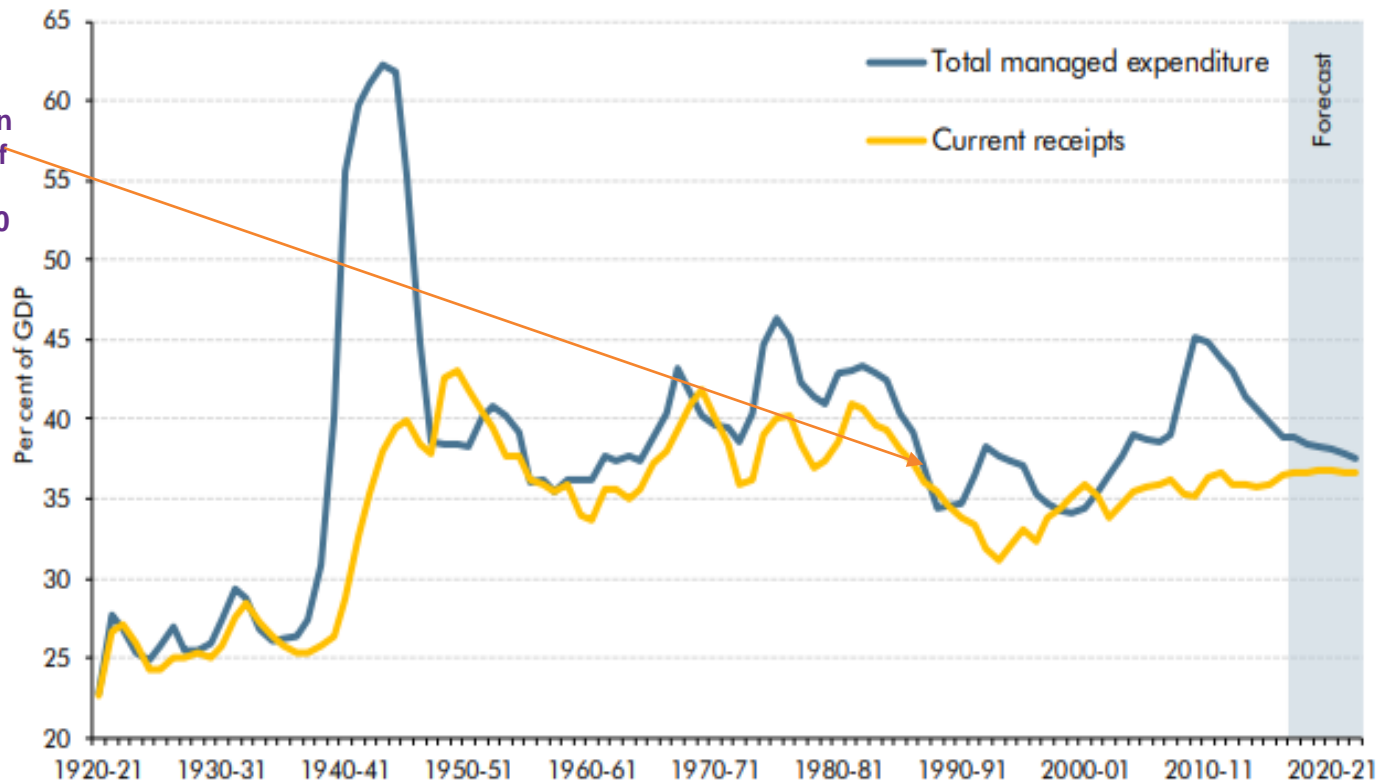
- Spending on public services and benefits payments which make up around 85% of government spending has fallen by about 1% since 2010.
- CIPFA and the Institute for Government's (IFG) Performance Tracker shows public services have become "more efficient" since the introduction of austerity measures
- Delivery of services at a lower cost than eight years ago.
- Local Authorities facing increasing demand and reduced funding.
- Uncertainty around Brexit and volatile political landscape.

Balancing a national budget

- No government can maintain public services of the current scope and nature without tax rises.
- Receipts have not been above 37% of GDP since 1989/90
- July 2018 OBR predications - the next 50 years tells a difficult story
- Tax receipts will equal health, long term care, pensions and pensioner benefits.
- Different perspectives in the Chancellors view that austerity is over.

Successive governments have not been able to raise the taxation necessary to balance the budget

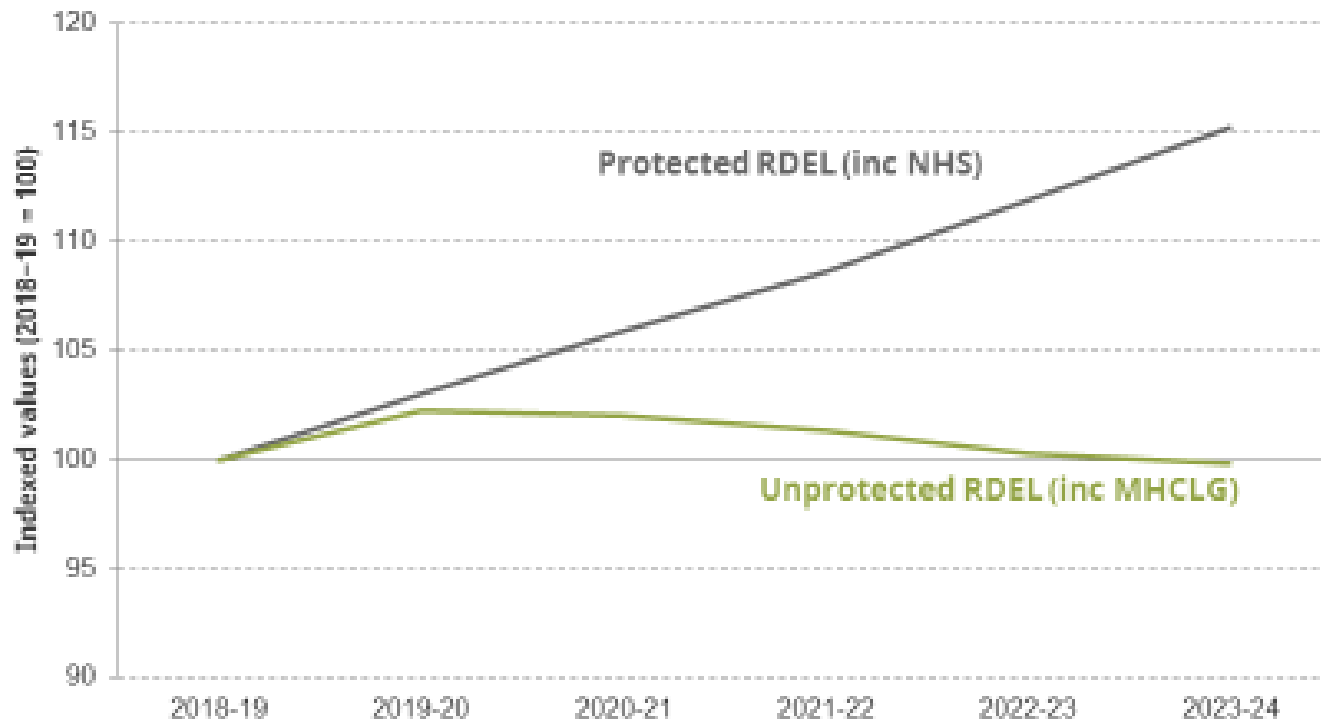
Chart 4.12: Total public sector spending and receipts



Current receipts have not been above 37% of GDP since 1989-90

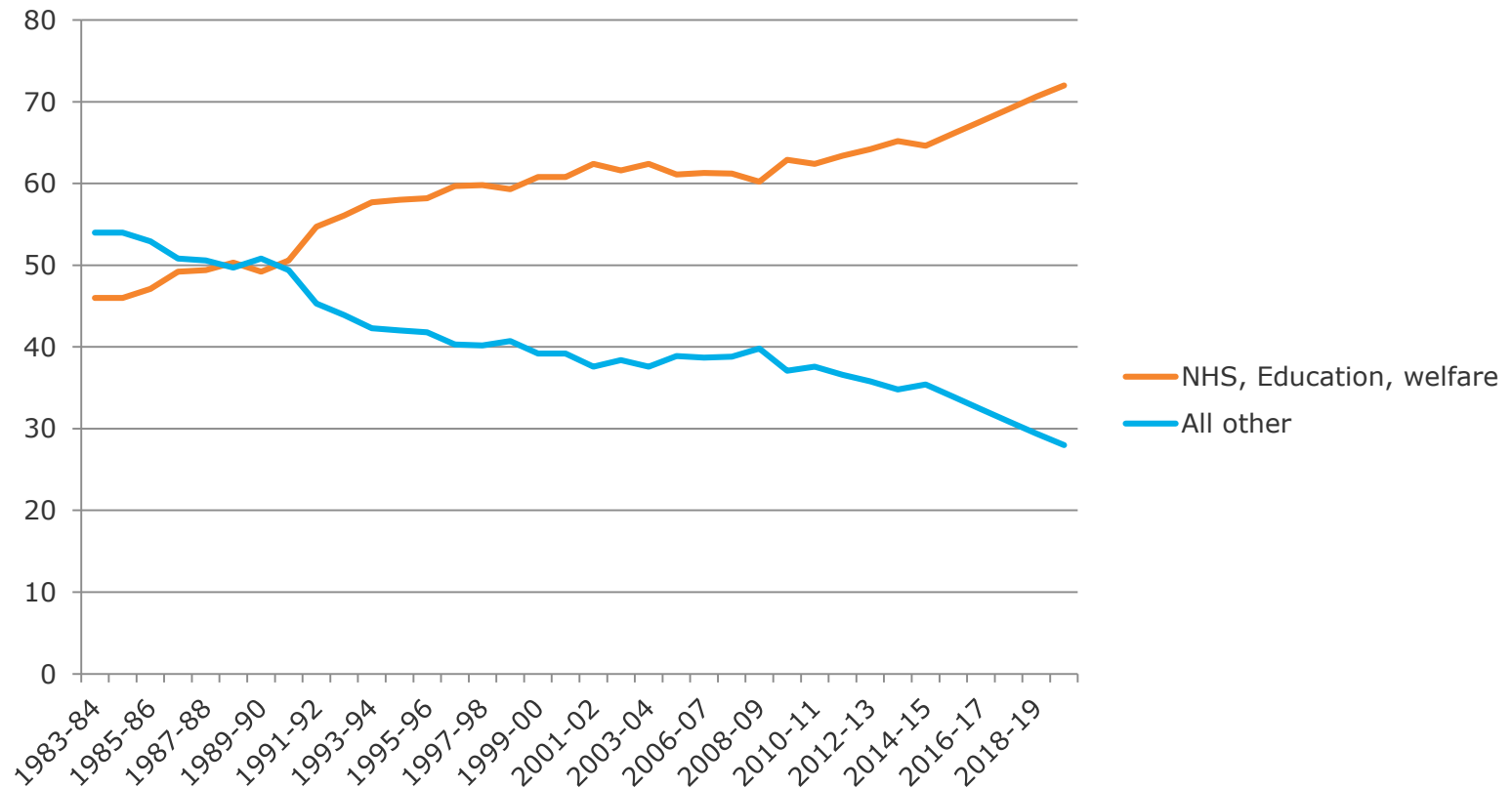
Public expenditure increased from the mid-1950s to the late 1970s from c36 per cent of GDP to 43-45 per cent

Still feeling like austerity for councils?



Note: RDEL refers to Public Sector Current Expenditure in Resource: Departmental Expenditure Limits (PSCE in RDEL).
Source: Author's calculations using OBR Economic and Fiscal Outlook, October 2018

A longer-term issue: 'social spending' spending vs the rest 1983-84 to 2018-19

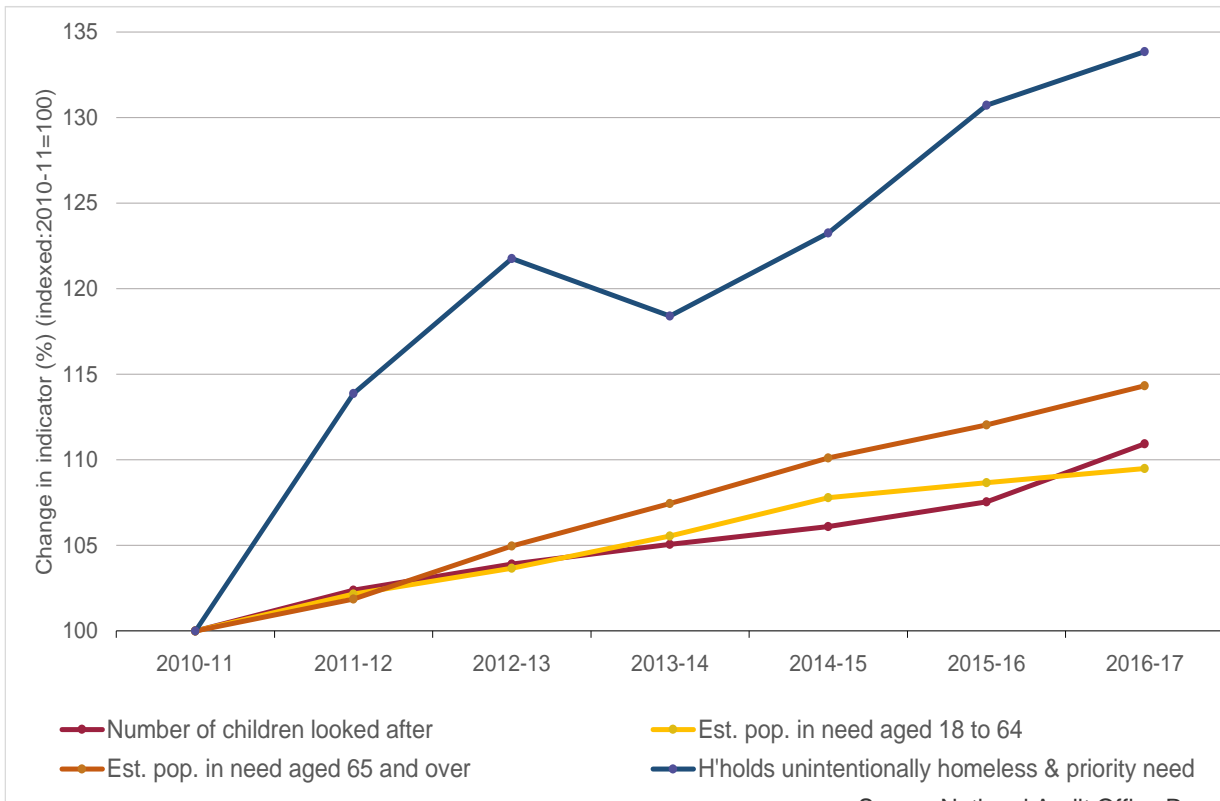


Derived from *Public Expenditure Statistical Analyses 2015*, H M Treasury, Table 4.2
Percentages derived from services' expenditure as proportion of all public expenditure

Local government funding squeeze

- Sustained real-term falls in government funding – 56.3% reduction by 2019/20.
- Spending on local services - waste collection, road maintenance, food safety, trading standards, libraries has fallen sharply in the last seven years.
- No debate about statutory service duties
- Performance tracker analysis identifies three stand out areas
 - Prisons
 - Adult Social Care
 - Neighbourhood Service

Local Government Growth in Demand



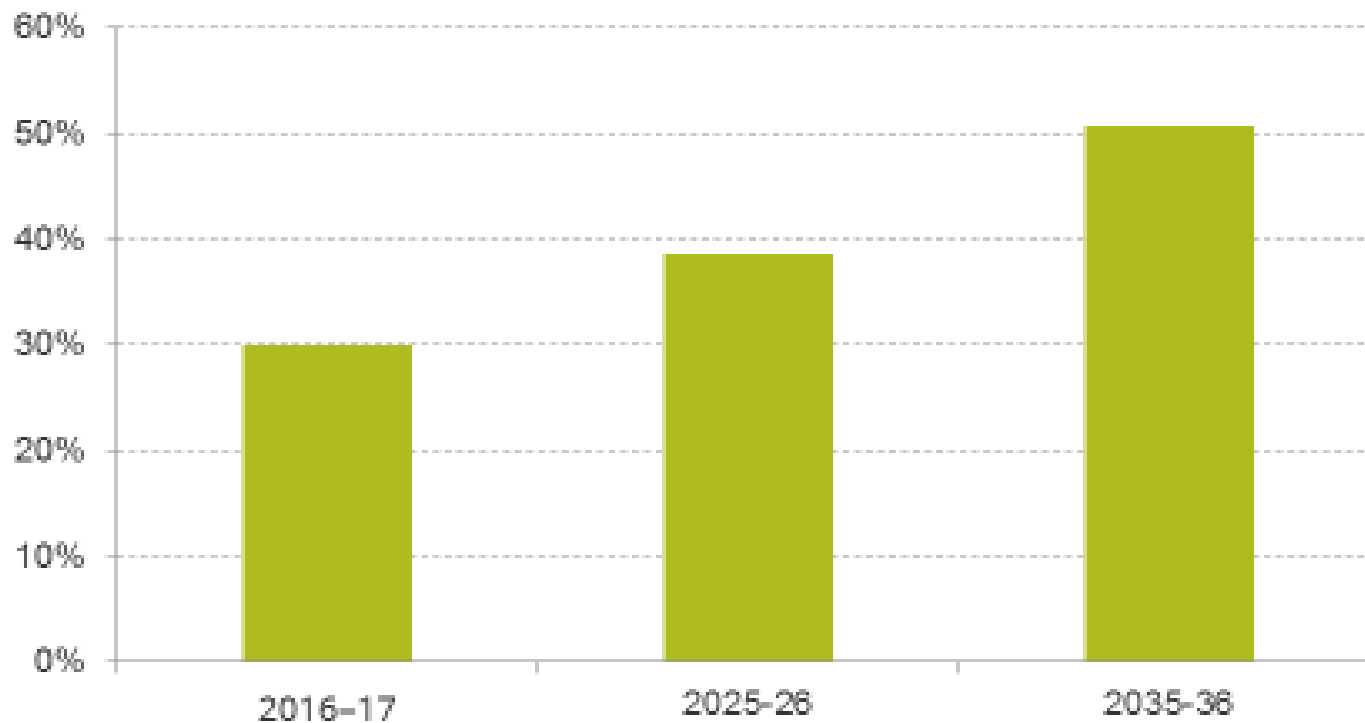
Source National Audit Office Report 2018

- **10.9%** increase in children looked after 2010-11 to 2016-17
- **9.5%** increase in the estimated population in need aged 18-64
- **14.3%** increase in the population in need aged 65 and over
- **33.9%** increase in households accepted as unintentionally homeless and in priority need

A growing revenue – cost mismatch?



Adult social care spend as a % of council tax & business rates revenues



Source: Authors' calculations: MHCLG revenue data and Wittenburg and Hu (2015) cost projections.

What does all of this mean for Local Authority finance

- Under enormous strain to balance the books – having to make difficult decisions.
- There is a growing tendency towards ‘optimism’ bias.
- Pressure to generate income via more commercial activities
- Use of reserves to balance budget
- Difficulties in balancing the budget



Point of Crisis



Future of Business Rate Retention

- Government still committed to increased rate retention and control over local tax receipts
- Not necessarily 100% retention – possibly via extension of pilots or transfer of funding
- Pilots to drive design of changes to future rate retention system
- 75% retention from 2020/21
- Growth not necessarily 80:20 to Districts
- Model is under review (simple v complicated etc...)

New IFS report due early 2019 - Over due or overrated

- What are the **pros and cons** of tax devolution?
- How do these play out for **different taxes**?
- How **unequal** are tax bases across the country, how **volatile** are they and what might this mean?

Focus on major taxes like property taxes, income taxes, sales taxes and corporation taxes rather than smaller ideas.

- Tax devolution – overdue or overrated?
 - From the IFS web site

Criteria for assessing devolution options IFS

Accountability: can taxpayers vote in local elections?

Distortions: how could differences in tax rates between councils affect taxpayer behaviour?

Incentives: how could devolution affect the actions of councils (in good and bad ways?)

Inequality and risk: how unequal are tax bases around the country and how volatile are they?

Administration: how much does devolution complicate admin and compliance?

- IFS very interested to hear your thoughts
-

Analysis led IFS to consider two taxes in more detail



**Stamp
duty land
tax**



**Income
tax**

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Sturgeon orders consultation on Scottish tourist tax

1 October 2018

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A consultation into allowing councils to set a local "tourist tax" has been ordered by First Minister Nicola Sturgeon.

Some Scottish councils, led by Edinburgh, have called for powers to set levies on tourist accommodation.

The Scottish government has opposed the policy, but hinted that it could be open to

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Features



What is it like to live without any friends?

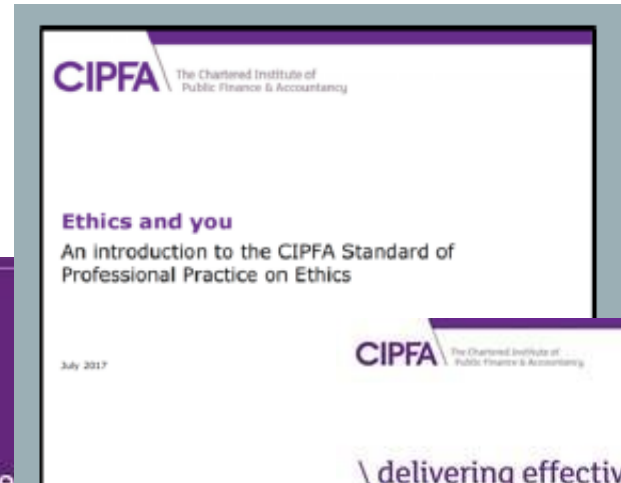


The image shows a screenshot of a web browser displaying a PDF document. The browser's address bar shows the URL: <https://gov.wales/docs/dsjlg/publications/localgov/181023-finance-update-2018-en.pdf>. The PDF viewer interface shows the document title '181023-finance-update-2018-en.pdf' and page number '1 / 23'. The document content features a dark red background with the Welsh Government logo (Llywodraeth Cymru / Welsh Government) in the top right corner. The main title is 'Reforming Local Government Finance in Wales: An Update' and the date 'October 2018' is displayed at the bottom. The browser's taskbar at the bottom shows various application icons and the system clock indicating 15:42 on 26/11/2018.

Next Steps

- Green paper in Social Care
 - Short term funding solutions
 - Implementation of short term change
 - Business Rates
 - Fair funding
 - Research for longer term views and policy
 - Scotland
 - Wales
 - England
 - Crisis to force Change
-

Supporting the sector



Fair Funding Review Needs and Distribution Technical Working Group

Update

29 November 2018

Stuart W Fair LLB, FCPFA, FCCA, CPA, FRSA, JP.

November 2018

the people
in public finance
the people
in public finance

Structure

- Fair Funding Review
- Technical Working Group – composition and objectives
- Current distribution model
- 2017/18 Consultation
- Formula Construction
- Issues covered
- The way forward

Fair Funding Review



Fair Funding - objective

- Construction of formulas for service specific cost drivers that would be included in the relative needs assessment,
- A revised assessment of the relative resources of local authorities, including how income from council tax will be taken into account
- Assuming the potential for significant shift in funding –how transitioning for the new funding distribution will work to protect continuity of services

Fair Funding Review - drivers

- Demographics shifting population
- Impact of new technology and transformational change
- Changing work patterns and travel requirements
- Need to better reflect 'need to spend' in context of capacity/capabilities of authorities to fund local services through local income
- Transparency/simplicity etc.

Technical Working Group



Needs and Distribution Working Group

- Fair funding review: a review of relative needs and resources
- Co-ordination – MHCLG –
- Co-chaired by MHCLG/LGA in rotation
- Broad membership includes representatives from LGA, London Council, Society of County Treasurers, Society of District Council Treasurers, Society of Unitary Treasurers, Society of London Treasurers, IRRV, SIGOMA, RSN, East Midlands, Fire & Rescue, SUT, NECA, Rural Councils, CIPFA
- Mix of Finance and technical specialists
- Initial Meeting – May 2016
- Main purpose – to advise Ministers

Needs and Distribution Working Group

“The purpose of the Technical Working Group on Needs and Redistribution is for local and central government representatives with the relevant technical expertise to work together to consider the technical issues related to creating a new needs assessment for councils under 100% business rates retention. It will also consider matters relating to how, and how often, this needs assessment should be revisited.”

Key tasks for Working Group

To critically and constructively consider options for:

- Measuring local authorities' relative need and resource
- Reviewing the indicators that have previously been used in the relative needs formulae
- Distributing funding to geographies other than at the local authority level
- The frequency of revisiting and approach to the needs assessment for authorities
- Whether, and if so how, to transition to a new distribution of funding
- How, and what, incentives should be built in to an assessment of councils' need

Current distribution model

Founded on the 4 block base:

- Relative needs amount – this allocated funding based on relative need using formulas similar to the previous FSSs
- Relative resource amount – this acted to adjust a council's funding to take into account its relative ability to raise income from council tax
- Central allocation – this allocated an amount of funding to each local authority based on its population
- Floor damping block – this ensured that all authorities received at least the floor percentage change year-on-year

Evolution from the 4 block base

The 4-block model introduced for the first time the redistribution of business rates between councils on the same basis as RSG - The 4-block model was maintained until 2013/14 and the introduction of the 50% business rates retention system. Authorities' initial funding under this scheme was calculated using the same 4-block model, with the allocation split between an amount funded from business rates and an amount from RSG:

- Since the 2013/14 local government finance settlement, councils' underlying levels of 'need' have not been updated. This has ensured that councils that have grown their business rates have benefited from the additional income that this has generated
- The current individual funding allocations for local authorities are based on relative need formulas that were last updated in 2013/14

Main services	Shire areas			Metropolitan areas	London	
	Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	GLA ¹
Education	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	
Environmental health	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Highways	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Housing	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Leisure	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Libraries	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	
Passenger transport	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>		<input type="checkbox"/>
Planning applications ²	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Revenue collection	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Social care	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	
Strategic planning	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transport planning	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Waste collection	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Waste disposal	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	

Formula structure

RELATIVE NEED FORMULAS		SHIRE AREAS			METROPOLITAN AREAS	LONDON
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs
Foundation Formula	Upper tier	£	£		£	£
	Lower tier	£		£	£	£
Adult Social Care		£	£		£	£
Children's Services		£	£		£	£
Highways Maintenance and public transport	Highways maintenance	£	£		£	£
	Concessionary Travel	£	£		£	£
	Local Bus Support	£	£		£	
Waste	Collection	£		£	£	£
	Disposal	£	£		£	£
Fire & Rescue ²		£	£			
Legacy Capital Finance		£	£	£	£	£

2017/18 Consultation

Out to consultation –December 2017 to March 2018

Main aim to seek views on the following:

- The structure of the needs assessment (the number and type of formulas needed)
- Key cost drivers that should be included in those formulas
- Basis for the determination of the relative importance (or weighting) of the cost drivers

Common drivers context

Review the cost effectiveness of the service provided

1. Population
2. Rurality
3. Deprivation

Formula construction



Formula construction - Services

Review the cost effectiveness of the service provided aiming to provide the basis of a formula construction approach based on

- Individual funding formulas for each service
- Grouping services into blocks
- A simple 'foundation' funding formula

6 key service areas - own funding formula

On the basis that they are driven by unique cost drivers:

- Adult Social Care
- Children's Services
- Highways Maintenance and public transport
- Waste Collection and Disposal services
- Fire & Rescue
- Legacy Finance

All other service areas will be included in the Foundation Formula in order to achieve an appropriate level of accuracy

Other areas identified for specific formula

- Non-HRA Housing and Homelessness - better reflected by a specific formula that reflects the demand for these services?
- Public Health - specific formula to allocate public health funding if agreement to devolve this is reached with the Department of Health and Social Care.
- Fixed costs: The current needs assessment includes a fixed cost formula as part of the EPCS service block, and some authorities identified the need to retain this in respect of corporate costs and democratic services

Issues highlighted

- Consultation responses
- LCTS
- Shifting funding sources
- Social Care- Adults
- Social Care – Children
- Area Cost adjustment
- Rurality
- Transitional arrangements

Working Group - wider issues highlighted

- Public Health Grant
- Concessionary Transport Cost and Funding
- Population projections
- Legacy Capital Finance

Local Council Tax Support (LCTS)

- A reduction in RSG (c£144m) for Local Council Tax Support (LCTS) is currently planned for 2019/20. This will bring the funding cut for LCTS to over £1.5billion, and significantly impact councils with above average numbers of pensioners or families on very low incomes
- It estimated a £1.5bn reduction in funding for councils from £3.3bn in 2013/14 to less than £1.8bn by 2019/20 - source Paul Woods CFO NECA

	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	1,978.68	1,587.84	1,108.83	801.92	427.45	397.15	253.20
Baseline Business Rates	1,316.36	1,342.00	1,367.65	1,379.04	1,588.48	1,413.14	1,504.13
TOTAL	3,295.04	2,929.84	2,476.48	2,180.96	2,015.93	1,810.29	1,757.33

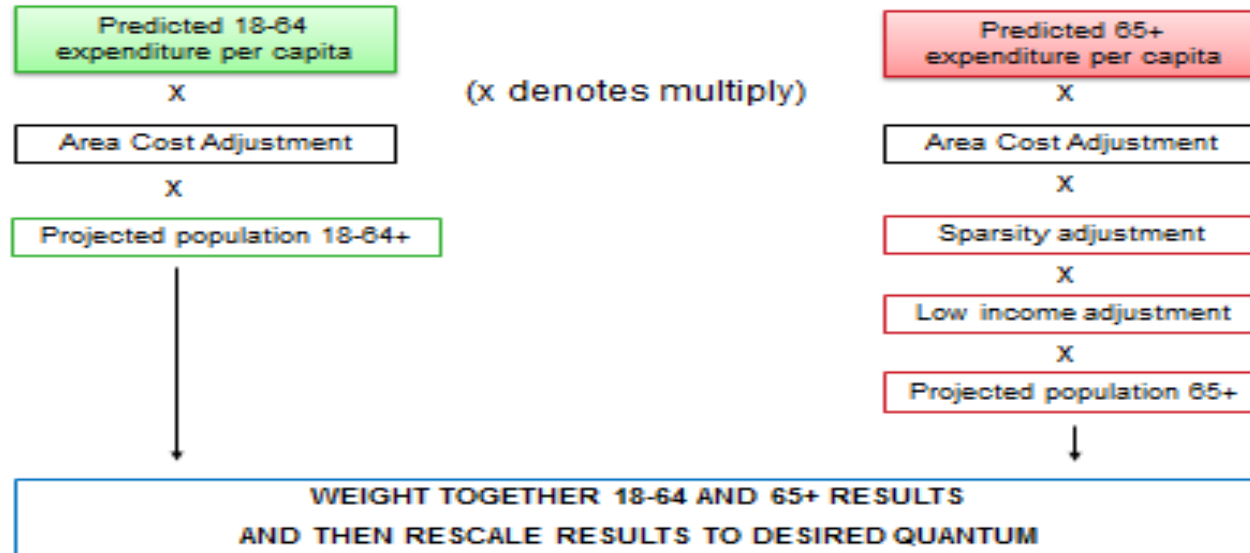
Figures for 2017/18 include the impact of 100% Business Rate Pilots, but this is not yet reflected in the figures for 2018/19 and 2019/20.

Shifting funding sources

- Over the life of this parliament there will be a significant shift in the balance of funding local government services from national to local taxpayers
- By 2019/20 it is estimated that council tax will make up 61% of spending power compared with 49% in 2015/16 source Paul Woods CFO NECA

	2015/16		2019/20		Change	
	£m	%	£m	%	£m	%
Council Tax	22,035.9	49%	28,047.4	61%	6,011.5	27%
Other Funding	22,630.6	51%	17,575.4	39%	-5,055.1	-22%
Spending Power	44,666.5	100%	45,622.8	100%	956.4	2%

Structure of current RNF



- The current Adult Social Care Relative Needs Formula (2005/06 RNF) 1 has been included in the Local Government Finance Settlement since 2006/07
- The current Adult Social Care precept varies widely around the country, driven by past decisions on council tax levels and the current council tax limits. While the Improved Better Care Fund (BCF) grant seeks to equalise the funding for councils to enable them to provide services in line with the current RNF, the cost to Council Tax payers is varies significantly between areas

Social Care -Children

- The cost of looked after children and safeguarding children has risen each year over the last three years by more than the average increase in costs. As the number of Looked after Children varies considerably around the country, so does the cost of children's social care and the annual change at a local authority level.
- The vast majority of this expenditure is funded as part of councils core funding, with an increasing amount being funded by council tax income as core government grant funding has been cut each year.

CHILDRENS SOCIAL CARE EXPENDITURE (RO3) NET CURRENT EXPENDITURE						
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£m	£m	£m	£m	£m	£m
Children Looked After	2,823.3	2,959.2	3,059.2	3,629.6	3,794.5	4,017.6
Service Strategy	1,289.9	397.6	306.8			
Safeguarding children and young people's services	371.2	1,475.0	1,715.5	1,760.3	1,922.6	1,999.5
Family Support Services	801.7	831.0	903.4	1,011.5	1,012.8	980.9
Sure start children's centres/flying start and early years				637.3	544.9	538.0
Other children's and families services	819.9	661.8	617.0	319.6	253.7	230.0
Youth Justice	217.1	199.6	219.2	215.5	212.8	192.8
Asylum Seekers	99.5	88.2	93.4	77.8	113.2	135.5
Total Childrens Social Care (to 2013/14)	6,422.7	6,612.3	6,914.6	7,651.6	7,854.5	8,094.3
Services for young people*				439.7	448.0	381.7
TOTAL CHILDREN SOCIAL CARE	6,422.7	6,612.3	6,914.6	8,091.3	8,302.5	8,476.0

Social Care - Children

CHILDREN'S SOCIAL CARE - NET CURRENT EXPENDITURE 2016/17 (£/Child)									
REGION	Sure Start Children's centres / flying start and early years	Children Looked After	Other Children's and families services	Family Support Services	Youth Justice	Safeguarding children and young people's services	Asylum Seekers	Services for Young people	Total Children's Social Care
	£/Child	£/Child	£/Child	£/Child	£/Child	£/Child	£/Child	£/Child	£/Child
London (Inner)	102.28	486.86	90.30	152.13	37.99	165.50	33.81	60.76	1,129.62
North East	48.71	425.01	9.68	97.42	22.73	199.66	1.34	29.51	834.07
Yorkshire & Humberside	58.85	361.21	10.82	92.24	14.07	193.09	1.83	39.99	772.11
North West	49.41	375.98	31.69	85.36	15.99	150.85	3.50	39.18	751.97
ENGLAND	45.65	340.90	19.51	83.23	16.36	169.66	11.50	32.39	719.21
West Midlands	24.38	381.82	4.21	74.34	16.12	187.05	8.06	17.28	713.25
South West	58.08	316.45	14.59	66.15	9.20	185.79	2.74	41.91	694.89
East Midlands	46.20	315.64	30.82	78.21	15.51	158.27	10.14	34.73	689.51
London (Outer)	39.51	290.43	21.11	64.70	20.84	184.51	33.99	22.09	677.17
South East	33.30	297.03	4.38	78.88	10.33	160.90	11.45	29.60	625.86
East	34.43	291.39	12.83	84.36	16.67	137.12	11.13	24.07	611.99

Social Care - Children

	CHILDREN'S SOCIAL CARE - NET CURRENT EXPENDITURE 2016/17 (£/Child)								
	Sure Start Children's centres / flying start and early years	Children Looked After	Other Children's and families services	Family Support Services	Youth Justice	Safeguarding children and young people's services	Asylum Seekers	Services for Young people	Total Children's Social Care
	£/Child	£/Child	£/Child	£/Child	£/Child	£/Child	£/Child	£/Child	£/Child
City of London	-	133.79	-	73.76	-	319.90	628.64	1,174.96	2,331.05
Islington	226.73	599.08	-	121.56	36.87	556.51	62.47	92.95	1,696.17
Lambeth	389.54	743.41	158.43	14.54	64.12	234.05	29.88	-	1,633.97
Kensington & Chelsea	213.26	513.59	202.96	225.62	34.71	90.61	55.62	136.70	1,473.07
Southwark	77.33	678.96	147.03	157.91	59.15	173.61	103.35	41.21	1,438.55
Rotherham	46.98	622.14	12.09	98.39	16.22	428.23	-	98.51	1,322.57
Blackpool UA	4.47	721.90	4.68	182.91	32.93	336.48	-	23.95	1,307.32
Torbay UA	30.82	608.36	13.48	121.98	11.19	468.17	4.10	34.33	1,292.44
Hammersmith & Fulham	69.21	480.37	266.48	277.08	63.56	49.09	28.49	27.86	1,262.15
Reading UA	42.68	532.08	13.29	115.80	15.50	387.43	10.21	40.83	1,157.83
Middlesbrough UA	0.84	669.55	0.16	77.94	15.66	264.70	2.33	92.39	1,123.56
Kingston upon Thames	22.22	226.07	-	82.70	2.86	133.52	31.50	29.42	528.29
Hampshire	22.45	291.83	7.22	67.29	9.37	111.57	-	9.13	518.86
Redbridge	20.14	206.14	-	5.56	12.77	252.87	5.67	11.66	514.81
Windsor & Maidenhead UA	19.78	178.14	43.69	37.89	11.21	191.39	-	27.18	509.28
Shropshire UA	27.38	281.72	0.42	28.64	2.51	144.71	3.13	7.44	495.96
North Yorkshire	8.20	183.79	-	106.32	8.03	99.13	3.05	44.40	452.92
South Gloucestershire UA	23.46	207.43	-	74.61	3.74	107.78	3.83	31.62	452.47
Wokingham UA	17.73	169.65	2.31	48.84	4.23	203.58	-	4.97	451.33
Leicestershire	25.79	176.30	90.77	89.89	11.26	31.67	9.92	7.65	443.24
Essex	-	199.75	16.35	73.91	12.33	120.98	8.37	-	431.70

Areas of interest – Area Cost Adjustment

- Area Cost Adjustment (ACA) - MHCLG suggest that the ACA continues to adjust for the LCA (including treatment of national pay awards) and RCA (including a measure of the differences in building costs), with additional adjustments to account for accessibility - the impact of sparsity and density on journey times - and remoteness
- Outsourcing - services outsourced to external providers may not be included in the measurement of the RCA, thus causing a difference in valuation of the RCA for individual LAs where this forms a significant proportion of their service provision.
- Assets - may also be a smaller proportion of spend where LAs had sold these, hence they may receive a lower RCA. MHCLG replied that the LCA and RCA aspects of the adjustment would reflect the cost of outsourced services, and that the LCA would include a measure of all employees in the local labour market to reflect the general labour market approach

Rurality

Original consultation on Fair Funding proposed in the Foundation Formula a basic amount as well as top-ups for sparsity and deprivation (and omitted mention of density)

Since the consultation, density has re-emerged as a consideration with MHCLG identifying Journey Time Statistics (DfT) as favoured approach for capturing both sparsity and density

- Dispersal
- Traversal
- Remoteness

Rurality

A commonly held view is that ‘unmet need’ exists more in rural areas:

- ‘Unmet need’ are needs that have never been fulfilled due to little or no funding
- Related to service hubs argument – rural authorities have to provide more local hubs in order to meet need (and therefore avoid unmet need)
- Public transport is the area where unmet need is most clearly demonstrated – very low expenditure on bus travel and concessionary travel due to low funding but clearly there is a need.

Transitional arrangements

MHCLG have proposed a set of principles to support the design of transition arrangements, and sought views on how the baseline for the purposes of transition

The Working Group recommended that transition to be framed in a neutral way for both winner and losers

No real consensus on a timeframe for any transitional period - some members felt that the priority was to move 'underfunded' authorities to their new target allocations as quickly as possible - others thought a longer timeframe may be more appropriate, and that moving too fast could impact the financial stability of relative 'losers.'

Impact from wider local government finance policy should also be a factor - treatment of business rates growth, one-off BRR pilot benefits and council tax referendum principles.

Foundation Formula structure

Conflicting views on usefulness of using sparsity /density within the foundation formula

Challenge as to why sparsity or a new suggested proxy of remoteness would be used in the foundation formula:

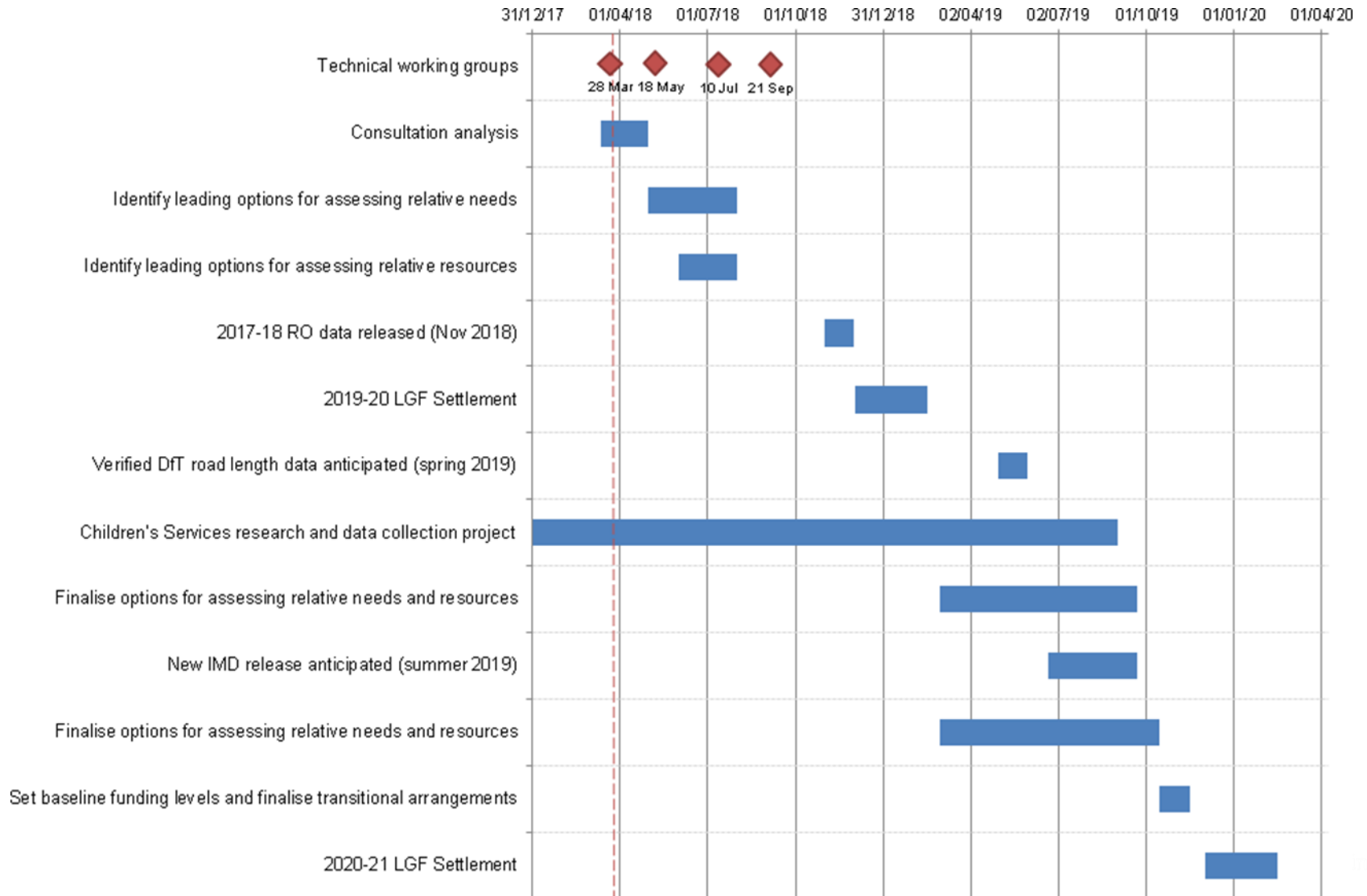
“Analysis of a Foundation Formula Equivalent based on an analysis of RO and RA DATA and comparison to population statistics provides no supporting evidence of a consistent positive correlation to sparsity across foundation formulae”

“Comparing population density with spend per head provides little conclusive evidence of a positive variation to density/sparsity”

Working Group - Timeline

Summer 2018:	Finalise overall structure and leading options for needs assessment and resources adjustment
Autumn 2018:	Planned consultation on relative needs, resources and principal transitional arrangements
Winter 2018:	2019-20 Local Government Finance Settlement
Spring 2019:	Finalise options for needs and resources
Summer 2019:	Children's Services research concludes
Summer 2019:	New Index of Multiple Deprivation released
Autumn 2019:	Set baseline funding levels and finalise transitional arrangements

Working Group - Timeline



Next steps

- Formula Structure – still work to be done
- MHCLG –further consultation on approach to assessing relative needs (e.g. structure of needs assessment, number of cost drivers etc.) and potential approaches to factoring in relative resources (e.g. council tax / sales fees and charges, impacts of Business Rates etc.) – also potential principles for transitional arrangements
- Options finalised Spring 2019 – optimal approach identified
- October 2019 – funding model



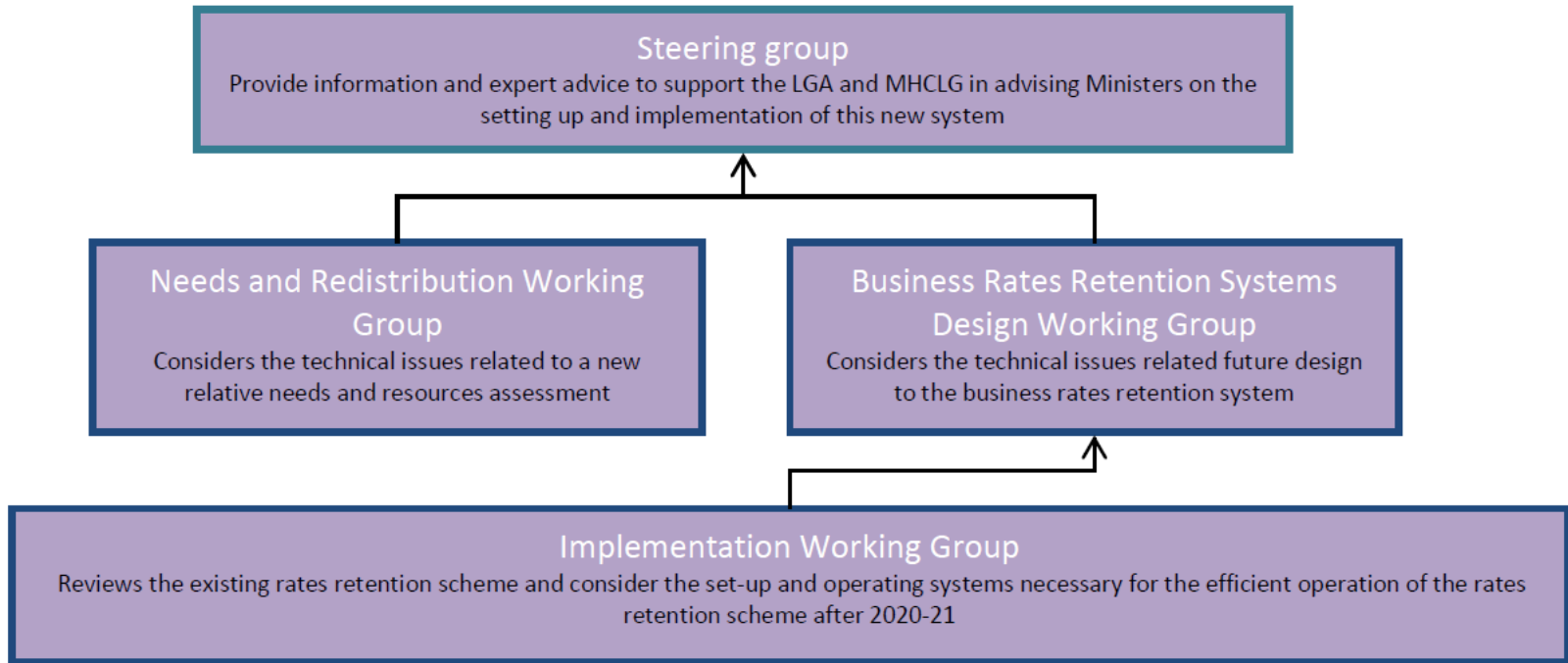
Refreshments

11.20am – 11.40am

Update on
Business Rates Retention
Systems Design Working Group

Caroline White November 2018
Caroline.white@cipfa.org

Joint LGA and MHCLG Governance Structures



Local Government Finance: Review of Governance and Processes, October 2018

Local Government Finance Reform

- Election 2017
- Manifesto commitment to continue to allow local government greater control over the money it raises
- Reforms to the design of the system will seek to make improvements to the functionality and stability of local government finance
- System reset 2020/21
- Secondary legislation changes short term, primary legislation long term

Rates Retention

- 8 papers to be presented to the steering group by the system design working group

- Reliefs
- Central and local lists
- Safety net, levy and tier splits
- Loss on appeals
- Resets, measuring growth and revaluation
- Transitional arrangements
- Pooling
- *Proposed short term and future reform using primary legislation*

<https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention>

❑ *Questions asked*

❖ *Feedback provided by SDWG*

Reliefs

- ❑ How should the costs of funding mandatory reliefs be met in general?
 - ❖ Should local government bear the burden of mandatory reliefs?

- ❑ How should the costs of specific Government policy be met? E.g. academies
 - ❖ Who should fund the shortfall of new government policy e.g. academies?

- ❑ What should happen when a relief is granted that transfers funding from one public sector body to another? E.g. NHS trusts
 - ❖ Feasible to review charitable and empty property relief?

 - ❖ Should public sector bodies be excluded from business rate reliefs?

- ❑ Should there be a net cost to the public sector of rating agents?

Central & Local Lists (1)

- Central list properties e.g. Railway infrastructure, Communications, National grid, Water supply
- Size, geographical spread, concentrated in one local authority area
- ❑ Is this the right basis to develop criteria under?
 - ❖ Need consistency
 - ❖ Clear and transparent criteria be developed on basis of current regulations
 - ❖ Issue lies in implementation rather than legislation
 - ❖ Definition to take account of cost and influence of the local authority

Central & Local Lists (2)

- ❑ MHGLC to identify list anomalies in conjunction with VOA and local government?
 - ❖ Supported but return to working group

- ❑ How should movement between lists be accounted for in LA baselines?
 - ❖ Consensus – no authority should suffer reduced funding as a result

- ❑ View on area lists to share risk/reward?
 - ❖ Working group not in favour

- ❑ Views on allowing LA's to nominate properties to be moved to central form local lists?
 - ❖ Not necessary if definition is right?
 - ❖ Group overall not in favour

Central & Local Lists (3)

- ❑ draft criteria proposed:
 - ❑ nature and use of the property
 - ❑ size and geographical spread of the property
 - ❑ suitability or otherwise for assessment of the property on local non-domestic rating lists; and
 - ❑ The likelihood that a hereditament's presence on a local list will cause significant short term disruption

- ❖ Engagement with authorities before moving things between lists

Central & Local Lists (4)

- Views on proposals for post 20/21 reform?
 - Give the “power of direction” to the secretary of state to designate properties
 - ❖ Right mechanism but might not give right outcome
 - ❖ Correct definition should avoid need for designation
 - Extend charitable and unoccupied relief to central list
 - ❖ Unfair for properties to be moved between lists and lose relief
 - ❖ Keeps local and central list consistent
 - Consider pooling across economic areas
 - ❖ No appetite

Central & Local Lists (5)

- Next steps

What	When
Develop criteria for allocation to central list	Spring 2018
Share criteria with Working and Steering Groups	Summer 2018
Develop methodology for mechanically taking the RV of hereditaments moved between lists out of baselines	Spring 2018
Share methodology with Working and Steering Groups	Summer 2018
Use criteria to identify hereditaments to be moved between lists in conversation with the VOA and LA's	Autumn 2018
Publish a consultation/evidence check on properties	Spring 2019
Notify authorities and ratepayers of anomalously placed hereditaments confirmed for re-designation	Autumn 2019
Re-designate properties to their appropriate list	April 2020

Safety Net, Levy & Tier Splits (1)

Options for reform:

- ❑ Revised tier splits to balance risk & reward more evenly?
 - ❖ Striking right balance of risk and reward to remain core objective + fairness and consistency

- ❑ LA's to have the option to set their own tier splits locally?
 - ❖ No objection for two tier areas – explore further and link with pooling and geographies

- ❑ At what level safety net should trigger?
 - ❖ Will depend on reforms to other system elements, but proposed to continue to operate as currently

- ❑ How the safety net is funded?
 - ❖ Explore use of central list
 - ❖ Or levy (if it continues) or top-slice of business rates income

Safety Net, Levy & Tier Splits (2)

- ❑ Should levy be abolished?
 - ❖ Need some kind of levy
 - ❖ Progressive?
 - ❖ Can 'excessive growth' be targeted?

- Follow up paper - Reform of the levy
 - Levy threshold
 - Levy rate

- ❖ No consensus
 - ❖ Consultation
 - ❖ Dependent on simplified proposal

Centralised Appeal Risk

Options for reform

- Possible to compensate LA's for appeal losses via S31
 - Only for compiled list errors
 - Proxy – RV change back to start of list
 - How to fund the S31 grant?

- MHCLG/CIPFA (FAN) looked at accounting requirements
 - Still need to make provision
 - Statutory override?
 - changes to NNDR3

- Sync with next revaluation?
- Any balance cannot be reconciled until all appeals for that list settled
 - could be waiting a while!

Resets

- Modelled reset options
 - no reset, full reset every 5 years, partial reset every 5 years, phased resets (retain any year's growth for 5 years) and rolling resets
- Proposed criteria for reset policy
 - conceptually simple, operationally simple, reward growth, provide stability/certainty, minimise gaming, and be sensitive to resources available for need and the impact of receipts growth
- Are these the right criteria? Which most important?
 - ❖ Also suggest predictability and sensitivity to gearing
- which reset option best meets the criteria?
 - ❖ Need v growth distribution
 - ❖ How will it work and how often? How growth measured at reset? How to take account of changing relative need?

Future of Pooling Arrangements

- Support sustainability, growth, risk management and strategic thinking across a functional economic area
- Alternative financial incentives?
 - ❖ Devolution
 - Local growth zones
 - ❖ Who would want to share?
 - Virtual area lists
 - ❖ Not supported previously or now
 - Linked to growth
 - ❖ Gearing dependent
 - Higher safety net
 - ❖ Is this right?
 - Impose strategic and governance arrangements?
 - ❖ Provision in the Bill to force pooling was not well received

Transition to Fair Funding

- Fiscally neutral creates 'winners and losers'

- ❑ What factors should be taken into account?
 - ❑ Stability (v efficiency)
 - ❑ Transparency
 - ❑ Time-limited
 - ❖ Shorter period less manageable but need to get there asap
 - ❑ Flexibility
 - ❖ Shouldn't penalise for raising more local income or NDR growth or rewarded for not putting up council tax previously

- ❑ How should the baseline be established?
 - ❖ Simple and transparent – multi year or recalculate each year?

- ❖ Need assurance asap – asked to feature in consultation

Simplification proposal

- Maintain existing objectives
- Separate growth reward from mainstream rates retention
- Baseline funding level (Fair Funding Formula) – Business Rates Baseline (NNDR 1) – top-up/tariff
- Resolves appeals issue
- Establish reward mechanism
 - Against a further 'baseline' – strip out appeals?
 - ❖ Provide data to allow further investigation

Simplification proposal – further scoping required

- ❖ Implications of bringing forward NNDR 1?
- ❖ Implications for cash flows?
- ❖ Interaction with central list?
- ❖ Interactions with other system elements?
- ❖ Any inadvertent consequences?
- ❖ Does it have to happen in 2020/21?
- ❖ Sought views

What happens next?

- December –consulted on Sharing risk and reward, managing volatility and setting up the reformed system
- Spring/Summer 2019 – Indicative numbers published
- Autumn/Winter 2019 – budget process starts
- Spring 2020 – system takes effect
- Realistic?

www.cipfa.org/services/networks/funding-advisory-service/briefings/system-design-technical-working-group

Lunch

13.00pm – 14.00pm



The Chartered Institute of
Public Finance & Accountancy

CIPFA's Financial Management Code

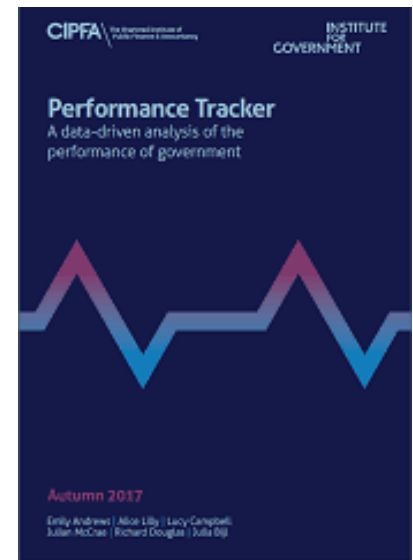
Funding Advisory Service – November 2018

Joanne Pitt

CIPFA Local Government Policy Manager

CIPFA's response to funding crisis

- Financial Management Code
- A resilience indices
- Code of Ethics
- Capital Strategy
- Funding Advisory Service (FAS).
- Resilience reviews
- Insights and thought leadership :
 - Performance Tracker
 - Building Financial Resilience



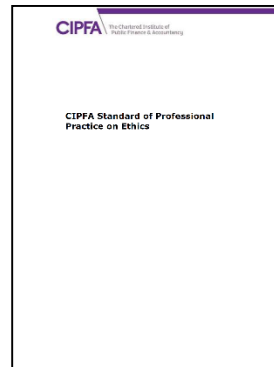
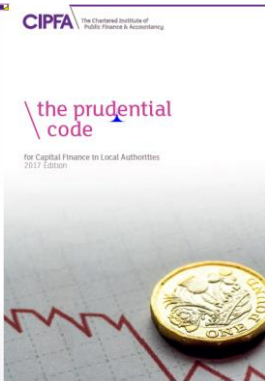
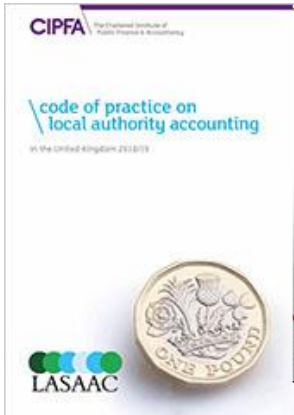
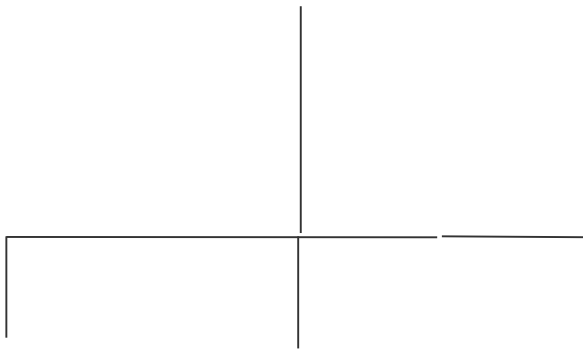
CIPFA's Professional Code Hierarchy & Index

Professional Proper Practice



Primary/Secondary Legislation

Good Practice



The Code Hierarchy



Principles

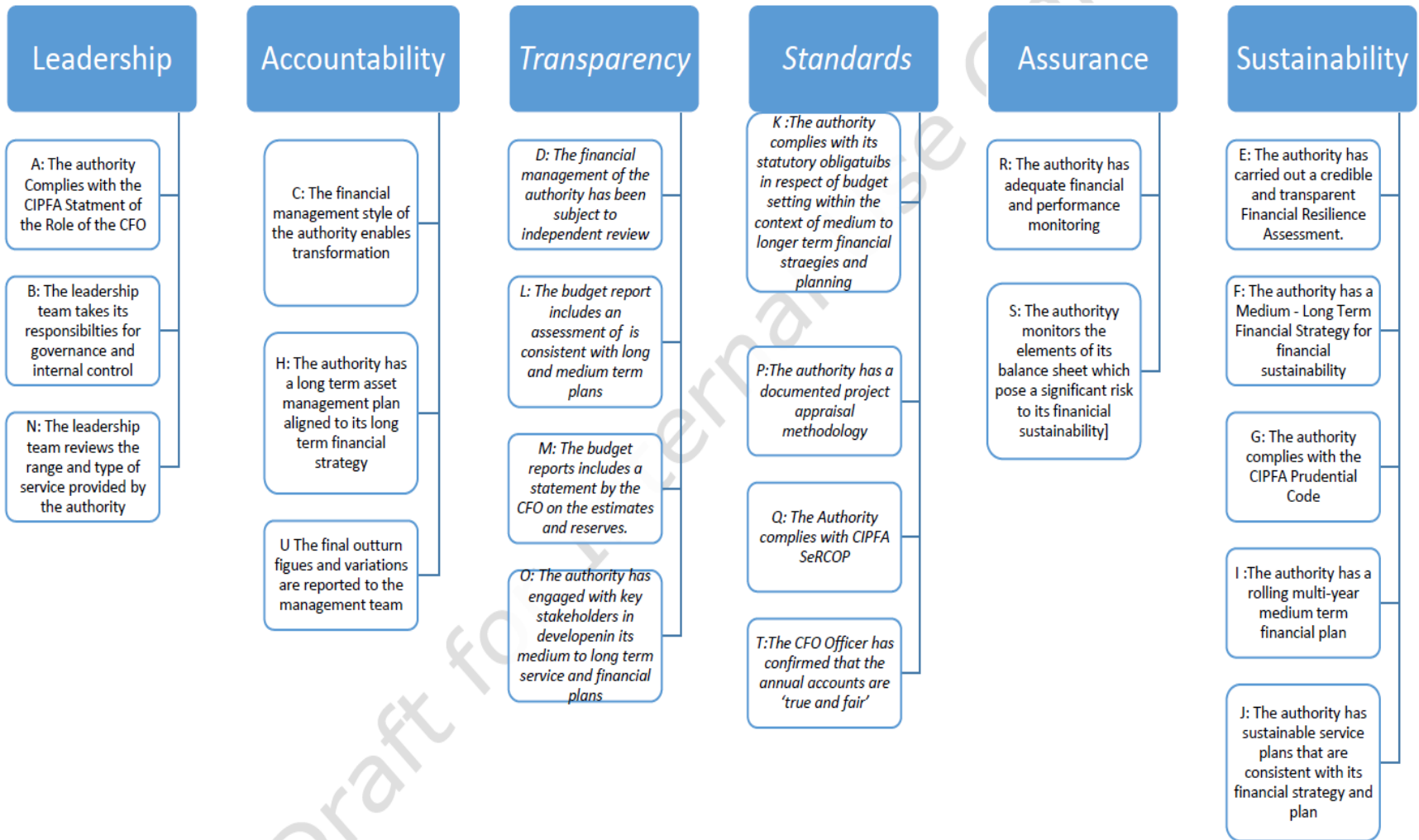
**Financial
Management
Standards**

Statements of Standard Practice

The CIPFA Principles of Good Financial Management - Expanded

- **Organisational leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- **Accountability** - based on medium term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
- Adherence to professional **Standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.
- The long term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.

[Provisional] Mapping of CIPFA Financial Management Standards onto CIPFA Principles of Good Financial Management



A closer look at the structure

Sitting under the principle of **Leadership** is the Financial Management Standard

The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (A)

Sitting under the standard is the statement of standard practice

The CFO in a public service organisation is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest

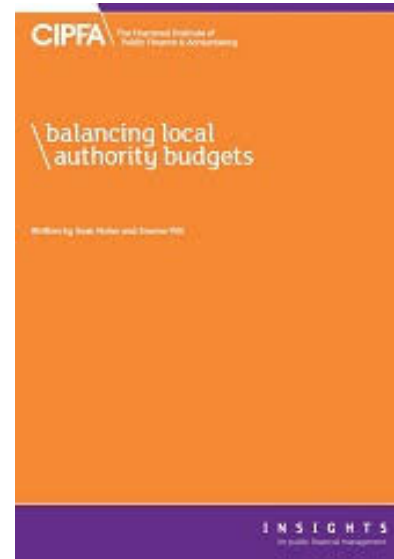
An authority would need to demonstrate compliance

The Code: An Outline Timeline

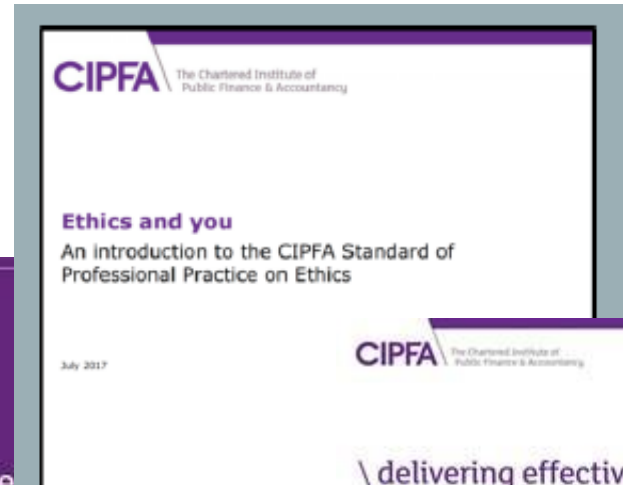
Stake holder group to agree content and terms of reference	July 2018
Research, recommendations on chapters content initial draft	October 2018
Stake holder 'road' test	December 2018
Consultation on Draft Code	Spring 2019
Code 'Franked' by CIPFA	July 2019
Code Release	September 2019

Work shop session

- Compliance with the Code
- The role of audit
- Evidence
- Time frame
- Outcome



Supporting the sector



Summery and Close

15.30pm