



DISTRICT COUNCILS' NETWORK

Innovative and collaborative  
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## **Business Rates Reform**

### **Fair Funding Review: Call for evidence on Needs and Redistribution**

The District Councils' Network (DCN) is a cross-party member led network of all 201 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the LGA.

The District Councils' Network welcomes the opportunity to comment on the consultation document 'Fair Funding Review: Call for evidence on Needs and Redistribution'.

We commend the manner in which the Department for Communities and Local Government (DCLG) and the Local Government Association are working together (and with the wider local government sector) through the working groups that have been established to discuss the salient issues.

The DCN has established a joint working group with the County Councils Network, Rural Services Network and Chartered Institute of Public Finance and Accountancy (CIPFA) in order to support the development of a sector-led solution to 100% business rates retention and the fair funding review on needs and redistribution in district and county areas.

Wherever possible, the DCN has sought to provide an answer to the specific questions, however there are some questions where a response is more appropriate directly from local authorities rather than through the DCN response.

The DCN is clear that identifying an appropriate and sufficiently robust measure of 'needs' will be one of the critical success factors of any new system. DCLG has clearly articulated that the new system must have a 'powerful incentive' for growth and the DCN concurs with this view. Nonetheless, the DCN is keen to emphasise that the allocation of growth monies must not be confused with the discussion about needs funding. If through the consideration of 'needs' it is decided that a new approach reflecting where the needs of local people are today (and in the future), then that is a different issue compared to how we should incentivise and reward for business rate growth. The balance between

incentivising growth and needs must be determined properly and with engagement and agreement from the local government sector.

The DCN has responded separately to DCLG's consultation on 100% business rates retention.

## **1. What is your view on the balance between simple and complex funding formulae?**

The system for allocating shares of funding has become increasingly complex over the years. This has meant that many local authorities are often unclear exactly how their funding levels are calculated and determined. The four-block model is particularly complex and has led to authorities losing funding through changes that should not affect them.

The DCN would call for a more simple and transparent system which ensures that determinations on funding are fair and have an evidence base at their core, reflecting future population and demographic projections.

The DCN would therefore propose that the new funding formula should meet the following criteria and:

- Be transparent, simple and fair,
- Be evidence based- and be based on up to date data and future demographic projections
- Be based on population as this is a good proxy for need (as adjusted for deprivation, rurality etc).
- Address issues of inequality but at the same time ensure incentives for growth remain
- Be responsive to local priorities, flexible and sustainable
- Ensure stability for local authorities for the long-term i.e. ensuring fiscal neutrality for local authorities or manageable risk over the medium and long term, not just on day one
- Account for the additional costs of sparsity and rurality and ensure a fair share of resources across the country
- Ensure that a meaningful proportion of available funding is directed towards growth and associated incentives for the long-term.
- Acknowledge the challenge posed by the growing gap in adult social care funding but recognise that the local retention of business rates should not be used simply as a short-term measure. Instead a focus on prevention is also needed, to ensure that interventions can be made earlier both to improve outcomes, reduce demand and make savings for upstream services. As such, funding for prevention services and demand reduction must be considered as part of the needs assessment. A [2015 King's Fund report](#) outlined the key role that district councils play in the delivery of prevention services.
- Provide freedoms and flexibilities for local/regional pooling arrangements

The DCN would ask DCLG and LGA to continue to work with and support districts and county areas through the representative bodies of the District Council's Network, County Councils Network and Rural Services Network to agree a fair and evidence based business rates funding arrangement in district/county areas.

**2. Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?**

There are mixed views across the sector as to the benefits of service-specific formulae. DCN would therefore advocate that the benefits and risks of developing more detailed formula approaches for the following services be evaluated and considered, namely:

- Education
- Adult Social Care
- Children's Services
- Services in rural areas which lead to higher costs
- Transport services
- Highways/roads maintenance

**3. Should expenditure based regression continue to be used to assess councils' funding needs?**

From the work that the LGA and DCLG needs working group are undertaking, it is clear that a new needs formula is required which properly identifies the current elements of major need, based upon the 'now' rather than the 'past'. Although historic spending information can be a useful reference point, it should not be taken as a reliable measure of current need – many local authority budgets have changed significantly in recent years as they match revised priorities to changing and reduced resource levels.

Whilst we recognise during a transitional period and moving forward there will need to be some weight given to historical grants the DCN would therefore propose that there should be a greater focus on an evidence-based approach to assessing need, based on up-to-date data and future projections. The DCN would suggest that population, demography deprivation, migration, rural sparsity, households, among others, be considered as suitable measures to agree a baseline for need.

**4. What other measures besides councils' spending on services should we consider as a measure of their need to spend?**

As outlined above, the DCN would advocate the following measures be considered as a measure of their need to spend:

- Rurality and Sparsity - any future system must have a solid basis for dealing with sparsity and rural related issues which often lead to increased delivery costs. Rural authorities were allocated additional funding in 2013-14, most of which was damped away. There is a strong case for rural authorities to receive funding for the additional need that has been assessed. We would ask that government continue to fund a share of any growth in reliefs in rural areas.
- Demographic/Population - the needs assessment must give due regard to current and future population numbers and associated issues which the current formula has moved away from. Population has always been taken as a good proxy for need (as adjusted for deprivation, rurality etc), using census and migration data.
- Deprivation - there needs to be some rebalancing in the system to ensure that those areas with the highest deprivation and least opportunity to grow are not adversely affected.
- Growth - a meaningful proportion of available funding should be directed towards growth and associated incentives for the long-term.

**5. What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?**

At this point, the DCN does not have any suggestions with regard to specific statistical techniques. However, as outlined in our response to question 1, we would suggest that any formulae used must be clear, transparent and fair to ensure that local authorities can easily assess and understand their allocations, plan effectively and provide effective comment on proposed allocations.

**6. What other considerations should we keep in mind when measuring the relative need of authorities?**

**Redistribution: Top-ups and Tariffs**

Whilst the current system of tariffs, top-ups and safety nets could benefit from some specific changes, the DCN is clear that a future proofed redistribution system must remain central to the development of a new business rates system, considering both current and projected needs, reflecting the proposal for longer term fixed-period resets. With regard to the reset, as outlined in our 100% business rates retention response, the DCN is supportive of the principles of a partial reset. Nonetheless, the DCN would like to see different models developed so that the impact of different scenarios can be better understood.

In addition to this the DCN would proposed that the top-up and tariff system should incentivise growth, whilst ensuring that those areas with limited capacity for growth are not penalised and all authorities are provided with appropriate funding levels based on evidence-based measures.

### **District-Level Environmental, Protective and Cultural Services (ECPS)**

The DCN would like to explore the potential for an increase in funding of the control total assigned to District-Level Environmental, Protective and Cultural Services (ECPS). Currently DCLG sets the control total for each needs block by judgement – in 2013/14 15% of funding was allocated to local authorities based on the District-Level EPCS formula. The existing District-Level EPCS formula can sometimes penalise districts due to the rurality, sparsity and smaller populations of some districts. The DCN would like to work with government to look at how the funding through the District-Level ECPS can be more reflective of districts authorities' needs, potentially by increasing the size of the Fixed Amount control total.

### **Prevention and demand reduction**

Whilst the DCN fully recognises the growing demand and need for services such as Adult Social Care, the DCN would advocate that the relative needs assessment must take account of the value of prevention services and the impact these can have in reducing demand, improving outcomes and delivering long-term savings for 'upstream services' in other parts of the public sector. Any new system must incentivise prevention. A [2015 King's Fund report](#) outlined the key role that district councils play in the delivery of prevention services. The role of districts in prevention services should be considered as part of the needs assessment and DCN would welcome the opportunity to work with government on developing proposals around this, potentially exploring a taper to incentivise prevention and demand reduction work.

### **Rurality/Sparsity**

As outlined in our earlier question responses, any future system must reflect increased delivery costs for working in sparse and rural areas. Whilst districts councils have warmly welcomed additional funding for rural areas, in the case of 2013-14, for some authorities, this was dampened away. There is a strong case for rural authorities to receive funding for the additional need that has been assessed.

**7. What is your view on how we should take into account the growth in local taxes since 2013-14?**

Whilst no details are provided on how local tax growth would be reflected in future funding allocations, the proposals outlined would be likely to have a mixed impact of district councils with faster and slower local tax growth, and so the DCN would point government to individual council responses. Nonetheless, it is important that any changes do not penalise those authorities who have worked hard to keep their council tax low in the past.

The DCN would like to work with government and our local authority sector partners (e.g. CCN, LGA), taking into account other evidence-based factors, to determine a fair funding formula in district and county authorities. The DCN has also previously proposed a prevention precept to reflect the key role that districts play in prevention across the country, and this may be a mechanism through which to ensure prevention is incentivised.

**8. Should we allow significant step-changes in local authorities' funding following the new needs assessment?**

**9. If not, what are your views on how we should transition to a new distribution of funding?**

Until detail of the new system fully emerges it is not possible to anticipate which districts will benefit from, or be penalised by, changes to future funding allocations, it is therefore difficult to provide comment on an appropriate transitions policy. Nonetheless, it is clear that a new needs assessment may be financially destabilising for some authorities and may require additional support during a transitional period to enable them to reach the growth in business rates to compensate for a reduced baseline. A clear timeline will need to be set for the transition period to ensure that local authorities can plan with certainty.

With regard to the needs assessment the DCN would propose that in order to give stability and support effective and planned service strategy and delivery the needs assessment would benefit from lasting for a fixed period for example, 5 years, to coincide with a 5 year funding settlement. The DCN would like to work with government to model and agree a suitable timeframe for this.

**10. What are your views on a local government finance system that assessed need and distributed funding at a larger geographical areas than the current system – for example, at the Combined Authority level?**

**11. How should we arrive at the composition of these areas if we were to introduce such a system?**

**12. What other considerations would we need to keep in mind if we were to introduce such a system?**

The different rates of devolution across the country mean that currently this model may prove more difficult to implement.

The DCN would however advocate that there should be the freedom and flexibilities for those local areas who would like to have their needs assessed and funding distributed across larger geographical areas (e.g. functional economic areas of clusters of councils or Combined Authorities) if there is consensus regionally for such a model.

In any event, any new model would need to ensure appropriate check and balances to ensure that any local authorities within the region were not adversely affected and all authorities were able to revert to the national formula if required by assessing need at individual authority level allowing the funding to be ring-fenced accordingly.

The DCN would advocate that any additional devolved functions to Combined Authorities should be funded by the central government department that devolves them, not from business rates. Combined Authorities should also not have first call on business rates over other authorities.

**13. What behaviours should the reformed local government finance system incentivise?**

**14. How can we build these incentives into the assessment of councils' funding needs?**

The DCN would suggest the reformed local government finance system should incentivise the following behaviours:

- **Growth** - although the DCN recognises that the government wishes to reform the New Homes Bonus scheme, incentives such as this act as a powerful incentive for growth and clearly demonstrate to local residents, businesses and councillors the benefits of local housing growth. Incentives must have longevity in order to be effective.

OBR projections for business rates growth in real terms are only 0.1% - we would therefore welcome consideration of an additional funding stream (separate from the council's funding needs) for growth incentives based on growth in VAT receipts. This would ensure that growth from online and tech companies was captured. If this was pursued this should be determined separately to the Needs assessment and should be an additional funding stream, not top-sliced from BRR.

- **Early intervention** - in order to incentivise early intervention, those councils investing in these services could be given additional funding to recognise the longer term savings being made for upstream services in other public sector bodies. It is important that funding for public services is considered in the

context of the whole system. This funding could either be through a direct funding mechanism or by enabling districts to raise a prevention precept as outlined in question 7.

However, whilst some incentives may be beneficial it is important that the relative needs assessment is not over-complicated by building in too many 'stretch/shrink' targets.