South Holland District Council welcome the opportunity to respond to this call for evidence, and submit our comments below in line with the Terms of Reference for the review.

1. **What lessons can be learned from past changes to local government funding in England, the current financial situation of councils, and how this has affected their ability to deliver services.**

   District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow.

   In relation to the current spending review period, as the NAO have recently confirmed “district councils will see a 13.9% real-terms reduction during this period. The majority of district councils… will stop receiving the revenue support grant by 2019-20”. Districts are continuing to see reductions in their core spending power for the whole period, compared to other councils who are all seeing an increase. Overall since 2010/11 the median reduction for district councils has been just over 30%. This will need to be addressed in the next spending review period. District Councils have had to bear a disproportionate share of the reductions in local government funding and therefore it is crucial that the future funding formula reverses this trend and increases the spending power of District areas, for the benefit of our residents and businesses.

   With regards to the funding formula, complexity has been added to complexity, successive governments have added new funding “modules” to the existing funding system: the four-block model was laid over the existing Standard Spending Assessments; on top of this was added the Business Rate Retention System (BRRS). Ideally the Fair Funding Review (FFR) would sweep-away the remnants of these old systems and replace it with something where it is possible to see how everything has been calculated, and how everything fits together.

   The option to agree a 4 year settlement from 2016/17 provided better certainty for local government and allowed strategic planning and management of efficiency plans. It has been undermined to some degree by the late announcement of new funding and late announcement of council tax limits. The greatest uncertainty has been about the relatively minor changes regarding the business rates system.

   The uncertainty and complexity have impacted on the council’s confidence in their funding forecasts, we expect some degree of uncertainty about future years, but often this uncertainty can extend to in-year funding.

   Ad hoc policy changes have undermined the effective operation of the funding system, particularly to the business rates system. As a result, the focus has been on the mechanics and risks (particularly appeals) of the system rather than making informed forecasting of rates growth or understanding of drivers of change in the business rate-base.

   We do, however, recognise that governments will always want to introduce new policies that will result in changes within a Spending Review (SR) period. It would be preferable
to have a “cooling-off” period of at least 6 months between an announcement and its implementation (an announcement in Autumn Budget is almost too late for following financial year). We would urge the government to pre-announce as much as possible (e.g. council tax thresholds) and to do so by early Autumn so that it fits in with budget setting timetables.

In recent years most of the complexity has been in the BRRS, including new reliefs and discounts, revaluation, pilots (of different types), the switch from RPI to CPI, various section 31 grants. And it is inevitable that change will continue after 2020: the next revaluation is in 2022, new discounts and reliefs will be demanded by ailing business sectors, and it is likely that different retention rates will prevail in different authorities. We are very doubtful that the current system will cope with these changes any better in the future than it does now.

2. **The efficiency, fitness for purpose and sustainability of the current system for funding local government (central government funding, council tax, business rates retention and other income); how it could be improved, including options for widening the available sources of funding; and what lessons can be learned from other jurisdictions.**

An increasing share of funding is now distributed based on incentives rather than “needs”. Incentive-based funding now exceeds £3.0bn per year), which is 16.1% of total Government funding. But incentive-based funding has an opportunity cost. It is not an efficient way of funding services because the additional risk encourages authorities into more tentative behaviour. It also means that funding is not systematically directed at authorities on the basis of “need”. We would like to see the government setting out the proportion of overall local government resources that are incentive-based, and making clear the levers that it would use to ensure that incentive-based funding remains within these limits.

Turning towards the authorities’ sources of taxation income, it is clear that authorities currently have very little scope to increase taxation yield, either by increasing the taxation rate (Band D, business rate multiplier) or through a buoyant taxbase. Council tax will remain the primary source of income (and growth) over the medium term. And there is still much to be explored within the current system. For instance exploring changes in Single Person Discounts or some degree of flexibility regarding the Band D cap.

Also there is a national disparity in use of and reliance upon Council Tax as a source of funding, it is a regressive local tax, that has been largely unreformed for many years which is now a main funding source for local government. This fact, coupled with the large variations in reliance on council tax between authorities' means that the Government should look at it is closer detail. Council Tax Support could be making it difficult to collect Council tax in those areas where there are a larger number of residents on benefits and yet any notional grant to compensate for this support has been cut.

There are also issues comparing Districts that have a big disparity in the number of properties in different bands. Two areas can have the same number of houses but where one area has a much larger number of Band A or band B’s it will naturally collect a lot less Council tax even with the same band D value. Is this adequately reflected in any resource equalisation model?
Where local authorities are become increasingly reliant upon Council Tax and where, for example, it is being used by the Government to provide funding for activities such as Social care or Police resources (rather than from central government resources) it is becoming an increased tax burden on ratepayers and this is not an equal burden across the Country.

An increased reliance on Council Tax in those areas with relative lower economic growth compared to ‘richer’ parts of the Country and hence no capacity to generate additional Business Rates income could create a real disparity across the country.

There also needs to be greater realism about the lack of buoyancy in business rates. Retained business rate growth has been boosted since 2013-14 because of the way baselines were created. Actual growth in yield is obscured by the effect of appeals, which makes it difficult to understand the underlying growth rate.

The funding allocated to deal with rising homelessness is insufficient and we call for additional central government resources to address the issue of homelessness outside of the funding formulae.

3. How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

The uncertainty about funding in 2020-21 is unprecedented, and there is, as a result, considerable nervousness about forecasting funding in 2020-21 and beyond. To help deal with this uncertainty it would be useful if the government could announces before this summer how a damping or transitional regime would work in 2020-21. Ideally such a regime would cover the widest range of funding streams, including business rates growth and New Homes Bonus.

We do not think that the government is properly addressing how population growth is funded. In practice, population growth is funded from a combination of increased government funding (SFA) and increased taxation revenues (largely council tax but potentially also business rates). The government’s proposals are inconsistent because it is proposed that funding will use population projections but will not recognise increases in council taxbase. (Indeed, growth in council taxbase is effectively double-funded through the New Homes Bonus.) We would welcome further work to understand the additional costs that population growth places on local authorities and whether these should be funded from increases in grant funding or from growth in taxation revenues. The converse scenario also needs to be addressed more fully, that is where authorities are experiencing economic contraction and/ or population decline.

4. The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review.

Councils have experienced disproportionately large reductions in government funding over this decade, in comparison to the rest of the public sector. Councils will have lost
almost 60p out of every £1 the government had provided for services and face an overall funding gap of £8bn by 2025.

There are currently no measures to show the rate at which authorities are making savings (whether cutting services or making efficiencies) or the success at which authorities are having in implementing these savings.

The council would welcome the consideration of the use of the previous transitional arrangements for NNDR to support incremental impacts to businesses in lieu of a more stable up to date system of rating. Authorities and Businesses also need a business rates system that provides a greater degree of certainty about when and why rates will change in future periods.

The 100% retention pilots have also been positively received and have been an effective mechanism to enable strategic infrastructure investment, whilst also supporting growth in local areas.

In summary the review should seek to provide the following:

- Provide financial certainty for local government to enable strategic planning & clear setting of priorities
- Need to cover not only 2020/21 but at least the next 2 financial years
- Provide a framework to assess how efficient and cost effective district councils are

*April 2019*