The Society of District Council Treasurers represents 201 District Councils in England. District Councils are at the heart of the community and are best placed to understand the needs of local residents and businesses, delivering services which residents view as the most important to them. In the last two years, district councils have seen the biggest cuts in spending power and we believe this needs to be addressed in the next spending review period. To ensure we can continue this work future proofing essential services for our residents and businesses, now is the time to provide additional financial flexibilities to local government as a whole.

Background and Scope of the Inquiry

Ahead of the Spending Review expected this Autumn 2019, the Housing, Communities and Local Government Committee has announced a new inquiry into local Government finance. The inquiry will consider how effective the existing funding set-up for local government is in providing resources to meet need and demand for local services both now and in the future. The Housing, Communities and Local Government Committee will seek to directly inform government policy towards local government funding in the Spending Review and beyond.

Key points:

- Between 2010 and 2020, Councils will have lost 60p out of every £1 that the Government had provided for services. Overall the median reduction for district councils has been in excess of 30% for the past few years.
- District councils in England deliver 86 out of 137 essential local government services.
- The impact on Local Authorities’ share of assessed needs within the new foundation formula (basic amount per resident plus the Area cost Adjustment (ACA) factor) vs the current Environmental, Protective and Cultural Services (EPCS) formula could create a significant difference in the amount of funding individual Authorities receive.
- There are a significant number of changes to the proposed funding structure, all of which will have their individual impact on the funding for Local Authorities makes it increasing complex to model the overall outcome.
- The SDCT propose an alternative approach in relation to include deprivation within the funding formula that reflects the impact on different tier authorities.

Question 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.

- We would encourage the Government to introduce stability within the funding system for local government, allowing for effective and efficient financial planning on a longer-term basis. In the past, funding for local government has been inconsistent and uncertain, and the right balance between ensuring councils have the right resources in place to delivery key services, alongside incentivising growth has not yet been achieved.
• It is essential that any new funding formula must not create or encourage perverse behaviour rather it should reward those Councils which continue improve the lives of its residents.

• It is anticipated that the funding climate for local government will not improve and councils will need to continue to develop innovative ways of making money to fund an increased demand on our services.

• The phased reduction of Revenue Support Grant to zero has resulted in Authorities having to find other sources of funding streams. It is essential that Government give Councils the freedom to maximise alternative funding streams and not restrict them whilst also cutting Government funding.

Question 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.

The current funding system is based largely on centralised funding rather than other jurisdictions that have greater flexibility and freedoms with a more localised system. The Localism Act 2011 was aimed at facilitating the devolution of decision-making powers from central government control to individuals and communities. However, there is still a long way to go before Councils have a more transparent and localised system for government funding. Many local authorities argue that with more freedom and flexibility, they would be better placed to provide services for the public and in a better position to create economic growth and fiscal sustainability. The current system does not incentivise pooled resources and partnership working to improve services overall for residents regardless of where the funding resides.

The Business Rate Retention System was introduced to incentivise growth and to give Councils greater freedoms to control Business Rates in their local area but instead became complex and problematic particularly surrounding appeals and discretionary reliefs. The complexity surrounding some of the reliefs has caused avoidance among ratepayers. By including Business rates in the transition baseline and council tax share of the tax base within the funding streams will benefit Local Authorities. The introduction of a phased reset of the business rates baseline within the Business Rates Retention would continue to offer some incentive to those Local Authorities who have delivered economic growth.

Question 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 treatment of discretionary discounts will affect District Councils assumed council tax base. The most significant being the Local Council Tax Support (LCTS) – Authorities have discretion over both eligibility and level of support that is provided to working age residents. Central government is not inclined to use Actual income foregone to LCTS as it would create a direct link between council tax support and policy decisions and the amount of funding it receives however another option would be to use assumptions based on how much revenue is foregone (The MHCLG has not specified what these assumptions would be based on). For those Councils who took a policy decision to
operate a LCTS Scheme within the reduced available funding are now under the proposed scheme potentially penalised. This is due to the discount being lower than the actual rate.

- The impact on the use of actual tax collection rate % rather than national average rates indicates that it would be more beneficial for some Council to apply the notional uniform collection rates rather than actual rates as the majority of districts enjoy higher collection rates than unitary authorities. Creating a perverse incentive for those Councils who have developed good models for collection rate recovery. Also collection rates tend to be lower among deprived Authorities. This may be grounds for using a modelled collection rate, based on income deprivation levels, which could serve as a proxy for collection rates but without causing any unwanted incentive effects.

- Impact on the use of the projected tax base growth (over 5 years), rather than a fixed tax base, in context and in the case of a multi-year settlement from 2020/21 onwards, it will be necessary to consider the treatment of council tax income in successive years as part of a resource adjustment. A fixed measure of council tax resources over the period. (MHCLG’s preferred option) This is where LA’s would benefit if they had increased CT base growth faster than other authorities, as their share of the resource’s adjustment would not be increased to offset this growth in council tax revenue. However, a projection of council tax revenue over the period would benefit Authorities who were unable to grow their council tax revenue as fast as others particularly those with lower potential housing growth – by reducing their share of the resource adjustment over time. However, this could also penalise Authorities who failed to achieve their projected rate of growth in council tax revenue. This is a counter-productive impact on delivering the Government’s housing agenda.

- Impact on the LA’s annual change in funding in 2020/21 include funding used to offset negative RSG in the transition baseline -In context of in general terms Authorities will be better off including a funding stream in the baseline (1) if the funding stream is likely to fall between the baseline year 2019/20 and 2020/21 and beyond and (2) some Councils are likely to see a larger reduction in that funding stream, as a share of their total income, than other Local Authorities.

- By including retained business rates growth in the transition baseline funding, a reduction shows greater eligibility for transitional protection.

- The inclusion of the New Homes Bonus (NHB) in the transition baseline and a reduction in the share of funding would indicate increased transitional protection available. The national average is -10.6%. This indicates more eligibility for transitional protection would be available. It is important that those Councils who have delivered the Government’s Housing Agenda are not penalised and still continue to receive Transitional Protection especially as the funding of NHB was top-sliced from overall funding initially.

- We understand that there will be no changes to sparsity and density but this will be reflected in the form of journey time indicators such as distance, road speeds and traffic congestion. By adjusting the area cost adjustment factor through a single journey time indicator, reflecting distance, road speeds and traffic congestion will party address the needs for improvements to greater infrastructure, staff travel and transportation links.

- Weightings on cost drivers – due consideration in respect of needs assessment funding and the weighting of funding allocation should be future proofed in a way that does not undermine uncertainty. How will we determine this? What factors feature greatly in our local areas – transport links, infrastructure, goods and services – availability of Land redevelopment for business and housing. Cost of house build in the areas? Demographics of age in the area – relative needs assessment, children schools teachers’ salaries, accessibility for adults with special needs (more county functions but impact on
local areas), county requirements and the impact of local areas within the county. Differences in labour costs in the area, premises costs, sparsity density and remoteness.

**Question 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.

- We support the District Councils network call that no council should be worse off within the new spending review. The review should take the approach as an opportunity to fully understand the pressures local government are under and ensure there is the right level of funding in place to support key services and incentivise growth.
- 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.
- We believe that the New Homes Bonus should be continued post the Spending Review and remain an incentive mechanism. The NHB has been a powerful incentive for housing and economic growth across the country as a whole.
- The 4 year deal for local government ends in 2019/20. The spending review should provide certainty for public funding over a longer period of time, post 2020, allowing for meaningful financial planning.
- By removing the deprivation factor this will mainly impact on Unitary and Metropolitan Authorities, therefore there should be a way of localising this factor for Authorities in lower deprivation areas. This could be factored in for Shires and Districts in single tier authorities.
- An assumption based approach for actual LCTS discount would improve the Authorities share of council tax base.

*April 2019*