Sir Stephen Houghton comments to the Local Government Chronicle on the Governments proposal for a review of needs formulae in conjunction with the transition to 100% business rate retention

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In his statement to Parliament on the final local government settlement, the Minister revealed the intention to conduct a review of what needs assessment formula should be “in a world in which all local government spending is funded by local resources and use it to determine the transition to 100% rate retention”.

The issue of equalisation going forward will be key, as it has been made clear by Treasury and DCLG that any increase in local share of rates will come with increased financial responsibility, i.e. be “fiscally neutral”, but of course the new burdens will not fall on authorities in the same proportion as share of increased rates, so redistribution is essential.

We all know the 10 year old needs formula has been severely eroded due to cuts, the pre-eminence of New Homes Bonus and differential rate retention growth. We should also not forget that this underpinned the start of the current system containing some significant flaws such as the impact of ‘damping’.

So we all now agree that we need to see a new system based on current needs and ability to pay?

The objective should be for central and local government to reach a clear understanding of what a baseline local service funded from rates should be and what it would cost authorities to deliver a comparable baseline service across the country. This should include housing provisions ranking equally with all other services not, as it currently does in New Homes Bonus , growing at the expense of other demands. This baseline funding should have first call on the available resources.

SIGOMA believes that this is possible and would still leave capacity to reward growth and offer incentives. In our paper “protecting vitals services” we advanced the idea of a 3 block model of resource, incentives and central share in which Council Tax Freeze Grant was withdrawn and New Homes Bonus diminished, something which features in the 4 year settlement.

What we need to avoid however is local government focusing on the detail and missing the bigger picture of what the government may be sending our way in terms of new burdens – history tells us we may get fewer resources than they currently cost.

We may also spend time on what sparsity / ethnicity/ deprivation indicators may be involved but at the end of the day will it matter? One cynical view is that getting a fair system has not feature highly on the Governments agenda since 2010 and the final settlement clearly demonstrated that despite trying to do the right thing they bowed to political pressure providing further £390 million for those already having least reductions in spending power.

A solution? Let parliament hand the process to a commission who can independently and objectively assess the needs and income of authorities across the country.