



Ministry of Housing,  
Communities &  
Local Government

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**Title:** Business rates retention Systems Design Working Group and Implementation Working Group joint meeting

**Paper:** Fair funding review of relative needs and resources: update paper on transitional arrangements by the Ministry of Housing, Communities and Local Government

**Date:** 31 July 2018

**Venue:** Local Government Association, 18 Smith Square, London

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## Issue

1. To deliver an update to the Systems Design Working Group and Implementation Working Group on the approach to transitional arrangements for the review of relative needs and resources.

## Update

### *Technical working group*

2. At the 10 July Technical Working Group (TWG), MHCLG presented a paper on Transition. This paper was subsequently presented to the Steering Group (SG) on 23 July. It introduced transitional arrangements as processes that may be used to mitigate reductions in relative shares in order to ensure either authorities receive funding at a particular level or changes are gradually introduced; and ensure that those receiving increases in relative shares do so as soon as practicable.
3. The premise of the TWG paper was that transition will be fiscally neutral. Any alternate decision will be a matter for the 2019 Spending Review and was out of scope for this paper.
4. The TWG paper:
  - included an explanation of the banded 'floor damping' that was implemented in 2013-14;
  - outlined precedents for transitional funding across central government;
  - proposed for discussion principles to guide transitional arrangements; and
  - invited views as to how to establish the baseline for transition.

## POLICY DEVELOPMENT – NOT A STATEMENT OF GOVERNMENT POLICY

### *Principles*

- Local authorities' long-term financial planning and service delivery will be assisted by temporary transitional arrangements to their new relative needs baseline to move as soon as practicable and to ensure there are no undue year-on-year reductions in funding.
- There are multiple options for the design of transitional arrangements. One key trade-off is between efficiency and stability, across local authority and system-wide levels; between the length of time taken to reach target allocations and the pace of change required of those authorities facing the largest reductions.



- The most efficient transition arrangement might be to move everyone to their newly assessed level of funding from day one. However, this would likely result in costs at the individual authority level for those with the longest journeys to new funding allocations, and significant short term movements in funding levels might prove more difficult to plan for and sustain.
- Following a new assessment of relative need, it is inevitable in a net neutral cost transition arrangement that there will be a set of 'winners' and 'losers' across local authorities. Transition arrangements, which unwind over time, could help relative 'winners' move to their new allocations as efficiently as possible and support relative 'losers' to transition in a sustainable way to their new funding allocations. There is a tension between these objectives.
- The approach to transition could be determined depending on the relative size of the changes. Resources to support relative 'losers' might be secured through relative 'winners' having deferred gains. Transition could be implemented according to a percentage change in funding, by an absolute level of change, or through a combination of both.
- Establishing principles can support the design of transition arrangements. The following principles for discussion were designed following representations made to the Call for Evidence in 2016 and reflecting comments at the July 2018 TWG.

<b>Principles</b>	<b>Description</b>
<b>Stability</b>	The transition from existing funding allocations to new target allocations must be manageable and sustainable for both the sector and individual local authorities, in the context of wider changes to the local government finance system.

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<b>Transparency</b>	The process must be clear and understandable to support both financial planning and explaining the nature of transition to a wider audience.
<b>Time-limited</b>	Support for relative losers using deferred gains for winners should be provided over a fixed period of time to enable target allocations to be reached as soon as practicable.
<b>Flexibility</b>	The speed of change could vary across the sector to achieve greater efficiency. Considerations might include local revenue raising capacity, distances from target allocations and/or relative funding pressures, for example, to deliver statutory services.

**Question 1): Does the group agree with the proposed principles? Are there any missing?**

**Question 2): Does the group have any views on whether any principles should be given a higher priority, and if so how these should be prioritised?**

**Question 3): Does the group have any views on how we should balance securing the gains for relative winners against supporting relative losers in reaching their target allocation, for a fixed quantum of funding?**

### *Establishing the baseline*

11. The needs and resources elements on the review will determine new baseline allocations for individual local authorities. Transitional arrangements will resolve the method of reaching these target allocations over time, in order to provide stability in delivering services.
12. However, the scale of transition will depend on the baseline it is measured from. It may be necessary to 'adjust' the start (baseline) and end (position from 2020-21 onwards) to ensure an appropriate measure for comparison in terms of funding.
13. We propose to base the baseline on cash available in 2019/20. However, this position may require an 'adjustment' to reflect the value of grants that will be rolled in to achieve 75% business rates retention, such as Public Health Grant. Similarly, the baseline may also be affected by decisions on the treatment of business rates growth at the next reset or negative Revenue Support Grant. There are a number of alternatives for the baseline, including Settlement Funding Assessment, Core Spending Power (CSP) or some other measure of income.

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14. The 'end' position (target allocations) for individual local authorities may also include predicted change over more than one year, for example, through the inclusion of population projects in the relative needs assessment.

**Question 4): Does the group have any views on how we should establish the baseline and what factors we should take into account?**

### *Next steps*

15. Following discussion at this Systems Design Working Group and Implementation Working Group joint meeting, views will be invited from the sector on these principles and how to establish the baseline at the next consultation on relative needs and resources, which will be published later this year.