

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

Initial Questions for the Fair Funding Review

Background

1. As part of the Final Local Government Finance Settlement for 2016-17, the Government announced that, as part of the transition to 100% business rates retention, there would be a 'Fair Funding Review' of authorities' funding needs.
2. This is the inaugural meeting of the needs and redistribution technical subgroup which will examine this aspect as part of the move to full retention of business rates. It is the intention of DCLG and the LGA to use this meeting to scope the various issues and questions that need to be addressed as part of the work programme.

Issues to consider and questions to answer

3. Based on a detailed review of the literature on this topic, the work done during the last fundamental review of needs in 2000 and analysis of councils' responses to the consultation on the provisional settlement, the key first order questions to consider in the Fair Funding Review might be:
 - a. What do we mean by 'need'?
 - b. What are the key factors that need to be considered?
 - c. What should the approach be for doing needs assessment for different services?
 - d. At what geographical level should we do a needs assessment?
 - e. How should 'resets' of the needs assessment be done?
 - f. How, and what, local government behaviours should be incentivised through the assessment of councils' need?
4. The inaugural meeting of the overall officer-level Steering Group considered the list of topics as above. Other issues that were raised were:
 - a. The frequency and shape of resets
 - b. Growth incentives (which will interface with the system design workstream)
 - c. Stability of formulae and ease of update
 - d. Whether current expenditure should be used as basis
 - e. Simplicity and avoiding perverse incentives.
5. These questions will inevitably cover a broad range of policy issues. Therefore, one of the first tasks for the group is to unpack the range of issues that sit under the questions above.
6. **Views are invited from the technical subgroup on these topics. What specific questions do you believe should be answered under each of these headings? What other topics are missing from the list that should be addressed?**

Timetable for the review

7. We expect the Review to work to a longer timescale than some of the other work on 100% business rates retention. This is because, unlike other aspects of the work on 100% business rates retention, the outcome of the review will not necessarily require primary legislation. In addition, the process of collecting data (if it is required) and doing the detailed statistical analysis to produce needs formulae will inevitably take considerable time.
- 8. Does the group have any views about the timetable of the review? Which aspects of the review should be prioritised and addressed first?**

Next steps

9. Following the initial meeting of the subgroup, we will build an outline work programme and share it with members of the groups. We will also provide feedback on this meeting to the Steering Group on 13 May.
10. We are considering the most appropriate way to engage with the wider sector on these issues. For the time being, we will invite comments and views on anything contained in papers and minutes of meetings of all the groups, but will continue to work on a more substantive programme of communication alongside the work programme and timetable.
- 11. Does the group have views on the next steps as outlined above?**