

Cabinet

11 February 2025

Part 1 - Public

Executive Non-key Decision



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MHCLG Consultation “Local Authority Funding Reform: Objectives and Principles”

1 Summary and Purpose of Report

- 1.1 Alongside the provisional local government finance settlement, the Ministry for Housing, Communities and Local Government published the consultation paper “Local Authority Funding Reform: Objectives and Principles”.
- 1.2 The consultation seeks views on the approach to local authority funding reform through the local government finance settlement from 2026/27. The deadline for responses is 12 February 2025.
- 1.3 At the time of writing, it has not been possible to get the draft response ready for publication. ***However, this will be published as a supplement prior to the meeting taking place.***

2 Corporate Strategy Priority Area

- 2.1 Efficient services for all our residents, maintaining an effective council.
- 2.2 Government funding is an important element of the overall finance package for the delivery of local services. It is therefore important that the Council comments on the proposals of Government to protect the services it delivers.

3 Recommendations

- 3.1 Cabinet is **RECOMMENDED** to reply to the consultation with the draft response which is due to be published as a supplement prior to the meeting.

4 Introduction and Background

- 4.1 The incoming government has committed to a fundamental review of local government funding which was commenced under the previous government in 2018 but was not completed.
- 4.2 Some Members will recall the consultation in 2018 which was known as the ‘Fair Funding Review’. The stated intention of that consultation was to “*develop a more robust and up-to-date approach to distributing funding across all councils*” considering the drivers of local authorities’ costs and the resources available to them. This Council responded to the consultation through a report to Cabinet on 20 March 2018.
- 4.3 As we know the previous government did not implement the proposals consulted on, predominantly due to the onset of the global pandemic and thereafter an economic crisis. However, in our Medium Term Financial Strategy we have been anticipating the implementation of the review, albeit that we have regularly been “pushing back” the effective date.
- 4.4 This new consultation continues the process already started with the paper stating:

“ This government agrees with the previous government that we should use the best available evidence to assess differences in the need for local government services – including deprivation – and resources available to local authorities. Whilst our proposed objective is in line with the 2018 Consultation, we are seeking to re-test it given this was six years ago and there have been significant changes since then, including the COVID-19 pandemic”

5 Consultation

- 5.1 The consultation can be found at: [Local authority funding reform: objectives and principles - GOV.UK](#)
- 5.2 The principles to guide the review, as informed by the 2018 paper, are:
- Simplicity – be based on the most important factors that drive the need to spend.
 - Transparency – should be understood by those affected.
 - Dynamism – based on the most up to date data that is available and data, as far as practicable, that can be regularly updated.
 - Sustainability – to be based on current and future cost drivers.
 - Robustness – the formula should use the best possible objective analysis.

- Stability – should be predictable, in order to support longer term planning
 - Accountability - approach should enable citizens to understand how local authorities are funded and more effectively hold their local authorities to account for the quality and cost effectiveness of services they provide, as well as for local decisions on how and to what extent to raise resources locally.
- 5.3 As well as looking at the drivers and measures for formula grant, the consultation also covers both Business Rate Retention, the cessation of New Homes Bonus and Sales, Fees and Charges reform.
- 5.4 Business Rates Retention
- 5.4.1 Under the Business Rates Retention System, the distribution of business rates income is determined by the relationship between Baseline Funding Level and the Business Rates Baseline. The Baseline Funding Level is the level of business rates income allocated to meet an authority's need, as determined by the Settlement. The Business Rates Retention System was designed to be periodically reset but has not happened yet.
- 5.4.2 The consultation states that the government intends to carry out **a full Reset in 2026-27**. However it acknowledges concerns around potential 'cliff edges' at the end of a Reset period. To minimise the risk of these cliff edges, the government intends to consider the impact of reforms to the Settlement as a whole in the design of Transitional Arrangements.
- 5.5 New Homes Bonus
- 5.5.1 New Homes Bonus is paid to authorities in recognition of net additions to effective housing stock in their area. At one time, significant sums were payable to local authorities in respect of New Homes Bonus but over the years this has been diluted.
- 5.5.2 The government proposes that 2025/26 will be **the final year** the New Homes Bonus is paid in its current format. The consultation states that the government will consult on detailed proposals for arrangements beyond 2025/26 in the first half of 2025.
- 5.6 Sales, Fees and Charges reform
- 5.6.1 As part of this consultation the government is exploring proposals on whether **responsibility for setting levels for some statutory fees and charges** should be devolved to local government in the longer-term.

6 Commentary

- 6.1 It is no surprise that this consultation is coming forward. Following the consultation in 2018, the Council has been factoring into its MTFS the likely impact of the implementation of a 'fair funding' review. Philosophically it is hard to argue against the principles that both this and the former government have promoted.
- 6.1.1 The Business Rates Retention Scheme came into being in 2013 and it was always intended that it be periodically reset. Therefore, it is no surprise that this will happen in the short term. Perhaps unfortunately for TMBC, we have only very recently started to benefit from the scheme after the initial fallow years and a reset will eliminate (in part) this benefit. However, ironically an earlier implementation might be more beneficial to TMBC given that the data on which a reset would need to be based will be at least a year or two out of date.
- 6.2 In terms of New Homes Bonus as mentioned, the financial impact of this had been dampened over the years and we have been anticipating its demise. That said, our MTFS does assume that some other scheme would replace it and TMBC would receive some reward through the scheme. At this stage that is an unknown.
- 6.3 There is an opportunity to seek government's agreement to devolving responsibility for setting levels for some statutory fees and charges to local government.
- 6.4 Naturally, the issue of devolution/reorganisation hangs over this. Whatever happens in the future the government will wish to ensure that funding is being directed according to the principles identified and will be carried forward into any new structure of local government.

7 Proposal – Response to Consultation

- 7.1 Attached at **[Annex 1]** is a list of the questions posed within the consultation.
- 7.2 Due to the timescales involved in getting this report (and more importantly the Budget report) ready for the print deadline, a suggested response to the consultation will be uploaded as a supplementary once discussion has taken place with the Cabinet Member for Finance and Housing. Cabinet will be asked to endorse this response once drafted and allow it to be submitted by the deadline of 12 February 2025.

8 Other Options

- 8.1 Members can make changes to the response as they see fit.

- 8.2 There is no obligation to submit a response at all, but it is important that the government receives the views of local government in respect of its future funding arrangements.

9 Financial and Value for Money Considerations

- 9.1 This Council has not fared favourably on previous assessments of need and following the consultation in 2018, we have anticipated a reduction in government funding within our MTFS.
- 9.2 With particular reference to Business Rates Reset, the level of funding any one authority receives in future could decrease markedly and place financial sustainability at risk – so transitional arrangements in the form of damping will undoubtedly be a prerequisite.

10 Risk Assessment

- 10.1 There has been so much uncertainty and volatility that financial planning has become increasingly difficult with the increased risk of significant variances compared to projection. This had had consequential implications on the level of reserves held to deal with potentially greater income volatility.

11 Legal Implications

- 11.1 The legislative framework for the billing, collection, recovery and administration of national non-domestic rates (business rates) is set out in the Local Government and Finance Act 1988. The Local Government Finance Act 2012 and regulations that followed introduced the current Business Rates Retention scheme.
- 11.2 December 2024 saw the publication of an English Devolution White Paper which has set out the Government's clear intent to drive devolution through the establishment of Mayoral Strategic Authorities and an associated programme of local government reorganisation in two-tier areas. Whilst no councils can foresee the effect that devolution may bring, the Council must proceed on its current course at the moment to ensure that there is no interruption to services.

12 Consultation and Communications

- 12.1 This is the first of, probably, a series of consultation by government on the future of local government financing.

13 Implementation

- 13.1 Members are requested to give authority or the response to be submitted by 12 February 2025.

14 Cross Cutting Issues

14.1 Equalities and Diversity

14.1.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Background Papers	None
Annex 1	Questions posed