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Local government Finance Reform (Fair funding review)
Department for Communities and Local Government
2 floor SE, Fry Building,
2 Marsham Street,
London
SW1P 4DF

8th September 2016

Dear Sir

Response to Consultation on 100% Business Rates Retention

As a Council we understand that demand for services will be driven by local need and that this should be reflected within the redistribution mechanism used by Government to reallocate Business Rates. However we believe that it is important that this redistribution is fair and transparent. Taxpayers expect that the taxation they are paying is being used wisely, more so if it is not being retained in their local area. Any mechanism should reflect need but also encourage ways of reducing need and supporting growth. It also needs to take account of not only the needs of an area but also the cost of meeting that need.

With these points in mind our responses to your questions are as follows:

Question 1: What is your view on the balance between simple and complex funding formulae?

Our preference would be for a simpler formula as it gives some transparency to the calculation and reduces the cost of producing it.

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

No comment

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

No as this is not representative of changing needs

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

Key demographic statistics should be used such as population, deprivation etc..

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

No comment

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

There needs to be a factor included in the calculation that takes account of the relative costs of providing services. For example one area may have low needs but the costs of providing the service is high.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

This growth should not be included. The calculation should be driven purely on absolute need. Growth in the tax base means more residents and businesses will require services – it does not always mean additional income.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Councils need to adapt to the new funding mechanism but they also require time to make the required changes. Hence a step change from one level of funding to another would not be desirable.

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

Any changes in funding need to be phased in over a period of time to allow councils to adapt their services and budgets to the changes

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

This would enable pooling to be done at a more local level than the national scheme at the moment and allow taxes raised to be spent (relatively) locally. However it should be for local authorities to decide on the members of the pool and it should not be linked to a Combined Authority.

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

This should be left for local Councils to determine. This would ensure that solutions fitted local economic and demographic areas.

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

There would need to be a minimum time period for authorities signing up to such an arrangement to minimise fluctuations in the system

Question 13: What behaviours should the reformed local government finance system incentivise?

Economic Growth should be incentivised. This not only generates more income for services but also reduces need by increasing employment and opportunities.

Question 14: How can we build these incentives in to the assessment of councils' funding needs?

Needs should be based on statistical analysis. Councils that manage to reduce their needs could be rewarded in some way by having their reduction in funding protected for a period of time.

This letter was tabled and approved by the Executive of Surrey Heath Borough council on the 6th September 2016

Yours faithfully,

**Councillor Richard Brooks
Portfolio Member for Finance
Surrey Heath Borough Council**