TRL
Insight

Responses to

A review of local authorities' relative needs and resources -

Technical consultation on the assessment of local authorities' relative needs, relative resources and transitional arrangements

About TRL Insight

TRL Insight is the trading name of Tom Lawrence. I have been self-employed in local government finance for five years. During this time, I have produced outputs for APSE, LGiU and LG Futures, as well as writing articles for the MJ and Room151. Last year, with assistance from AWICS, I constructed and delivered two Excel tools – the relative needs assessment model and the relative council tax deductions model – for the LGA. I am currently advising NPI on research commissioned by APSE in relation to local authority spend on particular services, referred to as neighbourhood services. Prior to becoming self-employed, I worked for five years as Principal Analyst in the Fair Funding Team at London Councils.

All content in this response represents purely my own views.

Key points

The consultation *A review of local authorities' relative needs and resources* marks a key stage in the first full review of the local government needs formulae for around seven years. This review stands out from previous ones for its impressive level of collaboration between central and local government. This consultation appears to have resulted from a genuine partnership between the two sectors on the Fair Funding Review ('the Review') and the wider review of business rates retention. It is to be hoped that in future reviews of needs formulae, local government will again be engaged as an equal in policy development, or ideally take the leading role in it.

The primary purpose of this response is to draw the attention of MHCLG and its local government partners to points which may be worthy of further consideration, and which do not appear to have been made thus far in the Review. In a few cases, this response also provides evidence supporting arguments set out in the consultation which TRL Insight believes may be helpful.

The main section of this response, below, sets out responses to some of the individual questions in the consultation. These are sequenced in such a way as to allow the section as a whole to have a logical narrative flow. Thus in some cases, particular questions are responded to across several subsections, are grouped together, or are otherwise dealt with a different order to the consultation.

For convenience, the key points are summarised as follows.

- If it were not for transitional arrangements, equalisation for ability to raise council tax and equalisation for differing business rates yield would be achieved in much the same way in constructing tariffs and top-ups;

- The retention of yield from council tax income and business rates (as opposed to its redistribution) depends critically on the transitional arrangements used and any use of projected tax base. These issues therefore have a very significant effect on the 'incentives' for building homes and business premises. The nature of this impact depends on a) where in the calculation the transitional mechanisms are applied, b) what mechanisms are used and c) how the projections are calculated;

- If a transitional mechanism is applied *after* equalisation for a particular tax yield, the way that the 'incentives' tail off after that equalisation is recalculated depends on the nature of the mechanism. A 'pace-of-change' mechanism could allow all authorities' 'incentives' to reduce according to the same profile. A mechanism with floors, on the other hand, would lead to differing profiles – this caused anomalies under the Formula Grant system;

- If council tax base is projected by applying the previous year or two years' growth for succeeding years, and this is used for equalisation, any council which does not manage to maintain this level of growth could effectively be penalised. This could happen where a major development results in many homes being added to the tax base in a single year;

- The use of 'phased' or 'lagged' resets for business rates would result in each years' growth being retained for a fixed number of years, then dropping out;

- If 'lagged' tax base values were similarly used for the council tax deduction, each years' growth would be retained for a fixed number of years, then drop out. This could provide an 'incentive' very similar to New Homes Bonus (NHB) and allow NHB funding to be better focused;

- Regressions against service expenditure *as a proportion of total council spend* could have advantages. There may be valid reasons why such an approach would not be statistically robust, but if so, it would be helpful to clarify this;

- Grouping so many services together in a 'Foundation Formula' may unnecessarily sacrifice accuracy at the expense of marginal gains in simplicity. This is particularly the case as the drivers of both unit costs and demand volumes may well vary very widely between these services;

- An alternative approach would be to derive a formula for each, or at least those which represent higher levels of expenditure, then to test the loss of accuracy when rolling each into the Foundation Formula against thresholds;

- The formula for concessionary fares funding for elderly and disabled passengers used in Formula Funding is already extremely simple. It uses modelled boardings, as actual boardings data was not available at the time the formula was constructed. However, this data is now available for London, all ITAs and almost all other upper-tier authorities;

- To ensure that the development of the relative needs formula is sufficiently transparent, it would be helpful if the Government could provide information which is absent from the consultation document. This includes details of its analysis of highways maintenance expenditure to date, details of the two accessibility measures it has identified, and the scale used for calculating the length of coastline indicator;

- In determining the appropriate measure of collection rates to use in the resources deduction, it could be prudent to take into consideration whether the measure is stable over time. Another factor to consider is whether it would provide a disincentive towards increasing collection.

Responses to individual questions

Relative needs (section 2 of consultation)

Revision of the ACA – Question 4 only

The factoring of formulae for each service into a factor describing demand volumes for the service and a factor describing (local) unit costs for delivering the service seems eminently sensible. It is in line with the methodology used for many cost projections and benchmarking services in local government finance.

The current ACA methodology does appear flawed. The current ACA for Environmental, Protective and Cultural Services (EPCS), for example, effectively assumes that for all EPCS, 60% of expenditure is on wages, and this is only affected by regional wage differentials; 2% is driven by business rates, and the remaining 38% is unaffected by location in the country.

The proposals to improve it set out in the consultation seem sensible. There is strong evidence that in some services, the cost of delivering a unit of service is affected significantly by journey times. For example, in waste collection, the cost of collecting a tonne of waste or collecting refuse from one household is affected significantly by the time required to make the collection. The primary factor determining the collection rate appears to be distance between properties, but urban congestion may also have an effect.

The precise proposal for taking accessibility into account in calculating the LCA is not set out in the consultation document. Paragraph 2.3.13 states that 'We have therefore identified two robust and evidence-led measures to account for the additional costs associated with accessibility. These are based on the methodology used by the Department for Transport to produce statistics on journey times to key services'. While a link is provided to the DfT statistics, no explanation is given of what the two measures are. It would have been helpful to have provided these in an annex; it is to be hoped that the methodology will be published soon.

Use of sparsity and density indicators – Questions 2 & 4

It may be the case that sparsity primarily adds to unit costs, while extra expense associated with high population density may result mainly from higher demand volumes. The Government may wish to consider this possibility when deciding

which variables to test as predictors of demand volumes. Indeed, if either sparsity or density in some way contributes to both demand and unit costs, the question arises of whether using the variable in both the ACA and the demand formula does actually represent 'double counting'. TRL Insight takes no view on this, but believes it to be a point worthy of consideration.

Structure of relative needs assessment – Question 1

The general approach to determining the structure, set out in paragraphs 1.3.1 and 2.2.4 seems an appropriate one. However, it is worth bearing in mind that many in local government have expressed the desire that simplifying the formula should not be at the expense of accuracy, fairness and robustness.

This was the finding, for example, of the Housing, Communities and Local Government Committee of the House of Commons, after taking evidence from local government:

> *'In the interests of increasing transparency, we support the Government's aim for a simpler formula. However, the Government, in consultation with the sector, must balance the competing aim of achieving fairness in the allocation of funding through a comprehensive and accurate assessment of needs and this may necessitate some complexity.'[1]*

It is worth noting that some simplifications can be made without any reduction in accuracy. For example, there are no proposals in the consultation to continue the thresholds and central allocation block that appeared in the four-block model – this will, no doubt, be widely welcomed.

It is also possible to make further simplifications which only result in a minor loss in accuracy. This was demonstrated in robust statistical analysis by LG Futures[2]. The HCLG Select Committee said of this work:

> *'We would welcome a full response from the Government in relation to the research undertaken by LG Futures. We believe that their method for reducing the formula's complexity offers the possibility of properly balancing the aims of simplicity and fairness.'*

It is understandable why local government would wish to maintain a degree of accuracy. Even relatively minor changes to formulae can result in tens of millions

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[1] HCLG Housing, Communities and Local Government Committee, *Business Rates Retention - Fifth Report of Session 2017–19*, 17 April 2018
[2] LG Futures, *Reforming Local Authority Needs Assessment - Paper 1 - Simplifying the Needs Assessment Formula*, October 2017

of pounds, or even hundreds of millions, being moved from one part of the country to another. This could lead to some of the most stretched councils receiving insufficient funding to provide even a basic level of services.

The arguments for having separate formulae for the seven numbered services in Table 1 appear well founded.

However, the section of the consultation titled 'Structure of the relative needs assessment' actually sets out the cost drivers to be used in each of the formulae. By implication, this is setting the weighting of every other possible indicator to zero. In some cases, such as Adult Social Care, the basket of indicators that is listed is the result of careful statistical analysis. In other cases, notably Highways Maintenance, this does not appear to be the case. In this particular case – dealt with further below – it is proposed to use just two variables, and the description of how they were arrived at is vague.

Also, grouping all the remaining services together as a 'Foundation Formula' risks unnecessarily sacrificing accuracy for a minor gain in simplicity[3].

These services are very diverse and likely to have very different cost drivers – both in terms of the drivers of demand and the drivers of unit costs. For example, demand for waste collection services is likely to be determined mainly by waste volumes. Unit costs for waste collection are likely to be affected significantly by journey times. On the other hand, spend on open spaces is likely to be affected most by the area of open space within the local authority boundary. The drivers of demand and unit costs for waste collection seem unlikely to have a great bearing on spend on open spaces. It seems unlikely that either the demand formula or the ACA for one service would be well suited to the other.

An alternative approach, akin to the analysis by LG Futures, might be:

1. Derive a formula for each service which reproduces spend to a reasonable level of accuracy – ensuring that it is both accurate for most councils and that there is not a particular group of outlying councils for which it is significantly inaccurate for some systematic reason.

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[3] It may be worth pointing out here that 'simplicity' may mean different things to different people. My own experience suggests that a key consideration is how easy it is to explain what the formula does. Explaining a "Foundation Formula" is unlikely to be easier than explaining separate formulae for services, provided these formulae have the same simple structure, and use datasets which make intuitive sense.

2. Roll these services into a Foundation Formula one at a time, testing each time for a loss of accuracy. Again, the test could be based on thresholds both for the majority of councils and for outliers.

It may be that such a method has not been considered because of a lack of resources, bearing in mind departmental cutbacks since the formulae for these services were last reviewed. If this is the case, MHCLG may wish to reflect on the willingness its local government partners have shown to engage in the Review. It may wish to discuss with them whether they could also contribute to the statistical analysis. (Using external resource could also be considered – MHCLG, other government departments, the LGA and the HCLG Select Committee have all commissioned statistical and financial modelling from external organisations in recent years.)

If, notwithstanding these options, the above method seems too onerous, then this procedure could be limited to services with higher levels of spend, or services where councils' discretion over the level of spend is more limited. TRL Insight invites the Government and its partners in the Review to consider whether this approach to selecting the services in the Foundation Formula is more objective and systematic than picking them 'by hand', in the way proposed in the consultation.

Should the Government and its partners decide not to adopt this approach in the current review, the approach could nonetheless be considered for future reviews of the needs formulae.

The next five subsections relate to particular services and indicators.

Elderly and disabled concessionary transport – Question 3

This is an area of significant spend for many authorities, including (but perhaps not limited to) London boroughs, tourist destinations, retirement destinations and areas with highly developed/connected transport infrastructure.

It has been highly contentious in previous reviews of needs formulae. There have been many reasons for it being contentious, including:

- ◆ The high levels of spend by many authorities;

- ◆ New national concessions creating additional unforeseen demand for concessionary journeys, for which funding was not provided;

- Complex interactions between the new legal duties and existing legal duties;

- 'Fixed pots' being redistributed, when it was felt that these pots did not cover existing funding requirements, giving a sense of the Government 'robbing Peter to pay Paul';

- Data on the number of concessionary journeys not being available at the time the new formulae were derived.

However, in Formula Funding in 2013-14, a very simple formula was used: the concessionary travel element for a particular authority was simply proportional to its modelled concessionary boardings. Modelled boardings were used, as actual concessionary boardings data was not available at the time. Now, boardings figures are available for London, every Integrated Transport Authority (ITA) in the country, and almost all upper-tier authorities in other areas.

Use of actual boardings data would be more accurate than using modelled boardings. This would in turn be far more accurate than putting concessionary transport into the Foundation Formula and thereby implicitly assuming spend to be proportional to population (of all ages).

If this were done, an approach would need to be found for the few authorities which do not supply such data. For these, it may be possible to use modelled boardings, although it should be taken into account that if the modelled boardings were higher than actual boardings, there is a disincentive to providing such data in the future. For London and the ITAs, the data would need to be disaggregated to local authority level – this could be done pro rata to population, or by another method if that is preferred by the authorities in question. (For example, London uses a different method for apportioning the costs of its concessionary fares scheme to its Boroughs. It may prefer to use that method for disaggregating its data.)

This would not address concerns that low funding levels impact on the provision of bus routes and that this can then in turn supress the number of concessionary journeys. However, any redistribution of existing funding following a change to the formula would have losers. This would impact on existing service levels. If there is a strong desire in local government to address the issue of 'unmet need' then concessionary travel would be a good candidate for additional funding being used to 'level up' authorities' funding. (This approach has been used for schools funding.) Concessionary boardings data could then be used to set a baseline or 'lower threshold'.

If concessionary boardings were to be the only indicator relating to elderly and disabled concessionary travel, it is hard to see putting it into a 'Foundation 'Formula' instead would be any significant simplification. Without commenting on whether it is *desirable* to have a separate formula for concessionary fares, it is worth noting that implementing a single-indicator formula such as the current one is a trivial increase in complexity, for what could be a considerable increase in accuracy.

Waste Services

As explained above, waste collection is likely to be highly sensitive to journey times. We would therefore expect an ACA calculated for waste collection alone to be highly dependent on the 'traversal' measure.

Variables that may well impact on demand volumes are:

- Number of households;

- Proportion of households in flats;

- Number of residents per household.

All of these are available from census data. The proportion of waste that is destined for recycling (by tonnage) may also have some impact, but possibly less so for waste collection.

One reasonable approach would be to divide the ACA-deflated expenditure by the number of households to get (deflated) expenditure per household, and then examine how this measure varies with the other indicators. It may be that some of these variations are not linear ones; if this is borne in mind, it may well be possible to construct a fairly accurate formula with relatively few variables.

It should also be noted that some authorities run a joint waste collection service with others or are in a similar partnership and only one of the partners records the costs in the relevant RO line.

Waste disposal costs (including recycling) are likely to be far less sensitive to the accessibility measures. Considerations here include:

- Whether the authority is part of a joint waste disposal authority; if so, the fees this membership incurs and the benefits the authority receives;

- Gate fees paid for disposal;

◆ The proportion of waste being recycled.

Homelessness

Logically, spend on homelessness is unlikely to follow population data particularly closely, although we have not tested this. It may well be influenced by factors such as the availability and cost of housing rental and levels of deprivation. Many charities and other organisations working in the field of housing and homelessness have looked into drivers of homelessness and the associated costs to the state. Indeed, Shelter and Acclaim Consulting provide a comprehensive service to review local authorities' homelessness services, which includes benchmarking, and draws on a deep understanding of cost drivers and comparability of services[4].

Should it be decided that there will be a separate formula for homelessness, by drawing on these resources, it should be possible to find a reasonably accurate formula for expenditure on these services.

Highways Maintenance

The consultation implies that 'road length' and 'all traffic flow' will be the only indicators used in this formula, and that these were primarily selected by drawing on consultation responses. However, it also states that 'Other cost drivers that were tested did not significantly improve the precision of the formula'. This implies that a formula has already been derived and that tests on precision have been carried out. It would be helpful to consultees to share the results of this analysis.

At this stage of deriving a formula, when indicators are being ruled out, consultees may reasonably expect to know which variables are being tested, and the measure on which changes to precision is being assessed (i.e. the basis for rejecting variables).

If the elimination of these variables has resulted in a formula, consultees may also reasonably expect to know at least the following:

◆ The proportion of spend that is being explained by the formula;

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[4] Shelter, *Homelessness and Housing Advice Consultancy Services* - including report *Value for money in housing options and homelessness services*

- ◆ 'Outliers': cases where the formula diverges significantly from actual spend;

- ◆ The weightings that result from this analysis.

This is particularly important if it is being proposed that a linear formula is constructed from only two variables, as there are only two weightings (plus the intercept) that can be changed to provide a good fit to the expenditure data. This could lead to perverse results, such as a negative weighting for one of the indicators[5].

Length of coastline indicator – Fire & Rescue formula (Question 2) & Coast Protection formula

It could be helpful to ensure that this indicator is calculated robustly and consistently and that this is transparent to interested parties. The length of a section of coastline is not a fixed value – it is a fractal, whose value depends on the scale at which it is measured. Measuring it at smaller scales will involve including greater numbers of indentations. What appears to be an almost straight line at large scales will appear to be an increasingly jagged or curvy line at smaller scales. Measurements of the same stretch of coastline at different scales are known to result in widely differing results, one often being many times another.

It would therefore be helpful to ensure that a consistent scale is used for calculating every coastal authority's value of this indicator, and to make this scale public. This would reduce the chance of an authority disputing the length cited for its coastline.

Weighting cost drivers in a formula

MHCLG and its predecessors have refined their techniques for carrying out regressions against spend over several decades. The resulting methodology has many strengths. However, as pointed out during the Review, it also has flaws.

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[5] A negative value would mean that the funding allocation would *reduce* with increasing road length or traffic flow – this illogicality would not make the formula easier to explain.

The consultation helpfully clarifies that it does not directly allocate more funding to councils that have spent more in the past.

However, councils have to 'cut their coats according to the cloth'. If they have less funding, they have to scale back their services accordingly. This means that if a group of authorities receives less funding than an 'ideal' needs formula would imply, they will spend less money across the range of their services. This would imply a lower quality of service than other councils might achieve. If this group has a higher level of a particular indicator than other councils, this could lead to that indicator receiving a lower weighting in regressions against spend.

For example, if authorities with high levels of deprivation receive less funding than an 'ideal' formula would imply, there may consequently be a lower weighting for the deprivation measure. Thus, the regression methodology does not directly replicate existing patterns of spending for each individual authority, but could perpetuate systematic imbalances between indicators.

From the description of multi-level modelling given in the consultation and in the wider Review process, it sounds like it could help to reduce such imbalances, where it can be carried out.

Another approach may be worthy of consideration. It is clear that to carry out a regression, some scaling of the expenditure is required, to take account of the fact that some councils are much larger than others. It is less clear that the appropriate denominator is population. (From the previous regressions done by MHCLG's predecessors, it appears that this results in population always appearing in needs formulae.) Instead of carrying out regressions against service expenditure *per head*, regressions could be carried out against service expenditure *as a proportion of total council spend*. This provides a measure of the relative need to spend on this service, and does not have an intrinsic bias in favour of councils with higher levels of overall spend.

Now it may be that there is a strong statistical reason why it would not be robust to use this measure as the dependent variable in a regression. But if so, it would be helpful if MHCLG could provide an explanation.

If this were to be considered, there would be a question of which measure of total council spend is the most appropriate – for example, (gross) revenue expenditure, net current expenditure, or the formerly reported 'Budget Requirement'. This may be best decided by consultation with Section 151 officers. It may be most suitable to adopt whichever they believe to be the truest measure of a council's total spend or total budget (though there could be statistical reasons for setting some other criterion).

Resources equalisation – detail on council tax

Council tax levels (and allocation) in resources deduction – Questions 8 & 10

A strong case is made for using notional council tax levels in the consultation, but it is not the purpose of this response to state views on such matters. Rather, TRL Insight wishes to point out that both a) the actual council tax levels and b) the notional levels using the Government's preferred method of tier splits (using uniform national percentages) can be modelled using the relative council tax deductions model.

Collection rates – Question 9

In determining the appropriate collection rate to use in the resources deduction, it may be worth considering two points:

- ◆ Sensitivity/stability: if the minimum or maximum rate is used, would this fluctuate over time, and if so, what are the implications for the stability of councils' funding?

- ◆ 'Disincentive' effect[6]: the difference between the notional collection rate and a council's actual rate would represent the difference between the council tax they collect and the amount they have deducted for equalisation. Depending on which is higher, this could be a benefit or a penalty. While the collection rate appears to be heavily affected by deprivation (see LGA's response), it could be prudent to ensure that the measure used does not inadvertently provide a perverse incentive *not* to increase the collection rate, or remove all advantage to an authority of increasing the collection rate.

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[6] In general, councils try to do what is in the best interests of their residents. This does not require anyone to incentivise them, but it is certainly helpful for any financial disincentives to do what is contrary to residents' interests to be removed. What the Government refers to as 'incentives' are usually financial rewards or penalties. They also often relate to issues on which council leaders have little direct control, but can make a difference through use of 'soft' power. For these reasons, 'incentive' is put in inverted commas in this response.

Transitional arrangements and general features of resources equalisation – Questions 11-14

The implications of transitional arrangements and tax base projections for building 'incentives'

The consultation mentions in paragraph 3.2.24 the relationship between the use of tax base projections and 'incentives' for house building. The choice of transitional arrangements will also have a major impact on 'incentives' for building homes and business premises. It would be prudent to take this into consideration when determining the nature of the transitional arrangements and whether to use tax base projections.

Let us assume to start with that authorities' business rates baselines will be recalculated at regular intervals. Also at regular intervals (although not necessarily at the same time), the needs formulae are revised, using updated data[7].

The consultation assumes that the transitional arrangements will be applied **after** the council tax deduction but **before** the tariffs and top-ups are calculated. This would mean that rates received as the result of the construction of a new hereditament would be retained until the next recalculation of business rate baselines[8]. At that point, the gain would be redistributed in full or in part (depending on whether there is a 'full reset' or a 'partial reset'). If, instead, the transitional arrangements were applied to the final tariff/top-up (that is, after equalisation for differing business rates yield), they could spread the redistribution over a number of years. Consequently, the financial 'incentive' could tail off gradually rather than coming to a sharp end at the recalculation point. The nature of the transitional arrangements would determine whether different authorities have different or similar profiles for the way the incentive declines.

Conversely, for Council Tax, if the equalisation for differing ability to raise it is not updated for several years, councils retain their growth in tax yield over this period. If the equalisation is updated at the end of the period, the growth will then start to be redistributed. With the transitional arrangements occurring after this

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[7] It was previously assumed that these revisions would happen at the same time, and this event was called a 'reset'. The current consultations seem to make no such assumption.

[8] The implications of different options for the transitional arrangements are modelled in the transition options model, commissioned by the LGA and delivered by LG Futures.

equalisation, this growth will be redistributed gradually over the following period. If, on the other hand, the transitional mechanism were to be applied before the resource deduction, this 'natural incentive' would come to a sharp end at this point.

Whenever a transitional mechanism is applied after equalisation for a particular tax yield, the way that the 'incentives' tail off after the respective recalculation point depends on the nature of the mechanism. For example, consider a 'pace of change'-type transitional mechanism, where the equalisation changes from its start point to the final value at a set percentage every year. Assume this to be the same rate for every council. Then the growth in yield is redistributed according to this same profile for each council.

On the other hand, if there is a `floors and ceilings' or `floors and scaling' mechanism, then the profile is different for different authorities. This was the case with Formula Grant. Damping was applied after the resource equalisation. For an authority on the floor, if it raised its council tax yield, it did not receive a cut in grant; instead the grant cut was shared between the non-floor ("scaled") authorities in its damping group. If the authority was a scaled authority, it did receive a share of the grant cut, with the remainder of the grant cut again spread around the damping group (via a change in scaling factor).

In a scenario where the equalisation is updated annually, the situation is different. If the equalisation is exactly the same as the tax yield in each individual year, there is no `incentive'.

If the equalisation differs from the actual tax yield, though, this difference provides the `incentive'. There seem to be two examples of this currently under consideration.

One is the use of 'phased' or 'lagged' resets for business rates, in which the value of business rates yields used in equalisation (setting the tariffs and top-ups) is the actual yield from x years prior to this. This results in each years' growth being retained for x years, then dropping out. (This is the same principle as used in NHB.)

The other is the use of tax base projections for council tax (Question 11). In this case, each council effectively retains any growth in council tax above the projection, until such point as a future projection takes this growth into account. It should be noted that such a mechanism can have some odd features. The tax base projections in Formula Grant assumed that each council would achieve the average of the previous two years' growth over the years of the following

settlement period. (There were often two- and three-year settlements for Formula Grant, with each year of these settlements using the same projected growth.)

If this same mechanism for projection were used under Business Rate Retention, it could cause some anomalies, as it did under Formula Grant. Say an authority has a substantial new development and all of the homes are added to the tax base in the same year. Let's say it's 2022-23 and it adds 6% to the tax base. Then the growth projections for 2023-24 will assume that the average of this and the previous year's growth will be repeated – i.e. a growth of at least 3%. Similarly, the growth projections for 2024-25 will assume that the average of the growth in 2022-23 and 2023-24 will be repeated – again, at least 3%. Therefore, if the authority fails to grow its tax base by these amounts in either of these years, the resources deduction will exceed the growth. In effect, the authority would be penalised for failing to maintain the growth in an exceptional year.

It's worth noting that each of these two examples could in theory be applied to the other tax. So, if for some reason it were felt desirable, projections could be applied to business rates base for the purpose of setting tariffs and top-ups.

The converse, however, may be more appealing to central and local government. That is, the council tax base used in the resource deduction could be the actual tax base from x years previously. This would result in each year's growth in council tax yield being retained for x years before being redistributed.

This would have a very similar effect to the original NHB (before the baseline was added). The differences would be that:

1. NHB rewards two councils with the same tax base growth equally, regardless of their Band D council tax rate;

2. NHB contains extra rewards for affordable housing and for restoring empty homes to use.

Indeed, if `lagged' values were used for the council tax deduction, it would remove the need for the central part of NHB. The funding could then be refocused on issues such as:

- ensuring that councils with lower property prices[9] and lower Band D rates didn't lose out;

- building more affordable housing; and

- restoring empty homes to use.

Wider use of resource equalisation

One feature that the considerations in preceding subsection bring out is worthy of further attention. In the absence of transitional arrangements (or if they apply equally to both tax bases), equalisation can operate in a very similar way for council tax and business rates. (And consequently, `incentives' can operate in a similar way for both.) This is obvious from the calculation of top-ups (and tariffs) in the absence of transitional arrangements:

Top-up = relative needs – council tax deduction – business rates baseline

Were income from parking (or other fees and charges) included, this would read:

Top-up = relative needs – council tax deduction – parking income – business rates baseline

TRL Insight has no views as to whether such income should be included. The point of interest here is that this system allows a natural way to equalise for different locally-raised funding. Should other taxes be devolved to local government in the future, or councils be allowed to levy supplements on national taxes, we would suggest considering this as a way of equalising for the resulting yield.

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[9] This is suggested because at present, there is much less reward for building a property in a lower band, despite the fact it may house the same number of people as one in a higher band. These properties may be of similar quality, but happen to be in parts of the country with different property prices.