DRAFT

Local Government Finance Reform (Fair Funding Review)
Department for Communities and Local Government
2nd Floor SE, Fry Building
2 Marsham Street
London
SW1P 4DF

26th September 2016

Consultation Response – Fair Funding Review

Dear Sir/Madam

I am responding on behalf of Lincolnshire County Council to the above consultation. The County Council welcomes the opportunity to put its views forward and, in so doing, would point out that it also supports the separate submissions on this matter made by the County Councils Network, the Society of County Treasurers and the Rural Services Network. This Council has also participated in a joint response with four other Counties (ie. Leicestershire, Staffordshire, Worcestershire and East Riding) who have like characteristics including, in particular, a history of receiving low relative funding settlements.

The response is structured to make a few general comments and to then address the fourteen specific questions posed in the consultation document itself.

A fundamental review of the need to spend is required urgently. The 50% business rate retention regime was introduced in April 2014 and was preceded by work to set the baseline funding level for each local authority. The baseline funding level was derived from the relative needs formula – part of the then four block model. Top-ups and tariffs were then derived by comparing funding baselines to business rate baselines. Need to spend as incorporated into baseline funding has not been reviewed since 2013/14 despite such features as demographic pressures increasing on adult care authorities in particular.

A key aspect of the 2013/14 work was to review the impact of rurality on the funding needs of rural councils. However, the outcome of that work was never implemented in a satisfactory manner. For many rural authorities the potential increase in funding derived from that work was removed almost entirely by the damping mechanism then in force. Whilst additional grant has been forthcoming in recent years to recognise the cost of delivering services in rural areas, this funding stream does not compensate fully for the additional costs identified by early work by the Department. Additional rural services costs need hard wiring into the revised distribution mechanism at the outset.

This Council believes the current distribution of resources is unfair and means that many low funded authorities are placed under extreme financial pressure as resources reduce whilst service demand rises. The best example relates to demographic pressures in Adult and Children's Care. The link between the need to spend and the available resources is now broken and I would refer you to the detail submission from the aforementioned five low funded Counties for specific examples. For example, if those five Counties were funded at the same level as Islington they would be between £170m and £490m pa better off with a consequential massive potential for improvement in service provision.

This Council has also responded to the 100% business rates retention consultation and, in so doing, made suggestions as to a number of principles that should apply to that initiative. They are equally applicable here and comprise the following:

- Existing unfunded cost pressures should be the first call on the additional 50% of business rates now proposed for direct allocation to local government. This is particularly the case for adult and children's care authorities such as Lincolnshire where demographic growth combined with direct cost pressures are continually adding to the financial consequences of delivering sustainable, good quality services.

- The new system should focus on the actual needs of local residents based upon an objective assessment of need and not, for example, premised on what has been spent historically.

- Population should be a key factor in funding distribution as should all existing available funding streams.

- Transitional arrangements will inevitably be required in moving from the old funding regime to the new one but these should be based on clear objectively set timescales to allow proper long term planning for all authorities impacted. Specifically, the opaqueness that characterised the 'damping' regime in operation prior to the part localisation of business rates must be avoided.

- New burdens must be adequately funded post implementation of the new regime.

Q1: What is your view on the balance between simple and complex funding formulae?

Simple formulae would be best but it is suggested as unrealistic that funding distribution to a range of local authorities with different responsibilities can be achieved in such a manner. Complexity is acceptable if it delivers fairness. Ideally subjective inputs should be eliminated or at least minimised. Starting an allocation methodology with a simple amount per head per service would be sensible for many services and then building on additional factors in a transparent manner. At the end of the process identifying and analysing the differences between similar classes of authority should help to quality assure the process and provide a sense check on fairness.

Q2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

It is hoped this work will start from a zero base in terms of needs assessment and within that approach demand led services need special consideration. The foremost of these would be adult and children's social care. Certain aspects of public health also fall within that category. Rural authorities face particularly pressures related to transport costs whether this be home to school, bus subsidies or concessionary fares. This Council urges that the review should not be constrained by current allocations. If a new formula is robustly constructed and consulted upon but offers a different pattern of funding from the present then, subject to appropriate transition arrangements, it should be adopted.

Q3: Should expenditure based regression continue to be used to assess councils' funding needs?

No – this technique implicitly assumes that past expenditure is a good indicator of future needs which is simply not the case particularly when differential demographic drivers are at work. The allocation methodology needs to be sensitive to future changes in the drivers of need for a service area – demographic changes in adult care being a prime example. As mentioned at 2 above a zero based review of need is required.

Q4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

There are a range of features that represent an authority's need to spend on services – these include rurality; sparsity; dispersion; average local incomes; deprivation; client numbers for key services. Councils and their representative bodies are very willing to work with the Department to identify the appropriate drivers of need in each service area.

Q5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

This Council has insufficient technical knowledge of the available statistical techniques in order to provide a meaningful comment. There are issues of principle to resolve, as mentioned earlier in this response, prior to consideration of this level of technical detail. The principal of these being the need to agree a reliable measure of need for each service.

Q6: What other considerations should we keep in mind when measuring the relative need of authorities?

The factors mentioned in the above answer to Q.4 are equally relevant here.

Q7: What is your view on how we should take into account the growth in local taxes since 13-14?

Clearly the capacity to raise local income via council tax does have a part to play in this review. There are significant geographical differences nationally in the proportion of an authority's budget funded by council tax. There can be a range of reasons why that has occurred and one relates to the consequences of previous grant allocation methodologies. Property values have historically been taken as a proxy for wealth whereas household income is arguable a more relevant measure for this exercise.

Residents in shire areas are paid, on average, 11% less than the national average. However, they tend to pay nearly 6% more in council tax.

When compared to London boroughs, shire residents earn 20% less but it is the residents in London that pay 4% less than shire residents.

Residents in shire areas earn, on average, 11% more than residents of metropolitan areas but pay almost 30% more for their services.

It is clear that the assertion that using 1991 house prices as a proxy for wealth is no longer valid. In the interests of fairness and transparency the Council firmly believes this issue needs to be discussed openly and addressed as part of the fair funding review. Leaving the current status quo in place risks undermining any work to create a fair funding formula and is unacceptable.

Modelling work with the 4 other partner Counties included consideration of applying a national average council tax level, rather than “actual” council tax levels as reflected in Core Spending Power. This work showed a need to redress the balance of particularly low council tax levels in inner London authorities compared with other classes of authorities, particularly County Councils.

Those partner Councils would also like to see a review of the current council tax support scheme – particularly the protected demographics in shire areas. In a similar way that the Councils are calling for freedoms in relation to funding through business rates, the Councils would also support having the freedom to vary the eligibility criteria for current discounts and support.

Q8: Should we allow step-changes in local authorities’ funding following the new needs assessment?

The pre 2013 damping regime was very opaque in terms of the timescales over which it would completely adjust the funding bases of impacted authorities. That must not be replicated in the new regime. It is accepted that some transition arrangements are required but these need to be transparent and be clearly time limited to, say, a period of no more than three years. Transition arrangements need to be proportionate to the quantum of the transition actually required.

Q9: If not, what are your views on how we should transition to the new distribution of funding?

Please see the answer to Q.8 above.

Q10: 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?

Whilst there could be a theoretical case for such an approach it would be fraught with difficulty at a local level as each authority will inevitably have different priorities and pressures. It could be adopted in areas with a Combined Authority in place but it would need to be incorporated as a key principle within the Combined Authority agreement and constitution. Those documents would require the inclusion of a process as to how the disaggregation of funding between the Combined Authority constituents would operate in practice including dealing with disputes. This should be a matter for local discretion.

Q11: How should we decide the composition of these areas if we were to introduce such a system?

Whilst this should be the subject of local discretion, the system could only sensibly operate where a formal Combined Authority arrangement was in place.

Q12: What other considerations would we need to keep in mind if we were to introduce such a system?

Such a system could be used as a basis for arguing in favour of a unitary council model as it will serve to highlight how much more efficient the funding distribution mechanism would be under a unitary model. If combined area allocations are introduced there will probably still be a need for the DCLG to calculate (and, possibly, publish) individual authority allocations in case no local agreement on disaggregation can be reached.

Q13: What behaviours should the reformed local government finance system incentivise?

The clear intent behind these reforms is to stimulate economic growth in all local authority areas. There is a real risk that the new regime which incorporates the power to reduce the business rate multiplier will simply encourage 'bidding wars' between tiers to attract new development and will not create material additional development over and above that which would have been forthcoming in any event. The consequence could be highly detrimental to front line service delivery as an areas funding base is eroded.

Q14: How can we build these incentives into the assessment of councils' funding needs?

Councils should be given more freedom to vary the business rate multiplier at a local level and current mandatory business rate reliefs should be made local discretions.

I trust these comments will be of value.

Yours faithfully

Director of Finance & Public Protection