APPENDIX B

Business Rates Reform
Fair Funding Review: Call for evidence on Needs and Redistribution

The County Council welcomes the opportunity to contribute to this call for evidence. As the lowest funded County Council, Leicestershire is keenly interested in the development of a funding system which achieves a much fairer distribution of local government funding than the current system has achieved.

The current system is broken, with little link between the spending power of local authorities and local needs. The County Council has long acknowledged that logically someone has to be 'bottom of the league table' but the gaps between those at the bottom, those at the top and also from the overall average level of funding, have been far too wide for far too long.

The County Council was quick to act to plan sensibly for the impact of austerity and made savings of around £103m in the previous Parliament and is set to make savings of at least that level during the current Parliament. Those earlier savings were weighted towards efficiency savings but the scope for further efficiencies is diminishing and the balance of savings will need to move towards service reductions, which will impact on the service users and residents of the County.

It is imperative that the Government fixes the funding system by creating one that incentivises all councils to be efficient and recognising local differences in need, hence addressing the fundamental problems and unfairness of the current funding situation.

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

The County Council has long argued against the complexity and opaqueness of the current Four-Block Model which is extremely difficult to explain to elected members and taxpayers. Since the four block model's introduction it has been widely discredited – both independently and from within local government.

The County Council does not believe that complexity, as such, is necessarily a problem; local authorities deliver a wide range of services to a broad spectrum of people, so a level of complexity is part of local authority day to day existence. However, when a funding model results in unexplainable results, unfair allocations of resources and heavy-handed levers of ministerial control, then that particular approach is unacceptable.

Different local services will face demand driven by different demographics or geographical landscapes. The current system's reliance on regression encourages statisticians to look for increasingly complex formulae in an attempt to replicate the historic pattern of spending or activity. By basing future allocations on past expenditure patterns the line between past and future funding is cemented and old funding inequalities are "locked in" to the system.

The County Council therefore believes that a sensible approach would be to place simplicity first with additional layers of complexity argued and evidenced for on a case by case basis. For example, start by funding services on an appropriate per capita basis (per elderly person, per km of road by heavy goods vehicles, for example) before hearing evidence about other indicators of demand and incorporating those measures into the formulae.

Having a final sanity check is an essential component of any complex calculation to ensure that an accumulation of factors does not result in unintended results, as is undoubtedly the case with the current system.

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

Excluding Education, the largest service area for upper tier Councils in terms of expenditure is Adult Social Care. It is therefore of paramount importance that the increasing demands of this service are not just captured now but for the period until the next Business Rates Retention System (BRRS) reset. The BRRS consultation running alongside this call for evidence suggests that the partial resets may also incorporate some measure of need reset for services which are "demand led", such as adult and children's social care. Given the potential impacts of failures in these services the County Council would be supportive of demands and funding in these areas being reviewed more frequently.

As commented earlier, future allocations cannot be based upon past spend and/or activity. A currently well-funded authority will be able to do more and spend more than an authority which is relatively underfunded. The County Council strongly urge the Department to speak to directors of adult social care to understand the demand pressures and ensure that these are funded adequately rather than relying on regression analysis to lock in past funding patterns.

There are many other services being provided by local authorities which are coming under increasing pressure. For example school transport costs are increasing as the number of maintained schools converting to academies grows (who are responsible for the qualifying criteria). Historical pressure on concessionary fares budgets has meant that, in some areas, the difficult decision to offer reduced bus services is masking the true unfairness of the current funding. The County Council believes that an approach to funding local services based more on actual service demand levers will address many of these current issues.

The County Council also urges the Department not to be constrained by the current allocations. If a new formula is rigorously constructed and consulted upon but offers a different pattern of funding then, reasonable transitional arrangements aside, it should be implemented.

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

The County Council believes that a system whereby future funding allocations are calculated on the basis of past spending decisions is not one that supports future funding need. Instead it simply imbeds past funding decisions whether these were by the local authority itself or the Government in determining the funding need and damping levels of local authorities.

It is of paramount importance that service needs are not just captured for services now but for the lifetime of which the formula is expected to apply. This is vital for a needs assessment that is expected to be "frozen" for a numbers of years under the BRRS, during which population increases are expected to causes significant service pressures for demand led services such as Adult Social Care.

The County Council strongly urges the Department to consider starting afresh, with a "blank sheet of paper". Key cost drivers should be agreed for each service area, factors such as density, sparsity and area cost adjustment should be considered afresh and a new "fair funding" system should be established. The County Council has undertaken modelling along these lines and the provisional results demonstrate a narrower spread of funding levels on a per capita basis, which redresses the fundamental problem of the current funding situation of unexplainable results.

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

See the response to Q3. The County Council considers that councils' spending on services is a very poor measure of need as it will be dependent on whether they were adequately funded or not

in the past. Key indicators, such as relevant population numbers, should be the basis building blocks in the new formulae.
The cost drivers set out below are considered to be the key drivers of costs for individual authorities:

Children's Services:
Population aged 0-25
Income deprivation – Children
Disabled children 0-19

Adult Social Care:
Older Adults:
Population aged 80+
Income deprivation - Older people
Younger Adults:
Disabled adults 20+

Highways Maintenance:
Number of road km by Heavy Goods Vehicles

Fire & Other Services:
Total population

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

See the response to Q3. The County Council does not have an issue with the regression technique, per se, or with the other techniques outlined in the consultation. However, until there is a reliable measure of need (the dependent variable) that is not based on historic spending or activity the Council cannot support the use of regression.

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

See the response to Q3. The new funding formula must be capable of reflecting future demands for services.

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

The County Council agrees that local capacity to raise income (including council tax) will need to be considered as part of this review.

The proportion of an authority's budget which is funded by council tax varies hugely across the country. There can, of course be many reasons for these differences; however, past local government settlements have frequently included an element of resource equalisation – the impact of which falls heaviest in areas with large tax bases.

When council tax was introduced it was based on property values as a suitable proxy for wealth. Since then the housing market has changed drastically and the resulting comparison between wages and council tax makes for interesting reading.

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.

The Council’s own modelling includes consideration of applying a national average council tax level, rather than “actual” council tax levels as reflected in Core Spending Power. This work shows 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.

The County Council 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 Council is calling for freedoms in relation to funding through business rates, the Council 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 County Council believes that there is a balance between moving to the new distribution as quickly as possible and a safe transition period that takes account of the scale of funding reductions local authorities can cope with. The scale of transition will only become clear when the new distribution has been modelled. There should be step-changes, but those steps need to be set carefully and appropriately.

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

See response to Q8.

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?

The move to 100% business rate retention and the Fair Funding Review is expected to lead to significant changes for local government funding. The County Council believes that changes to the current local authority geography system would add unnecessary further complexity to the system. Instead the Council considers that local authorities are best placed to decide upon what is appropriate in their local area: combined authorities, pooling of budgets, collaboration or none of these.

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

See response to Q10. This is something that should be decided on an authority-by-authority or region-by-region basis. A truly fair funding formula where the assessment of need and distribution of funding are seen to be fair will help to facilitate this.

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

See response to Q10.

Q13: What behaviours should the reformed local government finance system incentivise?
Q14: How can we build these incentives in to the assessment of councils' funding needs?

The approach for reaching a fair funding formula that the County Council has outlined above would produce a weighted per capita approach for each local authority area (or region). The County Council believes that fair funding would put local authorities on a fair footing, should reduce the "postcode lottery" of services and mean that directors of services can get on with running the best services they can knowing that their funding allocation does not put them at a disadvantage. The County Council does not believe that any further incentives are needed in the formula.

The County Council looks forward to continuing to engage in the development of the needs assessment and the implementation of 100% business rates retention and awaits the Government's response to this consultation and the 100% Retention of Business Rates' consultation.

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