

Fair Funding Review: Call for evidence on Needs and Redistribution

26 September 2016

The Local Government Association (LGA) welcomes the opportunity to respond to the Government's Call for evidence on Needs and Redistribution.

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been agreed by the LGA's Leadership Board, Executive and Business Rates Task and Finish Group.

We are working jointly with the Department for Communities and Local Government on the introduction of further business rates retention and the Fair Funding review. The LGA will continue to encourage an open conversation between the Government and the sector on these issues. The review needs to continue to be as open as possible and listen to all representations.

Above all, the LGA calls on the Government to give due regard to all responses from the sector received on the call for evidence.

- The LGA is clear that simplification is an important goal, but it should not come at an unacceptable cost to fairness.
- The LGA believes that adjustments for council tax raising capacity should remain an important part of the system.
- There needs to be a transition scheme which is underpinned by extra funding from Government for those with the sharpest cuts.

Our response outlines some suggestions for further exploration, mostly informed by representations we have received to date.

Responses to specific questions

Our responses to each of the questions are set out in detail below.

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

Over the years, the system for allocating shares of funding has become ever-more complex, to a point where it is difficult to explain how a local authority's funding levels from the Government are determined. The four-

block model is particularly complex and has led to authorities losing funding through changes that should not affect them.

A mechanism that is easier to understand is an important aspiration for any new system. This will aid transparency and accountability, but does not necessarily mean that the formulae must be minimalistic. Fairness should be the primary objective of the redistribution system. If a distribution can be achieved through a simpler approach that would be welcome but not if this is at an unacceptable expense to fairness.

Fairness versus simplicity are not the only principles that need to be considered when developing a new needs baseline. Other principles that need to be considered, such as responsiveness to changing needs and predictability also need to be considered.

The Government must examine all the evidence and listen to the views of the sector when identifying cost factors and design principles to take into account as part of the Fair Funding Review.

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

We have received representations about adults' and children's social care services as focus points for particular and more detailed service formulae. The Department of Health has not yet published the results of the review of Relative Needs Formulae for personal social services. Potentially the result of this review could form the framework for, or become, the determinant of adult social care relative needs in the new system.

Views have been expressed that other services such as transport and road maintenance could be assessed separately. We also note that the technical working group on needs and redistribution is also considering how to approach environmental and cultural services. However, there are divergent views in the sector on whether service-specific formulae are required; this should be explored with due regard to the balance between simplicity and fairness as outlined above.

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

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

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

It is essential that all approaches are considered and assessed on their merits. The LGA does not have firm preferences on detailed statistical techniques involved but would be concerned about increasing levels of non-evidence based judgement used in the formulae.

Representations we have received to date show a mixed opinion on past expenditure-based regression. One opinion is that this could reinforce the current funding pattern as available government funding is a major constraint on spending after sustained reductions. On the other hand, as a

modelling technique it is fairly straightforward to undertake and explain.

We would recommend looking at how funding formulae are derived in other sectors, such as health and police, and in other countries to see if there are alternative approaches and techniques that could be explored.

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

One consistent concern that has been highlighted in representations that we have received is the need to make sure that the redistribution mechanisms are future-proof given the expectation that the system may include long term fixed-period resets. This means that the Government needs to consider not only the current profile of relative needs, but also how it is likely to change in the future.

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

The LGA believes that adjustments for council tax raising capacity should remain an important part of the system. We do not have a view on the exact approach with which council tax is taken into account.

In terms of business rates, the LGA agrees that there has to be a balance between rewarding growth and changes in the needs basis. Some sort of partial reset could provide a way forward possibly linked to a full reset over a longer timeframe. It is not possible at this stage to say what this balance should be until further modelling work has been undertaken to look at the impact on authorities.

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

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

We have heard representations about the transitional mechanism sometimes being a more important feature of the redistribution system than the actual formulae that provide 'target shares'. However, it is clear that for some local authorities a single step-change might prove to be too drastic if the review results in very significant swings. For some, it might take a significant amount of time for growth in business rates to compensate for the reduced baseline. There are mixed views on the length of time it should take to reach target shares as measured by the formula, and this should be reviewed once exemplifications of the impact of the review are published.

To minimise the impact of transition, but keep some progression towards the needs baselines, the Government could consider using some funding from the central share to smooth the path for authorities with the sharpest reductions.

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?

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

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

It is difficult to see how the whole of England could be grouped in this manner at this point. This could impede collaboration where the process is at an earlier stage and where the governance structures have not yet evolved.

We therefore believe that a single local authority is still the most appropriate geographic unit for assessing need and distributing funding. However, there should be flexibility for areas to opt in to receive funding for the whole area, in a single fund to be distributed within the area, when this is agreed by the relevant local authorities and where there is no impact on neighbouring areas.

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

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

In the immediate period after the implementation of reform, it might be desirable to avoid unnecessary complexity in the relative needs assessment. In addition, behaviours such as collaboration, integration and efficiency are already ingrained in local government because of the scarcity of resources available to deliver services.

Instead of building 'stretch/shrink targets' into relative needs assessments, it might be worth exploring whether certain behaviours could be encouraged or incentives sharpened through other system design features. Local government is always looking for more efficient and joined up ways to deliver services. Various procedural and bureaucratic obstacles to collaboration and integration across public sector boundaries are the biggest disincentive.