



SOUTH EAST ENGLAND COUNCILS EXECUTIVE COMMITTEE MEETING

Date: 8 March 2012

Subject: **Fair funding: Update on SEEC proposals for local government finance reform**

Report of: Heather Bolton, SEEC Director

Recommendation:

Members review and comment on objectives and updated proposals for SEEC's fair funding report.

1. Background

- 1.1 SEEC members are keen to make the case to Government for improvements to the local government finance system. Under the current system South East local authorities do not believe they receive a fair funding deal compared to authorities in other areas of the country, particularly London. This is evidenced by average council tax increases in the South East of 129% since 1997/98. This compares to 109% for the whole of England, 116% for Outer London Boroughs and just 73% for Inner London Boroughs. SEEC members believe this is a direct consequence of Government policy to favour metropolitan areas through the grant system.
- 1.2 In 2011 SEEC commissioned Local Government Futures (LGF) to prepare a two-stage report on the local government finance system. This work provides a strong, independent evidence base to support SEEC members' position in arguing for change to deliver a fairer system. Stage 1 was reported to SEEC members in July; Stage 2 in December.
- 1.3 Stage 1 work showed the current finance system is no longer fit for purpose and needs radical overhaul to make it fairer and more transparent. Examples show that per capita levels of funding in the South East are consistently lower than in other areas of England, affecting revenue, capital and individual service budgets & council tax. The South East has also seen a rise in deprivation, expects greater than average population growth and faces higher costs for delivering many services. These problems not only affect South East taxpayers, but also risk the South East's role as engine room of the UK economy.
- 1.4 Stage 2 illustrated possible changes to the local government finance system and the potential impact on funding for South East councils. It also highlighted the opaque and unpredictable nature of the current system, showing how funding allocations fail to meet councils' actual needs – for example on deprivation – and how the distorting effect of damping protects previous levels of funding rather than reflecting current need to spend. Damping also fails to act as a transitional mechanism to make the shift to an equitable allocation manageable.
- 1.5 Building on the evidence provided by LGF, SEEC believes the current system is fundamentally flawed and puts unfair pressure on South East council tax payers. Despite recent changes, including business rate localisation proposals, some members have serious reservations whether the changes will meet the needs of South East councils and want to see fundamental review of local government finance. Input from members and finance officers is helping to shape SEEC proposals for change that we expect to present to ministers in summer 2012.

2. SEEC's fair funding objectives

2.1 Following discussion at the SEEC executive in December and further officer input, five proposed objectives for the SEEC report are presented for member discussion:

- i. Secure central Government recognition that the current local government finance system is not fit for purpose
- ii. Gain central Government commitment to a fundamental review that will create a fairer, more transparent system for funding councils
SEEC will aim to achieve these two objectives by highlighting examples of unfair funding and demonstrating the detrimental effect these decisions are having on South East residents, including more than 560,000 people living in deprived areas.
- iii. Confirm SEEC's support for national redistribution of funding to poorer areas via a fairer and more accountable process
SEEC will make the case for phased transition to a new redistribution based on actual need rather than relative need and that damping allows the change to happen over a manageable period of time. Annual settlements would be reviewed for fairness by a panel of leading politicians and officers from across England.
- iv. Persuade central Government to make longer-term financial commitments on funding mechanisms, allowing authorities to plan major infrastructure investments with confidence
SEEC will aim to achieve this by highlighting the potential for long-term certainty over funding streams such as TIF, CIL and New Homes Bonus. Councils need this commitment so they can make investments to support economic growth and development without fear of funding being withdrawn at a later date or authorities being penalised through future funding mechanisms.
- v. Put forward specific funding proposals that will help deliver a fairer deal for South East council tax payers
SEEC will outline proposals from members to achieve a more equitable funding system, phased in over a period of time. In addition to longer term commitments and funding mechanisms based on actual need, current suggestions for change include working towards an agreement that council tax income should fund the same proportion of each council's spending to deliver services to a common standard (eg 40% excluding schools).

3. SEEC's report to ministers

3.1 SEEC proposals will be included in a short report to ministers making the case for change and outlining a new way forward. A publicity programme will also be developed. The LGF research will be published alongside the SEEC report to provide the detailed evidence base supporting members' proposals for change.

3.2 Building on the draft objectives above, the report itself could be presented in five chapters (below). Each chapter would include examples to illustrate SEEC's case, drawn both from the LGF work on the current system and from members' proposals for change. Subject to agreement on the objectives, emerging recommendations will be circulated to Executive members as the detailed report develops. A PR plan will be developed to support launch of the final document after the May elections.

- i. Executive Summary
Outline SEEC objectives for the fair funding report (see para 2.1) plus recommendations to be agreed.
- ii. Flawed & unfair – the current local government finance system
Illustrations of unfair funding – for example health, affordable housing, capital allocations, council tax comparisons.

- iii. Clear & accountable – a new approach to local government finance
Proposals for change – for example requesting longer-term commitment on existing funding streams, grants based on actual need and considering the merits of council tax funding at least an agreed proportion of council spend.
- iv. Making the transition – a phased introduction
Proposals for phasing in the new system over a number of years to avoid the impact of a 'big bang' change and allow councils to plan for introduction of new funding methodology.
- v. Conclusion
To be agreed.