

**SOUTH EAST ENGLAND COUNCILS
EXECUTIVE MEETING**



Date: 7 June 2011

Subject: **SEEC Fair Funding Report: Stage 1 report
and next steps**

Report of: Heather Bolton, SEEC Head of Communications
& Public Affairs

Recommendations:

- i) Review headline findings in the draft Executive Summary for the Stage 1 report
- ii) Consider how to disseminate Stage 1 information
- iii) Agree priorities to include in the Stage 2 report on proposals for changing the finance system

1. Introduction

- 1.1 SEEC Executive in February 2011 agreed to commission the first stage of a report on the current local government finance system. Stage 1 focuses on flaws in the system and funding for South East authorities compared to other areas of the country. Stage 1 Draft Executive Summary will be circulated as soon as possible before the meeting on 7 June.
- 1.2 The aim of Stage 2 is to put forward constructive proposals for changing the local government finance system, including identifying the potential financial impact of such changes, and key principles relating to the effective use of financial incentives for councils. The Executive workshop on 27 May approved funding for Stage 2, allowing us to target presentation of initial findings to the SEEC AGM in July. Some proposed options for Stage 2 topics will be circulated as soon as possible before the Executive meeting on 7 June.
- 1.3 After competitive tender earlier this year, the commission was awarded to Local Government Futures. Estimated cost for Stage 1 is circa £30,000 and Stage 2 will cost approximately a further £28,000.
- 1.4 SEEC understands that ministers are willing to consider a full review of the local government finance system, working to a longer timetable than the current work on business rates. This fair funding report – particularly with the addition of Stage 2 – will allow SEEC to make a significant contribution to Government reviews.

2. Stage 1 headline findings

- 2.1 Key findings are that the local government finance system is no longer fit for purpose and needs a radical overhaul to make it fairer and more transparent. Research also shows that per capita levels of funding in the South East are consistently lower than in other areas of the country. This affects revenue, capital and individual services. The South East has also seen a rise in deprivation and faces higher than average costs for delivering many services. The Stage 1 report is divided into 3 sections. Headline findings for each section are outlined below.

2.2. Section 1: The current local government funding system:

- The 4-block system was introduced in 2006-7 despite a number of stakeholder objections. Since then changes have made a highly complex system even less transparent for local authorities and the public.
- The increasing role of ministerial judgements, without published supporting data, is reducing the level of objectivity within the system.
- The use of damping makes the system backward looking rather than forward looking because it protects previous levels of spending.
- Damping is expensive to operate and many South East councils lose grant to fund the cost. Districts receive only 3 pence for each £1 they are allocated above the damping floor while upper tier councils receive 28.6p for every £1.

2.3 Section 2: South East funding levels

- The South East received the lowest per capita formula grant for each of the past 4 years, 33% less than the average for England.
- Capital funding from Government grant in 2009-10 was lowest in the South East at £102 per head. Highest was £196 per head in North West.
- Even taking account of other sources of capital funding, South East still had the lowest funding level 2009-10 at £257 per head (73% of the English average). Highest was North East at £518 per head.
- South East had the lowest five year average capital expenditure from 2005-6 to 2009-10 on housing and environmental services and the second lowest on highways & transportation (excluding the GLA).
- Health funding is below average. South Central SHA receives the lowest per capita funding (13% below the English average) and South East Coast SHA receives 4% less than the English average for 2011-12.

2.4 Section 3: Current and future cost pressures

- Deprivation increased by 6.8% in the South East between 2007-10, based on the Indices of Multiple Deprivation. This is the highest rise in England.
- Population projections show expected increases in the South East are above the English average, placing pressures on key services, such as adult social care.
- The cost of delivering services is higher in the South East. For example, the unit costs of nursing & residential care costs were 12% above the English average in 2009-10.
- The South East is a gateway to the rest of the UK, and there have been particular difficulties in accurately calculating net international migration. On average each person under-enumerated leads to a loss of £466 in terms of formula grant.

3. Dissemination

- 3.1 The full report from Local Government Futures is highly detailed and provides evidence and analysis to support the headlines in the Executive Summary. The full report will be published on the SEEC website.
- 3.2 While the full report is essential support for making the South East's case at a technical level, it is proposed that most stakeholders receive the Executive Summary with a link to the full document online.
- 3.3 Member views are invited on whether to disseminate Stage 1 findings immediately or wait until constructive proposals for change are produced at Stage 2.

4. Stage 2 work

- 4.1 Proposed content for Stage 2 will consider fair principles that could be applied to incentivisation schemes such as New Homes Bonus and localised business rates. This will include how to avoid 'excessive' equalisation across the country, which could act as a disincentive to councils.
- 4.2 Stage 2 will also consider alternative finance systems, and principles to make a new system fair and transparent. The impact of change on the South East will be modelled where suitable data is available.
- 4.3 A short scoping paper from Local Government Futures setting out options for inclusion in Stage 2 will be circulated as soon as possible so members can discuss priority topics at the Executive meeting on 7 June.