

**SOUTH EAST ENGLAND COUNCILS
ANNUAL GENERAL MEETING & ALL-MEMBER MEETING**

Date: 13 July 2011

Subject: **SEEC Fair Funding Report: Options for a fairer local government finance system**

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



Recommendation:

Agree preferred options to take forward as SEEC's recommendations for changing the local government finance system to deliver fairer allocation of funds.

1. Introduction

1.1 After discussion at Executive Committee, SEEC has commissioned a two-stage report on the local government finance system from specialist consultants Local Government Futures. Stage 1 reported to the Executive in June 2011, illustrating flaws in the system and low levels of funding for South East authorities compared to other areas of the country.

1.2 The Stage 2 report will put forward constructive proposals for changing the current flawed local government finance system.

1.3 At the AGM on 13 July Local Government Futures will present options for change that could be included in the Stage 2 report. The presentation will outline options for measures to include in a new fairer and more transparent local government finance system, for example:

- Greater use of incentivisation and fair principles that could be applied to incentivisation schemes such as New Homes Bonus and localised business rates.
- A simpler funding formula and how damping might operate under a new system.
- How to avoid 'excessive' equalisation across the country, which could act as a disincentive to councils.
- An initial overview of likely financial impacts of these measures.

1.4 Members are asked to discuss and agree preferred options for change that will be taken forward in a formal report to Ministers.

2. Stage 1 headline findings

2.1 Key findings to date show the local government finance system is no longer fit for purpose and needs a radical overhaul to make it fairer and more transparent. The SEEC 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. Headline findings from Stage 1 include:

2.2. 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 0.3p for each £1 they are allocated above the damping floor while upper tier councils receive 28.6p for every £1.

2.3 **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 **Current and future cost pressures**

- Deprivation scores increased by 6.8% in the South East between 2007 and 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 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.

2.5 The full Stage 1 report from Local Government Futures is highly detailed and provides evidence and analysis to support the headlines above. The full report will be published on the SEEC website.