



South East England Councils Fair Funding for the South East

13 July 2011

Introduction

- Stage 1 research presented on 7 June
- Background to funding system, current SE funding levels, cost pressures
- Key issues identified:
 - Complexity of the current local govt funding system
 - Lowest Formula Grant per head (£374 SE, £560 England, £834 London)
 - Second highest C Tax increase over last 15 years
 - Health funding 13%/4% below average (South Central/South East)
 - Lowest level of capital funding (£257 SE, England £412)
 - Largest increase in relative deprivation between 2007 and 2010
 - Older people social care forecast highest to 2020/21 (70% SE, 54% England)
 - Unit costs of social care > Area Cost Adjustment allowance

Introduction

- Stage 2 research focus upon:
 - Relocalisation of business rates
 - Incentivisation schemes
 - Simpler/more transparent funding system
- Intention that this initial analysis guides next steps

Relocalisation – current position

- England has most centralised system of any OECD country (76%/24%)
- NDR potential introduction from April 2013
- Deputy PM statement on 29 June 2011:
“From the start, no authority will receive less funding when the new arrangements are introduced than they would have done previously”
- Retention of part of GROWTH in business rates
- Not an appetite for control over the multiplier
- Consultation on LGRR, then Local Govt Finance Bill
- Link to Tax Increment Financing – borrow against NDR income

Relocalisation – submissions to date

London Councils

- London Councils, City Finance Commission, LGA, Localis
- Generally, a set of principles established
- Key questions are:
 - How much equalisation/redistribution?
 - How to manage overall risk?
 - What constitutes ‘success’/‘growth’?
 - Ensuring that resources aren’t reduced elsewhere

Relocalisation – regional pool contributions/receipts 2012/13

	NDR collected £m	Formula Grant (excl. Police) £m	Net pool contribution £m	% of Formula Grant
South East	3,200	2,373	827	35%
East of England	2,032	1,844	188	10%
London	5,135	4,997	138	3%
West Midlands	1,850	2,604	-754	-29%
East Midlands	1,417	1,742	-325	-19%
Yorks & Humber	1,685	2,484	-799	-32%
North West	2,338	3,630	-1,291	-36%
North East	739	1,470	-731	-50%
South West	1,604	1,769	-165	-9%
England	20,000	22,912	-2,912	-13%

Relocalisation – SE authorities' position

- 49 out of 74 South East councils 'self-sufficient'
- **Pool contributors:** Surrey £202m; Hampshire £129m; W Sussex £111m; Crawley £8.8m; Dartford £6.2m; Guildford £5.4m
- **Pool recipients:** East Sussex £36m; Isle of Wight £32m; Brighton & Hove/ Portsmouth £26m; Thanet £4.9m; Hastings £4.3m; Swale £3.3m
- Depends on relative level of 'need' vs. capacity to collect NDR

Relocalisation – potential growth

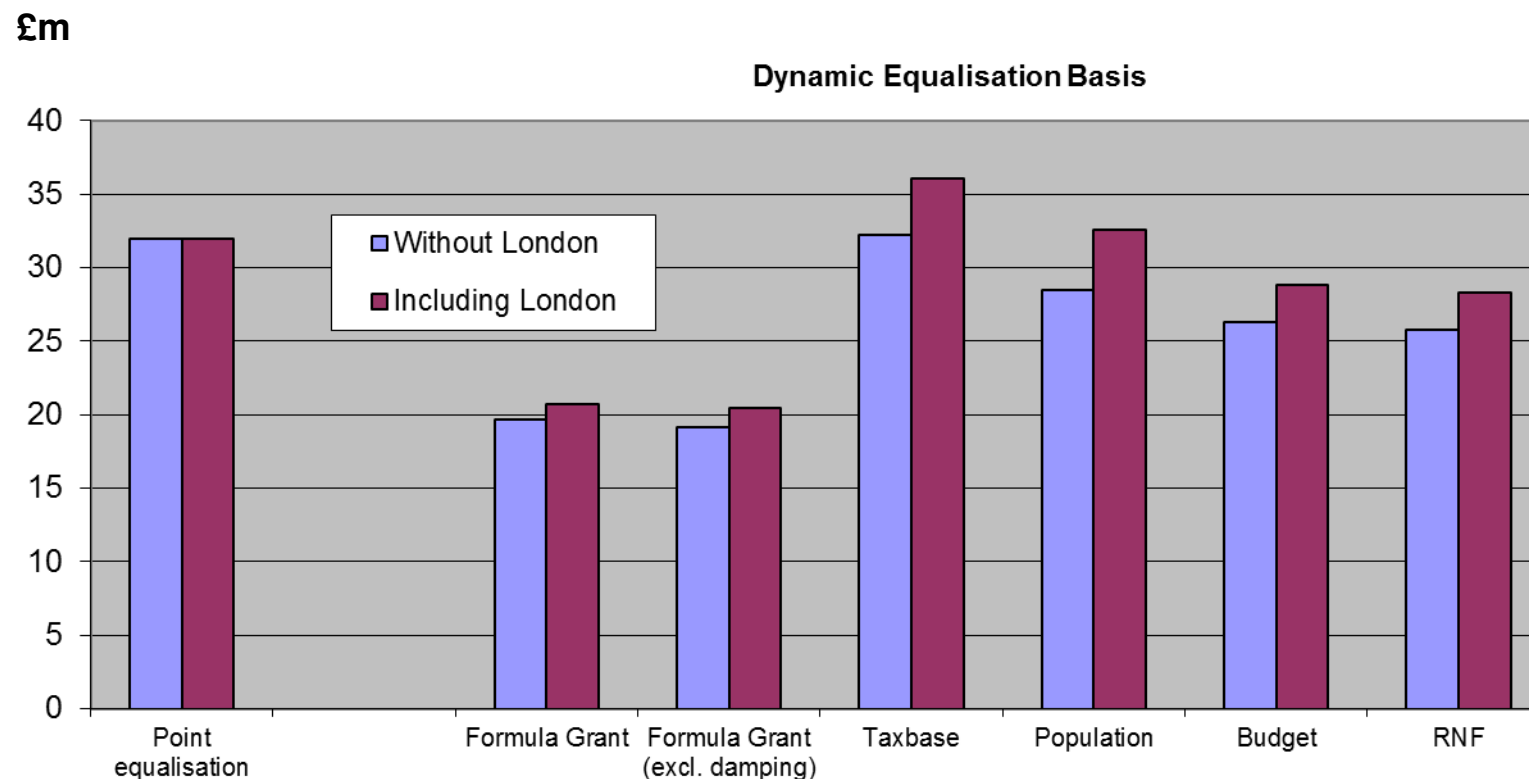
	% change in pool contribution 2009/10-2011/12
North East	0.7%
North West	0.0%
Yorks & Humber	-0.3%
East Midlands	-6.7%
West Midlands	-5.8%
East of England	-1.9%
London	8.9%
South East	-2.2%
South West	2.6%
England average	1.0%

- Underlying NDR base has contracted
- Only NE, SW, London predicting growth
- Surrey -7.6%; Hampshire +2.2%; Spelthorne -14%; Swale +19%
- Need to consider – ongoing trends, one-off events, effect of recession

Relocalisation - equalisation

- 'Point' – LA or region keeps all local NDR increase
- 'Dynamic' – retain a proportion of local NDR increase and/or remainder pooled then redistributed
- Options for redistributing: Formula Grant; Relative Needs Formulae; Budget; Taxbase; Population
- Redistribution will form part of any new system
- Modelled the effect of a 1% NDR increase nationally (with and without London)
- Equates to £32m for SE, highest with exception of London (£51m)

Relocalisation – effect of alternative distribution



- SE loses out from any equalisation model reflecting ‘need’
- ‘Flatter’ distributions better for the SE e.g. taxbase, population
- Formula Grant worst for SE as reflects both needs and C Tax ability
- But, varied local picture depending upon NDR base and need

Relocalisation – London issues

- London – largest NDR source and highest growth
- Excluding London results in less income for SE
- Feel that their growth will be above national average
- Wish to retain as much locally as possible
- Pan-regional governance/identity
- Amount that London pays into national pool is crucial

Incentivisation schemes

- Coalition Agreement May 2010: *“We will provide incentives for local authorities to deliver sustainable development, including for new homes and businesses.”*
- Key criticism is that growth is “equalised away”
- Schemes other than NDR relocalisation:
 - i. New Homes Bonus – NHB grant top-sliced from Formula Grant
 - ii. Community Infrastructure Levy – may be resistance to new development
 - iii. Tax Increment Financing – bid-based, potential focus on more urban/disadvantaged areas
 - iv. Business Improvement Districts – limited proportion in SE, mainly city centre
 - v. Business Rate Supplement – part-funding of Crossrail
 - vi. Business Increase Bonus Scheme – may be superseded by relocalisation
 - vii. Renewable Energy Projects – marginal impact
 - viii. NIC reduction – does not apply to Greater South East
 - ix. Enterprise Zones – 11 initial, but none in SE, 10 remaining (6 cover parts of SE)

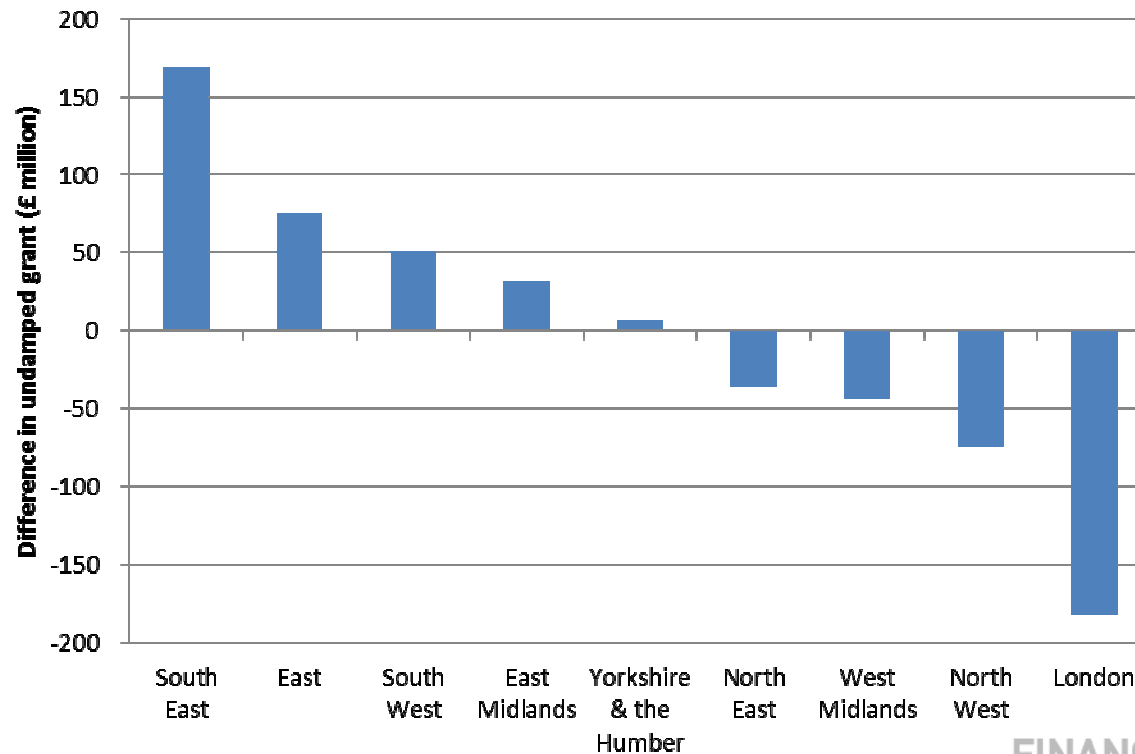
Potential formula changes- modelling

- (i) Making existing system more transparent
- (ii) 'Tweaking' individual components of existing system
- (iii) Simple formula

(i) Making existing system more transparent

- Relative needs below the 'threshold' 37% less funding than those above
- Penalises low need authorities (SE has lowest needs)
- If funding for upper tier services was allocated as a proportion of total need, SE +£169m undamped grant, London -£182m

Change in funding if based on need shares

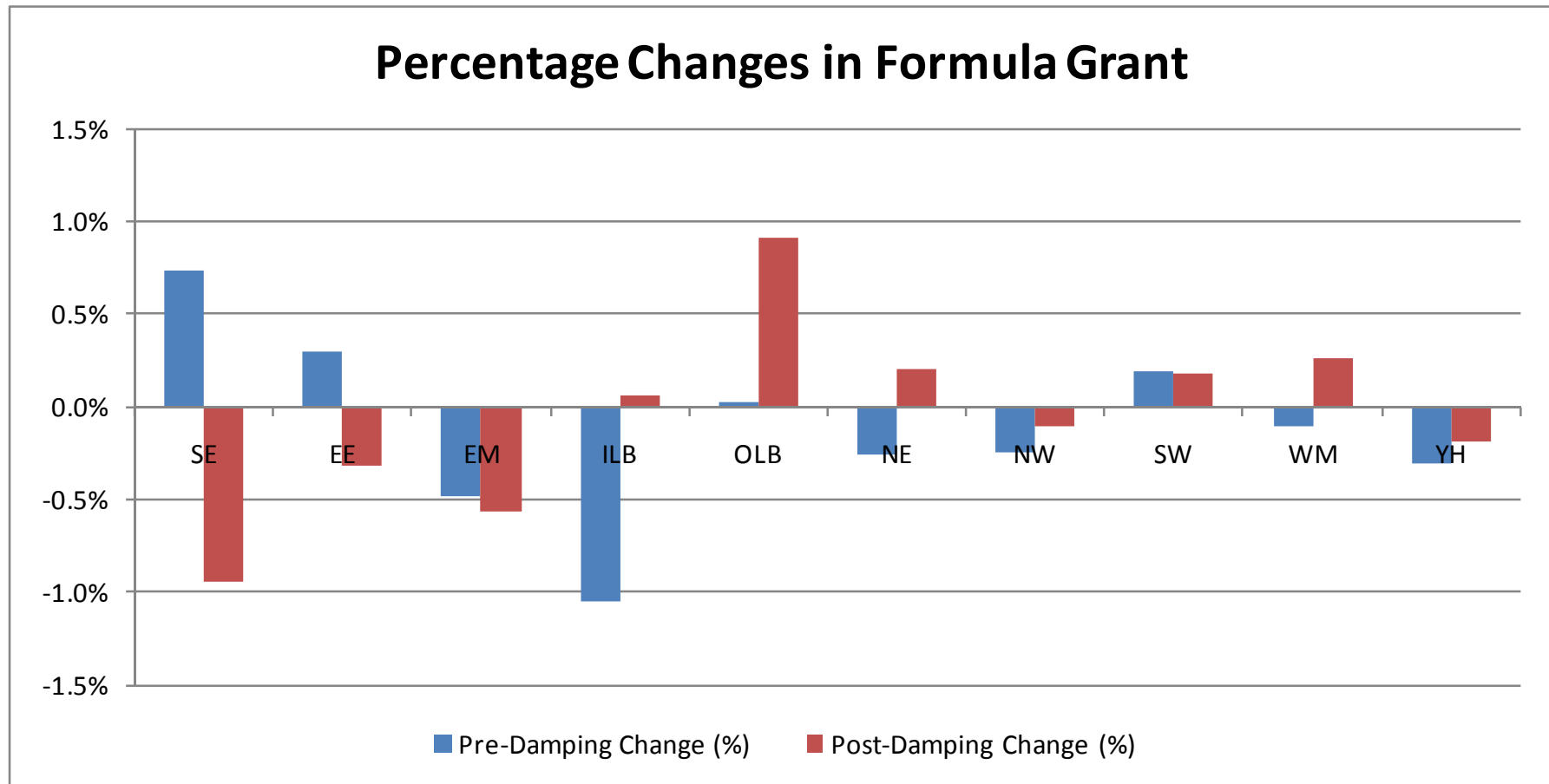


(ii) Impact of changing components

- We have used DCLG's 2011-12 models for Relative Needs Formulae and the calculation of Formula Grant

- The following sensitivities have been modelled:
 - Increase the Basic Allocation for each service by 25%
 - Reduce the amount allocated for deprivation by 50%
 - Reduce the amount allocated for density by 50%
 - Increase the amount allocated for sparsity by 50%

(ii) Impact of changing components: Increase Basic Allocation by 25%

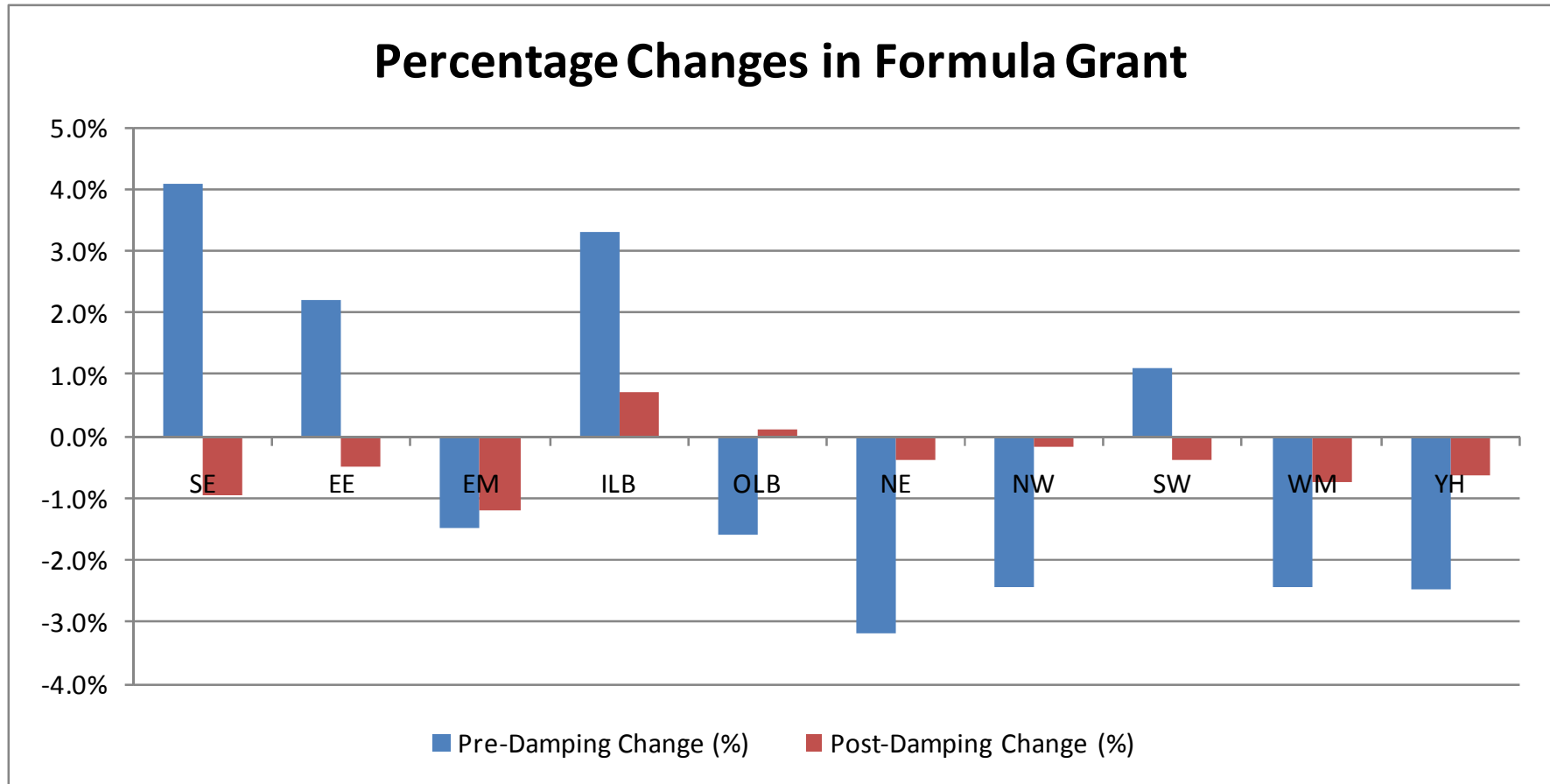


(ii) Impact of changing components: Increase Basic Allocation by 25%

Impact of Change	Before Damping		After Damping	
Total Effect on South East £m / %	22.7	0.7%	-30.3	-0.9%
South East councils	Counties / Unitaries	Districts	Counties / Unitaries	Districts
Losers	3	55	0	50
Gainers	16	0	9	5
Neutral	0	0	10	0

- Change tends to favour lower need authorities
- South East largest regional gainer in cash terms
- Less available for damping funding

(ii) Impact of changing components: Reduce Deprivation by 50%

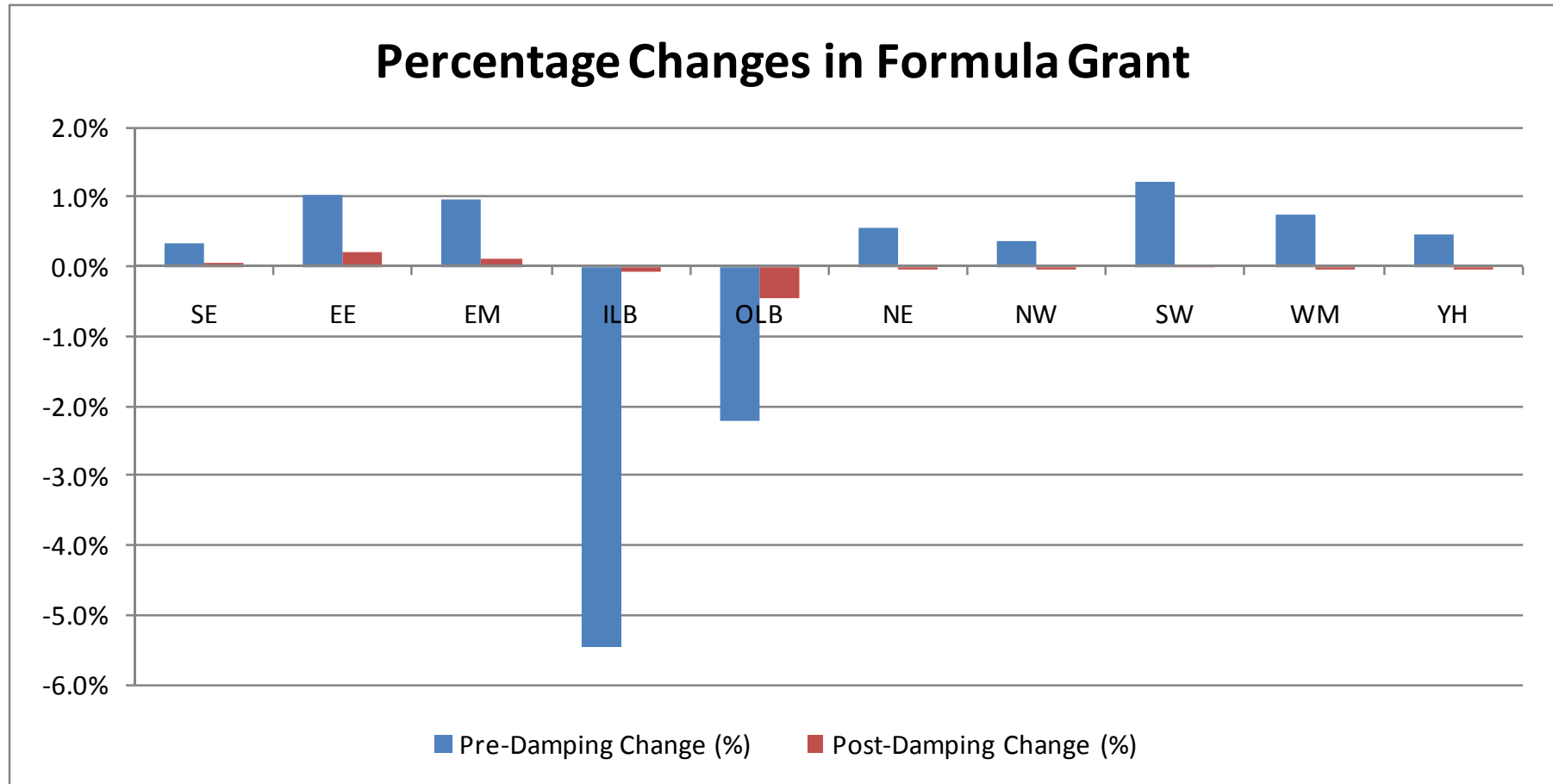


(ii) Impact of changing components: Reduce Deprivation by 50%

Impact of Change	Before Damping		After Damping	
Total Effect on South East £m / %	126.7	4.1%	-30.6	-1.0%
South East councils	Counties / Unitaries	Districts	Counties / Unitaries	Districts
Losers	3	30	1	37
Gainers	16	25	11	18
Neutral	0	0	7	0

- South East overall gainer before damping, but loses after damping
- Inner London surprising gainer (particularly Westminster and K&C)
– highlights formula instability
- Damping model shifts resources to new losing authorities

(ii) Impact of changing components: Reduce Density by 50%

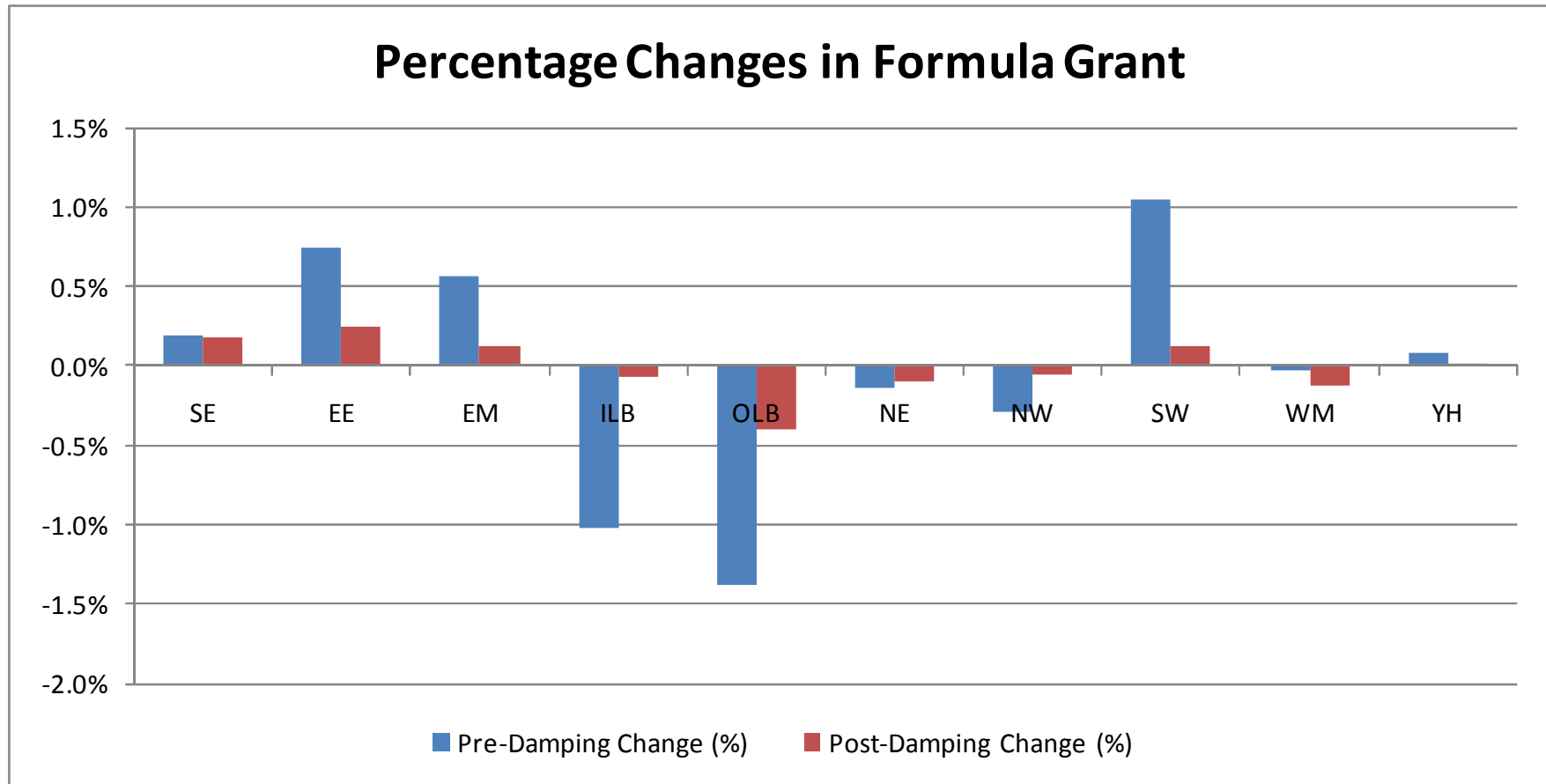


(ii) Impact of changing components: Reduce Density by 50%

Impact of Change	Before Damping		After Damping	
Total Effect on South East £m / %	10.1	0.3%	1.5	0.0%
South East councils	Counties / Unitaries	Districts	Counties / Unitaries	Districts
Losers	7	20	5	0
Gainers	12	35	3	55
Neutral	0	0	11	0

- London significant loser
- SE gains overall, even after damping
- Portsmouth & Brighton & Hove largest losers in SE
- Kent & Hampshire largest gainers

(ii) Impact of changing components: Increase Sparsity by 50%



(ii) Impact of changing components: Increase Sparsity by 50%

Impact of Change	Before Damping		After Damping	
Total Effect on South East £m / %	6.1	0.2%	5.9	0.2%
South East councils	Counties / Unitaries	Districts	Counties / Unitaries	Districts
Losers	11	22	8	0
Gainers	8	33	0	55
Neutral	0	0	11	0

- Again London significant loser
- Similar pattern of gainers to density change
- South West largest gainer

(ii) Impact of changing components - summary

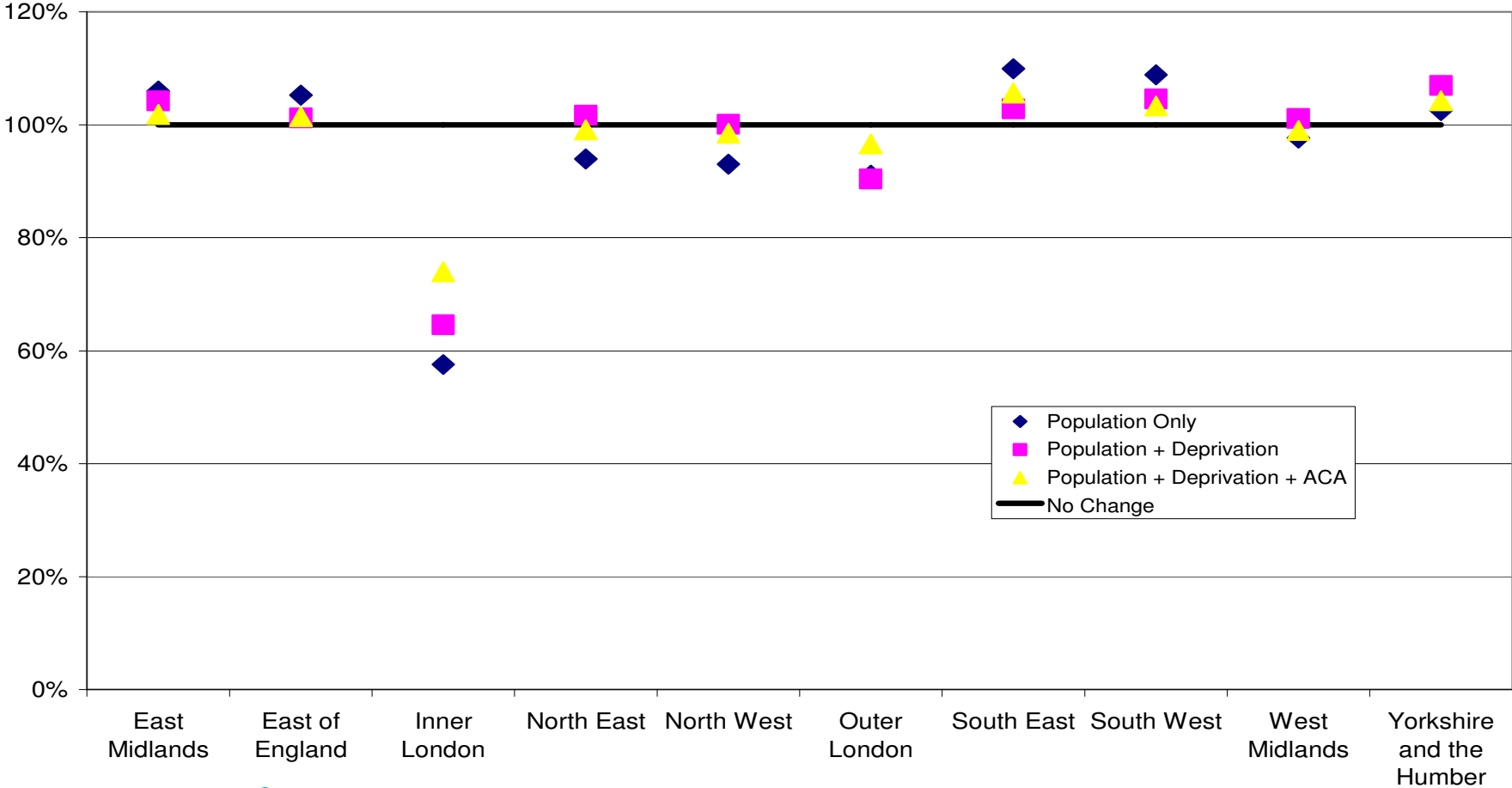
- Formula is volatile
- There will be winners and losers in the SE arising from any change
- The damping arrangements can result in perverse outcomes, e.g. SE gains from reduced deprivation before damping but loses after damping (resources switched to protect “new” losers)
- The numbers of tweaks that can be made to the formula are infinite and requires number of assumptions
- Despite the potential for ministerial judgment, all previous changes have been statistically tested, exemplified and scrutinised

(iii) Developing a simple formula

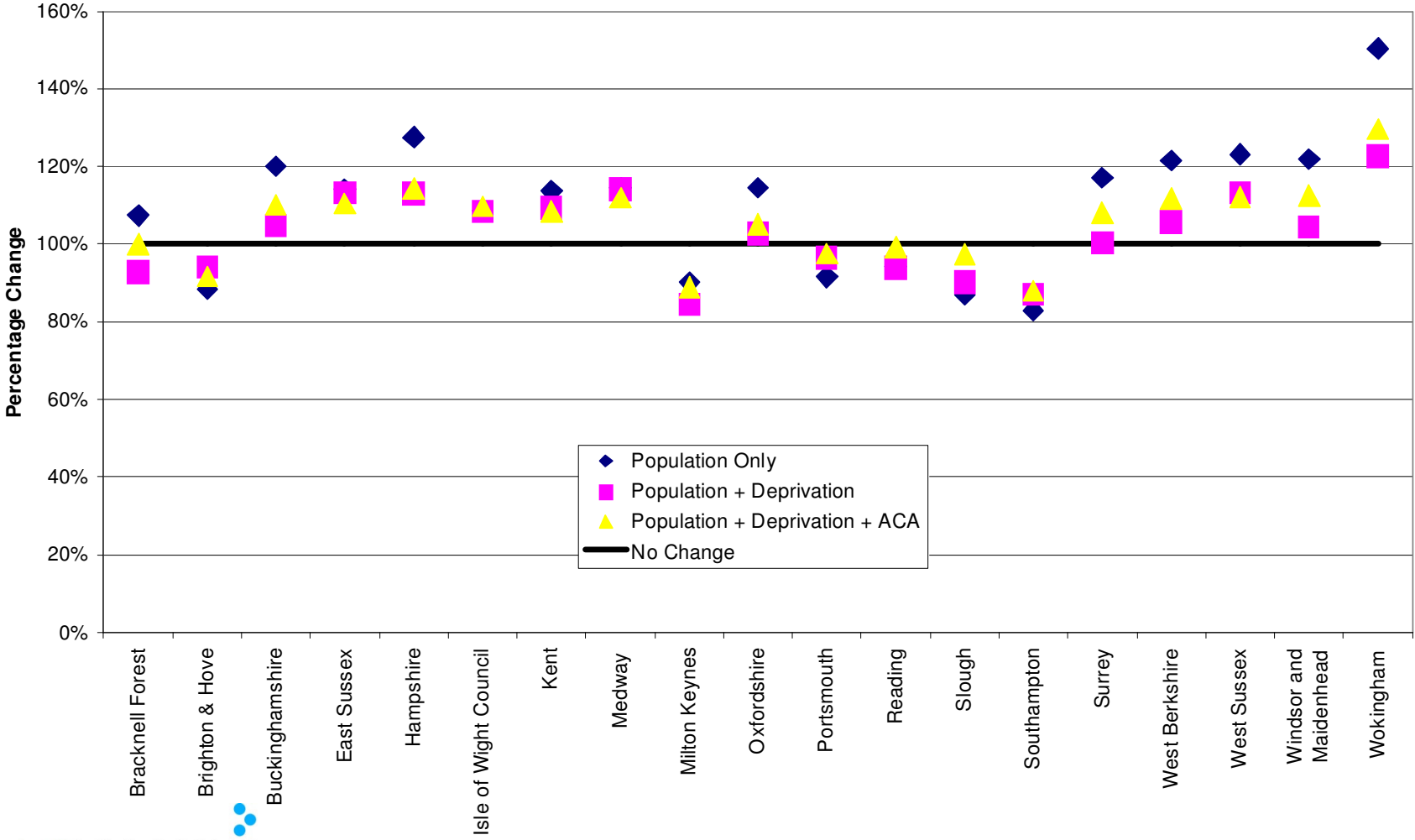
- Models have been developed for:
 - Social services for older people
 - Lower tier EPCS

- For each area, have modelled a formula:
 - Per capita (relevant population for each service block)
 - Per capita plus Indices of Multiple Deprivation (IMD)
 - Per capita plus IMD plus Area Cost Adjustment

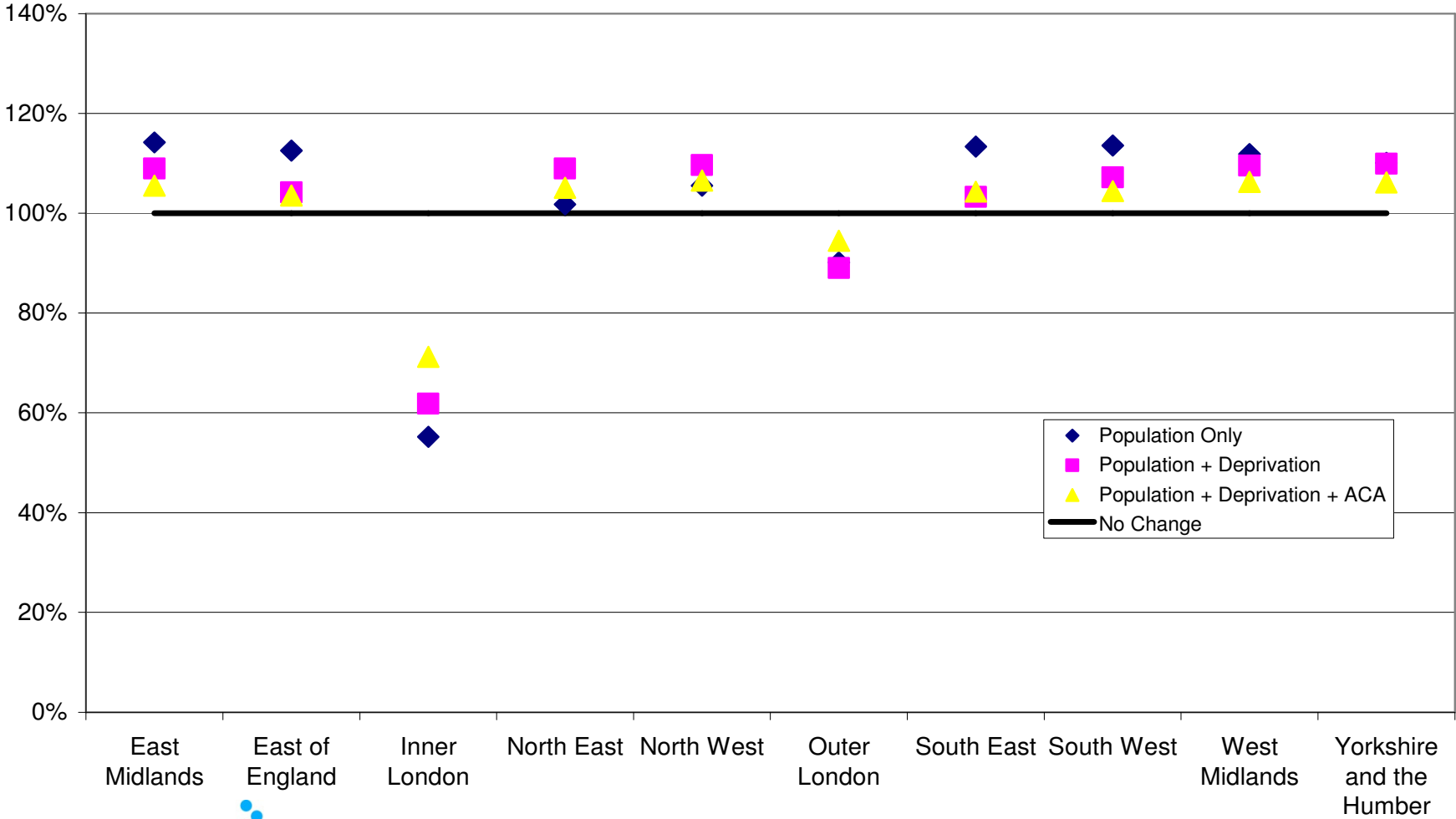
Social Services for Older People: Regional Changes in Funding Share



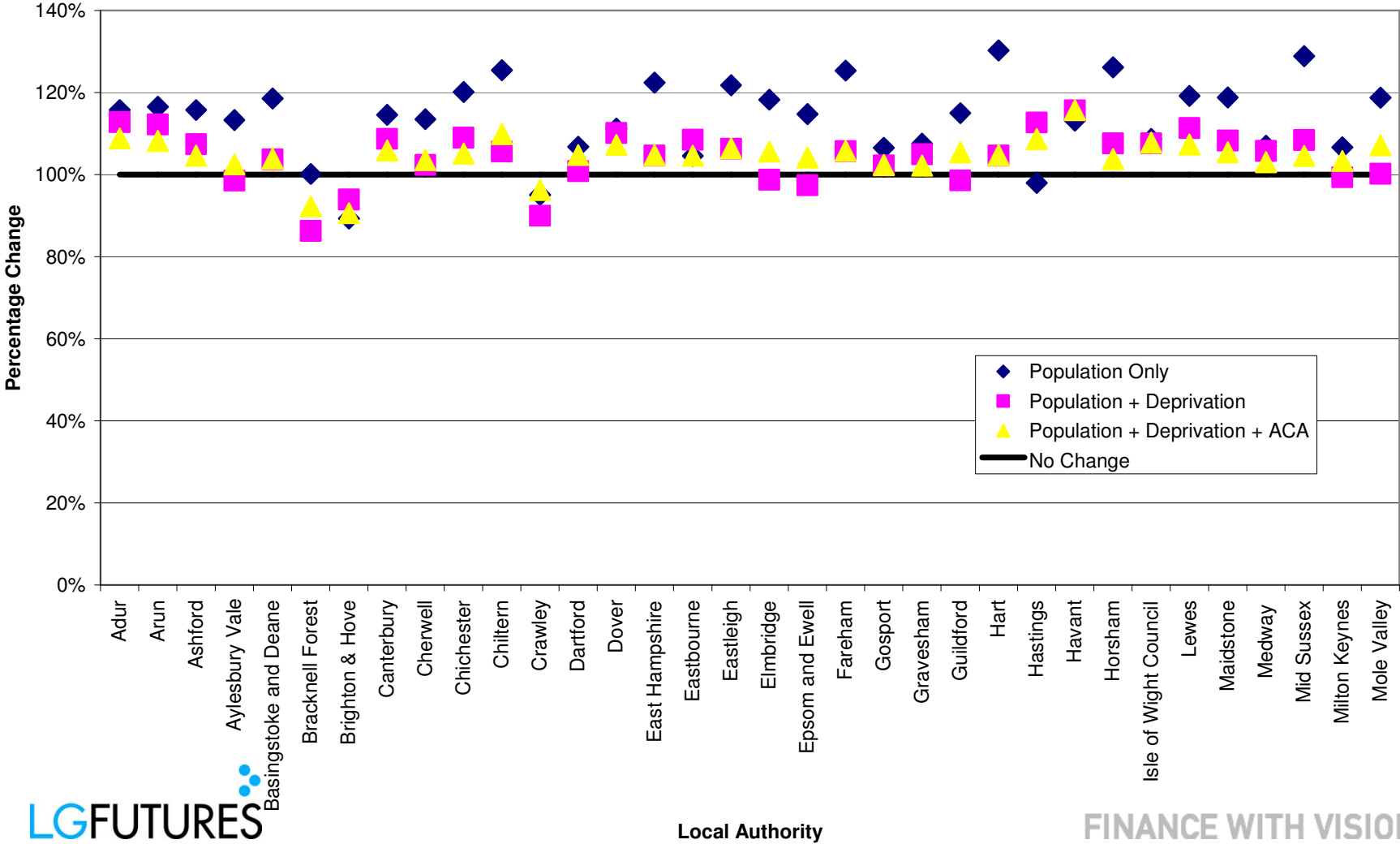
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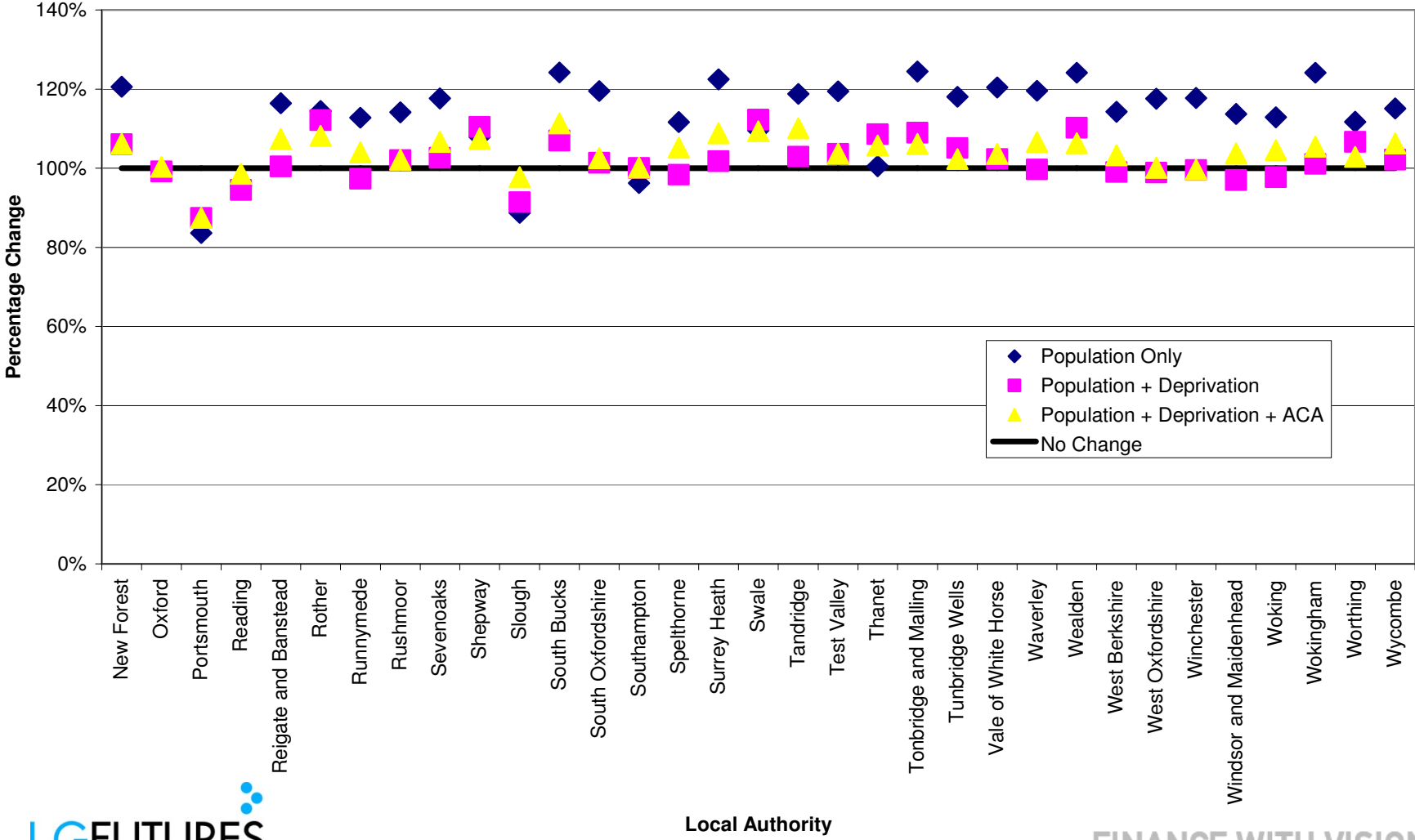
EPCS Lower Tier: Regional Changes in Funding Share



EPCS Lower Tier: SE Changes in Funding Share (A-M)



EPCS Lower Tier: SE Changes in Funding Share (N-W)



(iii) Overall Impact of a Simple Formula

- Simple population-based models move funding from high to low need LAs
- Including IMD has a negative effect on funding for South East Authorities, which is slightly offset by ACA
- There are winners and losers in the South East e.g. Wokingham gains from simple models, Slough would lose from simple models

Summary

- Relocalisation only real issue considered by LGRR
- SE region largest cash/% contribution to NDR pool, but variability
- NDR equalisation/redistribution basis will be key
- Removing London from NDR pool presents a risk to the SE
- “Be careful what you wish for” – formula can be counter-intuitive
- Simpler formula benefits SE region, although winners and losers
- What are members interested in taking forward?