FIXING A BROKEN SYSTEM

How a fairer deal will help council tax payers, the national economy & health

June 2012

South East England Councils
Chairman: Cllr Paul Carter, Leader of Kent County Council

South East England Councils is a membership organisation representing the democratic voice of all tiers of local government. The SEEC area covers 74 local authorities in Berkshire, Buckinghamshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey.

www.secouncils.gov.uk

1. About this report

1.1 This report is the result of extensive research into levels of funding provided to the 74 local authorities in the South East of England under the existing funding system. Our low funding compared to London and Metropolitan areas means that South East councils have had to raise residents' council tax bills by more than city areas (especially London) over the past 20 years in order to maintain vital services. This historically flawed funding system for local government risks national prospects by failing to invest in the South East's potential as the engine of UK economic recovery. Similar discrepancies are also evident in health spending.

1.2 Evidence gathered shows clearly that for many years South East authorities have consistently received much lower levels of central funding than metropolitan and London councils. **We believe there is now an ideal opportunity to build changes in to the Local Government Finance Bill – we have a solution that will start to redress these inequities and keep council tax increases to a minimum without the need for additional public spending**.

1.3 Transfer of public health to local government also offers a timely opportunity to review health funding as part of the major health reforms which will see establishment of GP-led Clinical Commissioning Groups, greater joint commissioning with social care and a desired shift of activity and resource from acute care to preventative services and community health.

1.4 While our focus has been primarily the South East and its high performing, efficient councils, analysis shows that the underfunding we expose is not solely a South East problem – it also affects other areas with two-tier and unitary local government.

1.5 The problem is particularly pressing for the South East. We are the driving force of the UK economy, home to the UK's largest population – 8.5million people – and have only two-tier or unitary councils. However in making our case we also want to draw attention to the plight of residents in other two-tier and unitary areas who face similar issues.

1.6 A detailed evidence base of independent research and analysis showing more examples of historic underfunding in the South East has been produced by Local Government Futures. This is available on the SEEC website www.secouncils.gov.uk

About South East England Councils (SEEC)

1.7 South East England Councils (SEEC) promotes the views and interests of all tiers of local government across the South East, who together represent 8.5 million residents. SEEC is a voluntary body, funded by member council subscriptions, and carries a unique mandate as the single democratic voice of the South East.

1.8 In preparing this report SEEC aims to:

- Secure recognition that current local government finance is opaque and delivers significant inequitable funding outcomes, including on health
- Gain commitment to redressing the funding balance in a fair and transparent way, overseen by an 'independent commission' as suggested by the Lyons Inquiry in 2007 and endorsed by the Local Government Association in their response *A new vision for local government finance*
- Confirm SEEC's support for national redistribution of business rate funding but via a new, fairer system
- Make the case for longer-term financial commitments to councils, allowing authorities to plan major infrastructure investments with confidence
- Put forward proposals to help deliver a fairer deal for South East council tax payers.

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Thanks to the following for their work on this project: Kent CC finance team, including Dave Shipton; Bucks CC finance team, including Richard Schmidt; Local Government Futures, including Jude Ranasinghe; Heather Bolton at South East England Councils.

2. Foreword: Cllr Paul Carter Chairman, South East England Councils

The Local Government Finance Bill offers Government a unique opportunity to mend historic faults in the broken finance system that it has inherited. For South East local authorities the system has been broken for many years but we now see a window of opportunity for change that would benefit both South East residents and the national economy.

Over the past 12 months SEEC has researched the levels of central Government funding for local authorities and health in the South East of England. Our findings show a broken system that over a period of many years has favoured London and metropolitan areas.

Our analysis shows a stark contrast in funding, with areas of two-tier and unitary local government – such as the South East and shire areas – receiving significantly less per head than London and metropolitan areas in both funding for local government services and health provision. We believe this is having a significant negative impact on the South East – affecting our residents' ability to pay, their health and local and national economic prospects.

We welcome Government's commitment to updating public finances but we would like to move faster and further to change the current inequitable and unsustainable system. We are urging Government to take the opportunity of the Local Government Finance Bill to make changes that will address historic problems to deliver a fairer deal based on need and ability to pay for council tax payers and the national economy. NHS reform also presents the ideal opportunity to deliver fairer health spending allocations.

In this paper we put forward options for change that will relieve undue pressure on council tax payers and help South East councils invest more in infrastructure to support economic growth.

SEEC members believe that public finance is in urgent need of reform and that the Local Government Finance Bill offers a ready-made vehicle for change that will help redress years of inequitable funding for the South East. However, we recognise that a quick fix may create new problems, so we have developed a solution with potential to redress past unfair funding over a number of years without increasing public spending.

The problem

- South East residents face unfairly high levels of council tax as a direct result of low central funding for South East authorities. Inequitable grant allocations over many years have put increasing pressure on our council tax payers, with some of our residents having to pay 40% more than residents in London or metropolitan areas.
- Inadequate grants and lack of long term central funding commitments mean South East councils are unable to invest in key infrastructure that will help grow the economy. Figures show capital spending in London 3.3 times higher than in the South East. Our track record as the engine room of the wider UK economy is at risk if we do not invest in major projects that will help us drive the country out of recession.
- South East health spending per head in 2010-11 was the lowest in England, 30% below London and 12% below the national average. This differential puts the delivery of health services under extreme financial pressure and reduces speedy access to some services.

The way forward

We have two alternative solutions for delivering fairer local government funding allocations:

- In an ideal world we would be calling for a fundamental review of the old formula grant allocations and their use as the baseline for the new business rates retention scheme by a new ‘independent commission’. However, we recognise that this could be a long drawn out and contentious process resulting in winners and losers and therefore we are recommending a simpler alternative.
- A gradual rebalancing of resources by allowing those councils assessed by the ‘independent commission’ to have been disadvantaged by the old system to retain a greater share of locally levied business rates than is currently proposed in the Local Government Finance Bill. This would help redress historic inequitable funding without increasing public spending and provide an incentive for greater infrastructure investment.

In addition we would like to see an independent commission undertake a fundamental review of health funding per capita. This would apply to both the allocations for new Clinical Commissioning Groups and public health responsibilities being transferred to local authorities to redress the historic imbalance and ensure the new arrangements are based on a sound needs-led analysis.

Our evidence shows we have a clear, strong case for change. We want to work with Ministers to help design a new funding system that will offer a fair deal for South East council taxpayers and for the national economy.

Cllr Paul Carter
June 2012

3. The problem – why it's not working

SEEC wants to see a genuinely accountable and more open system for financing local government, where residents and businesses can see a clear link between the amount they pay and the services they receive. We urgently need a system that delivers much greater accountability and transparency, along with longer term certainty on funding that will help support infrastructure investment.

Our evidence shows clearly that the current grant system – going back to when council tax was first introduced and, in particular, since changes in 2006-07 – has a disproportionate and unduly negative impact on two-tier and unitary areas compared to London and metropolitan areas. In the South East, where local government is entirely two-tier or unitary, the system puts an unfair financial burden on South East council tax payers and impedes South East local authorities' ability to fund infrastructure projects that could support local and national economic growth.

In this chapter we focus on three key areas:

- The impact of underfunding on council tax levels
- Unfair funding for health leading to 'postcode' health services
- The impact of low funding levels on infrastructure.

3.1 Council tax – residents need fair treatment

3.1.1 Two-tier and unitary areas, including the South East, are consistently receiving significantly less grant per head than London and metropolitan authorities and so need to raise a greater share of spending from local council tax payers. The result is that council tax in two-tier and unitary areas has risen more than it has in London and metropolitan areas, despite being some of the most efficient councils in the country. In London the lower rate of increase in council tax is particularly noticeable since 2006-07 when the four block model was introduced.

3.1.2 Chart 1 and table 1 below show that council tax levels in the South East have been hardest hit. The chart shows increases in average band D council tax since 2000-01, split between the Strategic Spending Assessment era (2000-01 to 2005-06), a transition period (2005-06 to 2006-07) and then the four block formula since 2006-07.

3.1.3 The table shows actual percentage rises in band D, clearly illustrating that the South East has always been at the high end of council tax increases. Most notable are the figures since 2006-07, which show a 7.8% rise in London, compared to a 15.2% rise in the South East over the same period.

3.1.4 Similar analysis by Local Government Futures over a longer period – from 1997-98 to 2011-12 – also showed high council tax rises averaging 129% in the South East. When SEEC compared this figure to central London, we found average rises of just 73% in central London boroughs over the same period.

3.1.5 Despite the differences in funding, South East authorities face high costs as they often have to compete in the same markets as London councils for labour and services. Also, as our figures represent the aggregate of a number of authorities, it is implausible to put the differences down to efficiency.

Chart 1: Unequal increases in band D council tax by area 2000-2011

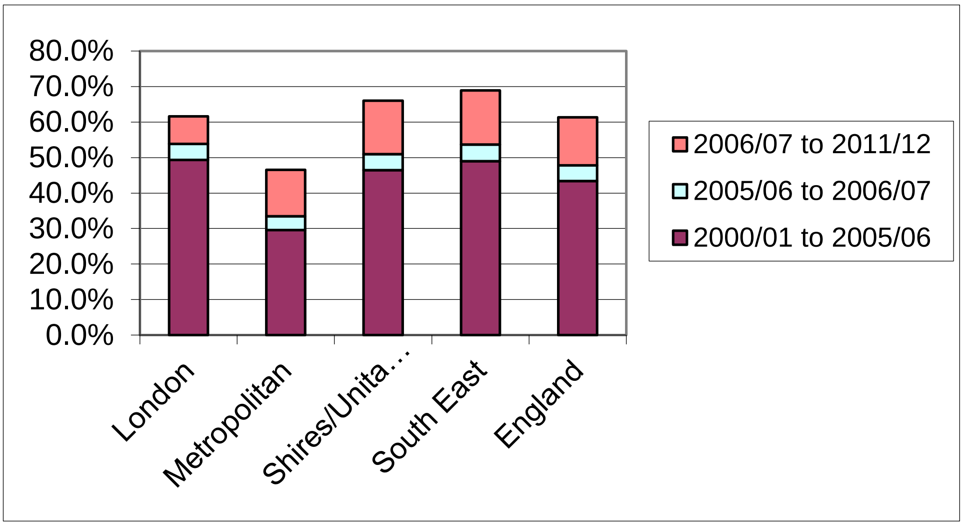


Table 1: Percentage increases in band D council tax by area 2000-2011

	Rise in band D 2000-01 to 2005-06	Rise in band D 2005-06 to 2006-07	Rise in band D 2006-07 to 2011-12
London	**49.3%**	**4.5%**	**7.8%**
Metropolitan	29.6%	3.9%	13.1%
Shires/ Unitaries	46.4%	4.6%	15.0%
South East	**49.0%**	**4.7%**	**15.2%**
England	43.4%	4.4%	13.5%

3.1.6 The next step of our analysis below illustrates how advantageous grant treatment of London and metropolitan areas has allowed them to keep council tax increases lower than in two-tier and unitary areas. We firmly believe these differences can only arise from the considerably more favourable treatment that London and metropolitan areas receive in both main Revenue Support Grant (RSG)/Formula Grant and the allocation of specific grants.

3.1.7 Although the highly complex nature of RSG/Formula and other grants makes it difficult to compare the individual components that make up authorities' grant allocations, per capita comparisons tell a stark story.

3.1.8 Table 2 below shows how much more per capita the current system delivered to London and metropolitan areas in 2011-12 compared to two-tier and unitary areas. While we recognise there may be some additional costs in London, SEEC members find it hard to justify these costs and additional needs in deprived inner city areas should mean that on average London/metropolitan areas receive between 70% to 86% more per capita than two-tier and unitary areas.

3.1.9 The most extreme example compares London's per capita funding with the South East's. At an average of £686 for each resident, London received 2.25 times more per person than the South East's £305 per head.

Table 2: Per capita grant allocations by type of local authority 2011-12

	Population (thousand)		Tailored	Relative Needs Formula	Relative Resource Formula	Central	Damping	Total
All England (exc. Scilly)		£m	2,028.1	18,959.2	-6,076.1	9,959.3		24,870.5
	52,575	per capita	£39	£361	-£116	£189	£0	£473
London Area		£m	448.5	4,548.6	-1,279.4	1,489.2	194.2	5,401.2
	7,868	**per capita**	**£57**	**£578**	**-£163**	**£189**	**£25**	**£686**
Metropolitan Areas		£m	499.7	5,219.9	-682.0	2,160.4	-41.1	7,156.8
	11,357	per capita	£44	£460	-£60	£190	-£4	£630
Two-Tier/ Unitary Areas		£m	1,079.8	9,190.6	-4,114.7	6,309.7	-153.1	12,312.4
	33,350	per capita	£32	£276	-£123	£189	-£5	£369
South East England		£m	247.9	2,008.9	-1,365.6	1,623.5	95.9	2,610.6
	8,564	**per capita**	**£29**	**£235**	**-£159**	**£190**	**£11**	**£305**

3.1.10 We believe lower council tax levels in London and metropolitan areas are directly related to their higher grant allocations. The figures in table 3 below illustrate the increases in band D council tax from 2000-01 to 2011-12.

3.1.11 This clearly shows that London started from a lower band D rate, which we believe is due to favourable treatment of grants prior to 2000-01 by successive previous governments. Since then the situation has been exacerbated by continuing favourable treatment of London through the grant system. We can more readily accept the favourable treatment of metropolitan areas, as from a high starting point for council tax the extra funding has helped achieve lower increases.

3.1.12 However, being in the South East, SEEC is particularly concerned with comparisons with London. As close neighbours to London we face many of the same cost pressures – for example high service costs, expensive housing and overstretched infrastructure.

Table 3: Council tax comparisons by type of authority 2000-2011

	2000-01	2005-06	2006-07	2011-12
London	**£778**	**£1,162**	**£1,214**	**£1,308**
Metropolitan	£919	£1,190	£1,237	£1,399
Shires/Unitaries	£843	£1,234	£1,290	£1,484
South East	**£817**	**£1,218**	**£1,275**	**£1,468**
England	£847	£1,214	£1,268	£1,439

3.1.13 Translating this to a personal level, a band D resident in Kensington & Chelsea paid £1,092.40 in council tax in 2011-12 while a Surrey resident in Waverley paid £1,519.38. Similar discrepancies are also seen in areas with greater social challenges, where a band D resident in London's Tower Hamlets paid £1,195.34, while a Hastings resident (one of Sussex's most deprived areas) had to pay £1,614.43.

3.1.14 When the different funding levels can be clearly seen, how can it be reasonable to ask a Waverley resident to pay 40% more council tax than a resident in Kensington and Chelsea? Obviously to some extent council tax levels are a local decision, but they are also heavily influenced by Government grant and the inequities in distribution over a long period of time have led to far too great a disparity between similar areas in London and South East.

3.1.15 We need to redress the balance through a fairer, more accountable system that delivers more equitable charges for residents, underpinned by much greater openness about how and why levels of grant funding vary between councils.

3.1.16 We also need to bear in mind that the majority of local government funding comes from redistributed business rates. It is essential if councils are to stimulate growth in the local economy that not only do we keep a share of future growth (as proposed in the Local Government Finance Bill) but also that the existing business rate pool is fairly distributed.

Research shows rural loses out to urban

SEEC believes the South East is disadvantaged in funding settlements because it has no single dominant urban area within its boundaries. The South East comprises a network of small cities and towns with a large number of predominantly rural local authorities, which receive lower funding than large cities elsewhere.

SEEC research is not the only work to draw similar conclusions. In September 2011 a report by the Rural Service Network showed rural residents in England received 50% less in government grants than their urban counterparts but pay £100 a year more in council tax.

The study found predominantly rural authorities received an average £324 per head, compared to £487 for urban authorities. Read the full report at http://www.rsnonline.org.uk/services/communities-hit-by-financial-double-whammy

3. 2 Health funding – South East needs a fairer deal

3.2.1 SEEC members also believe there are significant disparities in funding for health provision, with the South East Primary Care Trusts (PCTs) once again receiving some of the lowest levels of funding per capita in the country due to an opaque and complex system that has little logic and is almost impossible to follow. We are concerned that these inequities have exacerbated the unfairness in the new funding regime for public health responsibilities being transferred to local authorities in 2013 (see table 5) as well as impacting on the delivery of health service provision.

3.2.2 Table 4 below uses data from the Department for Health Annual Report to show the significant disparities in resources. The South East has the lowest per capita spending on health and has seen the lowest percentage increase in spending since 2006-07. This means investment in the health of South East residents is trailing behind spending in other areas and making it almost impossible for PCTs to deliver good quality health provision, particularly in mental health. If, for example, we were to apply the average per capita funding for England to Kent this would equate to an additional £286m per annum. If Kent had the same per capita funding as London this would equate to an additional £726m per annum!

Table 4: Per capita health funding and percentage increases 2006-07 to 2010-11

	2006-07 £ per Head	2010-11 £ per Head	Change
North East	1,619	2,113	30.5%
North West	1,594	2,055	28.9%
Yorkshire and The Humber	1,478	1,907	29.0%
East Midlands	1,329	1,733	30.4%
West Midlands	1,476	1,894	28.3%
East	1,311	1,708	30.3%
London	**1,626**	**2,200**	**35.3%**
South East	**1,337**	**1,687**	**26.2%**
South West	1,351	1,741	28.9%
England	1,456	1,889	29.7%

3.2.3 The analysis in table 4 disguises wide disparity of funding per head between individual PCTs. PCTs in the South East receive among the lowest recurrent funding per head, for example West Berkshire receives £1,300 per capita and Oxfordshire £1,374. At the other extreme London and metropolitan authorities receive the highest funding – for example Islington receives £2,268, Hammersmith & Fulham £2,086, Liverpool £2,098 South Tyneside £1,932.

3.2.4 We recognise that there are some health inequalities and that inner city areas can have greater health needs but, as with local government funding, we are concerned that the additional money invested in health over the past decade has been disproportionately targeted to London and metropolitan areas due to bias in the formula. Does social deprivation and lower life expectancy justify the significant differences in health spending?

3.2.5 There seems to be a reluctance to move resources from one area to another, fearing that funding freezes or reductions could cause more harm than good. However, delaying review simply means preserving existing inequities and cannot be justified. Through the health reform agenda, including disestablishment of PCTs and establishment of Clinical Commissioning Groups (CCGs), now is the perfect time to review the distribution of funding. The Government has proposed an independent NHS Commissioning Board, which we very much support. We propose this body should be responsible for agreeing a more equitable allocation of resources to CCGs and then to local GP consortia and for delivering this change in a meaningful period.

3.2.6 We are concerned that there are no such proposals for an independent body to oversee the allocation of public health funding to local authorities and that significant historical discrepancies in funding will persist. Table 5 below shows the wide disparity in the funding per capita proposed to be transferred to local authorities for public health functions. Table 6 shows the South East's average public health spending per capita is the lowest in England, 32% below the English average and 60% below the North East. We contend that the wide disparities are symptomatic of the inequity in resource allocations to PCTs and not a true reflection of need. We urge Ministers to review the methodology for allocating public health resources to ensure a more equitable distribution. We are also keen to see service commissioners retain the freedom to shift spending from primary care to prevention where they are able to make the case that such spending would be more beneficial, efficient and effective.

Table 5: Public health spending variations in the South East

	Total PCT Budget £000s	PCT Public Health Budget £000s	Public Health as % of total spend	Public Health £s per head	Public Health share to Local Authorities £000s	Public Health share to Commssioning Board £000s
Berkshire West	633,631	25,082	4.0%	25	12,005	12,998
Bracknell Forest/ Slough/Windsor & Maidenhead	574,182	19,073	3.3%	21	8,541	10,422
Brighton and Hove	468,341	19,777	4.2%	47	12,174	7,569
Buckinghamshire	699,972	21,039	3.0%	15	7,793	13,169
East Sussex	898,832	37,225	4.1%	39	20,302	16,899
Hampshire	1,881,715	61,695	3.3%	21	26,829	34,682
Isle of Wight	241,666	8,896	3.7%	33	4,610	4,195
Kent	2,239,753	76,965	3.4%	24	34,668	42,259
Medway	421,543	20,325	4.8%	38	9,882	10,229
Milton Keynes	359,521	14,314	4.0%	23	5,585	8,610
Oxfordshire	925,403	39,504	4.3%	31	19,468	19,901
Portsmouth	345,746	20,246	5.9%	68	14,123	6,077
Southampton	400,662	20,196	5.0%	50	12,073	8,010
Surrey	1,640,256	58,145	3.5%	17	18,524	39,453
West Sussex	1,287,283	47,343	3.7%	28	22,131	24,979
Tower Hamlets (for comparison as highest spending authority).	**519,868**	**36,915**	**7.1%**	**117**	**27,756**	**9,060**

Table 6: Public health spending across England

	2010-11			2012-13
	Spend £,000	Population 1000s	**Spend per head £**	Spend £,000
North East	168,878	2,606.60	**65**	177,598
London	448,798	7,825.20	**57**	471,360
North West	340,441	6,935.70	**49**	358,019
West Midlands	231,769	5,455.20	**42**	244,538
Yorkshire and the Humber	222,438	5,301.30	**42**	234,046
East Midlands	169,400	4,481.40	**38**	178,820
South West	143,834	5,273.70	**27**	151,478
East of England	158,046	5,831.80	**27**	167,051
South East	**228,851**	**8,523.10**	**27**	**240,677**
England	2,112,456	52,234.00	**40**	2,223,588

3.2.7 If we carry forward these historic funding disparities it risks a postcode lottery on health. It could also undermine the expected benefits of the new CCGs and Health & Wellbeing Boards and their aim of delivering a better integrated approach to health for all our residents.

3.3 Infrastructure investment for growth

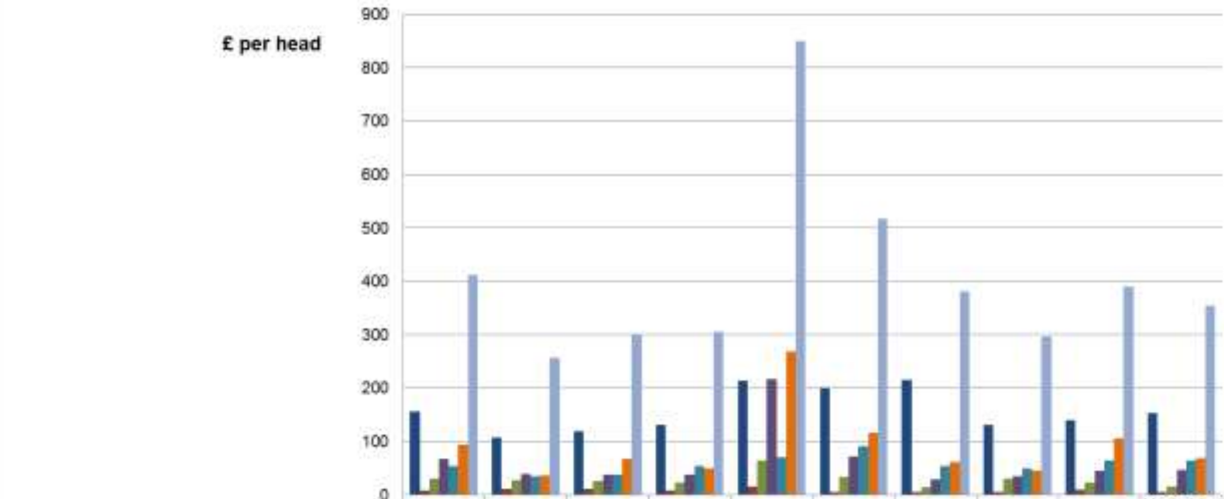
3.3.1 We believe that low levels of capital and highways funding for South East councils are providing insufficient investment for the area to fully realise its economic potential. Underfunding of the South East means that councils cannot afford to support major infrastructure projects that will help drive job creation and boost economic recovery. While funding streams such as New Homes Bonus, the Community Infrastructure Levy (CIL) and Section 106 planning contributions are welcome, they will be insufficient to fund the infrastructure investment needed to maintain and grow South East economic performance. These income streams will still leave some significant investment gaps and additional funding will need to be directed to capital investment through the local government funding system.

3.3.2 Figures from Local Government Futures report that between 2005-06 and 2009-10 the South East received the lowest level of capital funding for highways and transport at just £43 per head, compared to an average across England of £89 per head. These figures exclude the Greater London Authority, which received £226 per head over the same period. This is despite significant congestion on South East routes due to heavy demand from residents, commuters, visitors and freight companies.

3.3.3 On wider capital funding, chart 2 below shows that average funding in the South East is the lowest in England. In 2009-10 the South East reached just £257 per head compared to the English average of £412 per head.

3.3.4 The chart also shows the South East receives lowest per capita levels of central grants and single pot allocations across England – half the amount received by London and 48% of the North East's funding. Higher levels of central investment contribute to capital spending of £518 per head in the North East – just over twice the South East level. In London spending was £851 per head – more than 3.3 times the South East amount.

Chart 2: Capital funding per head by area 2009-10



	England	South East	East	East Midlands	London	North East	North West	South West	West Midlands	Yorkshire & the Humber
Central Gov and public body grants	156	107	119	131	214	201	216	131	140	153
Developer contributions	9	12	12	8	16	6	5	6	10	5
Use of capital receipts	30	28	26	24	65	33	15	31	24	16
Revenue contributions	67	39	38	38	217	72	29	35	45	47
Single Capital Pot (inc separate prog element)	55	35	38	55	71	91	55	50	64	64
Unsupported borrowing	94	36	68	50	269	116	62	45	106	69
TOTAL FUNDING	412	257	301	306	851	518	381	297	390	354

3.3.5 South East councils contribute towards capital funding through developer contributions (the second highest in England), capital receipts (fourth highest) and revenue contributions (fifth highest) but are unable to match the prudential borrowing seen in other areas of England. At £36 a head the South East has the lowest borrowing. This compares to £269 per head in London and £116 per head in the North East.

3.3.6 SEEC believes our members' limited prudential borrowing reflects the fact that the South East's low levels of baseline funding mean councils cannot afford large scale borrowing for capital projects.

3.3.7 SEEC believes a fairer share of funding from central Government to the South East would help redress the problem of insufficient infrastructure investment. However a second vital factor will also be longer term funding commitments from central to local government. Longer term certainty on income would allow South East authorities to increase their investment in vital infrastructure by giving them confidence to borrow funds to take forward key projects.

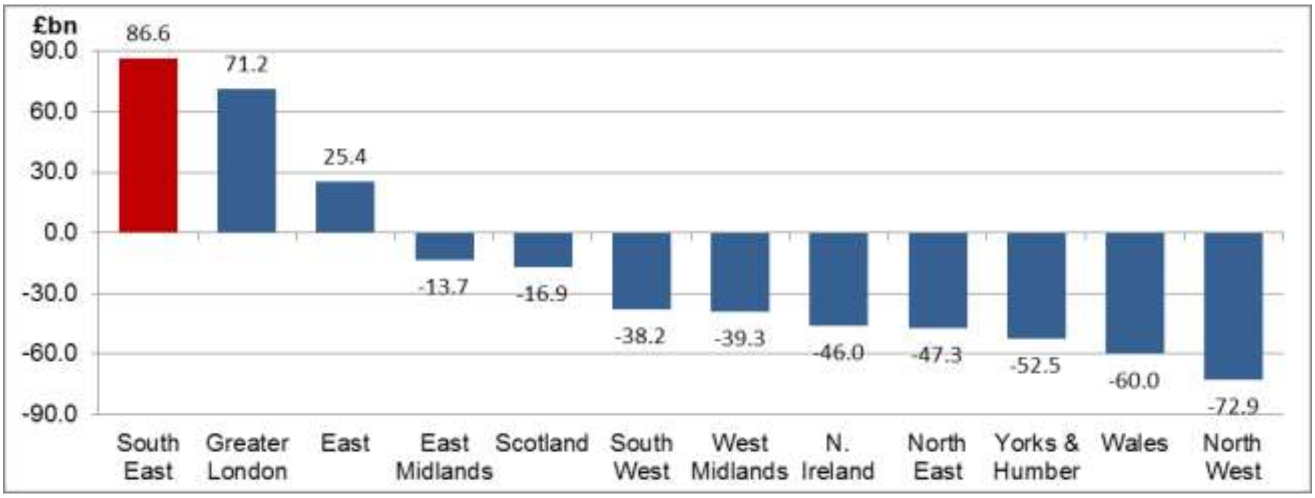
3.3.8 Taking transport as an example, South East networks provide essential links to our major ports and airports that help support regional economies in many other parts of the UK. Investment in key South East infrastructure therefore has potential to support both local and national economic growth.

Engine room of the UK economy

3.3.9 The South East has a strong, established track record as the engine room of UK plc. For many years the South East has made significant net contributions to the Treasury. Work by South East Strategic Leaders (SESL) in chart 3 shows that from 2003-04 to 2008-09 the South East contributed £86.6bn more to the Treasury in taxes than it received in public spending. In the same period London made a net contribution of £71.2bn.

3.3.10 With recession in 2008-09, the residence-based net contribution from the South East fell to £1bn, but we remained the only area of the UK in surplus – all other areas drew out more than they contributed.

Chart 3: Contributions to Treasury by UK area 2003-04 to 2008-09



3.3.11 SESL's 2011 report – *Why the South East Matters* – also highlighted the potential for the South East to drive the UK out of recession, but pointed out the risk to this position from falling public investment in suitable infrastructure. The report argued that South East economic growth must not be taken for granted and that greater public infrastructure investment is needed to maintain the South East's global competitiveness and attract new overseas businesses. Public investment is vital to help the South East continue to attract inward investment and export-orientated jobs that will help drive national economic recovery. The South East also has some of the country's best performing councils that can work effectively with the private sector to help deliver growth.

3.3.12 SEEC believes the SESL report highlights the excellent return on investment that the South East can offer. We also believe that growth in South East-based jobs will help stimulate the wider UK economy by driving demand for services and products. We believe that Government investment in South East potential will enable us to play an important role in the UK's economic recovery.

4. The solution for local government – a fairer approach to funding

4.1 SEEC members believe the evidence set out in chapter 3 makes it abundantly clear that the current finance system is no longer fit for purpose. We have considered options on how to solve this and put forward two proposals below to take forward long overdue reform of the current system.

4.2 The Local Government Finance Bill offers a timely opportunity for change but, as currently drafted, we believe the Bill does not go far enough as in effect it crystallises the inequities that have built up over a long period of time. This is an ideal moment for change to prevent historic inequity being carried through the system for another 7-8 years. SEEC members believe that if the South East is to lead the economic recovery its businesses need to see that the business rates they already pay are fairly distributed and that undue financial burdens are not placed on local residents through council tax.

4.3 We fully support the Government's direction of travel as set out in the Local Government Finance Bill to allow local authorities to retain a significant proportion of any increase in the local business rate to replace Formula Grant in future. We recognise the need to preserve some degree of redistribution and therefore accept the principle of top-ups and tariffs. However, we are concerned that the new system should not be based on the old flawed Formula Grant levels.

4.4 A fairer funding deal with long term commitments on additional income for our authorities would also release the potential for the South East to invest in infrastructure that will help drive national economic recovery. Government could see a significant return on its investment by helping the South East realise its full potential as the engine room of the UK economy.

Plan A

4.5 One way to achieve a fairer redistribution of resources would be to re-determine the baselines used for the new system, which in turn would impact on the tariffs and top-ups. The new baselines would need to be verified by the establishment of the 'independent commission' charged with ensuring equity. This would allow for a managed transition to a fairer distribution, giving those authorities which have been disadvantaged under the old regime a greater share of the business rate yield going forward.

4.6 This solution would require the existing Formula Grant shares to be recalculated. We believe this would be possible in a fair and transparent way, however, we recognise that getting agreement on the factors to be taken into account will be challenging, time consuming and ultimately contentious if it creates perceived winners and losers. Therefore, we are recommending an alternative plan B which may be easier to implement in the limited time available.

4.7 Action is needed as it is simply not justifiable to continue with the current differentials in the Formula, nor the differentials in council tax outlined in chapter 3.

4.8 South East local authorities' major concern is that if these changes are not made for the implementation of the new finance arrangements, the next opportunity for review will not be until 2020. It is simply not fair on residents in two-tier and unitary areas, particularly in the South East, to ask them to continue to bear a disproportionate burden on their council tax bills.

Plan B – the preferred option

4.9 If the challenge of recalculating the baseline proves too great, which we suspect it will, we have also considered a neat alternative solution.

4.10 Plan B would allow those councils assessed by the 'independent commission' as being disadvantaged under the current flawed regime to plan for longer term council tax freezes. This would gradually compensate council tax payers for the inequity. The Government could do this by enabling them to retain a greater share of the business rate locally (above the currently proposed 50%) in return for freezing council tax.

4.11 Under the current Bill 50% of any business rate increase would be retained locally and 50% pooled nationally. Our proposal is that authorities which are assessed by the 'independent commission' as having been inequitably treated under the old system should make a smaller contribution to the national pool – say 25% – in return for freezing or reducing council tax. This would enable these authorities to retain a larger share of the business rate levied locally and over time their council tax would move closer to parity with other authorities (provided, of course, that we come out of recession and that business rates actually grow).

4.12 This is a simple solution to address the inequities of the previous methodology without robbing Peter to pay Paul and without increasing the size of public spending. To ensure this is no cost option it would have to be funded either by:

- rebalancing the proposed 50/50 national/local share or
- making authorities assessed by the 'independent commission' as having been favourably treated contribute more than 50% of their business rate increase to the national pool.

4.13 Plan B offers a solution that would redress historic funding imbalances over a number of years and so avoid a 'big bang' impact on local government finances.

5. Establishing an independent commission

5.1 Establishing the ‘independent commission’ is not a new concept and was initially suggested by the Lyons review in 2007. This suggestion was endorsed by the Local Government Association in its publication *A new vision for local government finance*. The association concluded: ‘Any new system must meet the criteria set out in the Lyons interim report, namely; accountability, fairness, sustainability, flexibility for local decisions, and delivery of national priorities. The present system is now some way from delivering well on most if not all of these criteria.’

5.2 We strongly urge Government to take the opportunity of the Local Government Finance Bill and health changes to review financing in order to redress the unfair balance of funding for two-tier and unitary councils over many years. In doing this it will be vital to demonstrate an open and accountable approach to the changes. We believe this can be achieved by appointing a commission of independent experts to review the fairness of the final resource allocation under the new arrangements.

5.3 Former LGA Chairman Lord Sandy Bruce-Lockhart made an eloquent case for a similar panel in the House of Lords. We endorse his 2007 analysis which argued: ‘The current system lacks transparency, has little credibility on distribution and equalisation and often runs up to 10 years behind on population and demographic change. It is seen to be unfair by the public, who do not understand it.’ He also pointed out that had business rates still funded the same proportion of local government funding in 2007 as they had in 1997, every household’s 2007 council tax bill would have been £250 lower.

5.4 Independent commissions have worked well in Australia and Denmark. For example, the Australian commission deals with issues of distribution and equalisation, and ensures use of the most up-to-date statistics on population and demographic change. Importantly, it also independently establishes the cost to local government of complying with national legislative change, policy and directives.

5.5 Such an approach would add significant value and transparency to the UK system, restoring confidence in funding allocations and reassuring tax payers that the system is fair. A key role would also be to give clarity about responsibility and accountability for council tax increases by being clear on how central and local funding decisions impact on bills.

6. Appendix: About the South East

Key facts & figures about the South East

Largest population – The South East has the largest population in the UK. At 8.5million, the South East has 700,000 more residents than London. Our population continues to grow, including an expected 50% rise in over 65s by 2032.

Most local authorities – South East residents are entirely represented by two-tier and unitary councils. Our area covers 74 councils in total – 55 districts, 7 counties and 12 unitary authorities. We have a track record of high-performing, efficient councils.

Large Conservative majority – Conservatives are the predominant party in the South East. There are 61 Conservative leaders in South East local authorities, 7 Labour, 3 Liberal-Democrat, 2 Independent and 1 Green.

Dispersed geography – Our area is largely rural, with small towns and cities. With no ‘core cities’ a different approach to devolving powers is needed in the South East.

Economic track record – Data shows the South East consistently makes the UK’s largest net contributions to Treasury. In 2009-10 the South East paid £1bn more in taxes than we received in public spending. This money helps fund public spending in other areas of the country but we want to see a greater share reinvested in the South East. From 2003-4 to 2008-9 the South East contributed a net £86.6bn.

High levels of deprivation – Despite economic performance and contrary to common perceptions, the South East has high levels of deprivation. Figures from the 2010 Index of Multiple Deprivation show high absolute numbers affected by deprivation. The level and scale of problems facing South East authorities are often obscured by the focus on percentages rather than absolute numbers. For example:

- The South East has 235,521 children in income deprived households. This is much higher than the 156,137 children affected in the East Midlands and more than twice the 115,127 children in income deprived households in the North East. However percentage comparisons rank the North East as England’s second most deprived area with a 25% ranking, the East Midlands as the sixth most deprived with a 19.1% ranking. Despite having the highest number of children affected, the South East is regarded as the least deprived with a 14.8% ranking.
- The South East faces a similar situation on older people, where we have 248,901 older people in income deprived households. Once again, this is much higher than the 172,402 people affected in the East Midlands and the 138,442 people in the North East. However percentage comparisons rank the North East as England’s second most deprived (23.3%), East Midlands as sixth most deprived (17%) and the South East as the least deprived at 13%.

Unemployment – This is another area where the high number of South East residents in need of support is often overlooked because there is too much focus on percentage comparisons. South East unemployment has been dismissed as low because it is ‘only’ 2.6%. But with the huge scale of the South East population, our 2.6% translates into 139,315 unemployed people – some 52,000 more unemployed than in the North East and 35,000 more than in the East Midlands.

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