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South East England Councils' response to: Business Rates Reform: Call for Evidence on Needs and Redistribution

Introduction / Summary

1. Introduction

- 1.1 South East England Councils (SEEC) is the cross-tier voice of local authorities in the South East of England. We are a voluntary membership body, bringing together county, unitary and district councils to promote the views and interests of all tiers of local government across the South East. The SEEC area is primarily comprised of two-tier local government and has 9 million residents – the largest population in the UK.
- 1.2 South East local authorities are keen to see a new funding system that will provide councils with the baseline funding that they need to meet the service demands of our large and rapidly-growing population.
- 1.3 As outlined in our response to the linked consultation on 100% retention of business rates, SEEC members recognise the need for redistribution at a national level but are also keen to ensure that a new system balances this with tangible financial rewards for councils that deliver economic growth. Given the South East's role as the engine room of UK PLC and in providing taxes to support public spending in other parts of the country, it is vital that the new business rate system does not act as a disincentive for South East growth. The South East made a net contribution to Treasury of £80bn in the period 2002-12. Disincentives in a new system risk reducing this return and, therefore, the Government's ability to spend a share of that income on supporting growth in other areas of the country.
- 1.4 SEEC members appreciate the early opportunity to help shape a new approach to redistributing funding between local authorities. Individual member authorities will also respond with more detailed examples in response to some of the consultation questions.

2. Principles for a new funding system:

- 2.1 SEEC members strongly support greater transparency and accountability in designing new formulae for redistribution. They recognise that it would be difficult for a very simple system to deliver redistribution that meets the needs of every local authority, taking into account large social and economic variations across the country, the differences between unitary and two-tier councils and between city and rural areas.
- 2.2 Although accepting that a very simplistic new system may not be viable, this must not undermine the fundamental requirement that a new approach must be more transparent, comprehensible and accountable than the current system. It is also important that a new system should give councils greater certainty over funding for a period of years to allow effective financial planning.
- 2.3 Key principles should include:
 - **Transparency:** There is a need for clarity on decisions made about baseline funding assumptions and any top ups or levies applied in the redistribution process. Clarity on the baseline is needed to explain what is covered and what is not – this will avoid the current situation where national cuts in local funding can be disguised in the complexities of the system.

- **Accountability:** It is important that a system allows a level of understanding by residents and businesses. The complexities of the current system mean it is understood by only a handful of finance experts, which obscures accountability and democracy.
- **Stability and certainty:** The new system should support medium term financial planning for local authorities by delivering stable, predictable sources of income. It should not be a mechanism to cut council funding further.

Responses to consultation questions

3. Consultation questions

Question 1: What is your view on the balance between simple and complex funding formulae?

- 3.1 SEEC members recognise that a very simple formula is unlikely to be able to balance the differing levels of need in councils across the country. A degree of complexity will be required but the operation of the system should not be so complex that it obscures decisions made from local authority leaders and local tax payers. Accountability and transparency on the assumptions underpinning redistribution are vital to restore public confidence in the local government funding system.
- 3.2 While there are clearly a number of factors that need to be built into formulae, SEEC believes this could be achieved in a way that is simpler and less obscure than the current system. Key issues to be addressed by formulae include:
- **Population-led service demand.** SEEC would like to see this led by future demographic trends rather than linked to past spending patterns. SEEC members also support per capita funding allocations based on absolute/ total numbers of people who need a service. They see this as a fairer and more accountable way of allocating funding rather than focusing on relative percentages of need, which are more subjective.
 - **Sparsity.** A number of previous studies have identified that it costs more to deliver services in sparsely populated rural areas than in urban areas. The need for multiple service delivery hubs and higher transport costs to reach dispersed locations are factors that should be reflected in a new formula.
 - **Council tax income.** There are significant discrepancies in the amount of local authority spending funded by council tax across the country. A new formula needs to ensure baseline assumptions do not disadvantage residents in the South East, who have to fund a greater share of council spending. Chart 1 (below) from SEEC's data dashboard shows that in 2015-16 the South East received the lowest revenue funding and grants for services at £279 per head. This compares to £608 per head in London and £492 per head in the North East. As the chart shows, this means South East residents face a greater council tax burden. This imbalance should be addressed by a new formula.
 - **High cost locations.** The new formulae need to take account of the costs of delivering services to ensure funding allocations do not disadvantage councils in high cost areas. Many parts of the South East face higher service delivery costs than other areas outside London. This affects premises, procurement and staff costs, where salaries need to reflect the high living costs. Ease of commuting also means that South East employers must often compete for staff with higher paying London-based organisations.

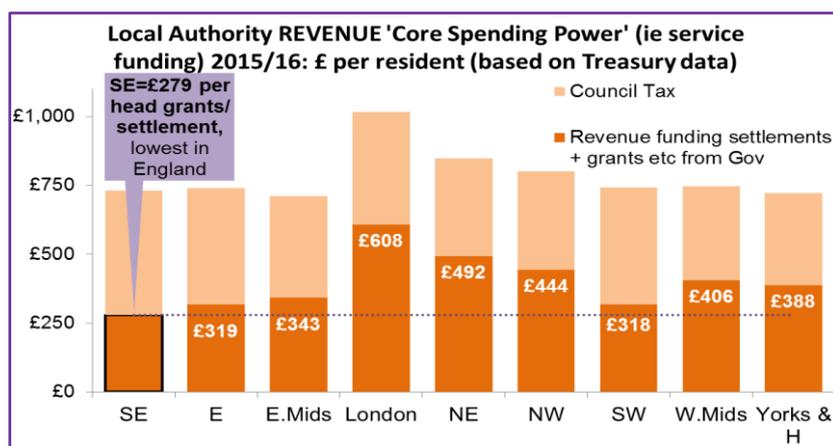


Chart 1 (left): Local Authority Revenue 'Core Spending Power' (ie service funding) 2015-16: £ per resident (based on Treasury data)

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

- 3.3 SEEC members recognise that a plethora of service specific formulae risks adding to the complexity of the new system. However, two particular long-standing concerns are highlighted below that could form part of a limited number of service-specific formulae:
- A major challenge for the South East is the rising demand for social care. The South East already has the largest elderly population in the UK, with 790,000 residents over 75 in 2016 (next highest is the North West with 590,000 over 75s, a quarter less). By 2039, the South East population of over 75s is due to almost double to 1.5 million. This is likely to dramatically increase pressure on social care in the South East.
A number of authorities also report growing pressures on children's social care, highlighting two areas in particular where per capita funding allocations would be beneficial:
 - To fund the very high costs for looked-after children, where volatile numbers can make financial planning difficult for councils
 - To fund the high cost of supporting an increasing number of young adults with severe and complex needs.
 - South East authorities would also welcome a new approach to the formula assessing funding to help address deprivation – for example moving away from percentage deprivation to the total number of people living in deprivation. The 2015 Index of Multiple Deprivation shows the South East has 909,000 income-deprived children and adults. This compares to smaller numbers in the South West (634,000) and North East (488,000) but the current funding formula favours these other areas as they have a higher percentage of deprivation despite considerably lower numbers of deprived people.
- 3.4 Clarity is also required on the future funding of programmes such as the Syrian Vulnerable Persons Relocation Scheme and the new national transfer scheme for Unaccompanied Asylum Seeking Children. At present, Government provides dedicated grants to councils for these programmes. It will be important that the funding for new burden activities, such as these, is clear and transparent. If funding streams for these – or other new burden activities – are to be included in baseline allocations, they are likely to need specific formulae to distinguish them from other services.

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

- 3.5 Past spending is not necessarily a determinant of future need. In some cases this approach risks perpetuating inefficient spending patterns by not challenging the basis of funding allocations.
- 3.6 A fairer system would look at per capita funding allocations linked to demographic projections (number, age and characteristics of local population) and expected growth in households. Together these factors will directly affect service and infrastructure demands.

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

- 3.7 See questions 1 and 2 for SEEC's response on factors to take into account in measuring need to spend.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

- 3.8 SEEC members favour an approach that provides councils with some - above baseline - financial reward for a growth in local taxes. This should apply both to business rates and council tax.

- 3.9 On council tax, many South East authorities welcomed the Government's New Homes Bonus initiative as a way of rewarding housing growth and increasing the council tax base. The South East had the UK's highest net addition of homes in 2014-15 at 28,360 (higher than the 26,860 homes delivered in London). South East councils want to be able to retain at least part of the extra council tax receipts they have accrued by meeting the Government's objectives.
- 3.10 There is a similar desire for tangible financial rewards from growing business rate income in order to avoid a disincentive for growth in the South East. More detail on business rate rewards is included in SEEC's response to the linked consultation on 100% business rate retention.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

- 3.11 A transitional period will be important to ensure councils have adequate time to prepare and plan for funding changes. Clearly there is a balance between providing protection for major funding losses and moving to the new allocations in a timely manner. There is a risk that a very long transition undermines confidence in the new system's ability to deliver fairer funding.

Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

- 3.12 There are no combined authorities at present in the South East, so members feel it would be unfair to assess and distribute funding using structures that do not apply equally to all areas of the country. Some also believe that an area approach could add a further, unnecessary, level of complexity to the new system.
- 3.13 If a number of neighbouring local authorities unanimously agrees to be grouped together in this way they should have the ability to do so but this should be a local decision rather than a central imposition. If areas are forced into larger geographical areas, such a system could create tensions between individual councils in determining a more local allocation of funding.

Question 13: What behaviours should the reformed local government finance system incentivise?

Question 14: How can we build these incentives in to the assessment of councils' funding needs?

- 3.14 SEEC members would be cautious about building too many incentives into the funding system as this may increase complexity and introduce greater subjective judgements into the system that distract from the focus on addressing baseline need. A new system should move away from subjective and obscured decisions on allocations and create an environment that makes central and local decisions on funding more transparent. This will encourage clear accountability for the financial decisions made at each level.
- 3.15 However, one key objective should be to design a system that incentivises economic and housing growth. This could be done by ensuring councils who achieve growth see a tangible reward by being allowed to keep at least part of their increased business rates or council tax taxbase.