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CCN
COUNTY COUNCILS NETWORK

A NEW DEAL FOR COUNTIES:

Local Government Finance



Full Funding & A Needs-Led Formula

In the aftermath of the election, we have witnessed a debate over whether the new Government will ease the austerity drive that has characterised the two previous Parliaments, and fully fund public services.

For local government, there remains a growing gap in funding to meet service needs. Significant on-going cuts to local government funding in recent years, combined with new unfunded burdens such as the National Living Wage (NLW) and rising demand for services from changing demographics, has widened this gap. The reality facing the sector and local communities is that a significant proportion of statutory local government services are underfunded, while discretionary and preventative services are increasingly being removed or are under threat.

CCN call on the Government to fully fund vital services, such as adults' and children's social care, and ensure they maintain their commitment to the new burdens doctrine, which includes meeting the costs of lifting the public sector pay cap and ongoing implications of increasing the NLW year on year.

Alongside the size of the local government funding envelope, a more balanced approach to measuring relative need is also important. Counties currently receive less funding per head than all other council types. The current system means that counties receive just £271 of funding for services per head from Government. This is less than half of what a London resident can expect, with average funding of £563 per head.

Imbalanced funding means that some authorities have received historically higher grants, creating perverse and unfair disparities in council tax rates. For example, 13 London boroughs were able to freeze or reduce council tax in 2016/17. While Westminster can charge approximately £700 for an average property, the average for a county is £1,600. Given changing demographics, the current funding formula and the social care precept, this gap is likely to widen without funding reform.

CCN were greatly encouraged by the previous government's acknowledgement that the current funding formula is no longer fit for purpose, and their commitment to reform. The new government must urgently reinstate work on the Fair Funding Review at the first possible opportunity and ensure sufficient Whitehall capacity is in place to take this forward. Progress should not be delayed due to any changes to business rate retention plans.

Building on the cost-drivers approach adopted in the Leicestershire County Council fair funding model, we strongly argue that we must move away from current regression methods, which use past spend and past service take up to determine future funding. This method means that funding distribution cannot keep pace with the fast changing demographic pressures seen across the country, the evolving needs of residents, and is embedding cycles of underfunding.

CCN are supporting the work of the Association of Local Authority Treasurers' Societies, who are working across the sector to find common ground and develop a funding approach which accurately reflects the current and future needs of areas. Such an approach would work on the basis of funding following core cost-drivers. These cost-drivers centre around relevant populations, service and infrastructure pressures.

With fair and sustainable funding for local government, we can prioritise reform based around a new, fairer and simple methodology, based on primary cost-drivers. The benefits of such a system would be increased transparency, fairness, responsiveness to need and, crucially, sustainability over time.

“The new government must urgently reinstate work on the Fair Funding Review”

FAIRER FUNDING FOR COUNTY AUTHORITIES



COUNTIES:
£271 per head

Historical underfunding

- ② Counties are the lowest funded type of upper-tier council
- ② They receive £292 less per resident than councils in London and £166 less per head than metropolitan boroughs



LONDON:
£563 per head



CITIES:
£437 per head



13 LONDON COUNCILS

Were able to freeze or reduce council tax
last year



£700 ON AVERAGE
Westminster Council's average council tax bill



OVER £1,600
Counties' average council tax bill

CCN SURVEY

COUNTY COUNCILS NETWORK

56%

of respondents identified
that fair funding should
be CCN's top priority

KEY SERVICE PRESSURES

THREE QUARTERS

Of upper tier council costs are
driven by just 5 key cost drivers



Over 65s



Learning disabilities



Looked-After
Children



Road
lengths



No. of
households



FULL FUNDING & A NEEDS-LED FORMULA

A needs-led, evidence based formula to address the historic funding inequalities between rural and urban areas

A PLAN FOR GOVERNMENT

HOW COUNTIES CAN WORK WITH GOVERNMENT TO DELIVER FULL AND FAIR FUNDING

1) SUSTAINABLE FUNDING



Government should provide appropriate additional funding to local government for current underfunded pressures, most importantly in social care. Any additional costs from lifting the public sector pay cap for local government must be met under the new burdens doctrine.

2) FAIR FUNDING REVIEW

The review of local government funding should be prioritised and progressed at the earliest opportunity. This must proceed as planned, and should not be delayed due to timescales or mechanisms for future local government funding.



3) WHITEHALL CAPACITY & SUPPORT

Senior resource should be made available in the Civil Service to support the fair funding review. Central government should continue to work closely with local government and formally support the work of the Association of Local Authority Treasurers' Societies to develop and test the new funding formula.

4) A NEW COST-DRIVERS APPROACH

Move away from regression techniques, and develop a formula based on a simple key cost-drivers approach. These cost-drivers centre around relevant populations and infrastructure pressures. For example the number of people over 65 and over 85, the number of households and length of road in the administrative area.



5) FAIRER COUNCIL TAX

In line with the Fair Funding Review, forge a route to better balanced council tax reliance between parts of the country. Greater flexibility for local government should be granted to set council tax rates and discounts - pending a new fair funding formula.

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Download our research on finance by visiting
www.countycouncilsnetwork.org.uk/local-government-finance/

Incentivising Growth & Self-Sufficiency

CCN supported the move to full business rate retention in principle, as a means of bringing fiscal decisions closer to communities.

With no mention of business rates legislation in the Queen's Speech however, the future course of reform is now unclear. We would ask the new government to urgently clarify their intentions for the future plans for local government financing.

Our modelling of business rates uncovered significant challenges in ensuring funding could both follow need and reward growth. Local and central government will need to work together to address these crucial issues whatever new proposals for the funding of local government and incentivising growth are set out.

If full rate retention is postponed or superseded, central and local government must work quickly and closely to design a fair and sustainable system which includes the ability for local government to retain more of the money collected locally to reinvest in growth and vital services.

With Revenue Support Grant due to be phased out over the next two years, it is imperative that local government has certainty about future funds.

CCN would like to engage with central Government to appraise and design future funding systems for local government. This will be closely linked to the Green Paper on sustainable social care systems.

If full business rate retention does not go ahead in its current form, there may still be opportunities to consider elements of the reform which could provide some freedoms to local government. CCN will be working with other key thinkers and influencers to understand which fiscal freedoms and incentives could still be made available to local government, to facilitate growth and effective services. Given the concentration of Parliament on the body of Brexit legislation, non-legislative solutions will also be considered.

Other existing freedoms, incentives and further fiscal tools must be examined. Reform must continue to the New Homes Bonus, with evidence showing counties have been disadvantaged under the current system. In addition, as explored further on, reforms also need to take place to the Community Infrastructure Levy (CIL) to provide sustainable and efficient funding for essential infrastructure, maximising developer contributions.

Flexibilities and better mechanisms for borrowing, and greater control over determining and setting local taxation and levies, should be made available to all upper tier authorities.

And on fiscal devolution we need a national conversation on the relationship between local and national taxation. Research for CCN has shown that levels of tax and spend are very different in different counties. We should remain aware that fiscal devolution has the capacity to either improve or entrench current inequality. Careful design and the right powers could help create a fair and level playing field that allows both cities and counties to carry out strategic decisions about economic growth and inclusion.

“We would ask the new government to urgently clarify their intentions for the future plans for local government financing”

GROWTH & SELF-SUFFICIENCY

Treasury contributors

② Oxford Economics estimate that counties generate £255bn in revenue for the national exchequer accounting for just under half of tax revenue raised in England. They run a fiscal surplus with £54bn more raised in tax revenue than was spent on public services in 2015/16.



£255BN
Generated in tax revenues



£201BN
Public expenditure in counties



£54BN
Surplus in tax revenues

TAX CONTRIBUTION: AT A GLANCE

Counties generate significant amounts of tax for the country, especially in Income Tax and NICs. On average, revenue per person is £9,900, higher than the England average.

Funding problems

② The LGA estimate that local government faces a £5.8bn funding gap by 2020. Counties' funding will reduce the sharpest out of any council type, 93%, by 2020. On top of this, there is a question mark on how local government will be funded now business rate retention legislation is off the agenda.



93%
Reduction in RSG by 2020



£5.8BN
Local Government Funding gap by 2020

CCN SURVEY

COUNTY COUNCILS NETWORK

38%

of respondents said that achieving financial savings is their council's top priority

GROWTH INCENTIVES

NEW HOMES BONUS

A DCLG review showed that county councils had witnessed a negative financial impact under the current scheme by 2014-15.



County Councils: -£25m



Shire Unitary: +£44m



Districts: +£250m

INCENTIVISING GROWTH & SELF SUFFICIENCY



Sustainable local government finance, fiscal devolution and self-sufficiency

A PLAN FOR GOVERNMENT

HOW WE CAN WORK TOGETHER WITH THE GOVERNMENT TO DEVISE NEW WAYS OF FUNDING LOCAL GOVERNMENT

1) CLARITY ON LOCAL GOVERNMENT FUNDING



Government must provide clarity on the future of full business rates retention. If business rates reform is postponed or superseded, central and local government must work quickly and closely to plan a sustainable alternative funding system.

2) INCENTIVISING GROWTH V NEED

Government should work closely with CCN to ensure any new funding system can fully fund changing needs, whilst rewarding measures to improve economic growth.



3) SELF SUFFICIENCY



CCN wants to work with central government to ensure counties are able to retain more of the funding collected locally to reinvest in services and economic growth.



4) GROWTH INCENTIVES

Government should undertake further reforms to incentives, such as New Homes Bonus, to make it more equitable to the whole sector.

5) FISCAL DEVOLUTION

A wider national conversation and sector debate should be started on greater fiscal devolution to county areas, exploring how reform, with the right powers, could help create a fair and level playing field that allows strategic decisions on economic growth and inclusion.



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COUNTY COUNCILS NETWORK

Founded in 1997, the County Councils Network (CCN) is a network of 37 County Councils and Unitary authorities that serve county areas. We are a cross party organisation, expressing the views of member councils to the wider Local Government Association and to central Government departments.

To discuss any of CCN's proposals in more detail, please contact:

Simon Edwards
Director
020 7664 3002
simon.edwards@local.gov.uk

James Maker
Head of Policy and Communications
020 7664 3009
james.maker2@local.gov.uk

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