

Local Government Finance Reform (Fair Funding Review)
Department for Communities and Local Government
2nd Floor SE, Fry Building
2 Marsham Street
LONDON
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26 September 2016

Dear Sir

Fair Funding Review: Call for evidence on Needs and Redistribution

Worcestershire County Council (the Council) welcomes the opportunity to respond to the Fair Funding Review.

It is recognised that this is the beginning of a long and complex process to make positive changes to the funding regime, and the Council will continue to support and work with Central Government colleagues as the system re-design is progressed.

The Council would like a new system based on fairness where funding is allocated according to local needs based on the real cost drivers for local government funding. A common basket of cost drivers needs to be developed which focus on the most significant areas of expenditure which also reflects future demand and service needs.

The formula should be forward looking to take account of future service needs and reflect both current and future local government responsibilities. Backward looking regression analysis should be avoided to assess funding needs as this may reflect previous Central Government funding decisions and may not reflect a future need to spend.

Transitional arrangements need to be in place to ensure stability and to allow local authorities adequate time to reshape services in consultation with local residents in order to align spending to a new funding regime.

The Council's three key principles that Central Government should bear in mind when designing the new system are:-

- **Fairness.** All local authorities should be given the same powers and their funding should take account of need as a first call against growth in business rates income
- **Ability to shape eligibility criteria to support local need.** All new responsibilities devolved to local government should come with the ability to shape the criteria which will form part of existing robust local accountability through annual approval of budgets

This covering letter outlines a number of 5 key considerations by way of a covering letter and then provides more detailed responses to each of the consultation questions.

1. Worcestershire County Council suffer from a £0.75 million 'negative Revenue Support Grant in 2019/20' – e.g. it has to pass back to Government local business rates collected. The previous Secretary of State corrected this for Councils as part of the final Settlement where this occurred in the 2017/18 and 2018/19 but instead said that this would be resolved in the redesign of the Business Rates System (now underway). There is no clear evidence from officials at this point that this is being taken account of at this point.
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The starting point for the County Council's funding in 2019/20 is this excluding this negative RSG

2. We are currently considering an acceptance of the previous Secretary of State's 4 Year offer on RSG. This covers the period 2016/17 to 2019/20 inclusive. It is unclear how the current work on Business Rates reform, due for implementation we think in 2019/20 will impact on these deals – e.g. if the Needs Assessment reduces RSG.

It would be helpful if clarification could be provided on this from DCLG.

3. Greater knowledge on financial allocations and redistribution methodology will enable local authorities to calculate funding with greater certainty over the medium term.

The Council would welcome greater transparency with regard to how the Government calculates the quantum (the estimated amount of business rates at the time of the implementation of the new business rates retention system).

4. DCLG's existing assessment of needs based funding for the County Council is £7 million more than our current grant as the previous funding system was locked down in 2013/14 before the full transition had been made between the County Council funding starting point (in 2005) and when the system would have been fully rolled out (2017). The starting point now for Worcestershire needs to be that its current funding reflects the DCLG assessment of need including the £7 million dampening locked in and not provided to the County Council since 2013 before then looking at what change are made.

Worcestershire should receive what is fairly assessed as the funding needed to resource relative need and any transition should have a fixed start and end date.

5. County areas will be experiencing the fastest rate of growth in Older People over the next 15 years and therefore this needs to be reflected and recognised in any funding settlement. Any formula for distribution needs to be forward looking and reflect forecast changes in demand.

The future funding system for distributing grant across the Country needs to take into account future changes in demand.

The County Council fully supports the responses by the County Council Network, the Society of County Treasurers and Leicestershire on behalf of Low Funded Councils and this response should be read alongside those. In particular, we would like to draw your attention to the evidence base presented in the Low Funded Councils response. The Council would like to see a more detailed timetable specifying implementation dates the Council can work towards and plan for. Decisions regarding devolved services should be made as soon as possible.

Kind Regards



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Fair Funding Review: Call for Evidence on Needs and Redistribution Key Questions

Q1: What is your view on the balance between simple and complex funding formulae?

The funding formula should be simple, fair and transparent but not too simple at the expense of fairness.

A complex formula will capture different aspects of need which is acceptable but it becomes unacceptable when a funding model is so complex the results are unexplainable and it produces an unfair allocation of resources.

Simplicity should be delivered first with top-ups for additional need using evidence of those needs. Services should be funded on a per capita basis before incorporating additional need in to the formula.

Q2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

It is extremely important that the increasing demands on Adult Social Care are incorporated in to the formula now and for the future. Demands and funding for this area should be reviewed frequently. The demand pressures for Adult Social Care authorities need to be fully understood to ensure these are funded sufficiently.

The outcome of the work to review the public health care formula and the Improved Better Care Fund along with the Needs and Redistribution Technical Working Group should be considered in the Fair Funding Review.

Q3: Should expenditure based regression continue to be used to assess councils' funding needs?

Expenditure based regression should not be used to assess councils' funding needs. Using previous expenditure levels may reflect previous funding decisions by Central Government and may not reflect a need to spend but spending to attract Government funding.

The new formula needs to incorporate a forward looking approach to take account the projected changes in client population and growth which are primary drivers of demand for local government services. It should also reflect current and future local government responsibilities. Service needs should be captured for the total period that the formula is expected to apply.

Funding needs should be based on a common basket of cost drivers which focus on existing and future service needs.

Q4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

See Q3. Funding needs should be based on a common basket of cost drivers which focus on existing and future service needs.

Q5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

Regression analysis should not be used unless there is a reliable measure of need that is not based on historic spending or activity.

Q6: What other considerations should we keep in mind when measuring the relative need of authorities?

The formula must be able to reflect the future service demands.

All basic needs are equal therefore basic needs should be met before top-ups for additional need are allocated.

Q7: What is your view on how we should take into account the growth in local taxes since 2013-14?

The need to take account of growth is accepted. However in doing so a number of existing inequalities in the system need to be unravelled as much as possible to ensure local authorities are more fairly funded.

The concerns are that the council tax system is based on 1991 house prices which need reviewing and there is a disconnection between wealth and house prices.

Q8: Should we allow step-changes in local authorities' funding following the new needs assessment?

No. This would create a significant short term shock for local authorities. Transitional arrangements need to be in place to ensure stability and to allow a smooth transition to the new system.

Q9: If not, what are your views on how we should transition to the new distribution of funding?

There should be a fixed period over which the transitional arrangement is phased out.

Q10: 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?

This would add an extra layer of uncertainty for local government. Decisions around funding cross area issues are better made by local authorities thus better aligning local accountability to local ability to mitigate them through combined authorities, pooling or aligning budgets or other local collaboration.

Q11: How should we decide the composition of these areas if we were to introduce such a system?

This should be decided on locally or on a regional basis.

Q12: What other considerations would we need to keep in mind if we were to introduce such a system?

This should be decided on locally or on a regional basis.

Q13: What behaviours should the reformed local government finance system incentivise?

There should be no need for further incentivisation of behaviours if the needs assessment is updated to include appropriate forward looking cost drivers and a separation between basic need and additional need.

Q14: How can we build these incentives in to the assessment of councils' funding needs?

See Q13.
