

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY AND FINANCE COMMITTEE

INFORMATION

Agenda Item No 19

meeting date: 25 OCTOBER 2016
title: FAIR FUNDING REVIEW CONSULTATION
submitted by: DIRECTOR OF RESOURCES
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1 PURPOSE

1.1 To inform members of our recent response to the Fair Funding Review consultation paper

2 BACKGROUND

2.1 The assessment of the relative needs of local councils is a fundamental part of the reforms to business rates.

2.2 Alongside the 2016/17 Local Government Finance Settlement, the Government announced the Fair Funding Review that will conduct a thorough review of what the needs assessment formula should be in a world in which local government spending is funded by local resources not central grant.

2.3 The Government has been engaging with representatives from across local government through a technical working group in order to help shape the Fair Funding Review. Based on feedback they decided to call for evidence on needs and redistribution.

2.4 The Government wants to give local government an opportunity to consider the best approach to measuring their relative needs. The needs assessment does not require legislative changes to implement. This means that decisions do not have to be made now, and will allow work to progress with local government to a different timetable.

2.5 The Government is aiming to consult on the principles for the needs assessment in the autumn 2016, and expects to have a final consultation on the formulae in the summer of 2018. This will allow a new mechanism to be in place in time for the introduction of 100% business rates retention across local government by the end of the current Parliament.

2.6 The consultation period closed on Monday 26 September 2016.

3 NEEDS AND REDISTRIBUTION

3.1 In 2013/14 the current business rate retention scheme was introduced. At that time, in order to determine the starting position of funding for local authorities, the Government carried out an assessment of the relative level of needs and resources of councils across England.

3.2 Many feel that too much time has passed since the last fundamental review of the approach to assessing a council's relative needs and the costs it can be expected to incur in delivering services. In addition the demographic pressures affecting particular areas, such as the growth in the elderly population and the cost of providing services, may have affected different areas in different ways.

3.3 The Government therefore announced that it will undertake a Fair Funding Review of what the relative needs assessment formula should be following the implementation of 100% business rate retention.

3.4 The Consultation paper considers the following themes:

- ❖ the approach to measuring relative need.
- ❖ the treatment of growth in local taxes.
- ❖ transitioning to a new distribution of funding
- ❖ the geographical level at which need is measured
- ❖ 'resetting' the needs assessment
- ❖ Incentives within the local government finance system

4 BUDGET WORKING GROUP MEETING ON 14 SEPTEMBER 2016

4.1 The Budget Working Group considered the consultation paper and agreed the answers set out in Annex 1 as the basis for our response.

5 CONCLUSION

5.1 Note the issues raised in the recent consultation paper and the response submitted.

DIRECTOR OF RESOURCES

PF68-16/JP/AC
13 October 2016

**RESPONSE ON BEHALF OF RIBBLE VALLEY BOROUGH COUNCIL
TO FAIR FUNDING REVIEW: CALL FOR EVIDENCE ON NEEDS AND REDISTRIBUTION
CONSULTATION**

CONSULTATION QUESTIONS

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

Response –

We would support the introduction of simpler less complex funding formulae. As a starting point we believe that differing tiers of authorities should generally receive a standard amount of funding per head of population. This should only be added to by way of agreed top-ups reflecting proven additional cost service pressures and drivers.

As a rural district we would also welcome a consideration of ‘unmet’ needs in rural areas due to underfunding in the past which has meant rural residents often paying more for a lower level of service. This is currently being exacerbated by cuts in services by upper tier authorities e.g. bus services, libraries, children’s centres, highway maintenance, gritting etc.

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

Response –

District councils in two tier areas provide important services such as eg planning, refuse collection. These have a much lower profile than the likes of education and social care yet are still crucial services for our local residents. These are currently funded via the EPCS block and we would support work being carried out to assess whether the following top-ups are the most appropriate:

- Rurality/sparsity
- Deprivation
- Elderly and young populations

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

Review -

Whilst some degree of expenditure based regression is inevitable we are firmly of the view that the needs assessment should be predominantly based upon current and future needs. To use historic data unduly penalises councils with a record of low spending and rewards historic high spending councils.

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

Response -

See answer to Qu2. We believe the main measure should be a fixed amount per head of population increased for certain top-ups. We strongly believe changes in demographics such as an ageing population and/or a growing population should be taken into account as well as council's local plans for development and house building.

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

Response -

We have no strong views but any statistical techniques used should be simple, transparent and as easy to understand as possible

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

Response -

The weakness in the current system is that too much emphasis is placed on past spending being a proxy for future council expenditure. This is unfair and means that the highest spending authorities are assumed to need the most funding. This can be seen to reward failure and continue to provide funding for inefficient and outdated authorities.

It is also important that in the new system the needs assessment is kept completely separate from work on the changes to the business rate retention system otherwise there is a danger that authorities are rewarded or penalised twice.

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

Response –

We believe that there has to be some measure of our available resources from council tax. We strongly believe councils should be able to retain a proportion of this growth to maintain the incentive to encourage house building in their area.

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

Response –

It is inevitable there will need to be some form of 'phasing in' to a new funding system. The damping mechanism which has been used previously has eroded the impact of any proposed changes. We firmly believe that any phasing in should be as short as possible so that authorities reach their true funding levels within a reasonable timescale.

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

Response -

See above

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?

Response –

We are a rural district council surrounded by large urban council (who tend to be high spending). We cannot see a system working that allows funding to be allocated fairly and equitably across a larger geographical area. We would be concerned that the combined authority would allocate funds on political expediency rather than any objective measure. We believe the current system where the Government allocates funding to each local authority is transparent, democratic and accountable.

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

Response –

See above – we do not agree with this proposal.

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

Response -

If the Government were to introduce such a system what method of consulting recipient authorities would be put in place and how could allocations be challenged if individual local authorities disagree with their funding shares. Currently the existing system allows councils to request meetings with the SoS to challenge any perceived unfairness.

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

Response –

The present system, in some areas, has created a dependency on Government Funding and rewarded inefficiency. Any incentives built into a new system should potentially provide equal levels of financial benefit in rural and urban areas.

How can a negative revenue support grant allocation incentivise local authorities?

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

Response –

Authorities should be rewarded for reducing their dependency on Government Funding and should not be penalised for raising additional resources through council tax base growth.