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12th March 2018

Fair funding review: a review of relative needs and resources

We are writing on behalf of the Association of County Chief Executives (ACCE) in response to the ***Consultation on review of relative needs and resources***. ACCE brings together the Chief Executives of over 30 large English upper tier and unitary authorities. Members of ACCE work to identify common challenges, commission research and share solutions, and discuss key issues with senior Whitehall Civil Servants.

ACCE would like to thank Alex Skinner and Stuart Hoggan from the Department for recently attending our meeting to discuss the consultation and wider financial challenges facing county authorities. In responding to the technical contents of the consultation, ACCE would like to add our support to responses that have been submitted by both the County Councils Network (CCN) and the Society of County Treasurers (SCT).

However a recent survey of the 30 county chief executives unsurprising found that local government finance and related reforms are the top challenge for County Chief Executives. Moreover, the fair funding review itself was regarded by 80% as a high or top priority for ACCE. It is therefore imperative that MHCLG and wider Government Departments give sufficient time, focus and ownership to the fair funding review, alongside the pressures facing local government finance in the Autumn Budget and forthcoming Spending Review.

While drawing the attention to the department to the submissions made by the CCN, SCT and our individual member councils, we would seek to add some additional overarching points which we believe are crucial to delivery of the fair funding review.

Funding Shortfalls

Research by the CCN and SCT has shown that county and county unitary authorities in England will face unfunded cost-pressures of £2.54bn in 2020/21, excluding inflation. This is in addition to a care market funding gap, estimated by LaingBuisson to be £670m. These cost pressures and funding gaps are driven by unique demand-led pressures in adult social care across Shire Counties, but also growing pressures in children's social care and learning disabilities.

These demand-led pressures must be seen in the context of a four year settlement that sees a reduction of core grant funding for counties of 43%, higher than any other class of upper-

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tier local authority. By 2019/20, 14 county authorities will be subject to 'negative RSG', a perverse situation we are pleased to see the department commit to consulting on this year.

Counties face some unique funding challenges that are not aided by the current distribution of Central Government Grant, which sees them receive the lowest per head allocations of any part of England. However, local government as a whole faces a core funding black hole, estimated by the LGA to be over £5bn by 2019/20.

ACCE, like the CCN and SCT, want to see a new funding formula which genuinely reflects the actual costs that are incurred by local authorities. However, the introduction of a fair funding formula will not on its own solve the financial pressures faced by local authorities. In order to ensure that the new Fair Funding Formula can cope with the cost pressures facing the entire sector, the "quantum" of funding available to local government must not only provide assistance with the transition to the new funding model, but must also be sufficiently large to fund the well-documented unfunded cost pressures currently being borne by the local government sector.

We recognise the quantum of funding available at the time of implementation in 2020/21 will be decided at the forthcoming spending review. ACCE stands ready to work with MHCLG and the sector to help develop a powerful case for an increase in the quantum made available for local government to help plug the estimated funding gap facing the sector and ensure the success of the Fair Funding Review. This is alongside engaging in the development of the Adult Social Care Green Paper, which will be of equal importance in funding and reforming care services for the elderly.

Business Rates Retention

Local government stakeholders have been consistent in arguing for Government to make available to local government the remaining 25% of central Government's share of business rates *without new responsibilities*, building on the recent announcement to move to 75%. This would provide resources to meet the funding gap facing local government and also help put in place appropriate transitional funding arrangements to ensure a smooth move to the new system.

It is important, nonetheless, to note that while we are supportive of the move towards greater retention of the estimated £26bn in business rates, designing a system that ensures sufficient funding and incentives for local government will be essential.

The Institute for Fiscal Studies (IFS) report published on 1st March raised concerns about the possible impact of a divergence under 75%/100% retention between the level of income generated and the level of need that that income will have to support. This is particularly important for social care authorities, where there is little evidence that business rates income correlates to demand for these services.

Separate modelling by Pixel Financial Management for CCN showed last year that unless the system is designed carefully county authorities could see an additional funding gap (between what they raise in business rates income and need for services) of £700m by 2030.

The report also showed that London and district councils would particularly benefit from the system, while the divergence in gains between district authorities was also stark. This was reinforced by the IFS report published last recently.

ACCE want to work closely with the department, alongside CCN and SCT, in ensuring that the system is designed to prevent unsustainable funding and misaligned incentives. This includes matters relating to the levy on growth, resets and the tier-shares. Both the Pixel and IFS reports showed that a higher tier share for counties would result in a fairer distribution of resources and significantly reduce the divergence amongst district councils. Our recent survey of Chief Executives showed 85% believed county councils should retain a higher share of the two tier split under full business rates retention.

Fair Funding Review

Alongside system design, the fair funding review itself will be crucial to ensuring the future of local government finance is sustainable and fair. Indeed, 90% of chief executives stated in our recent survey that it was central to making business rates retention work.

In achieving this, overall, we welcome the direction set out in the consultation and the proposals outlined.

We welcome the shift in the consultation towards putting in place a funding formula that is simpler and more transparent. In line with the SCT and CCN, we support the Government's proposal to create a Foundation Formula which uses a limited number of cross-cutting or common indicators to create a simpler formula. ACCE, like others across the sector, would like to see a new funding formula that is driven more by genuine cost drivers and a distribution of funding that is more linked to population levels than other top-up indicators. Ultimately, we want to see a flatter distribution of funding than is currently the case as we believe that this will provide a fairer outcome.

We also welcome the shift towards a system that will be more responsive to population shifts. County areas, for example, have the fastest growing population of over 65s of any type of local authority, which is increasing by 2% year on year. Counties are also predicted to see a 43% increase in residents who are aged over 85 in the next ten years, compared to a 33% rise for London.

We are also pleased that MHCLG are looking to move towards a more agile system that will recognise the pressures that these demographic changes can bring, especially on adult social care. Most fundamentally, we want to see a funding formula that is capable of funding and responding to the growth in social care (adults and children's) pressures in county authorities and across the wider local government sector. It is imperative that the fair funding review prioritises funding towards these services based on need.

ACCE also strongly supports the increased recognition given to rural areas in the proposed relative needs assessment as one of the three main cost drivers. One of the central reasons for the disparity in funding between counties and other parts of the country is because of the different weightings given to delivery of services in areas impacted by density and

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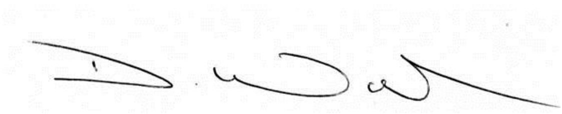
sparsity (rurality). The weighting for density is eight times larger than it is for sparsity. The fair funding review must deal with this disparity and the Rural Services Delivery Grant (RSDG), introduced to partly compensate for the additional costs of providing rural services, is completely inadequate.

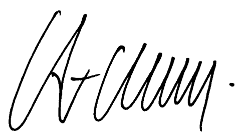
As chief executives of county areas we are only too aware of the impact that rurality and significant geographical features can have on the successful delivery of services. We are therefore pleased that the consultation explicitly seeks to recognise the impact of rurality and we hope that it is sufficiently weighted to ensure that it reflects the cost of delivering services in those areas. ACCE will be supporting the CCN and SCT in gathering further evidence on rurality to support the Department.

Alongside a flatter formula and specific cost drivers, ACCE have supported the SCT in arguing against the use of formulae derived from expenditure-based regression. Using this expenditure data as the dependent variable in a regression will not be capable of capturing need driven by factors which have previously been systematically underrepresented in funding allocations. It is therefore paramount that a formula is developed based on independent and sector-led expertise to inform the drivers of need and attempt to capture this unmet need.

Yours Sincerely



Debbie Ward
Chair, ACCE
Chief Executive Dorset County Council



Anthony May
Vice Chair, ACCE
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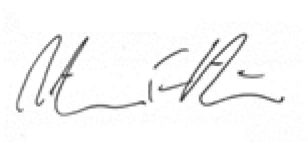

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