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Local Government Finance Reform (Fair Funding Review),
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Dear Sir,

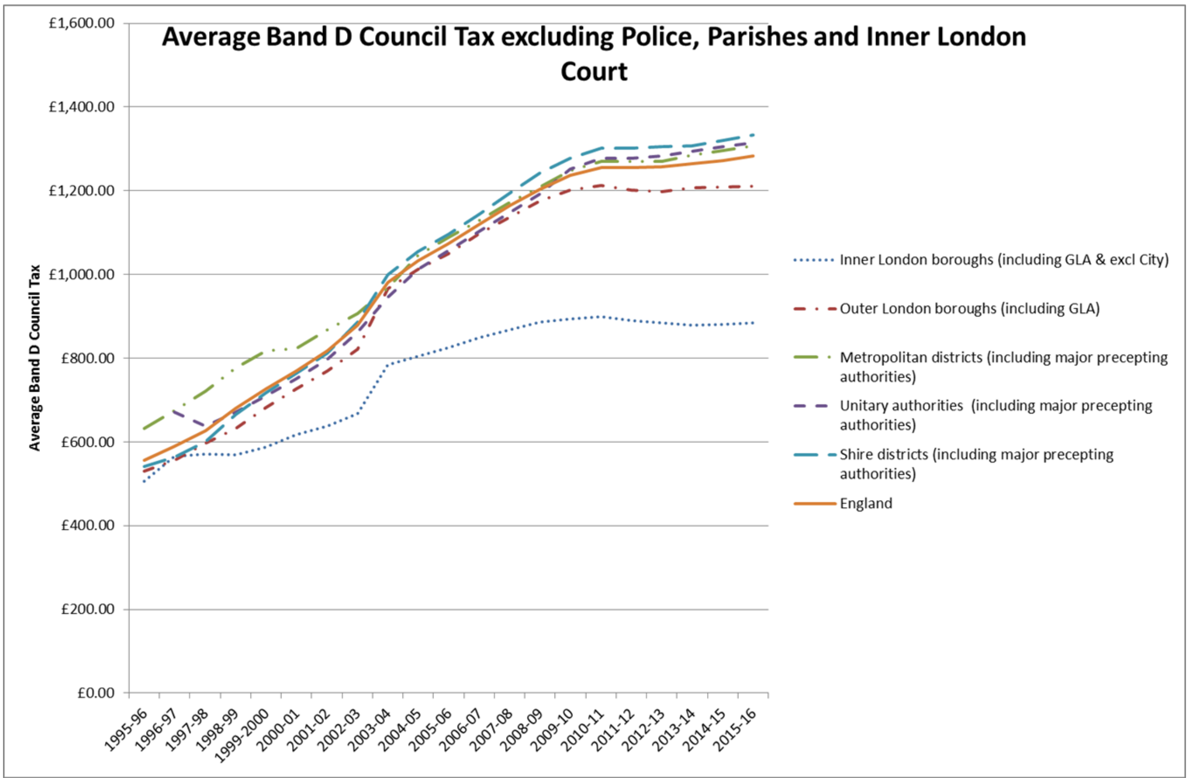
Fair Funding Review: Call for evidence on Needs and Redistribution

This response to the call for evidence on needs and redistribution is on behalf of Kent County Council (KCC) and complements our response to the proposed 100% business rate retention. Kent is the largest shire area in the country with a population of around 1.5 million and over 640,000 households. This makes KCC the largest council responsible for services to more people than any other council in the country.

KCC welcomes the opportunity to comment on this review, which is long overdue. We have contributed to previous reviews and consistently made the case that county areas are less favourably treated than London and Metropolitan boroughs. Without repeating in full our previous arguments these can be summarised that we believe the indicators used for grant allocations (Formula Grant and many of the specific grants which have now been added into Formula Grant/Revenue Support Grant/business rate baseline) had an urban bias. This was compounded by the use of regression analysis to compare distribution with previous spend patterns and transitional damping, both of which served to perpetuate the historical allocations and negated a proper needs driven system.

We also contend that the current system has become overly complex. It has evolved from a variety of previous arrangements, the rationale for which have become lost. Furthermore, commitments made under previous arrangements have been cast aside leaving individual authorities to suffer the consequences. We believe that it should be possible to produce a simpler, more efficient and more equitable system. This system should focus on the key cost drivers for the main areas of local authority spend and be based on forward predictors of spending needs. Any system which cannot be readily explained to local councillors, residents, businesses and other stakeholders, or can justify the outcomes it produces, should be rejected. However, we also recognise that adequately reflecting spending needs through redistribution should be the prime objective and should not be sacrificed for the sake of simplicity. This means the final redistribution methodology may have to be sufficiently complex to achieve this.

We believe the most compelling evidence that the current system is flawed is large disparity in council tax charges in different authorities. How can it be justified that council tax payers in county like Kent have to pay more than twice as much as the same banded property in some London boroughs? This cannot simply be explained away as efficiency or local choices over service levels; the original concept of council tax was that the funding redistribution would enable authorities to provide a similar range/level of services for the same tax charge. This concept has become increasingly eroded over time (see the graph below showing comparable band D tax rates in different classes of authority) and this review should seek to redress this imbalance over a reasonable period of time to allow tax rates in London to rise and to restore equilibrium.



We would like assurances that the needs led review will not only reconsider the baseline for the existing 50% retention but also the distribution of grants being considered to be devolved from the additional business rate retention (especially the remaining RSG and improved Better Care Fund). We recognise that this may require transitional damping but this must be on the basis of a managed transfer to new needs-led redistribution and acceptable impact on council tax.

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

We are very much in favour of simple formulae in principle. To try take account of every nuance for particular authorities is virtually impossible, and we would argue inappropriate. If the aim is for local authorities to be more self-sufficient and rely on the income raised through local taxes, then a complex formula which redistributes funding for a wide range of individual needs and nuances is counter-intuitive. Of course to be genuinely self-sufficient authorities should have more flexibility over how the taxes are raised in the local area e.g. we have consistently argued that authorities should be given greater powers to vary mandatory discounts/reliefs.

We believe that a formula based on simple measures such as population, number of households, etc., would suffice for the vast majority of authorities. Of course there will always be outliers where this is not the case. However, we do not believe that the formula used for all authorities should be determined by the needs of outliers. Furthermore we would urge that the formulae be measured according to the overall distribution it delivers rather than the individual elements within it. This would better take account of the inevitable "swings and roundabouts" which will occur from a simple approach.

It is our experience from complex formulae that within a few years there becomes a strong desire for simplification (mainly because the original reasons for the complications no longer exist or aren't clear) but this is difficult as it creates winners and losers. Therefore, it is easier to go simple from the outset.

However, having stated this aim for simplicity we accept that any system which redistributes resources according to needs must adequately reflect need and this should be the prime objective. Consequently we accept that the formula will need to ne sufficiently complex to achieve this, especially where such complexity adds value and results in a funding system which better matches the needs. This should particularly apply where such complexity is in the interests of the wider local authority family i.e. we would not support complexity in order to reflect local choices or which adds perverse incentives.

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

We believe attention should be focussed on the most significant services. For most upper tier authorities these are (in order of significance); adult social care, children's social care, capital financing, waste collection (lower tier in two tier areas) and disposal, public transport, and highway maintenance/management. If we do not get the distribution of funding right for these areas of significant spending then it's largely irrelevant whether we get the allocations right for some of the lesser areas of spending under the old Environment Protection & Community Services (EPCS) sub block.

In particular we have challenged the previous distribution of funding for adult social care. This applies to both older persons and more pertinently adults (especially those with learning disabilities and mental health issues). We believe the previous formulae have relied too much on measures of deprivation and not enough on health indicators. In particular for adults with learning disability we believe deprivation is not a factor as these disabilities are as likely to occur in more affluent families as deprived ones. It comes as a surprise to many that we spend a greater proportion of the adult social care budget on adults with learning disabilities than we do on older people (and these clients stay in the social care system much longer than older people). It is therefore imperative that we get the distribution of funding right for this significant (and often overlooked) client group. We are also concerned that support for adults with mental health issues is often overlooked and inadequately resourced.

Similarly, the funding and support for children with special educational needs is another area which should be given special attention. The presumption that SEN is linked to deprivation is overly simplistic with many special needs unrelated to deprivation. Providing SEN transport has been one of the rising spending demands which has not been funded under the current arrangements.

We have previously expressed our significant reservations that the funding to finance capital schemes under the old supporting borrowing regime has not been adequately protected since 50% retention was introduced (or from the reductions in RSG since 2010). These capital investments were made on the understanding that the borrowing would be fully funded for the lifetime of the debt. We now find ourselves having to finance long term debt (both interest and repayment of the principal) from a diminishing funding base. This puts added pressure on those authorities which took up supported borrowing. We would particularly like to see this addressed as part of the needs and redistribution review.

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

We do not support expenditure based regression and this approach should not be used as the basis on needs assessment or redistribution. Expenditure based regression effectively preserves the historic funding distribution and therefore, maintains existing deficiencies in the funding arrangements. We have already expressed our opinion that the previous funding arrangements favoured metropolitan authorities, particularly Inner London. This is reflected in the lower per capita funding allocations for shire authorities. This in turn has led to shire authorities increasing council tax but even after taking this into account these authorities still have a lower core spending power than London and metropolitan authorities. It has also led to the very large divergence in council tax charges which we have already exemplified, and which we believe is totally unjustifiable.

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

We strongly support the concept of identifying key cost drivers. The main key cost driver should be population (split into appropriate age segments). For many services e.g. adults with learning disabilities, waste collection and disposal (although in the case of waste number of households may be more appropriate than population), this should be sufficient. Other services may need to weighted by other factors e.g. deprivation for older persons and children's social care, health indicators for older persons and public health, bus patronage for public transport, etc.

Since the baseline will be set and fixed for a number of years we think it essential that the indicators used the reflect key cost drivers should be forward looking i.e. reflecting likely need over the entire period of the reset, and not set based on a previous census or some other count. We accept this introduces some degree of estimating error but believe this is preferable to using indicators which could be woefully out of date towards the end of the reset period.

We recommend that the CLG/LGA needs and redistribution working group be charged with identifying the key cost drivers for the most significant services and model the impact. We do not support the use of expenditure or non-expenditure based regression to evaluate the impact for the reasons we have already explained i.e. these perpetuate previous patterns which are influenced by a wide variety of factors, chiefly previous funding distribution and local discretionary choices, neither of which should be reflected in needs assessment or funding redistribution. If necessary an independent body which represents the views of all local authorities should make the judgement on which factors and weights should finally be used. There is plenty of time to do the necessary modelling and reach a conclusion which can be accepted by all authorities.

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

Ultimately we are not convinced that any statistical technique will help to evaluate the right formulae. The main problem being that whatever the outcomes are evaluated against can be criticised. Therefore, we think it more important to secure consensus on the key factors which should (and those that should not) be taken into account in determining needs and redistribution. We believe the key factors which should be taken into account are:

- Focus on the most significant service areas which councils have to provide
- Identify key cost drivers (one of which should always be population) for those service areas
- Seek to re-establish the principle that redistribution should seek to equalise resources so that authorities can provide a similar level of services for the same rate of council tax/business rates
- If authorities want to vary the rate of tax this should be matched by varying spend/other income sources

Key factors which should not be taken into account include:

- Historic funding levels
- Local discretionary choices
- Delivery of other political objectives

As we have already indicated we believe the only way to reach an acceptable decision on the formulae is through an independent body representing the views of all local authorities.

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

As we have already indicated the arrangements should focus on the significant areas of statutory responsibilities and not be driven by the need of (a few) significant outliers.

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

We think all authorities should be able to keep a proportion of growth in perpetuity. This is consistent with the concept of incentivisation. Growth (and indeed decline) can occur for all sorts of reasons, some within the gift of local authorities and some outside their control. We think it will be virtually impossible to measure the amount of growth with a local authority's control, and thus it may have to be an arbitrary amount which is retained in perpetuity. Furthermore, some of the growth reflect growing population and provides funding for the services consumed by the additional people.

We are concerned that resource equalisation did not take into account local authorities' ability to raise other income as well as taxes. Where such income streams are significant, the authorities concerned have scope to deliver higher services levels and/or tax reductions. We believe these significant income sources e.g. car parking charges, social care client contributions, etc., should also be factored into resource equalisation equation.

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

We recognise the need for transitional damping but not to the extent that in significantly impairs or negates the effect of needs based redistribution. One of the main criticisms of previous damping regimes is that they returned funding allocations to their previous relative position and that the reform which prompted the damping was never fully implemented. Therefore, we would support damping which is set for a fixed period during which it would be fully phased out.

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

As above, we fully support a fixed period for damping which is then fully phased out.

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?

We cannot see how this arrangement would work without extensive and difficult negotiations between the individual authorities. Furthermore we cannot see how a formula which has been devised to determined baseline need at a combined authority level could be disaggregated down to individual authority level without producing unintended consequences. Therefore althougth this suggestion would promote better collaboration between authorities we think it should be rejected as being unworkable. . .

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

. We cannot see how combined areas would work and therefore this questionis not appropriate

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

Once again this is not appropriate as we think the notion of combined areas is unworkable.

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

We support the principles of self-sufficiency and incentivisation. We have already commented in this response and in our response to the full consultation that local authorities should be given more flexibility over local taxes. This would include greater freedoms over mandatory discounts and reliefs, and greater flexibility to increase as well reduce local tax rates. We believe this would enhance local democracy and accountability.

We also believe that the finance system should encourage councils to integrate and collaborate more, especially where this can deliver better services which are easier/quicker for residents and businesses to access, and can be provided at lower overall cost.

We would like to see a finance system which encourages and supports authorities to make infrastructure investments with greater certainty that the funding will be secure to finance the investment. The current system which has not secured the funding under the supported borrowing regime, leaves authorities with a large spending obligation through the Minimum Revenue Provision, and inappropriate/unworkable Community Infrastructure Levy arrangements, does not do this. Most infrastructure investment is now funded from central government grants. This is not consistent with the concept of self-sufficiency and needs to be addressed (although we have not seen much evidence of this to date)

We believe the finance system should reward enterprise and innovation. In particular we would like to see a system which encourages authorities to take more risks and does not vilify them for holding reserves as a way of managing these risks. Authorities can and should do more to identify the reasons for holding reserves and general reserves for unforeseen eventualities should be confined to reasonable levels. However, in our experience most reserves are not held for such unforeseen circumstances but are held either to manage risk should particular eventualities arise or to smooth expenditure to avoid large variations in tax levels needed over short periods of time.

We believe the finance system should discourage over reliance on central funding or provide safeguard/protection for authorities which make inappropriate choices. Safeguards should exist for unavoidable/uncontrollable occurrences.

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

We believe a simpler system, which focuses on the significant areas of statutory activity and starts from the premise that the vast majority of authorities have similar needs per head of relevant population will go a long way towards reinforcing these incentives. We certainly believe the current wide range in council tax rates which the current system has created needs to be addressed. We accept this will take time but these differences cannot be justified and need to be tackled.

We hope that you find our responses helpful. KCC is keen to continue to help the government to develop the arrangements as we believe we are close to be a "typical" shire area with many issues and challenges in common with shire areas elsewhere across the country.

Yours Faithfully

Name
Job Title
Department