

Appendix 2 – Draft Responses to Fair Funding Consultation

Before addressing the detailed questions about the fair funding regime which is focused on how the funding pot is distributed we do wish to highlight the importance of ensuring that there is significant funding in the pot to enable local government collectively to be able to deliver on a sustainable basis the services their residents and business require.

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

The greater the complexity the potentially less transparent the allocations will be. However, there does need to be sufficient complexity to reflect drivers of need and cost. For south east and London authorities it will be important that formulae reflect the greater cost of providing services in London and the surrounding area.

The Four-Block Model was complex, opaque and extremely difficult to explain to elected members and taxpayers. Since the four block model's introduction it has been widely discredited – both independently and from within the sector. The complexity is that as local authorities we deliver a wide range of services to a broad spectrum of the population. Therefore when a funding model results in unexplainable results and unfair allocations of resources, then that becomes unacceptable.

Different local services will face demand driven by different demographics or geographical landscape. The current reliance on regression encourages statisticians to look for increasingly complex formulae in an attempt to replicate the historic pattern of spending or activity. By basing future allocation on past spend the line between past and future funding is cemented and old funding inequalities are “locked in” to the system and move further away from reality in the demand and local cost of providing individual activities.

We support the 3SC authorities' view that a sensible approach would be for simplicity first with additional layers of complexity argued and evidenced on a service by service basis. For example, start by funding services on an appropriate per capita basis (per elderly person, per waste bin collected, per child in education, and per km of road for example) before hearing evidence about demand and incorporating other measures into the formula. But each layer of additionality should meet the following criteria:

- each case has evidence to justify its argument;
- each additional layer improves the fairness of the system; and,
- the system retains its transparency and continues to be seen to be fair.

Different local services will face needs and demands driven by differences in demographics, economic activities, local costs of delivering services and geographical landscape. Furthermore, these drivers are dynamic and are each changing at different speeds across the country and will need to be addressed within the formula.

One of the advantages of simplicity and transparency in a funding system that is materially fair is that it is reasonably predictable, enabling local authorities to plan around its outputs.

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

Our earlier comments still remain future funding allocations cannot be based upon past spend or activity. An area that fares well from the funding system will be able to choose to do more and spend more than an area that does not. In Surrey the districts provide a number of independent living services (day centres, meals on wheels, community alarm etc) which elsewhere are provided at the County tier level. This does the impact of an aging population has a particularly significant impact on the Surrey districts and boroughs and therefore we would support our county colleagues in suggesting appropriate modelling is undertaken to ensure fair funding.

There are many other services that we collectively provided which are also coming under increasing pressure. For example as a result of the welfare reform changes such as tightening the benefit cap our Council is facing rising numbers of people presenting themselves as homeless which is increasing the pressure on our budget.

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

Whilst any distribution formulae used need to be underpinned by robust statistical analysis, we believe that a system whereby future funding allocations are calculated on the basis on past spending decisions is not one that supports future funding need. Instead it simply embeds past funding decision (whether these were by the local authority itself or the government) in determining the funding need and damping levels of local authorities.

It is of paramount importance that service needs are not just captured for services now but for the lifetime of which the formula is expected to apply. This is vital for a needs assessment that is expected to be "frozen" for a numbers of years under the business rates retention scheme during which population increases are expected to cause significant service pressures for demand across the whole range of service we provide.

We welcome the possibility of designing a distribution system from a "blank sheet of paper" and support this as an opportunity to bring together representatives in each service area to agree the key cost drivers in providing each service, in order to determine an average cost for each service which then could be used as the standard around which regional variations could be established. We believe that an approach like this will provide the incentive effect that the Government are keen to incorporate.

We suggest the Government should work with councils to form a group to consider putting forward a funding proposal based on this concept whereby local need is driven by a common basket of place based indicators that give a fair reflection of local need, considering primary cost drivers for all local areas. This approach focusses on existing and emerging service need rather than historical need to spend. It therefore provides the mechanism to establish a funding formula that is not just relevant today but future proof as well

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

See Q3. We consider that councils' spending on service is a very poor measure of need as it will be dependent on whether they were adequately funded or not in the past. As stated above, the development of key cost drivers with a reflection of relative activity levels would seem a more fair and equitable measure to assess need. This should also be set against the determined period of time between Needs reassessments, so that need is assessed across the medium term, not just at current levels.

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

See Q3. We do not have an issue with the regression technique, in itself. However for the reasons outlined we can support a method based on the use of historic data.

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

As per question 1, important that the higher cost of delivering services in certain regions is taken into account.

See Q3. The new funding formula must be capable of reflecting future demands for services. For example, the implementation of the welfare reform policies will change the pattern of demand housing support from councils.

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

We recognise that local capacity to raise income (including but not limited to council tax) will need to be considered as part of this review.

The proportion of an authority's budget which is funded by council tax varies hugely across the country. There can, of course be many reasons for these differences; however, past local government settlements have frequently included an element of resource equalisation, whose impact of which falls heaviest in areas with large tax bases, such as Surrey.

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

It is important that there is an element of damping and transitional protection.

We believe that service provision to the local population should be managed as effectively as possible throughout the Formula Funding Review process. We agree that transitional arrangements are an important part in ensuring this is maintained if any new needs assessment results in a significantly different distribution pattern by allowing local authorities the time to financially plan for them.

We believe that there is a balance between moving to the new distribution as quickly as possible and a safe transition period that takes account of the scale of funding changes local authorities can cope with. We believe that specifying where this balance should be set without knowing the magnitude of changes caused by any new needs assessment would be

misinformation at this point in time, and therefore recommend that this is revisited once implications of the new scheme design are clearer.

For the devolution of new responsibilities as part of 100% business rate retention our view is that the new responsibilities must be aligned to supporting economic activity and growth, but we agree that, where possible, existing distributions should be continued for a transitional period and consistent with principles set out for future models.

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

See Q8 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?

The 3SC initiative is seeking to establish a separate geographical identity, which shows how we as a group of 26 sovereign local authorities can work effectively as a unit. We would therefore welcome the opportunity for further dialogue on a large geographical approach, but this would have to be on the

- recognition that there may be a significant diversification of individual needs across a larger area and that this would need to be fully reflected in any future approach,
- basis that increased local control and therefore increased local accountability would need to come with greater flexibilities over both policy and operational issues.

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

See Q10. We believe this is something that should be decided on an authority-by-authority basis locally. A truly fair funding formula where the assessment of need and distribution of funding are based on a fair and transparent unit cost basis would significantly help to facilitate this.

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

One of the advantages of collaboration and partnership working is better management of risk, but this needs to be aligned with appropriate incentives to help effectively manage and mitigate the risks.

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

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

We call on the Government to publish a more detailed timetable of implementation, giving local authorities an implementation date to work and plan towards. It is also important that decisions are made regarding devolved services as soon as practicable, to enable

discussions in other areas to continue. Recent political developments such as the EU referendum, a new Prime Minister as well as new Secretaries of State means that local authorities are operating in a time of unprecedented uncertainty. We strongly believe that local government has shown enormous capacity and competence to change and deal with uncertainty. We are also in an excellent position to work locally with partners, businesses and other stakeholders to stimulate and sustain economic growth, which will generate additional long term resources at both a national and local level. It is important that the sector as a whole is enabled and encouraged to deliver this agenda and a plea is therefore made to ensure that unnecessary blockages are not put in place of prevent this from happening.