

REPORT OF THE LEADER OF THE COUNCIL

FAIR FUNDING REVIEW

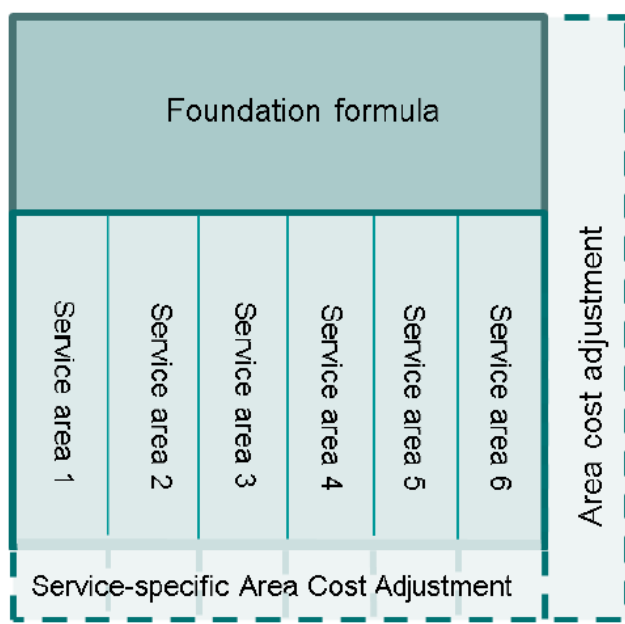
Purpose of the report

1. To update Members on progress of the Fair Funding Review, the evidence of funding levels across local government, in particularly the County Council's funding, and seek approval to the approach to Government to secure fair funding levels for the residents of Nottinghamshire.

Background

2. The current arrangements for local government funding were last updated in 2013, when the partial business rate localisation was introduced. In October 2015 the government announced their intention to introduce 100% business rate retention at a local level and phase out the main local government grants. To achieve the reforms, it was identified that the whole local government finance system would require to be reviewed and changed. The Department for Communities and Local government (DCLG) working with the Local Government Association (LGA) set up a number of technical working groups to shape and progress the necessary reforms.
3. DCLG launched a consultation with councils and stakeholders in July 2016: Self Sufficient Local Government 100% Business Rates Retention and simultaneously published a Call for Evidence on Needs and Redistribution (Fair Funding Review). The County Council's responses to these two consultations were approved at Finance and Property Committee in September 2016. The summary of responses were subsequently published by the DCLG in February 2017.
4. The current 'Four Block' model used to determine the relative needs of each authority is complex. The Four blocks relate to relative needs, relative resources, a central allocation and floor damping. Formula Grant, including Revenue Support Grant (RSG) and share of business rates redistribution are distributed using this model. The blocks representing services are:
 - The Relative Needs Amount (intended to compensate for differences in needs of each local authority area)
 - The Relative Resources Amount (intended to compensate for differences in the relative strength of the Council Tax tax-base in different areas)
 - The Central Allocation (in effect a common allocation per head to all authorities with the same responsibilities)
 - The Grant Floor Adjustment (a net nil re-allocation of grant between local authorities to ensure that every local authority receives a minimum annual increase in funding, regardless of the outcome of the preceding three blocks).

This can be shown as (with the description of the service blocks and grants rolled into the Relative Needs Formula in Appendix A):



5. Prior to the election of the new government in June 2017, the enabling legislation through the proposed new Local Government Finance Bill was allowed to 'fall away' and was not included in the Parliamentary timetable for this new session of parliament. Ministers have stated an ongoing commitment to consider options for the future local government finance reform without and immediate Bill and DCLG working with the LGA are progressing this work through the Needs and Redistribution Technical Working Group.
6. This Technical Working Group have considered an indicative timeline for the fair funding review for implementation in April 2020/21. The fair funding review will:
 - **set new baseline funding allocations** for local authorities, deliver an **up-to-date assessment of the relative needs** of local authorities,
 - examine the **relative resources** of local authorities
 - focus initially on the **services currently funded through the local government finance settlement**, and
 - be **developed through close collaboration with local government** to seek views on the right approach.

Evidence of Funding Levels

7. In response to the Local Government Settlement in January 2017 the County Council's Network (CCN) provided evidence to the DCLG. This highlighted that local government is at a significant crossroads which will determine the future sustainability of core statutory services, in particular children's and adult social care. Counties have transformed services and made extraordinary efficiency savings to safeguard frontline services, this in the face of an estimated 37% real-terms reduction in government funding since 2010 and facing a 93% reduction in RSG from 2015/16-2019/20. This is far higher than in other authority groups:

Reduction in RSG 2015/16 – 2019/20

	% Reduction
CCN	-93%
London	-71%
Mets	-69%
Unitaries	-81%
England	-78%

8. It is clear that there is a fundamental mismatch between the level of funding available to county areas and levels of demand. Counties remain underfunded in comparison to other local authority groups, most significantly the remit of adult social care, and the gap is exceedingly being met by county tax payers.
9. Research by the Society of County Treasurers (SCT) shows that on average county residents now pay £455 per head – this is 9% higher than the national average, 8% higher than the average for London, and 35% higher than those residents in metropolitan districts. Their analysis provided on Council Tax level differences is even starker.
10. SCT have provided further information and analysis that shows that in County areas council tax is significantly higher than in other parts of the country. The reason for this position is that the distribution of revenue support grant and localised business rates does not reflect need in county areas and council tax has taken the strain. In 2017-18 the average Band D bill in England was £1,591. As you would expect, the band D amount varies across the country, with Band D bills in shire areas being over 40% higher than inner London, as shown in the table below:

Type of Authority	Average Band D – 2017-18	Range
Shire County Areas	£1,662.16	£1,439.59 - £1,890.83
Unitary Authorities	£1,640.65	£1,213.85 -£1,851.74
Metropolitan Districts	£1,574.95	£1,390.61 -£1,782.55
Inner London (including City)	£1,141.23	£688.14 - £1,437.70
Outer London	£1,481.96	£1,244.56 - £1,757.48
ENGLAND	£1,590.53	£688.14 - £1,890.83

11. The highest band D bill (Weymouth & Portland, Dorset) is 2.7 times the lowest bill (Westminster, closely followed by Wandsworth). The average band D bill in inner London is less than three quarters of the national average and just 77% of the average band D bills paid by their neighbours in outer London.
12. Measuring council tax in terms of Band D properties creates a simple comparison tool for similar value properties but it does mask wider differences in the council tax paid across the country. The following table uses the DCLG's measure of dwellings to create a measure of council tax.

Type of authority	Council Tax per Dwelling – 2017-18	Council Tax per Adult - 2017-18
Shire County Areas	£1,337.55	£688.10
Unitary Authorities	£1,172.25	£601.53
Metropolitan Districts	£954.70	£489.39
Inner London (Including City)	£930.92	£468.80
Outer London	£1,244.05	£563.60
ENGLAND	£1,185.37	£600.90

13. In all measures (Band D, per dwelling and per adult) residents in shire county areas are paying the most for their local services. Adults in shire county areas pay 15% more than the national average. County areas also pay more per dwelling; 12% above the national average. In all measures (Band D, per dwelling and per adult) metropolitan districts and Inner London pay below the national average.
14. Council Tax has always been based on property values; at the time this was thought to be a suitable proxy measure for wealth. However, the property market has changed drastically since 1991. Data from the Annual Survey of Hours and Earnings (ASHE, produced by the ONS) shows the following pattern of annual salaries:

Type of Authority	Average Salary
Shire County Areas	£28,820
Unitary Authorities	£26,697
Metropolitan Districts	£24,833
Inner London (Including City)	£42,267
Outer London	£34,256
ENGLAND	£28,682

15. Residents of inner London, who pay below average council tax, by any measure, earn 47% more than the national average.
16. Residents in shire areas, where salaries are only £200 a year above the national average, find themselves paying the highest band D council tax, the highest council tax per household and the highest per adult council tax.
17. Whilst local politics will have had *some* influence over levels of council tax there can be no doubt that patterns as ingrained as these must have also be driven by other factors, namely the distribution of revenue support grants and business rates .
18. Whilst revaluation or major changes to the way council tax works is not within the scope of the current fair funding review, the fair funding review is an opportunity to address at least some of these inequalities. Using a national assumed council tax figure, rather than use the actual Band D levels, will not penalise these authorities and their residents further and may help to progress towards a fairer ideal of a standard charge for a standard service.
19. In the interim Policy Committee has received two reports on the evidence regarding funding for local government in the East Midlands. In September the Committee reviewed the work that Leicestershire County Council has undertaken in developing a new model of funding which allocates money based on factors that drive demand for local services and narrows the gap between highest and lowest funded councils.

20. This analysis indicated that Nottinghamshire County Council's funding is currently £730 per resident, and under the new model, this would increase by £44 per resident, the equivalent of an additional £35 million in total. Compared to the London Borough of Camden, this would increase by £441 per resident, equivalent of an additional £345 million, or Surrey County Council this would increase by £77 per resident, the equivalent additional funding of £62 million – when considering the current funding shortfall facing the County Council of £63 million over the next 3 years.
21. In November, Policy Committee received additional evidence from the East Midlands Councils identifying that the region is losing out in terms of public expenditure based on evidence from a recent HM Treasury report, namely:
- 3rd lowest expenditure on services in real terms between 2011-12 and 2015-16.
 - Lowest level of expenditure on economic affairs (economic development type spending).
 - Lowest % increase in spending on economic affairs between 2011-12 and 2015-16.
 - Lowest levels of transport spending 2015-16, and lowest % increase between 2011-12 and 2015-16.
 - Lowest levels of expenditure on rail per head of the population.
22. It wasn't just London and the South-East that the East Midlands compared poorly against – it was similarly poor when compared against the Northern Powerhouse (and West Midlands). The implications are significant – it identifies a poor situation and the need to increase spending in our infrastructure - particularly if we are serious about promoting economic growth, productivity and rebalancing our economy.

Information and Advice

23. The evidence indicates that the East Midlands and in particularly the County Council simply does not get its fair share of Government funding.
24. Although there is an opportunity to continue to work with local authority partners across the East Midlands to provide the necessary evidence to inform the fair funding review and options for re-distribution the Council should continue to press the Government to ensure our residents receive their proper share of funding.

Other Options Considered

25. None

Reason/s for Recommendation/s

26. Continued evidence demonstrates that the current model of funding for this Council is inequitable and urgent action is needed to address this ongoing inequity of funding.

Statutory and Policy Implications

15. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty,

safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

- 1) That Councillors continue to receive updates on the Progress of the Fair Funding Review.
- 2) That the Leader of the Council writes to the Government setting out the evidence in support of the Council's demand for fair share of funding from Government.
- 3) That all Members write similarly to Government setting out the evidence and demand for fair share of funding for the Council.

Councillor Mrs Kay Cutts MBE
Leader of the Council

For any enquiries about this report please contact: Nigel Stevenson

Constitutional Comments (KK 8/11/17)

27. The proposals within this report are within the remit of Full Council

Financial Comments (NS 3/11/17)

28. The financial implications are set out in the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- Finance & Property Committee 19 September 2016
- Policy Committee 13 September 2017
- Policy Committee 15 November 2017

Electoral Division(s) and Member(s) Affected

All.

APPENDIX A: Fair Funding Review: Diagram of Existing Relative Needs Formula and Grants previously rolled into Settlement

