Report to:	**Cabinet**
Date:	**6 March 2018**
By:	**Chief Operating Officer**
Title of report:	**Fair Funding Review: A Review of Relative Needs and Resources Consultation**
Purpose of report:	**To brief members on the Council's response to the Fair Funding consultation and to delegate authority to the Chief Executive, in consultation with the Chief Finance Officer, to agree the final consultation response.**

RECOMMENDATIONS:

Cabinet is recommended to:

1. **endorse the Council's response to the consultation, as set out at Appendix 1, and the Council's lobbying position that will be reaffirmed in Section 2 of this report.**
2. **delegate authority to the Chief Executive, in consultation with the Chief Finance Officer, to agree the final consultation response for submission by 12 March 2018.**

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1. Background

1.1 Reviewing the funding of Local Government is a constant cycle of fiscal review followed by remodelling and repositioning of funding sources. In recent years Local Government has seen:

- A planned reduction of Revenue Support Grant (RSG) funding since 2010 which will have almost removed what was a significant funding source for Local Government by 2020/21;
- Reductions to specific grant funding and integration of grant funding into the reducing RSG;
- Capping of Council Tax increases and incentives for no increases (e.g. Council Tax Freeze Grant).
- A number of Central Government policy interventions impacting on local resources, e.g. small business discount scheme.

By 2020/21 service provision will be largely funded from local Council Tax and Business Rates redistribution. Together with the 75% retained Business Rates growth scheme devised to incentivise economic development and growth.

1.2 The Fair Funding Review (FFR) is part of this transition, which will establish the base position and methodology for future national funding allocations based on need. It is essential therefore that we engage with the FFR process.

1.3 The current model, rolled out in 2013, is complex and the assumptions it was based on are out of date, rendering it unsustainable. It was in response to austerity, and the anticipation of 100% business rates, that the Government began removing the RSG which, as highlighted in 1.1 above, has been in decline since 2010. Without a clear view of future funding distribution and mechanisms it is increasingly difficult for councils to plan for the future.

1.4 Since 2013, Councils' have retained 50% of their Business Rates. The remaining 50% is distributed through a system of top ups and tariffs with a levy charged for administration.

1.5 Pilots are currently underway as the Government moves to 75% Business Rates Retention (of business rates growth) in 2020/21. This will mean that between reset periods, which are yet to be determined, 75% of business rate growth is to be retained by the local collection area. This new system does not necessarily mean that 75% of business rate income will be retained by the local area and there will still be a complex system of tariffs and top-ups to achieve equalisation of resources and to reflect need across the country through the outcome of the FFR. It also does not mean that business rates are being devolved to local government – central government will continue to determine the rate multiplier, the Valuation Office will continue to assess values, and it is inevitable that central government will continue to tinker with the system through complex relief arrangements. This system is under development and therefore there remain significant unanswered questions on how this system will work and what this would mean for the Council.

1.6 Given the limited potential in East Sussex in the short to medium term for business rate growth, the Council requires a needs based formula that redirects sufficient funding to enable the delivery of vital services. The FFR is instrumental in addressing this requirement. Although the timescales for the FFR (as set out in 3.2) mean that there is no short term solution to meet current funding and service pressures.

1.7 The Minister for Housing, Communities and Local Government has stated his recognition that the current system for allocating funding, which has been in place for over a decade, has to change as it no longer represents the changes that have taken place since its introduction. The FFR is seeking views on what factors drive local government funding in order for this funding to be fair, robust, evidenced based and reflective of councils' relative needs and resources.

1.8 Following a Call for Evidence in 2016, a set of principles have been established to guide the work of the FFR:

- Simplicity;
- Transparency;
- Contemporary;
- Sustainability;
- Robustness; and
- Stability.

1.9 In addition to these principles, a key objective of the review is to work in conjunction with wider reforms to local government finance (Business Rates Retention) and help provide a strong incentive for councils to grow their local economies and to use resources as effectively as possible. For East Sussex, there are a number challenges that impact on the ability to generate the level of growth to meet the financial and service pressures in the coming years.

1.10 On 19 December 2017, as part of the provisional settlement announcement, the Secretary of State for Communities and Local Government (now the Minister for Housing, Communities and Local Government) published a formal consultation on the Fair Funding Review: A Review of Relative Needs and Resources.

1.11 This consultation provides the opportunity for the Council to provide input into the Government's plans to provide a funding allocation mechanism that is fit for the future, reflective of the demographics of the population and is therefore reflective of need. It followed an earlier announcement in February 2016 of the Government's intention of conducting a review of Fair Funding due to increasing demographic pressures affecting particular areas, such as the growth in the elderly population, affecting different areas in different ways and impacting on the cost of providing services.

1.12 The Fair Funding Review will:

- Set new funding baselines for local authorities in England, aiming for implementation in 2020/21;
- Replace the current methodology which is considered out-of-date and complex;
- Design a new 'relative needs assessment' methodology by considering factors that drive the costs of service delivery and how to put these together analytically into new funding formulae;
- Consider how to make a fair adjustment for 'relative resources' (e.g. council tax), and how to transition to new allocations quickly;
- Focus primarily on services currently funded through the settlement; and
- Be developed through close collaboration with local government.

2. Response to consultation

2.1 The Council's response attached at Appendix 1 is reflective of its lobbying position.

2.2 In responding to the consultation, the opportunity will be taken to assert the Council's lobbying position on wider Local Government funding issues, as wider reform is considered by the Council as being essential for a sustainable future; This is summarised in the following paragraphs.

2.3 The Council continues to feel significant demographic and inflationary pressures on the major services provided, particularly the provision of social care. East Sussex has the second highest proportion of over 85s of any county area in the country and in line with the national trend our elderly population is projected to continue growing.

2.4 Building a sustainable Adult Social Care (ASC) system for our growing elderly population is one of the biggest challenges facing our generation. As providers of social care to some of the most vulnerable people in the community, one of Council's largest concerns remains the adequate and sustainable funding for these services. In order to meet prior year funding reductions services have been reduced. The ASC precept and the additional Improved Better Care Fund are welcome and have helped plug the immediate gap but create a funding cliff-edge in 2019/20. Whilst we acknowledge that we can raise money through the precept to cover some costs, this is not sustainable and overlooks the principle of funding needing to reflect relative needs.

2.5 In addition, Children's Services pressures, particularly Looked after Children and services for children with disabilities is a rapidly increasing concern. The announcement of the £200m transformation fund and £19m to deal with pressures such as asylum seeking children are welcome, however we need to understand long term plans for these grants and for dealing with the wider pressures building up in Children's Services.

2.6 The cost of providing services in the South East is higher than in other parts of the country for which the Council (unlike elsewhere) receives little, if any, Area Cost Adjustment recompense. The Council also incurs additional costs due to the rural nature of significant parts of its geography and the nature of the road and rail infrastructure that supports mobility in, out and around the County. While one of our District and Borough authorities receives some “Efficiency Support for Services in Sparse Areas” funding, it seems very modest and provides no recompense for the increased costs of the County Council. We would welcome an in-depth and comprehensive examination of the costs of delivering services as part of the FFR.

2.7 The nature of the County, its rurality and the supporting infrastructure also impacts on the relative prosperity of people in the County. The average earnings for those working in East Sussex is 10% below the national average and 13.6% below the south east average.

2.8 The Government must implement a needs based redistribution formula under Business Rates Retention to ensure councils receive sufficient and equitable funding. When the Council signed up to the multi-year settlement, this was in anticipation that this funding position would be a bare minimum. Due to the inequity of funding between the needs of people in the county and the funding available to support meeting these needs, the Council has had to raise council tax by a level higher than inflation and no account is taken of local residents’ ability to pay to manage the pressures we are facing.

2.9 The Council feels that business taxation on property occupancy alone is not a solution that reflects today’s business landscape, nor is it an appropriate funding source to reflect the cost drivers in key areas like social care. East Sussex has made significant investment in broadband which is a key element of supporting our priority outcome of driving sustainable economic growth and whilst this promotes a digital economy and digital businesses, it does not necessarily lead to increasing the number of business premises. This emergence of more knowledge and technical based businesses with a smaller physical footprint mean organisations that have scope for large revenues may pay less than smaller shops on the high street. In moving to the new funding scheme which is more reliant on business rates growth, we urge the government to review a fairer way of taxing organisations which more accurately reflects the modern business era.

2.10 Recent analysis based on 2017 estimates has shown that to bridge the funding gap, with no additional funding from Government, by 2021, the County would have had to have seen an increase in business rate growth of 39%. Were this gap to be plugged using council tax alone, the Council would need to increase council tax by an additional 11%, in addition to already planned increases.

3 Further work and timescales

3.1 Orbis Finance is working across the partnership to produce a common and joined up response where this is possible. In addition, engagement with departments is ongoing to ensure all required aspects are incorporated into the response. The deadline for responding to the consultation is 12 March 2018, and a supporting letter covering the points above will be included alongside the council’s completed pro-forma response.

3.2 A timetable of the next steps provided by the Ministry of Housing, Communities and Local Government in January 2018 is set out below.

Fair Funding Review: Next Steps (taken From Local Government Association/DCLG slides published January 2018.)

Getting to 2020 (subject to final decisions and on-going review)

- Academic engagement – begins January 2018

- Consultation on relative need closes – March 2018
- Planned series of technical papers – spring/summer 2018
- Finalise overall model structure and leading options for needs assessment and resources assessment – summer 2018
- Finalise options for needs and resources – spring 2019
- Children’s Services research concludes – summer 2019
- New Index of Multiple Deprivation – summer 2019
- Set baseline funding levels and finalise transitional arrangements – autumn 2019

4 Conclusion

4.1 This consultation is only the beginning of a number of consultations and technical papers on Fair Funding which the Council will be able to respond to during the next year.

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LOCAL MEMBERS
All members