



Local Government Finance Reform (Fair Funding Review)
Department for Communities & Local Govt.
2nd Floor SE, Fry Building
2 Marsham Street
LONDON SW1P 4DF

26 September 2016

Fair Funding Review: Call for evidence on Needs and Redistribution

Cornwall Council welcomes the opportunity to submit a response and contribute to this call for evidence.

Our responses to the specific questions within the call for evidence are detailed below. Where considered appropriate, a single response has been given to a group of questions.

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

Cornwall Council considers that a simple funding formula is most appropriate - though that should not be at the expense of accuracy or fairness.

However, the Council does not believe that complexity, as such, is a problem and it should be possible for complex analysis to determine how needs should be allocated, but presented through relatively simple formulae.

Local authorities deliver a wide range of services to a broad spectrum of people and face very different demographics or geographical landscapes impacting on both demand and cost. It is vital that this is adequately recognised in any revised funding formula

A sensible approach therefore would be for simplicity first (e.g. on an appropriate per capita basis), adjusted to reflect additional layers of complexity such as, for example, rural sparsity factors.

There is now a wealth of data supporting the case for more funding for rural areas. There is a "rural premium" on costs in many services, and particularly those that are geographically distributed or require travelling to deliver. Evidence of additional costs has been demonstrated in services such as homecare for older people, domestic refuse collection and recycling, and inspection services, such as environmental health.

DCLG – along with Defra – has commissioned research which supports this case. Furthermore, ministers have made recognised the strength of the rural case, and made decisions to allocate additional funding to rural authorities (settlement 2013-14, Rural Services Delivery Grant). Unfortunately, not all the funding has made its way through to rural authorities (because of damping) and the cost in funding per head continues to be 50% higher in urban than rural areas.

Cornwall Council would certainly wish to avoid a funding model that lacks transparency or results in unexplainable results, unfair treatment of resources and heavy-handed levers of ministerial control which would be unacceptable.

For a county such as Cornwall, there are specific "needs" factors that we would want to be specifically taken into account in any new funding formula. Cornwall is a peninsula, with a very long coastline - it is also peripheral to other parts of the country. These bring specific pressures and risks on our services and higher costs (that are additional to those of being a rural county). Examples are: the cost of bought-in services, where the commercial market does not work as effectively as in an urban area; provision of fire services, where resources cannot be so easily borrowed from other neighbouring authorities. The coastline itself generates higher costs, such as the cost of beach cleaning and flood protection.

The nature of our economy is also important. Cornwall has the highest level of domestic overnight visitors of any local authority in England. These visitors are important for our local economy, but also place pressure on local services. We would want to make sure that the cost of these visitors is properly reflected in future funding formulae.

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

Excluding Education the largest service area in terms of expenditure is Adult Social Care. It is therefore of paramount importance that the increasing demands of this service are not just captured now but for the period until the next reset.

The consultation running alongside this call for evidence suggests that the partial resets may also incorporate some measure of need reset for services which are "demand led", such as adult and children's social care. Given the potential impacts of failures in these services Cornwall Council would be wholly supportive of demands and funding in these areas being reviewed more frequently.

A key element of this work will be through engagement with the Department of Health and its work since the last formula update on developing social care formulae. This includes the Advisory Committee on Resource Allocation's (ACRA) work to review and recommend changes to the Public Health formula to calculate the 2016-17 allocation. At the time of writing, local government are also expecting the Improved Better Care Fund formulae consultation.

Cornwall Council believes that this developmental work will provide a strong platform for the work of the Formula Funding Review in getting the considerable adult social care element right.

There are many other services that are coming under increasing pressure e.g. school transport costs, concessionary fares. Cornwall Council anticipates that an approach to funding local services based on actual service demand levers should address many of these current issues.

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

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

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

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

Cornwall Council believes that a system whereby future funding allocations are calculated on the basis of past spending decisions is not one that supports future funding need. Instead it simply perpetuates past funding decision whether these were by the local authority itself or the government in determining the [urban biased] funding need and damping levels of local authorities.

Cornwall Council considers therefore that a non-expenditure based regression model would provide for a more equitable distribution of resource. Any revised funding formulae should be based on a genuine assessment of local need, 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 should focus on existing **and emerging** service need to provide the mechanism to establish a funding formula that is not just relevant today but future proof as well.

The new funding formula must be capable of reflecting future demands for services. 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 led services such as Adult Social Care.

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

Cornwall Council recognises that local capacity to raise income (including council tax) will need to be considered as part of this review.

Historically, annual local government settlements have included an element of resource equalisation. However, since 2010, the link between actual council tax levels and government funding settlement has become much less direct with "flat" cuts made to RSG (i.e. resources have not been taken into account); and there will be no further equalisation of council tax until at least 2020-21 because of the four-year settlement.

It is likely therefore that the next 're-basing' of Council Tax income will result in a significant transfer of funding from high-tax base to low-tax base authorities and this should be managed as part of the wider 'needs review'. Council Tax income is local government's largest income source and it is important that authorities have greater

predictability/certainty about how council tax will be taken into account in future funding.

Going forward, Cornwall Council is keen to ensure the system continues to provide authorities incentive to increase council tax income (consistent with our economic strategy e.g. by building more homes) and consider that it should be treated in a similar way to business rate growth. We would support therefore a system where authorities can benefit from growth in council taxbase and use this to support growth in population, but that this should be balanced with regular equalisation of part of the growth in taxbase.

Though not part of this consultation, it would appear to be the Government's objective that any reset of need is undertaken alongside any resets in retained rates. Whilst there is some logic to this, this would only be acceptable if baselines are 'reset' on a frequent basis (e.g. every five years); if however business rate baselines are reset over a longer term then this would present significant challenges around relative need.

The Government should consider therefore options for needs and business rates to be reset independently and at different times that will provide authorities a level of stability but protection from significant changes in relative need.

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

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

Moving to a new measure of relative need, which has been rigorously constructed and consulted upon, will likely lead to significant funding changes between authorities.

Cornwall Council believes 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, allowing them time to financially plan for the changes.

We therefore recognise that, on implementation, some form of damping will be inevitable. However, previously, damping has not been handled in a particularly rational way; for example, on implementation of Business Rate Retention from April 2013, baseline funding levels were effectively 'frozen' - locking in existing damping that has unfairly impacted on Cornwall's funding ever since. From 2013/14, Cornwall Council has 'lost' over £9m from its annual funding as a result of damping (one of the highest in the country). Over the past four years, this amounts to at least £36m, and there were further losses in the preceding years. This is an unacceptable cost to Cornwall Council, and is particularly galling when some authorities are benefitting from as much as £60m per year in damping support for what was intended to be a transitional arrangement.

Cornwall Council considers therefore that any damping arrangements put in place are calculated according to a set criteria based on a maximum threshold for increases/reductions in funding (to be determined) and should be phased out as soon as possible over a fixed number of years (5 years at most).

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?

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

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

The move to 100% business rate retention and the Fair Funding Review is expected to lead to significant changes for local government funding.

Cornwall Council considers that changes to the current local authority geography system would add unnecessary further complexity and challenges to the system – for instance, there would have to be local funding formulae (effectively replicating the national debate on relative need at a local level). This would also potentially lead to much greater differences in funding for similar services across the country and greater variation in service provision and standards.

Instead we believe that local authorities are best placed to consider and decide upon what is appropriate in their local area, be that combined authorities, pooling of budgets or collaboration.

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?

The approach for reaching a fair funding formula that we outline above would produce a weighted per capita approach for each local authority area (or region).

Cornwall Council believes that 'fair funding' should place local authorities on a fair footing, should reduce the "postcode lottery" of services and will mean local authorities can get on with running the best services they can knowing that their funding allocation does not put them at a disadvantage. Importantly, if there are going to be incentives in the funding system, then they should provide equal levels of financial benefit in both rural and urban areas going forward.

We do not believe that any further incentive is needed in the formula; however, if this consultation identifies other potential incentives then, in the interests of simplicity and transparency, it should be considered if those should operate independently from the needs formulae. For example, the existing business rates retention system provides incentives, but it does not play a role in determining assessed needs.

We would welcome the early publication of a more detailed timetable that will give all local authorities a clearer idea of an implementation date which they can work and plan towards.

Cornwall Council is keen to continue to engage in the development of the needs assessment and the implementation of 100% business rates retention and will await the Government's response to this call for evidence and that of the 100% Retention of Business Rates' consultation.

If you have any questions regarding this submission, in the first instance, please contact Anthony Humphreys on 01872 324506 or ahumphreys@cornwall.gov.uk

Yours sincerely

A handwritten signature in black ink, appearing to read 'AB', with a small asterisk at the end.

Andy Brown
Interim Head of Business Planning & Development (Deputy S.151 Officer)
Cornwall Council
abrown@cornwall.gov.uk
01872 322537