Written evidence submitted by Leicestershire County Council [FSR 026]

Current System

1. It is the view of Leicestershire County Council (LCC) that the current system of local government funding is broken with little association between core spending power (CSP) of each local authority and local need. Statistical analysis found that only 15 of 100 indicators of need (15 percent) exhibited a significant directional correlation with spending power (i.e. spending power increases as need increases).

2. Why should Islington have a 2019/20 spending power per head that is over 60% greater than that of Leicestershire? Are the needs of Islington that much greater when compared with Leicestershire? If Leicestershire was funded at the same rate as Islington it would have an additional £295m in funding and would be looking to invest in services rather than make significant savings. The system is riddled with inconsistencies; Leeds, Derby, Leicestershire and Staffordshire are lower funded while Richmond upon Thames, Kensington and Chelsea and Camden are higher funded. Are these authorities so polarised in the issues they face and in the costs of delivering services? What is the rationale behind Warrington receiving £215 (23%) less funding per head than Gateshead?

3. The table below picks out a few Authorities and looks at their overall spending power in 2019/20 and the level of funding Leicestershire would receive if it had the equivalent spending power. To compare unitaries and counties, adjustments for fire and districts have been included. The only conclusion that can be drawn is the system is unfair.

Table 1 – Selected local authority spending power per annum compared to Leicestershire County

<table>
<thead>
<tr>
<th>Authority</th>
<th>Spending Power per head in 2019/20</th>
<th>Difference to Leicestershire per head</th>
<th>Extra Funding Leicestershire would receive if it had the same spending power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islington</td>
<td>£1,128</td>
<td>£427</td>
<td>£295m</td>
</tr>
<tr>
<td>Westminster</td>
<td>£1,013</td>
<td>£311</td>
<td>£215m</td>
</tr>
<tr>
<td>Surrey</td>
<td>£848</td>
<td>£147</td>
<td>£101m</td>
</tr>
<tr>
<td>Oxfordshire</td>
<td>£779</td>
<td>£77</td>
<td>£53m</td>
</tr>
<tr>
<td>Northamptonshire</td>
<td>£715</td>
<td>£13</td>
<td>£9m</td>
</tr>
<tr>
<td>Leicestershire</td>
<td>£702</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Further comparisons are shown in Charts 1 and 2 below which show Core Spending Power figures per head for the top 25 and bottom 25 upper tier local authorities respectively, the difference from Leicestershire’s CSP per head, and
how much extra funding in £m Leicestershire would receive if they were funded at the same level per head as each authority.

Chart 1 – Top 25 upper tier authorities by CSP per head
5. In summary, there is no fair rationale for the current distribution of spending power; it is a product of a local government finance system which placed undue emphasis on past spending levels and ministerial judgement. As a result Council Tax has similar inequalities; Council Tax payers in Shire areas are facing a higher level of tax than those in other areas, particularly in Inner London and Metropolitan areas, as illustrated by the table below.

### Table 2 – Council Tax per head per annum by local authority type

<table>
<thead>
<tr>
<th>Local Authority</th>
<th>2018/19 Council Tax per head</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shire Counties (including Districts)</td>
<td>£616</td>
</tr>
<tr>
<td>Leicestershire County Council area</td>
<td>£579</td>
</tr>
<tr>
<td>Unitary councils</td>
<td>£536</td>
</tr>
<tr>
<td>Outer London authorities</td>
<td>£495</td>
</tr>
<tr>
<td>Inner London authorities</td>
<td>£431</td>
</tr>
</tbody>
</table>
6. It is also worth noting that ‘Spending Power’ does not include all income. Some classes of authority generate significant income from other sources. In 2017/18 Inner London authorities were estimated to generate £895 per head of non-grant income compared to £467 per head for county areas. The difference for an area like Leicestershire is considerable; if Leicestershire received non-grant income at the average for inner London authorities, it would receive over £310 million more in gross income. Car parking accounts for a proportion of the difference with Inner London Boroughs receiving over ten times more income per head compared to Leicestershire.

Analysis of CSP and Proxy Need Indicators

7. A range of datasets considered to be proxies for need were collated and plotted against 2017/18 Core Spending Power for upper tier local authorities, in order to better understand the association between need and current funding arrangements.

8. CSP per head is presented along the y-axis of each chart, with individual indicators presented along the x-axis. A more dispersed, random distribution of points implies a weaker association between funding and relevant need, while a more linear, tighter distribution implies a stronger association.

9. Two examples of charts (which have been updated to show the position based on 2019/20 CSP) illustrate the lack of association between funding and possible cost drivers are shown below.

10. The full funding data for 2017/18, undertaken as part of the original analysis, can be accessed at the following link: (N.B. The City of London and Isles of Scilly were omitted from the analysis as their comparatively high funding places them as outliers)

https://public.tableau.com/views/FundingDataExplorer-RATES/DataExplorerDashboard?embed=y&:display_count=yes

---

1 Using 2016 mid-year population estimates, ONS
11. The older population within an authority is an obvious proxy for need, as older people are more likely to need support from social care services, resulting in increased costs. It could be assumed that areas with more older people would require higher funding, but while there are areas that fit this pattern (the Isle of Wight and Torbay have higher than average older populations and funding), Inner (and to a lesser extent Outer) London Boroughs have some of the lowest

---

2 Percentage of population aged 65+, 2014 Mid-Year Population Estimate (Source: ONS)
proportions of older people whilst receiving some of the highest levels of funding. This is obviously counterintuitive.

Chart 4 – CSP per head 2019/20 and ID2015 Multiple Deprivation rank

12. Deprivation is a key driver for local government funding, and whilst there is a general association between overall deprivation rank and funding per head, it is a very loose association with some noticeable outliers; Richmond upon Thames, for example is one of the lowest ranked authorities for multiple deprivation, yet receives a level of funding well above average while Kensington and Chelsea is

---

3 Rank of average rank for all neighbourhoods for ID2015 Multiple Deprivation (Source: DCLG, 2015), where 1=most deprived and 152=least deprived.
the second-highest funded authority, yet is only just above average in terms of overall deprivation rank.

**An Alternative System based on Need**

13. LCC has done some work, based on 2017/18 core spending power, looking at how a revised, fair, incentive-based and transparent system could operate. The approach is summarised in the remaining text below but more details of this can be found on the attached link.

[https://www.leicestershire.gov.uk/about-the-council/council-spending/fair-funding](https://www.leicestershire.gov.uk/about-the-council/council-spending/fair-funding)

14. We are not advocating redirecting funding for individual local authorities. Many organisations such as the LGA, the CCN etc. have demonstrated the level of underfunding within local government. Although public finances are tight there is an inevitability that some extra funding will be found. A new formula based on need would allocate resources in a much fairer way. It will not be straightforward or – in some cases – popular, but if the system is not changed there will be a chronically uneven distribution of services, with those people who have the misfortune to live in low funded areas receiving poorer quality public services, if they receive some services at all. At the same time there will be service failure in Shire County areas as Counties struggle to cope with an often rapidly aging population with a disproportionally low share of national resources.

The proposed new system is based on three principles, shown in Table 3 below;

**Table 3 – Three principles of revised funding model**

<table>
<thead>
<tr>
<th>Fairness</th>
<th>Incentive-based</th>
<th>Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>The system allocates funding according to local needs by focusing on the real cost drivers for local government services</td>
<td>The system incentivises local authorities to both grow their local economies and reduce demand (and cost) on services by investing in early intervention and prevention</td>
<td>It is obvious to all how the system works which helps in terms of both incentivising good behaviours and demonstrating fairness</td>
</tr>
</tbody>
</table>

Each of the three principles is outlined in more detail below.

**How the Proposed System Will Work**

**Fairness**

15. The new system aims to identify the total amount of spending power attributable to each spending block. This has been done by referring to the Relative Needs (RN) Control Totals used by the Department for Communities and Local
Government (DCLG) for the 2013/14 settlement and using those figures to allocate a total equivalent to the 2017/18 total of Core Spending Power (CSP) (£43.069bn), less New Homes Bonus (NHB) (£1.252bn) and less a net adjustment for the Greater London Authority (£0.398bn). The 2017/18 NHB has been incorporated with the results of the model (and the GLA adjustment has been added separately), to give a set of figures which can be compared with 2017/18 CSP figures.

16. The values of 2017/18 Control Totals used in the model are set out below;

<table>
<thead>
<tr>
<th>Service Block</th>
<th>Budgeted expenditure in 2017/18 (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Social Care</td>
<td>16.3453</td>
</tr>
<tr>
<td>Children’s Services</td>
<td>8.0153</td>
</tr>
<tr>
<td>Environmental, protective and cultural services (EPCS)</td>
<td>13.3592</td>
</tr>
<tr>
<td>Fire</td>
<td>2.1992</td>
</tr>
<tr>
<td>Highways Maintenance</td>
<td>1.4997</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>41.4187</strong></td>
</tr>
</tbody>
</table>

17. The key cost drivers for each service have been identified after consultation with sector experts in local government.

**Adult Social Care**
- numbers of people with learning and other disabilities,
- numbers of older people, income deprivation and sparsity

**Children and Family Services**
- numbers of school age pupils, income deprivation,
- numbers of disabled children and sparsity

**EPCS (inc. culture and leisure, planning, trading standards etc.)**
- population, population growth, sparsity and density

**Fire**
- population, population growth, sparsity and density

**Highways**
- road kilometres travelled by HGVs, to account for wear on the highway infrastructure
- population, to account for transportation needs

18. The relative needs of differing local areas are identified using the comparative position in terms of these cost drivers. Weighting has been applied to each of the cost drivers based on an assessment of what drives cost. In the case of density and sparsity, the broad weighting applied is taken from the previous DCLG four block model. Hence no sparsity and density has been applied to highways.
maintenance. Again this approach has been criticised in the past on the basis it does not adequately compensate rural authorities.

19. In addition, an area cost top up has been applied, with the factors used taken from the previous four block model. There is an argument that this approach will over compensate the South East, so could be revisited. The system should also not incorporate inefficiencies, for example a sensible approach to area cost needs to be undertaken so that a London Borough will relocate appropriate services, such as back office, to lower cost parts of the country.

20. To show how the system operates the formula used for Highways is shown below.

<table>
<thead>
<tr>
<th>Highways Control Total (£1.4997.bn):</th>
</tr>
</thead>
<tbody>
<tr>
<td>90% allocated by road km by HGV = £1.350bn</td>
</tr>
<tr>
<td>Divided by – sum of: number of road km by HGV x Area Cost Adjustment for each council/area (7,673,252,244)</td>
</tr>
<tr>
<td>= 17.59p per road km by HGV</td>
</tr>
<tr>
<td>x number of road km by HGV x ACA for council/area</td>
</tr>
<tr>
<td>(e.g. Leicestershire 136,268,010 km by HGV x 17.59p = £23,969,631)</td>
</tr>
</tbody>
</table>

10% allocated by total population = £0.14997bn
Divided by – sum of: total population x Area Cost Adjustment for each council/area (56,084,329) = £2.67 per head
x total population x ACA for council/area
(e.g. Leicestershire population 675,309 x £2.674 = £1,805,782)

Leicestershire total allocation £23,969,631 + £1,805,782 = £25,775,413

Incentives
21. Incentives need to be built into the model to ensure that success is rewarded appropriately. For example, the benefits of successfully generating increased business rate revenue or reducing cost from successfully driving down demand (for example, by reducing benefit dependency) should be kept locally. This could be achieved by making sure that a reset of needs takes place every decade.

Transparent
22. It is simple and clear how the system will work with agreed cost drivers and incentives for local authorities to manage their budgets.

Council Tax
23. Council Tax is a key element of spending power. It can be argued that failure by successive governments not to revalue housing stock has increased the unfairness of the current system. While it is accepted that this is unlikely to change, it is perverse that some of the lowest Council Tax bills are in parts of the
country with the highest property values (nine out of the ten lowest Council Tax bills in the country are in London). This is possible as London boroughs receive much higher levels of business rates and revenue support grant than other local authorities as well as higher levels of other sources of income. The new system needs to ensure that the burden Council Tax bears in relation to funding local services is fair.

24. The model includes a proposal that Council Tax for the purpose of calculating net Settlement Funding allocations is calculated on the basis of a national average notional Council Tax level (excluding Police). For the purpose of modelling this has been based on the overall total of Council Tax included in 2017/18 CSP (£24.623bn), which when compared to the 2017/18 total tax base of 17,379,850 gives an average of £1,416.80.

Impact of the New Model

25. The new model allocates spending power in a fairer way, driven purely by indicators that serve as proxies for need and cost. The impact is to narrow the gap between high and low funded authorities, resulting in a more equitable system overall. Statistical analysis found that 49 of 100 indicators of need (49 percent) exhibited a significant directional correlation with our model spending power (i.e. spending power increases as need increases and vice versa). This is compared with just 15 percent of the 2017/18 CSP.

26. Using the new model, Leicestershire remains one of the lowest funded authorities but receives an increase in funding of £53m. For some authorities/areas such as Lincolnshire (£128m) and Staffordshire (£81m) the increases are even larger. The report shows the change in distribution of spending power in more detail. It is appreciated that different authorities may argue for alternative cost drivers and weightings and in some cases this may be valid. However, there can be little doubt that under any new formula there will be consistent cost-driving factors such as numbers of older people, and numbers of disabled adults and children. In addition, income deprivation must be given significant weight as is the case for the formula outlined in this paper. There are also implications for Council Tax that are set out in the detailed report below.

27. It is just worth re-emphasising that The City of London and Isles of Scilly, while included in all calculations, were omitted from the majority of analysis and commentary as their comparatively high funding places them as outliers, which distorts charts.

Further Contributions

28. LCC would be very happy to update the modelling it has undertaken, based on the most recent data available.

29. Furthermore LCC would be happy to elaborate further on the work undertaken to the Select Committee by giving oral evidence if this would be considered useful.