

HERTFORDSHIRE COUNTY COUNCIL

**CABINET
MONDAY 20 NOVEMBER 2000 AT 10.00 A.M.**

**EXECUTIVE COMMITTEE
MONDAY 20 NOVEMBER 2000 AT 2.15 P.M.**

Agenda Item No:

1

THE GREEN PAPER ON MODERNISING LOCAL GOVERNMENT FINANCE

Report of the Chief Financial Officer

Author:- Lorraine Allen Telephone: 01992 555313

Executive Member:- David Beatty

1. Purpose of the report

To agree the County Council's response to the Green Paper : Modernising Local Government Finance.

2. Background

The Government published its Green Paper *Modernising Local Government Finance* on 19 September. The main issues covered by the Green Paper are:

- A General Principles
- B The Revenue Grant Distribution System
- C Capital Investment and Borrowing
- D Taxes and charges
- E Education Finance

The deadline for responses to the Green Paper is 8 December 2000.

After the Government's Review Group have considered the responses a White Paper will set out the proposals in early 2001, following which implementation will depend on the legislative timetable. Any changes are likely to be implemented in 2003/04 or 2004/05.

The Resources, Prosperity, Partnership and Consultation Select Committee on 19 October scrutinised the content and key proposals set out in the Green Paper.

A draft response is attached as the Appendix to this report, which incorporates the comments of the Resources Select Committee and a task group which met on the 8 November to discuss the issues.

If a copy of the Green Paper is required please contact Lorraine Allen in Corporate Finance on 01992 555313.

3 Conclusions

It is suggested that the response be agreed and submitted to the DETR by the consultation deadline of 8 December.

4. Financial Implications

Although the proposals within the Green Paper will impact on the revenue and capital funding available to the authority, it is not possible to quantify the impact of most of them at this stage.

The threat to the Area Cost Adjustment, which currently accounts for £72 million (or 9.5%) of the authority's SSA, remains, and is covered in our response. We are also continuing to work with other interested parties to develop our strategy on this issue.

Background information referred to by author

Modernising Local Government Finance: A Green Paper, DETR, September 2000.

Modernising Local Government Finance: A Green Paper, LGA Briefing, 19 September 2000.

Modernising Local Government Finance: A Green Paper, Further Briefing, LGA Briefing, 12 October 2000.

Modernising Local Government Finance: A Green Paper, A Position Statement by the LGA, LGA Briefing, October 2000.

The Green Paper – Modernising Local Government Finance**DRAFT RESPONSE****A. General Principles**

The Council's response is based on its belief that the local finance system should be based on the following key principles:

- It should be fair and match resources with needs
- It should provide adequate resources to local authorities
- It should promote autonomy and accountability, recognising that decisions should be made locally
- The majority of funding should be raised locally

Many of the criticisms of the current system result not from the current SSA system but the inadequacy of the amount of central support available and the high gearing resulting from the balance of funding between local and central government. These could be addressed by increasing the total amount of government support and returning determination of business rates fully to local government.

B. The Revenue Grant Distribution System**Method of Grant Distribution**

The Council has considered the alternative approaches put forward in the Green Paper for determining the distribution of Revenue Grant. The council supports the continuation of a formula based distribution system based on statistical models and objective data, as opposed to the introduction of a plan based system.

Our major objections to the use of plans for grant allocation purposes are that they:

- are based on subjective judgements and ministerial discretion
- could result in authorities being treated inconsistently
- undermine local accountability
- are not transparent
- will result in complex and costly production and assessment processes.

The Council does not feel that a case for changing the existing system has yet been made and believes that, until it is, the existing SSA should be retained. Improvements to the existing formulae should continue to be sought, in particular the development of more appropriate indicators of additional need, for example in relation to learning disability services.

The Council believes that complexity is unavoidable for a fair formula which takes account of the many variables which affect an authority's need to spend.

If any change is made to the current revenue grant distribution mechanism it is essential that this takes account of geographic variations in costs. This should compensate all authorities who experience higher regional costs and should take account of all relevant costs including those relating to the recruitment and retention difficulties due to the higher cost of living in the south east. A significant amount of research has been undertaken in this area and the existing Area Cost Adjustment is supported by economic theory. This detailed evidence has not been repeated here as Hertfordshire County Council has made its views on the Area Cost Adjustment known to the DETR on many occasions previously, most recently with respect to the consultation on Education Post 16 Funding, and refers you to previous correspondence on this issue.

Specific and Other forms of Grant

The Council believes that the use of specific grants should be reduced and local authorities should receive most of their grant funding in the form of general grant. Policy decisions on spending priorities should be made by local authorities in order to promote local accountability. The use of specific grants should be restricted to dealing with:

- Funding requirements which only affect a small number of authorities with distinct characteristics e.g. national parks and coast defence
- Where the local authority is acting as an agent of central government and the costs incurred are unavoidable and unpredictable
- Transitional funding for new responsibilities
- Pilot schemes

Safety Valves

The Council does not support the introduction of a safety valve system and believes that any significant issues should be incorporated into the grant allocation formula. Any specific circumstances which apply to only a small number of authorities should be dealt with through specific grant.

Public Service Agreements

The County Council gave serious consideration to bidding to be a pilot authority for 2001/02. Following the identification of several potential targets within the pilot prospectus it became apparent that the council could not pursue the bid without incurring significant expenditure during the life of the pilot project in order to meet stretched targets. Nevertheless, having undertaken this preparatory work the council feels well placed to move forward to a position where it will be able to participate in the scheme when it is rolled out.

The lead time now available will allow the council to take account of the PSA regime when it is formulating its Best Value Performance Plan, Community Plan and other key strategies, and feeding into our own budgetary process. It is important for the Council to be able to reflect its own priorities within any Local PSA. To this end the Council would urge a flexible framework in the roll out prospectus, enabling both the needs of central government and the County Council to be met, consistent with the best interests of the Hertfordshire community.

Predictability and Stability

The Council welcomes the improved predictability the two yearly Comprehensive Spending Reviews have introduced. Together with the methodology freeze this has improved the authority's financial planning process by reducing the range of scenarios which the council needs to plan for. Further improvements could be made by:

- releasing both data and details of the grant allocation earlier
- releasing data on specific grants at authority level earlier and for three year periods

In terms of stability it is essential that data continues to be updated promptly in the formulae so that changes in needs, e.g. population changes, continue to be reflected in the grant allocations as early as possible. We do not support freezing data to improve stability as changes in data reflect changes in demand for services and the associated costs have to be met by authorities immediately.

Methodology Freeze

If the methodology freeze is extended, modifications should be restricted to those which are necessary as a result of functional changes and should not extend to issues affecting the fundamental principles of the system, such as the selective freezing of data, which has been put forward this year in respect of the NES data.

Proposed changes should be subject to full consultation with reasonable notice and timescales for response.

Floors and Ceilings

The Council believes that increases in grant allocations for individual authorities are justified either by increases in their needs or improvements to the distribution formula. It therefore does not support the introduction of ceilings for grant allocation purposes. A floor arrangement already exists in the form of the CPSG. This protection should be made transitional to ensure that decreases in funding as a result of changes in circumstances are not protected indefinitely. The Government should recognise that topslicing the total grant support in order to fund a floor arrangement will impact on other authorities' ability to meet increasing needs and deliver both local and national priorities.

C. Capital Investment and Borrowing

The Council welcomes the greater flexibility the proposals offer but in order to be able to comment fully need more detail on:

- the transitional arrangements
- the prudential indicators
- how the reserve powers will be applied in practice
- the arrangements for allocating revenue support.

We are also concerned that government will still be able to influence the level of investment and allocation of resources, thereby restricting local choice.

Consultation

The Council is concerned about the cost of further consultation, the public reaction to it and the quality of the responses which would be received.

Revenue Support for Capital Investment

The County Council believes any formula-based revenue grant distribution system should have an area cost component to reflect regional cost differences. This point was also made in the PriceWaterhouseCoopers report; (Measurement of Relative Need for Capital Expenditure) dated November 1999, commissioned and published by the Department.

The Council continues to have concerns about the way capital receipts are taken into account in the current system as this has led to under investment in our area.

The alternative of replacing revenue support for capital with up front capital grants would not be welcomed by the Council as this would constrain local choice.

Both the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Government Association (LGA) should be given an active role in the further research that the Department is contemplating in addressing this issue. Furthermore, local authorities should be fully consulted on the resultant proposals.

Partnership and Public Finance

We are not convinced that PFI always provides the most cost effective and best value solution and would be concerned about a system of ring fenced funding which does not acknowledge that there may be a more cost effective solution.

The Council assumes the forthcoming consultation paper on proposals to remove some of the remaining obstacles to partnership working will elaborate further on this issue.

D. Taxes and Charges

Council Tax Collection

The Council supports in principle the proposal to transfer responsibility for collecting Council Tax from District Councils to County Councils in order that economies of scale can be achieved.

Revaluation of the taxbase

The Council understands the practical arguments for a regular and fixed revaluation cycle, in particular the improvement in transparency for council tax payers in identifying which Band properties fall into. We are concerned that the Green Paper does not comment on the redistribution effect a revaluation would have on the allocation of grant or provide any details around how this would be dealt with. We also have concerns around accountability issues and the potential confusion a revaluation could cause. Further research is needed on this issue before we can comment further.

Council Tax Benefit Subsidy Limitation Scheme

The Council agrees with the statement in the Green Paper that the Council Tax Benefit Subsidy Limitation Scheme is complex and misunderstood and believe that it should be abolished.

Business Rates

The Council supports closer working with local businesses.

The Council believes strongly that the total level of business rates should be determined by local authorities and the income collected fully returned to them. This would improve accountability and increase the interest of local business in the expenditure and performance of local authorities.

The Council believes that the procedures outlined in the Green Paper for a supplementary business rate:

- are too complex
- will be costly to administer
- involve too many interest groups
- provide little reward
- don't adequately recognise the issues for two tier areas

The proposals for a local tax reinvestment programme are also too complex.

Other Business Rate Issues

The Council would not want the revaluation cycle extended beyond 5 years because of the increased impact changes in bills will have on businesses. It also believes that the Council should have discretion to grant rate relief for village businesses but this should not be mandatory.

Different Solutions for Different Authorities

The Council believes that the same funding mechanism should be applied to all categories of authorities.

E. Education Finance

The Council comments below on the three key issues raised in the Green Paper:-

How can we ensure that funding is properly matched to the separate responsibilities of local authorities and schools?

The view of Hertfordshire County Council on this issue is informed by the Authority's perspective that spending decisions are best taken on a locally democratically accountable basis actively involving the stakeholders in all the Authority's services.

This view leads the Council to conclude that going down the route of further hypothecation of SSA (i.e. identifying a discrete schools SSA block) undermines the role and input of those local stakeholders in determining the Authority's spending priorities.

Furthermore, there is no evidence in the Green Paper that the risk set out in paragraph 6.4 (namely that there is no direct means via which the Government can meet its manifesto commitment to increase education spending) has been a real problem.

If the model set out in paragraph 6.7, of separating the Education SSA into a schools SSA and an LEA SSA, is adjusted it would be important that the model is constructed in such a way that facilitates a debate regarding whether LEAs and schools have been resourced appropriately to meet their Achievement targets, as defined by the DfEE.

Fundamental to such a model will be an agreed national definition of the split between school and LEA responsibilities. Whilst recognising that the functions listed in paragraph 6.7 are referred to as illustrative, the Authority would be concerned if these gained acceptance without a much fuller debate. In particular, we feel there should be recognition of both the strategic management and democratic accountability of the LEA and the advocacy role the LEA plays on behalf of the most disadvantaged within the Education system.

If the model in paragraph 6.7 were adopted, the Council would want the above debate to be transparent and informed by empirical research. Whilst the Council remains committed to high levels of delegation, it considers that there is no evidence to presume that the current highest levels of delegation within LEAs are either readily attainable for all other LEAs or have supported the raising of standards.

Finally, the Council would not want any split of schools and LEA SSA to operate in such a way that there was no scope for local debate with schools regarding the appropriateness of delegating that range of services where a strong case can be made for both delegation and centrally retaining funds.

How can we ensure that the funds allocated by central Government for Education are used for that purpose?

In terms of the options set out between paragraphs 6.9 and 6.13, the Council strongly supports the option for promoting greater transparency to guarantee the funding levels of schools. The Consultation paper highlights that defining the schools budget via legislative means could run counter to the policy adopted by a number of LEAs of supporting schools at higher funding levels than implied by SSA, because of the links to other local authority services and priorities. It also could also act against local authorities wishing to respond to pressures from their residents to increase spending on schools because the debate on the level of school funding could be perceived to be closed. Finally, the transparency option means that schools and LEAs will need to maintain a dialogue regarding school funding levels and budget issues – the existence of such a dialogue should increase the probability of schools receiving a funding settlement above the Schools SSA figure.

The devices of setting targets for LEAs in relation to Education funding have generally proven successful over the last two years (and we have already set out above that this calls into question the need for a separate schools and LEA SSA). Their operation has become an accepted part of the budget setting process, so the model outlined would not represent too significant a change for schools and LEAs to manage. Where the funding target setting process has fallen down has been the very late communication of the methodology to be deployed to calculate performance against the targets. This is unfortunate as LEAs spend significant amounts of time prior to the Local Government Finance Settlement announcement discussing budget permutations with schools representatives and colleagues – which is not always as well informed a debate as it could be because of the late communication of targets. If the approach of greater emphasis on transparency is adopted, it would be helpful for all stakeholders if the timetable for communicating targets and budget settlements could be reviewed.

How can we ensure a fair allocation of funding between authorities and between schools in authorities to reflect pupil needs?

Moving onto the distribution of the Schools SSA, it appears that the problem as set out in paragraph 6.14 is not clearly defined. It seems that large scale reform is being proposed because “powerful representations have been made indicating disquiet about the fairness of the distribution of grant for schools between authorities” without this case being evaluated. Even if that case were accepted, the current framework can handle redistributing resources between authorities – where it is felt that the current system is not reflecting adequately variations in need, rather than because it produces differential funding levels between authorities. A clearer exposition of why a review of the current system could not deal with the perceived problems is required.

In terms of the factors set out in paragraph 6.15, the Council would want to record that it considers a full debate is required on the extent of cost pressures facing schools in Hertfordshire because of its proximity to London.

Paragraph 6.15 sets out the proposal that no schools should lose in real terms – it will be important that this mechanism is debated more fully so that the impact on schools with changing pupil rolls can be more fully gauged. The Council would also press that the “Real Terms Guarantee” should be computed so that schools do not suffer a real terms loss as a result of an LEA meeting the cost of demographic pressure or the increased cost of contributing to the Standards Fund.

The Council strongly endorses the view that local communities of schools and the LEA are best positioned to ensure that the formula for distributing school budget shares sharply matches up with the relative needs of schools, and so supports the proposal in paragraph 6.17 that “responsibility for allocating funds between schools should remain at local level, with the Authority and its schools working together”.