Lewisham response to DCLG consultation Business Rates Reform: Fair Funding Review: Call for evidence on Needs and Redistribution

Summary of key questions and Lewisham responses

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

We would, of course, wish to see a simple formula able to be understood by all but ultimately we need the right formula. Since many of the special grants have been rolled into Revenue Support Grant (RSG), there needs to be a nuanced way of taking need into account. The key cost drivers in Lewisham are childrens' social care, adult social care – both for the very elderly but also those with leaning and physical disability, and the consequences of London's housing crisis – homelessness and temporary accommodation costs. Other consequences of population increase and changing demography also impact differentially (e.g. no recourse to public funds is a major cost driver in Lewisham). This need to account for multiple dimensions and factors will require increased complexity in the funding formulae.

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

For many services, a simple population based formula with corrections for deprivation and area costs will be sufficient. Consideration does need to be made on the realism of existing area cost adjustments. With the rate of rising population in London need should be should be revised regularly. However, the more significant costs in London local government are not associated with universal services but are focused on social care and temporary accommodation for homeless households. These should be dealt with separately and a model developed to enable the prediction of such need based upon; demography, socio-economic conditions and deprivation, and population change.

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

Any new needs formula which significantly changes the distribution of funding will cause problems for local government. After six years of cuts to spending the ability of local authorities to respond flexibly to further reductions (or even increases) is reduced. This is why basing future funding on past spending is important. It may well be that differences in expenditure between authorities do not wholly reflect need, but they will reflect historic choices and decisions made on priorities or the shape of the provider marker and economy, and as such are difficult to unpick. Need should of course shape funding but not accounting for existing spending to reflect real variation in local costs will cause significant disruption.

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

The key cost drivers in Lewisham are the consequence of socio-economic need and a model may be able to be developed that uses key indicators of need as inputs. Broad brush use of the IMD data is not sufficient in modelling the needs in adults social care and childrens services, or of homelessness.

For childrens' services we would contend that, as a reflection of need, the following indicators could be useful:

- Demography – numbers of children and population predictions;
- Free School Meal (FSM);
- Disability Living Allowance (DLA);
- English as an additional language (EAL);
- Children in poor health, and with disabilities; and
- Income deprivation affecting children index IDACI.

As well as consideration of the historical numbers and trends in the numbers of children in social care, with high needs and with disability.

For adult social care similar indicators (such as the Better Care Fund (BCF) indicators for 1) the % of people who remain at home 91 days post discharge; 2) Admissions to Residential and Nursing Care; 3) delayed transfers of care by number of days; or the SALT return for number of adults with learning disability supported by adult social care) would be useful. As well as consideration of:

- Demographics – particularly numbers of older people aged 80+;
- Deprivation (e.g. correlation between numbers of young people with an LD who need support with free school meals numbers, lower level of LA support needed in areas where more people can fund own care);
- Health – e.g. numbers with a limiting long-term illness;
- Disability (benefits numbers as a proxy);
- Numbers (proportion) of lone parent families;
- Transience of population; and
- The availability and the nature of supported housing services including Extra-Care Housing for Older People.

Homelessness places huge financial burdens on local authorities, and the inclusion of indicators of housing stress should be factored in including numbers of people in temporary accommodation, waiting for accommodation and house price: earnings ratio are important.

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

The formula must contain elements of expenditure based regression for most universal services, and some form of multi-level modelling for the high need / high cost areas.

The formula should contain detailed and long-term past expenditure trends for universal services, and a comprehensive range of social and economic drivers for high need/ high cost areas. The modelling should include social and economic statistics produced for:

- the Public Health Outcomes Framework Indicators maintained by Public Health England at http://www.phoutcomes.info/public-health-outcomes-framework#gid/1000049;
- the Local Authority Interactive Tool database maintained by the Department of Education at https://www.gov.uk/government/publications/local-authority-interactive-tool-lait#history;

- the 2015 Indices of Multiple Deprivation maintained by the Department of Communities and Local Government at https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015;
- Sub-National Population Projections, Mid-Year Population Estimates and migration and other relevant demographic statistics published by the Office of National Statistics at sites including https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationprojections/compendium/subnationalpopulationprojectionssupplementaryanalysis/2014basedprojections; and,
- official labour market statistics published by the Office of National Statistics at https://www.nomisweb.co.uk/.

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

We should consider the ability of the authority to generate other sources of income. For some authorities in prosperous areas with large economies, there are likely to be opportunities open to the council for income generation (e.g. advertising on the highways and elsewhere). For other authorities there will be little opportunity to generate additional external income.

However, the level of the annual levy on a band D property for council tax should not be a consideration as this is a political consideration. If an area has chosen to have low council tax this should not be taken into the calculation of need.

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

There is danger of muddling two or more policy objectives here. If the policy objective of 100% business rates retention is purely to enable devolution then business rates could be seen as merely another tax whose source is irrelevant. In Lewisham, we would argue about the logic of the case and the implications of the policy - see Annex One where our Chief Executive argues against the logic of the case for social care being funded by a property tax.

If we make the case about retention being there to incentivise economic growth and the business base in a local area, the degree of retention is important locally. A policy objective of using business rates to promote economic growth through ensuring the local authorities focus on business development, economic development and planning will require enough of a local incentive to generate this attention.

There is always a careful balance to be achieved between the need to incentivise local authorities to do ‘the right thing’ and the need to ensure that there is enough money in the system to ensure fair and equitable distribution and fair funding.

Some authorities will find it much easier to build on their existing business base; some authorities, including Lewisham, may find their business base being eroded by permitted development rights outside their control; some more deprived areas with very weak regional economies will find building a business base incredibly difficult. However, we would argue strongly that there is a need for authorities like Lewisham with a small business base to be incentivised to seek to build this base.

An increase in council tax base might be seen to be a compensation for the increase in population in an area. However, population increase and council tax base do not correlate. In Lewisham for instance, over 30% of the increase in population results from an increased birth-rate in some of our more deprived communities. This is a population increase without an increasing council tax base. It would not be sensible to include this a part of the resource available to councils as; firstly, the council tax base does not correlate with population increase; and secondly, the annual levy figure is a political choice.

National policy must always seek a fair funding solution and lean towards equalisation. We believe that at a regional level, pooling across city regions may be able to better respond to local incentivisation. Neither an increase in council tax base, nor the increase in business rates should be part of the assessment.

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

Unless the funding for needs is undertaken regularly and frequently or when the model is being reset, there is a risk of large changes from one review to the next emerge. This does not make the change wrong but with local government resources so constrained any changes in funding should be implemented in a transitioned way, stepped or otherwise.

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

See answer to Q8.

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?

We have no views on this as a London Borough. However, subject to the necessary governance being resolved and unanimously agreed in advance, a wider geographic approach as part of a devolution deal could be appropriate.

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

We have no views on this as a London Borough other than to note that we support the London devolution proposal in response to business rate consultation running in parallel to this consultation.

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

See answer to Q10.

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Question 13: What behaviours should the reformed local government finance system incentivise?

The incentive to grow business rates is clear, and simple to understand. Determining what is meant by efficiency is not simple or easy to understand, nor do easy measures exist that could be used to measure progress of compliance. The incentives for collaboration will also be difficult to judge, and assume that there are always benefits. Perverse consequences for both incentives could be very difficult to identify, manage and avoid. If Government wants to encourage collaboration and sharing, they should bite the bullet and use policy incentives to do so and fund transformation and change.

London has proposed a pooled mechanism to encourage and incentivise transformation, which would be preferable to nationally imposed blunt rules.

Question 14: How can we build these incentives into the assessment of councils' funding needs?

This should be done at a devolved level.

Enclosed – Annex 1

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Annex One:

There is no logical reason to pay for social care with local property taxes
Barry Quirk
Local Government Chronicle
16 October 2015

The strategy to localise business rates reflects the government's drive to connect local government better to its local economy. I support this drive. Too many councils in England have adopted a parochial approach to their role and have conducted themselves in isolation from the wider economies in which they are situated.

More generally, local government fails to achieve its broader purposes if it focuses only on securing cost-effective public services. Councils must also focus on improving the productive effectiveness of their local economy. A focus on services will boost overall quality of life locally. A complementary focus on the wider economy will help to boost the quality of life-chances locally. That is why linking councils' spend directly to the local revenues raised from council tax and business rates is a laudable aim.

The trouble with laudable aims is that they often crash on the rocks of harsh realities. In this instance the rocks are 1) the economic realities of local economies and 2) local government's functional service responsibilities.

The abolition of the uniform business rate multiplier, used to calculate the rates businesses should pay based on their value, is welcome. It will allow councils to offer discounts or charge more for investments, and to address the weaknesses in their economies.
This builds on existing practice. London has 37 business improvement districts that recycle small additions to local business income so as to support investment that will improve the market conditions for local businesses. Large businesses in London with a rateable value of over £55,000, or who pay more than £28,000 per year, pay an additional 2p in the £1 to finance £4.1bn of the £15.9bn being spent on the Crossrail development.

Over the next five years it is crucial that businesses contribute to their local economies through more focused business rates. That's because the Treasury anticipates that aggregate corporation tax will actually reduce over the period to just 1.9% of GDP. Unlike corporation tax, business rates are difficult to avoid paying.
Here's an example. Just off Oxford Street in London, a new development is underway in Rathbone Square. The 420,000ft² development comprises 142 flats, 24,000ft² of retail space and 230,000ft² of office space, all of the latter of which has been taken for the new London HQ of Facebook.

This will cost Facebook £16.9m per year in rent and they will have to pay Westminster City Council about £4m a year in business rates. The company paid less than £5,000 to the Treasury in corporation tax last year on annual sales of £105m. In short, it is easier to collect taxes from businesses on their use of property, than it is on their reported profitability.

The other harsh reality is that England contains incredible variety in its economic geography. Middlesbrough has a similar sized population to St Albans: about 140,000. Middlesbrough collects £42m in business rates; St Albans collects £63m. Middlesbrough is a unitary, in one of the ten most deprived local authority areas in England; St Albans is a district, in one of the ten least deprived areas. It is right that they should each focus on supporting business growth and improving their local economies but how can their vastly different service responsibilities be funded in the same way?

The issue as to whether local government should be funded entirely from property taxes was discussed at the LGC Summit. Clay Pearson, a city manager from Texas, explained how his council got none of its revenues from state or federal government. However, only 21% of its revenues come from property taxes, because local government in the US has many and varied sources of revenue. These varied revenue streams enable US local government to be resilient to the inevitable external economic shocks. In virtually every other advanced nation, social care services are not the responsibility of local government. The quality standards and levels of assurance required to deliver social care requires reliability in service provision and predictability of financing. There is no intellectually respectable argument for financing child protection and adult social care from localised property taxes and yet that is where we are headed.

This is a consequence of a series of unconnected decisions. Whitehall now seems alert to this issue. There is a clear need to take the fiscal devolution agenda forward to boost the productive potential of England's second-tier cities and the large counties, but there is also a critical need to produce stable financing for acute services to those small numbers of people (about 2,000 in every population of 100,000) that require society's support and intensive help.

Barry Quirk, chief executive, Lewisham LBC

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