Chief Executives' Group – North Yorkshire and York
7 June 2018
Public finance

1 Purpose of the Report

1.1 This discussion paper has been prepared in response to a request from the Chief Executive's Group to receive information about public finance in order to prompt a strategic discussion.

2 Background

2.1 The paper has been prepared in consultation with the North Yorkshire Finance Officers Group (NYFO). It covers in broad terms: the impact of austerity across councils in our sub-region; the key issues we have identified through the fair funding review; and an update on business rates retention.

2.2 NYFO meet quarterly with the next meeting on 7 June 2018. Subject to feedback from Chief Executives' Group, further work to build on the issues set out in this paper will be undertaken.

3 Dealing with austerity

3.1 Austerity has been with us for almost a decade and we have responded well to the challenge of delivering public services with reducing funding. **Appendix A** sets out a summary of the financial position of each council represented at NYFO. This is a 'living' overview of issues which is updated for each meeting.

3.2 Looking ahead, and with high profile cases such as Northamptonshire, there is a growing focus on the issue of financial resilience with rising demand for services such as adult social care and cost pressures in children's services set against pressures elsewhere in the public sector (e.g. NHS) fuelling the 'perfect storm'.

3.3 NYFO will continue to share intelligence as individual financial strategies are refreshed over the coming months. Chief Executives are asked if they would want any more in-depth work in this area.

4 Fair Funding Review

4.1 The Government's consultation on Fair Funding Review – relative needs assessment closed in March and the Government are now considering the feedback and gathering further evidence to inform their deliberations. Some of the key issues raised are as follows:

District

- More money needed in the pot as a whole to close the funding gap local authorities face
- Added cost of rural services must be reflected in the formula
- Deprivation is a key cost driver in some but not all services

- Ensure cost drivers are appropriate – eg waste collection – number of households, property type, miles travelled
- Provide for an element of fixed cost
- New scheme must create incentives for growth – accordingly want to see New Homes Bonus retained in its current form
- New scheme must avoid disincentives and perverse reward of past inefficiency
- Adequate funding for specific issues like flooding and Internal Drainage Board Levies
- Provides opportunity to consider a whole system approach – for example reflecting the districts' role in prevention to reduce the burden of adult social care

County

- We have faced the highest level of savings across the public sector for the longest period of time.
- Key service pressures across the country (adult social care; children's social care; SEND; transport; highways maintenance)
- Example of domiciliary care costs higher in rural areas.
- Impact of markets on services such as adult social care and impact of living wage etc – sourcing services becoming increasing difficult in rural areas which is driving up cost.
- Impact of Catterick Garrison on service demands but currently not adequately reflected in funding formula.

Common

- The current system is broken and unfair
- Rurality poorly catered for in the current system and density given too high a weighting.
- Would welcome faster implementation of a new fairer system.
- Strongly object to regression analysis which locks in the status quo or fails to adequately reflect need– e.g. rural bus service subsidies have been cut from £6m to £1.5m in direct response to austerity.
- Support the call for an increase in the quantum of funding for local govt.
- Agree that deprivation should be included where it is proven to give rise to extra cost – indices need to reflect the different types of deprivation and impact on costs.
- Area cost adjustments needed to adequately reflect rurality/sparsity – e.g. transport costs (including home to school transport and waste services) and down time of staff and barriers to service delivery.
- Road length and type e.g. impact of severe weather on up-land roads.

4.2 Analysis of the responses shows that there is a high degree in commonality across all councils – particularly in relation to the cost of rural services and the need for appropriate cost drivers along with a strong objection to regression analysis.

4.3 At this time the government's response to the consultation is not clear. A select committee report was published last month which covered both the fair funding review and business rates retention – the extent to which the government adopts the committee's ideas remains to be seen.

4.4 We understand that there will be another consultation paper in September 2018. This will outline the overall shape of the review including:

- Proposed indicators;
- Size and coverage of the Foundation Formula and proposed specific formulae;
- Possible treatment of resources (i.e. council tax); and
- Some indications about damping or transitional support

'Negative RSG' is also under the spotlight with the government indicating that they will be looking for fair and affordable options for dealing with this.

4.5 There is then likely to be a further consultation paper in December 2018, and indicative allocations in spring 2019. Clearly any allocations at that stage would be indicative as some of the major research projects (particularly children's services) would not have finished.

5 Business rates retention

5.1 This presents a complex picture in the sub-region. Leeds City Region (LCR) (including City of York and Harrogate Borough councils) was successful in their bid for a 100% rates retention pilot (for 2018/19 as a single year only at this stage) on the back of their previous 50% pool.

5.2 In North Yorkshire and East Riding a bid for a 100% pilot was unsuccessful in 2017. Feedback is being sought on this.

5.3 Consequently NYCC and the North Yorkshire districts retained the current pool based on 50% retention, which includes Craven, Hambleton, Richmondshire, Ryedale, Scarborough and the County. East Riding and Selby District are currently outside of any current pooling arrangements.

5.4 Based on estimates for the 2017 pilot proposal the overall net gain in a 100% retention scheme versus the current 50% scheme was circa £10m, i.e. funding which has been paid over to central government and consequently not been retained locally.

5.5 The next round of pilot applications is expected to be announced imminently and discussions between prospective partners should commence as soon as possible in order to address the issues which challenged the previous proposals in North Yorkshire and East Riding.

5.6 The fundamental issue to resolve remains the tier split between the districts in North Yorkshire and the County. The aim will be to achieve a compromise which enables all parties to take part in the pool which each deems to be the most appropriate, whilst achieving an equitable share of the gains generated in each authority's area and risks recognising the roles that each has to play in delivering sustainable economic growth.

5.7 There was previously broad consensus amongst the majority of North Yorkshire councils that an appropriate tier split for the 2018/19 Pilots would be 50:49:1 (district:county:fire). Discussions will be progressed with Harrogate Borough Council and Leeds City Region in order to achieve a solution which will enable successful bids for both proposed pools.

6 Next steps

6.1 NYFO will continue to horizon scan and work together to respond to any further government consultations as they are announced.

6.2 Pending an announcement on future 75% business rates pooling, proposals on a potential NY/ER bid will be formulated and the issues of tier splits in the two tier North Yorkshire area will be discussed with all affected councils, both within the proposed pool area and also with the LCR.

6.3 It is suggested that going beyond agreeing a local process and engaging Ministry for Housing, Communities and Local Government in designing the process would be advisable if a sustainable national system is to be achieved. It is proposed that Pixel Financial Management be commissioned to support this work and assist us in developing proposals in response to the government's offer of further rates retention bids.

6.4 At this stage timelines for this work cannot be confirmed but it is the intention to draft proposals over the summer in anticipation of a government announcement later in the year (possibly provisional local government finance settlement or the Budget / Autumn Statement).

7 Recommendations

7.1 Views are sought on whether there is a wish to see any more in-depth savings analysis across the councils.

7.2 It is recommended that councils share responses to government in order to ensure that messages about rurality and shires are heard loudly in Whitehall.

7.3 Views are sought on whether there is further joint work that can be done to reinforce areas of common interest on Fairer Funding.

7.4 Chief Executives are requested to endorse the proposed discussions on tier splits as a way of progressing Business Rates Retention Pilots in 2019/20 for both NY/ER and LCR.

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30 May 2018

Appendix A – NYFO budget information