

SOCIETY OF COUNTY TREASURERS
PRINCIPLES FOR RESOURCE EQUALISATION

The History

1. Resource Equalisation (RE) was a significant issue at the time of the last review of the local government grant distribution system, which was implemented in 2003-04.
2. At this time resources were broadly equalised on the basis of the budgeted spend of local authorities in 2002-03, which produced a significant redistribution of resources in the 2003-04 local government finance settlement.
3. The 'step' change caused by the revisions made to RE in 2003-04 made a significant contribution to the large increase in council tax and / or service cuts experienced in some local authority areas.
4. These increases in council tax caused much debate within the general population, turning the subject into a highly sensitive national issue attracting considerable publicity. This included lobbying by various interest groups including pensioners, who are generally 'income poor' but can be 'property rich'. At the extreme, some pensioners threatened non payment of their council tax bills, resulting in high profile court action and further publicity.
5. It is generally accepted that there needs to be some form of RE, recognising the different capacity of local authorities to raise tax locally. However the large turbulence and redistributive consequences of RE on the 2003-04 settlement were, and still are, of significant concern.

Why Resource Equalise?

6. This paper considers the two main aspects of Resource Equalisation (RE); what it is based on and what it is for. This section considers what RE is for.
7. RE is undertaken to recognise a local authority's individual ability to raise council tax. Indeed, it is acknowledged that some form of RE would be needed whatever the basis for local taxation is, as different local authorities will have different abilities to raise taxes.
8. Given the current basis of local taxation (i.e. the council tax being property based), the ability to raise tax locally is assessed by reviewing the council tax base. The more Band D equivalent properties that an area has then the more tax it is deemed can be raised locally. However, this then makes the fundamental assumption that there is a linkage between the value of the houses in an area and the ability of individual occupants to pay commensurate council tax. This linkage does not bear scrutiny in many areas.

9. Experience of recent council tax rises, well in excess of general inflation, has implied an increased council tax burden for, in particular, those that are property rich but income poor (for example some pensioners).
10. Any future RE mechanism will ideally take some account of the ability to pay of those charged with the tax. This requirement is particularly acute when the impact on local taxation of Dedicated Schools Grant and the forthcoming revaluation are not as yet determined. The distributional consequences of RE need to be very carefully weighed in the light of these changes.

Concerns with the present system for Resource Equalisation

11. This section now focuses on what RE should equalise on; i.e. it's fundamental basis of calculation.
12. Circularity of the present system - resources are equalised on the basis of budgeted spend in 2002-03. Therefore RE is based on previous spending, so there is to some degree a reward for previous high spending while low spending authorities are penalised. This is a 'perverse' incentive with no account taken of the level and quality of services provided.
13. Additional resources – FSS control totals were up rated to budgeted spend in 2002-03, so there was recognition of additional spending by local authorities, but no additional resources were put into the grant system by the government.
14. Double or triple counting of additional costs – additional needs for local authorities are already addressed with deprivation and density factors within the formula spending shares system and are further enhanced with specific and targeted grants (for example the Neighbourhood Renewals Fund, which provides £525M in 2005-2006). RE is diverting even further resources to these authorities therefore double or even triple counting for these needs.
15. Independent research – Any future system of RE must be the subject of independent research and scrutiny, allowing time for all interested parties to consider the potential effects. This would help increase the transparency of such a process.
16. The very significant effect of the previous RE adjustment in 2003-04 – It is estimated that the effect of RE in 2003-04 moved £311M away from county councils (before floors and ceilings). Detailed figures, by county, are shown in the attached Annex A.
17. A Need for an Equitable Distribution – local authorities are unlikely to welcome RE methods which result in the costs of spending incurred elsewhere leading to increases in the level of their local tax.

Concepts to follow

18. Simplicity – Any new approach to the assessment of the differences in resources needs to be relatively simple both in terms of explanation, application and calculation.
19. Stability – Any new proposals need to build from the current system, to produce a 'graded' change, it should not produce such a dramatic effect as the last 'system' change. The effect of a new system could be brought in over more than one year – a form of tapering? New proposals need to be mindful of the council tax gearing effect and the potential impact of the forthcoming council tax revaluation. Proposals for the introduction of a Dedicated Schools Grant will bring further sensitivity to any future RE calculations, therefore future RE needs to be mindful of this. Early indications suggest that the Dedicated Schools Grant could be bigger than Revenue Support Grant. The balance of funding will change dramatically with locally raised council tax providing a much larger proportion of total funding for the remaining services.
20. Robustness – A future equalisation system needs to be robust – i.e. it can be replicated from readily available data.
21. Fairness – It is difficult to agree on what is a fair system. Fairness can, perhaps, only be related to supporting a basic service provision? This would suggest that RE should be based on basic service provision only and exclude the top ups within FSS. This would also take out an element of the double counting within the current system.
22. Efficiency and Performance – A fundamental principle is that local authorities should not be rewarded through the grant system for relative inefficiencies or for deciding to apply a higher service provision. Previously there has been no commonly accepted measure of efficiency that could be applied to grant distribution. Do recently introduced efficiency measures now give us the opportunity to explore their use? E.g. CPA scores, Local Public Service Agreements, Gershon.
23. Needs Assessment – If there is a 'fair' needs assessment then there is, perhaps, less of a requirement to have an equalisation mechanism.

Should Resource Equalisation take account of the following?

24. Measures of levels of service provision – These were not generally available at the time of the last RE adjustment (2003-04 settlement). Are there real measures that could be used now? It is recognised that this may be difficult at specific service level.
25. Reflect / reward efficiency – CPA scores, Gershon efficiency gains, Local Area Agreements, Local Public Service Agreement 2% stretch targets, Social Services 'star' ratings.

26. Should RE be regularly updated e.g. most recent budget figures or reprice future RE by the GDP deflator.
27. Basic Service Provision only – equalise only for basic service provision as indicated within FSS. Where should RE stop? What combination of RSG, NNDR and the council tax element should RE cover?
28. Levels of Service – The ODPM stated as part of the 2003-2004 Settlement that “it is not realistic for sparsely populated areas to match the service levels in other urban areas”. Therefore surely those council tax payers in rural areas should not expect to pay the same (or more) council tax as those in urban areas. Work for the Countryside Agency ¹ supports the intuitive thought that it costs more to provide the same level of service in a rural area, compared with an urban area.

Next Steps

29. RE is a key part of the formula and has a large distributional impact. This paper has identified a number of principles and potential areas for further development. Subject to future feedback from the LGA Core Advisers Group, it may be appropriate to commission further specific research to examine alternative systems of RE.

Andy Smith,
Group Accountant
Dorset County Council

And

Technical Support Team
Somerset County Council

¹ ‘Developing indicators of the effect of geodemographic factors on cost and performance in public services’ – Hindle, Spollen and Dixon – Secta.

ANNEX A - IMPACT OF RESOURCE EQUALISATION

Local Authority	Loss due to Resource Equalisation 2003/04 £M
Bedfordshire	-£5.070
Buckinghamshire	-£11.219
Cambridgeshire	-£8.694
Cheshire	-£10.586
Cornwall	-£6.199
Cumbria	-£4.927
Derbyshire	-£5.555
Devon	-£11.263
Dorset	-£6.481
Durham	-£0.551
East Sussex	-£6.336
Essex	-£15.364
Gloucestershire	-£9.153
Hampshire	-£21.127
Hertfordshire	-£12.436
Kent	-£19.069
Lancashire	-£6.611
Leicestershire	-£8.757
Lincolnshire	-£6.036
Norfolk	-£8.134
North Yorkshire	-£9.890
Northamptonshire	-£7.113
Northumberland	-£3.027
Nottinghamshire	-£5.419
Oxfordshire	-£8.925
Shropshire	-£5.199
Somerset	-£6.597
Staffordshire	-£8.959
Suffolk	-£8.770
Surrey	-£23.099
Warwickshire	-£6.623
West Sussex	-£9.442
Wiltshire	-£7.961
Worcestershire	-£7.510
Sub Total	-£302.103
East Riding of Yorkshire	-£4.171
Herefordshire	-£2.929
Isle of Wight Council	-£2.187
SCT Members Total	-£311.391