

Review of local authorities' relative needs and resources ('Fair Funding Review')

Technical consultation on the assessment of local authorities' relative needs, relative resources and transitional arrangements: LGA response

20 February 2019

Introduction

The Local Government Association (LGA) welcomes the opportunity to respond to the Government's consultation on its review of local authorities' relative needs and resources (commonly known as the 'Fair Funding Review').

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been approved by LGA Leadership Board and Executive, under advisement by the LGA Business Rates Retention and fair Funding Review Task and Finish Group.

General comments

Local authorities broadly welcomed the Fair Funding Review when it was announced in 2016 and have been active in providing their input. The current system of funding distribution is opaque, overly complex and out of date.

We continue to work closely with the Ministry for Housing, Communities and Local Government on the Fair Funding Review to ensure that the Review is objective and transparent and that there is extensive engagement with local government. This joint working, and the fact that all papers of the technical working group have been made publicly available, is welcome and we intend to continue this approach.

It is clear that the Government is starting to make choices that will have distributional consequences. This is unavoidable given the scope and aims of the Review.

In order to ensure the results of the Review are as credible as possible, it is crucial that the Government is transparent and provides sufficient evidence behind its decisions. We recognise the attempts made to do this as part of the consultation document, but this needs to go further.

It is also important that decisions taken during the review do not have a negative impact on incentives for local authorities to be efficient, develop their local area or grow the local economy. This means that the focus should be on aspects outside of direct and meaningful local council control.

Submission

Above all, we are clear that the outcome of the Fair Funding Review will not be sustainable unless it is delivered together with sufficient additional funding. Regardless of how funding is distributed, it is simply insufficient to ensure sustainable delivery of council services. We estimate an £8 billion funding gap forming by 2024/25, with £3.1 billion in 2019/20.

As a result, we do not agree that the review should be taking place in a revenue-neutral manner; the Government must provide sufficient additional resource as part of the 2019 Spending Review.

We continue to remain concerned about the lack of clarity over funding for local authorities. With further business rates retention, the results of the Spending Review and the outcome of the Fair Funding Review all being implemented from April 2020, local authorities have no reliable basis on which to appropriately plan their budgets even in the short term. At the moment it is unclear how much funding there will be from April 2020, how it will be distributed, and the means of delivery.

As a result, local authorities will have to make assumptions about future funding and, in some cases, this will result in completely unnecessary cutbacks to services which could be avoided with more certainty. This is unacceptable, especially at a time when councils will have dealt with a £15 billion reduction to their annual core government grant over this decade.

This consultation makes clear just how many different elements and decisions interact with one another to deliver the final result of the review. Transparency and early indications of the impact on individual local authorities are vital. The Government must provide local authorities with exemplifications of further business rates retention and the Fair Funding Review in spring 2019, rather than the summer or autumn 2019 as currently planned. They can be revised in line with Spending Review announcements when this is available.

Of particular concern will be the lack of clarity on formulas for children and young people's services, public health, fire and rescue services, concessionary fares and home-to-school transport at this stage. It is also important to test whether the proposed adult social care formula is still truly reflective of relative local authority needs, including considering the impact of using out-of-date welfare benefit statistics. Together, these services account for a significant part of local authority budgets.

Responses to detailed questions

Question 1): Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?

Overall, we would like to direct the Government to our member authorities' responses to this wide-ranging question, but the following are several points we would like to make.

The distributional consequences of the Review mean that it is important to provide a robust evidence base behind the decisions made as part of the Review.

We note that the Government has provided some explanation for most of the decisions it is making regarding the structure of the relative needs assessment. This is welcome, but we believe the Government must go further in order to ensure that the process and outcomes of the Fair Funding Review are as transparent as possible, and in line with the Government's second principle

guiding the Fair Funding Review. It is clear a significant amount of analysis has gone into developing the emerging outcomes, but it has not been shared in full.

Councils will want to know that all the factors they have suggested affect their need to spend have been tested as part of the work on the formula. If some of these factors have been excluded there should be an explanation as to why that is the case.

The Government has provided some evidence on the cost drivers tested and the expenditure data used. However, some important details are missing in some cases. This includes, on a case-by-case basis, reference years, clarification of whether, whether total spending or spending per head was measured, and whether spending was deflated for area cost differences, and how regression/correlation analysis was used and its results.

We understand that this level of detail might be too complex for the format of the consultation document. However, this consultation must be accompanied by a much more detailed technical note about the exact evidence used to arrive at each view on the relative needs assessment.

This applies, for example, to decisions such as to:

- Exclude deprivation as a cost driver from the foundation formula;
- Include lead local flood authority spending in the foundation formula; and
- Include homelessness in the foundation formula.

Finally, the landscape of local government cost pressures is changing over time, as are spending priorities, and these can be unique to different areas, such as cities, rural areas, counties, coastal towns and others. This means the funding distribution system as a whole has to be periodically updated and maintained. For example, we support the use of population projections to set a 'forward path' of funding baselines for a number of years.

Foundation formula

We note the Government's aim to deliver a simplified foundation formula with a small number of cost drivers reflected. The LGA continues to maintain that simplicity is welcome, but not at a disproportionate cost to accuracy.

It is welcome that the Area Cost Adjustment will now be reflective of factors such as population sparsity and density. It is logical that issues such as journey times would lead to different unavoidable cost of delivering services. However, our members in both sparsely and densely populated areas will look to ensure that the weightings for these factors are developed on robust evidence.

Overall, given the widespread support for consideration of deprivation as part of the Government's previous consultation, and potentially a not insignificant 4% explanatory power, we believe that the starting point should be for deprivation to remain as a factor in the foundation formula, with development of a clear evidence base for the weighting for this cost driver.

Adult social care formulae

The use of multi-level modelling to arrive at the most relevant cost drivers and their weightings within the formula is welcome, and we note the significant effort and resource that was employed by the Department for Health and Social Care in developing this formula.

It is important to ensure that the formulae capture the main emergent drivers of demand for adult social care in individual areas. This includes considering

population aged 75+, rather than 65+, as the main demand driver for older people's social care, and revisiting factors aligned with incidence of demand for adult social care for younger adults with learning disabilities. It is important to get this right.

In addition, our members will be concerned that the cost drivers proposed by the Government include out-of-date factors related to deprivation due to the use of benefit claimant data which is no longer updated as a result of the introduction of Universal Credit. More evidence is needed to demonstrate that the formula is still valid as a result of this and that it is 'future proof' against significant macroeconomic shocks.

As part of the technical note mentioned above, the Government should provide a backwards-looking analysis of how individual local authorities' values for welfare-related factors changed from 2007 (or as far as possible into the past, if later) to the present day (or as close as possible to the present day).

If the results show significant divergence in funding shares between local authorities would have taken place as a result of shifts in the welfare-related indicators, the formula should be reviewed as soon as a consistent dataset on Universal Credit claimants becomes available.

Children and young people's services formula

We welcome the Government's approach to developing this formula. It is likely that this formula will be used to distribute a large share of the relative needs baseline, and urge the Government to deliver the results of this project as soon as possible, to allow for a more timely publication of draft funding baselines.

We would point the Government to the LGA's own study conducted by Newton Europe that looked in depth at the cost drivers associated with the delivery of children's social care.

Public health

Local authority public health commissioning plays an important part in reducing demand for adult social care, NHS and other services. The LGA is disappointed to see continued uncertainty over the future of the funding of public health. The Government has committed to this grant being rolled into business rates retention (and, as such, forming part of the Fair Funding Review) multiple times – including Chancellor's Budgets.

We note that the Government consulted on the proposed formula in 2015, but chose not to implement its results. Analysis must be carried out to provide evidence that the formula is fit for purpose and suitable for implementation.

Highways

We welcome the Government's attempt to simplify the highways formula; the cost drivers of road length and usage (including heavy goods vehicles) are an intuitive starting point. More information on the analysis conducted to narrow down the cost drivers to two would be welcomed, in line with our overall request for a detailed technical note.

Legacy capital formula

The Government must clarify the methodology that will be used to estimate the historic level of supported borrowing as well as the interest rate, as part of the technical note mentioned above.

Homelessness

The Government should revisit its decision on funding homelessness services

through the foundation formula. Instead, a specific formula or funding this service through a specific funding stream outside of the scope for the review should be considered. Homelessness costs are a significant increasing pressure, and it affects different councils to a differing extent.

Question 2): What are your views on the best approach to a Fire funding formula and why?

The LGA supports a collaborative approach between the fire authorities and the Government in developing a new fire and rescue services' relative needs formula. We would like to direct the Government to responses of our fire authority members for more detail.

There is a need to carefully consider the fact that fire services are now delivered by a number of different authorities, each with a specific wider remit, such as standalone fire and rescue service bodies, police and crime commissioners, combined authorities, and council-run services.

Question 3): What are your views on the best approach to Home to School Transport and Concessionary Travel?

We note that the Government has committed to conducting further analysis before finalising its approach to both concessionary fares and home to school transport. It is important to get this right and, just like with all issues covered, the Government's full analysis should be published as part of the technical note mentioned above.

The LGA supports an evidence-based approach to assessing the need for specific relative needs formulae for these services, and would encourage the Government to engage with councils most affected by the cost pressures on these services as part of arriving at its decision.

Question 4): What are your views on the proposed approach to the Area Cost Adjustment?

The LGA supports an evidence-based approach to developing a set of refreshed Area Cost Adjustments. The principle of considering journey times as an area cost factor reflecting sparsity and density in the revised assessment is sound.

To aid transparency, the Government should publish a full technical note on the analysis it has carried out, and the evidence it has used, to estimate the impact of all factors included in, or excluded from, the ACAs, in particular those related to geographical sparsity, density and remoteness.

Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions, including the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?

The LGA agrees with this, and proposes the use of council taxbase statistics returns to enable the calculation. Councils should not bear the costs of national Government policy decisions. This includes incidence of discounts such as single persons discount and the student exemption.

Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions, including the income forgone due to local council tax support for working age people, should be made when measuring the council tax base? If so, how should we do this?

The starting assumption should be that no discretionary discounts or premiums (with the exception of local council tax support for working age claimants) should be adjusted for, with councils bearing the full cost or receiving the full income from the use of these powers.

It is important that local council tax support schemes for working age people are adequately reflected. The LGA believes that the Government should use a formula-based approach to estimate the likely demand for local council tax support schemes for working-age households. As a result, the potential demand rather than actual policy decisions would be adjusted for, with individual councils covering the costs or retaining the savings from any deviation.

This is in line with the principle that financial costs and benefits of local decisions should be retained in full by councils.

Question 7): Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?

The LGA agrees that a notional council tax level should be used in order to ensure that local authorities are not rewarded or penalised as a result of historic political decisions.

We note that in many cases, other factors – such as the level of Government funding – will have had a significant impact on council tax level decisions made by councils; but there is no reliable method to adjust for these factors in the council tax adjustment.

Question 8): What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?

We do not believe that actual council tax collection rates should be taken into account as this could inadvertently penalise councils which are more effective.

However, we note that there is a very strong correlation between 2017/18 collection rates and the average score of the 2015 index of multiple deprivation. As a result, we believe that the ability to collect council tax could be adjusted for using a formula approach instead of looking at actual council tax collection rates.

Question 9): Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?

We would direct the Government to responses of our member authorities on this question, but we are clear that this should be decided in a transparent and balanced way.

If the Government were to use actual council tax income as the basis for the split, it is important that the measure of council tax income:

- Only includes adult social care precept income if the improved Better Care Fund is rolled into the relative needs assessment;
- Does not make any adjustment related to take-up of the council tax freeze grant;
- Excludes parish council tax precepts and special levies, such as internal drainage board levies.

Question 10): Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?

The LGA agrees with this approach. The Government's methodology should not presuppose increases in council tax income in calculations of the resources adjustment or of the baseline for the transition mechanism, regardless of whether those assumed increases arise from expected taxbase growth, or from expected increases in council tax levels.

Question 11): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?

We agree that while relative ability to benefit from council tax should be taken into account, sales, fees and charges should not be taken into account in this way. Local authorities have been required to develop a more commercial approach to running services as a result of the £15 billion reduction in core government funding over this decade. Therefore, taking such income into account on an 'actuals' basis would penalise councils that have been working hard to mitigate funding cuts. The level of data available is also insufficient to assess the capacity to generate such income and to assess where such income is a result of policy decisions, making reliable and objective adjustments on a 'notional' basis impossible.

Question 12): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?

While there are clear outlier councils in relation to parking income, we do not believe there is a sufficient level of data available to assess councils' capacity to generate such income and to assess to what extent such income is a result of policy decisions, making reliable and objective assessments difficult.

Question 13): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?

We agree these principles are important to look at. However, it is clear there will be trade-offs. It is difficult to see how a transition mechanism could include both a reasonable time limit and meaningful protection for the councils that are most significantly affected, without additional Government resources.

As a result, the LGA continues to be clear that the outcome of the Fair Funding Review, and the transition path from the current pattern of funding allocations, should be delivered alongside sufficient resources to meet the £8 billion funding gap facing local authorities by 2024/25.

Question 14): Do you have views on how the baseline should be constructed for the purposes of transition?

We believe that there is merit in considering including the current income from council tax in calculating the transition baseline and target (not the Fair Funding Review baseline). This would give a more rounded picture of the real impact of the Fair Funding Review on local authority budgets.

However, under no circumstance should the inclusion of council tax income in the transition baseline/target come with any assumptions about council tax increases, either due to taxbase growth or due to assumed future council decisions on council tax levels.

The LGA also notes the Government's view that 2020 should be a full business rates baseline reset. Some LGA members have expressed concern that this reset could lead to a substantial shift in income and believe that they should be protected from a sudden fall in funding due to the business rates reset in April 2020.

Question 15): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

We would like to direct the Government to the responses of our member authorities.