

COUNCIL
5 MARCH 2018

Report of the Head of Resources

FAIR FUNDING REVIEW

PURPOSE OF THE REPORT

This report informs Members of the Government's consultation paper "*Fair funding review: a review of relative needs and resources*" and sets out the Council's response.

RECOMMENDATION

1. That the response to the Consultation Paper, as given in Appendix 1, be approved.

WARDS AFFECTED

All Wards

STRATEGIC LINK

The Fair Funding Review has serious implications for the Council's finances, and therefore potentially has a negative impact on the Council's ability to deliver its Corporate Aims and Objectives.

REPORT

1 BACKGROUND AND INTRODUCTION

- 1.1 In December 2017, as part of the papers associated with the Local Government Finance Settlement, the government issued a consultation paper "*Fair funding review: a review of relative needs and resources*". A copy of the consultation document can be seen by using the web-link shown as a background paper to this report. The deadline for responses to the consultation document is 12 March 2018.
- 1.2 The Ministerial Foreword to the consultation paper sets out the reasons for the Fair Funding Review. The Minister says "The current system for allocating that funding has been in place for over a decade, and it has served the country well. But the world has changed almost beyond recognition since it was introduced, and now it's time for the system to change too."
- 1.3 Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.

- 1.4 Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. The outcome of this Fair Funding Review will enable the Government to reconsider how the relative needs and resources of local authorities should be assessed in a world in which they will continue to have greater control over the money that they raise.

2 THE FAIR FUNDING REVIEW CONSULTATION

2.1 The **Terms of Reference** state that the Fair Funding Review will:

- set new baseline funding allocations for local authorities,
- deliver an up-to-date assessment of the relative needs of local authorities.
- examine the relative resources of local authorities. (The Government will take a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils),
- focus initially on the services currently funded through the local government finance settlement, and
- be developed through close collaboration with local government to seek views on the right approach.

2.2 The consultation document sets out the **Guiding Principles** for the Fair Funding Review:

- i) **Simplicity** – the overall number of formulas used within the current methodology, along with the layers of complexity contained within them, means that they are little understood and may no longer hold the same relevance as when they were first introduced. This is an opportunity to identify the most important factors that drive the ‘need to spend’ on local services, and the Government aims to produce a relative needs assessment that is as simple as is practicable,
- ii) **Transparency** – it should be straightforward for those affected by the relative needs assessment to understand what factors have influenced the levels of funding received by a local authority so that they can hold their local representatives to account for the decisions that they make. To support this the Government will make the link between local circumstances and funding allocations more visible,
- iii) **Contemporary** – the new relative needs assessment will be based on the most up-to-date data that is available. To facilitate more frequent updates, as far as practicable the funding formula will be based on data that can be regularly updated at planned intervals. If the collection of data or other technical requirements means that desirable changes cannot be made at the point of implementation, the Government will consider whether and how to phase these in at a later date whilst providing councils with financial certainty,

- iv) **Sustainability** – an evidence-based approach will be deployed to identify the factors which drive costs for local authorities today *and* in the future. The new funding formula must, as far as is practicable, anticipate future demand for services,
- v) **Robustness** - the new funding formula should take into account the best possible objective analysis, and
- vi) **Stability** – the funding formula should support predictable, long-term funding allocations, ideally as part of a multi-year settlement. Local authorities' long-term financial planning and service delivery will also be assisted by temporary transitional arrangements to their new relative needs baseline to ensure there are no undue year-on-year changes in funding.

In addition to these principles, a key objective of the review is to work in conjunction with wider reforms to local government finance and help provide a strong incentive for councils to grow their local economies and to use their resources as efficiently as possible.

2.3 The Government believes that working towards an **implementation date** for the review of 2020/21, while keeping this under review as work progresses, offers the best opportunity to achieve these objectives, alongside wider policy developments in local government finance and adult social care.

2.4 The **focus** of the review can broadly be divided into three closely related strands of work:

- i) relative needs,
- ii) relative resources, and
- iii) transitional arrangements.

This consultation is specifically concerned with the first of these areas - the measurement of relative needs.

2.5 The consultation document explains that the overall level of funding available to local government as determined by the local government finance settlement is redistributed between individual councils using a number of mathematical **funding formulas**. These funding formulas are populated by indicators or variables (such as population or number of households), chosen because they were considered at the time to be predictive of the costs that councils face when delivering different services. For example, the number of households will be used in the funding formula for the amounts allocated to each authority to spend on waste collection, but this might be adjusted to reflect recycling rates. If too many indicators or variables are used, the funding formula becomes too complex and is not simple or transparent; if too few (or the wrong) variables or indicators are used, it will not reflect the Council's relative need to spend.

2.6 Since the 2013/14 local government finance settlement, councils' underlying levels of 'need' have not been updated. This has ensured that councils that have grown their business rates have benefited from the additional income that this has generated. The current individual funding allocations for local authorities are therefore based on relative need formulas that were last updated in 2013/14, although the underlying statistical modelling which determines the cost drivers and the weightings given to them is older.

2.7 The **cost drivers** that are included in the funding formulas will need to relate to the services that councils deliver. However, different types of council deliver different services. The relative needs assessment will therefore need to provide councils with their appropriate share of the available funding to support the services for which they are responsible. The Government proposes that the following criteria should be used to assess cost drivers before they are included in the funding formula:

i) **Relevant** – there should be evidence to demonstrate that the cost driver has a significant impact on the cost of providing services,

ii) **Objective** – the cost driver should be measurable using robust, up-to-date data that is collected on a consistent basis across England. Local authorities should not be able to directly affect the indicator (i.e. the cost drivers should not create perverse incentives to ‘game’ the system),

iii) **Distinct** – the cost driver should explain significant variation in the ‘need to spend’ that is not covered by another cost driver,

iv) **Stable** – the cost driver should not exhibit unpredictable or large changes year-on-year, and

v) **Future proof** – the cost driver should be expected to drive the on-going costs of providing services (i.e. they should not be one-off events).

2.8 The consultation paper sets out some common cost drivers that could be used to assess a council’s “need to spend”:

- i) Population
- ii) Rurality, and
- iii) Deprivation

Officer comment: The inclusion of rurality as a cost driver is welcomed as this council has long argued that it costs more to deliver services in rural areas than in urban areas.

2.9 The consultation document states that the funding formulas will also use **Area Cost Adjustments** to reflect relative differences of the costs of delivering services in different areas of the country. For example, the costs of employing staff or renting non-domestic properties can vary considerably between different places. Some local authorities will face unique cost pressures related to their geography; such as the costs associated with providing services on an island, or to a widely dispersed population in rural areas. The Government will therefore consider how the Area Cost Adjustment could be updated and improved to better reflect these sources of differences in costs.

2.10 The consultation document explains that if more than one relative needs formula is developed, it will be necessary to decide the relative proportion of the overall funding that is to be allocated by each funding formula and apply **weightings**. The consultation seeks councils’ views on different methods that could be used to determine weightings.

3 RESPONSE OF SPARSE-RURAL / RURAL SERVICES NETWORK

3.1 The Rural Services Network (RSN), which includes SPARSE-Rural, strongly urges all rural authorities to respond to the consultation about the Fair Funding Review. They say “We cannot emphasise too strongly just how important we feel this consultation is and

the vital need for all authorities with rural areas to be responding to it". The RSN has provided a draft template to assist authorities, which was used when drafting the Council's response shown in Appendix 1.

4 THE COUNCIL'S RESPONSE

- 4.1 The deadline for responses to the consultation document is 12 March 2018. A draft response is shown at Appendix 1 to this report.

5 RISK ASSESSMENT

5.1 Legal

There are no legal risks arising from this report.

5.2 Financial

The financial risk of the recommendations of this report is assessed as "low".

The financial risk of the outcome of the Fair Funding Review is set out in the Corporate Risk section below.

5.3 Corporate Risk

Any significant reduction in Baseline Funding Level will have serious implications for the Council's ability to deliver its priorities, and to provide services at the current levels. The corporate risk is, therefore, high.

6 OTHER CONSIDERATIONS

In preparing this report, the relevance of the following factors has also been considered: prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

7 CONTACT INFORMATION

Karen Henriksen, Head of Resources
Tel: 01629 761284
Email: karen.henriksen@derbyshiredales.gov.uk

8 BACKGROUND PAPERS

The Consultation document can be found at:
<https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources>

9 ATTACHMENTS

Appendix 1 Response to Local Government Finance Settlement Consultation Paper

APPENDIX 1

DERBYSHIRE DALES DISTRICT COUNCIL'S RESPONSE TO CONSULTATION ON THE FAIR FUNDING REVIEW

To be submitted via online survey

This response represents the views of Derbyshire Dales District Council.

Derbyshire Dales District Council is a member of the Rural Services Network/SPARSE-Rural. The District Council fully endorses their submission in response to the Consultation Paper.

In respect of the questions raised in the Consultation Paper, the District Council wishes to comment as follows:

Question 1): What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?

On the whole we SUPPORT the Government's proposals to simplify the relative needs assessment by focussing on the most important cost drivers and reducing the number of formulas.

However, we note that this consultation does not touch on either the resources block or the central allocation block. It is this Council's view that the outcomes of the existing formula model are unfair on rural areas and whilst we agree with the simplification of the existing mechanism, we await consultation on the resources block in order to assess the overall impact of the fair funding review.

Of particular concern is that there is no mention of the central allocation block. As this formerly distributed funding on a per capita basis, it seems clear that if this was to be removed with all funding being made via needs and resources (and damping) then the current needs formulae would result in significant redistribution from rural areas, a move which we would clearly not support.

We seek clarification, therefore, as to the plans for the central allocation block. We also call for greater clarity on the Government's plans for setting the relative weights between the blocks.

Question 2): Do you agree that the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities?

Yes.

We SUPPORT the use of official population projections and would support any mechanism which is capable of fairly reflecting underlying changes in population so that they are recognised as soon as practicably possible in funding allocations. We feel that the lack of dynamism in the current system combined with historic low funding of rural areas has contributed increasing financial fragility of local authorities in rural areas.

Question 3): Do you agree that these population projections should not be updated until the relative needs assessment is refreshed?

Yes.

We would SUPPORT any move that provided reliable and updated population figures to be included in the 2020/21 Settlement.

Question 4): Do you agree that rurality should be included in the relative needs assessment as a common cost driver?

Yes.

We STRONGLY SUPPORT the inclusion of rurality as a common cost driver. We agree with the assertion in the consultation document that the alterations in weightings for sparsity for 2013/14 'may have only partially reflected the challenges faced in delivering some services in rural areas'.

Question 5): How do you think we should measure the impact of rurality on local authorities' 'need to spend'? Should the relative needs assessment continue to use a measure of sparsity or are there alternative approaches that should be considered?

We recognise past difficulties in finding a measure which adequately reflects rurality. However, we do feel that the existing sparsity measure provides a good proxy for rurality particularly in terms of measuring potential time loss through travel.

That is not to say that there may not be further potential measures for rurality. The Rural services Network, of which this Council is a member, has undertaken reviews in the past which have shown significant cost penalties for provision of services in rural areas associated with 'lost' travel time but these have been deemed too limited to meet MHCLG statistical criteria.

We feel that this is an important cost driver, deserving of further work to establish the additional cost of delivering services to rural areas and if this cannot be undertaken then an increase to the weight of the sparsity indicator should be used.

Question 6): Do you agree that deprivation should be included in the relative needs assessment as a common cost driver?

Yes.

We agree that deprivation should be included in the relative needs assessment as a common cost driver. However, in terms of a foundation formula we would make the following points:

- We feel that only some of the services, such as housing and homelessness, intended for inclusion in the foundation formula correlate to deprivation. We do not feel that

many foundation formula services correlate to deprivation and we would want to ensure that deprivation is not overstated in the foundation formula;

- We agree that deprivation measures are currently too narrowly focussed around benefits take-up and would STRONGLY SUPPORT a wider definition of deprivation as proposed with IMD. We would also make the point that low wages rarely feature as a measure of deprivation and many rural areas suffer from low wages and high living costs which are not factored into needs formulae.

Question 7): How do you think we should measure the impact of deprivation on 'need to spend'? Should the relative needs assessment use the Index of Multiple Deprivation or are there alternative measures that should be considered?

We STRONGLY SUPPORT a greater focus on Index of Multiple Deprivation measures in terms of giving a less one-dimensional view of deprivation as is the case with existing formulae.

Question 8): Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?

Yes. We feel that the Fixed Cost sum currently included in the Mixed Costs RNF but not mentioned in the consultation should form part of the Foundation Formula. Although not significant in terms of the whole formula, these amounts are significant for the smallest local authorities, many of which are in rural areas.

Otherwise, we do not feel that there are other common cost drivers though we point to our response to question 10 in respect of some services such as drainage board levies which are specific to a small number of authorities.

Question 9): Do you have views on the approach the Government should take to Area Cost Adjustments?

Yes. Generally, we understand the concept of Area Cost Adjustments. However, we would make the following points:

- We feel that there is no reflection for the additional costs which are sometimes prevalent in rural areas associated with imperfect market conditions where labour costs might be inflated due to low supply;
- We feel that some of the indicators in the present formula overstate the needs in urban areas and as ACA is multiplicative in nature these overstatements are further increased when ACA is applied.

Question 10a): Do you have views on the approach that the Government should take when considering areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities?

Yes. We support the concept of identifying specific expenditures which are limited to a small number of authorities.

Question 10b): Which services do you think are most significant here?

We feel that Drainage Board Levies fall into this category.

Question 11a): Do you agree the cost drivers set out above are the key cost drivers affecting adult social care services?

Yes.

We SUPPORT the Government's thinking set out in the consultation paper, particularly in respect of the focus on means testing and higher levels of impairment. We feel that the existing proxies for deprivation are too narrowly focussed around income deprivation, particularly benefits rates.

Question 11b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting adult social care services?

Yes. We particularly SUPPORT sparsity as a key cost driver but feel that the existing weighting understates the costs of providing adult social care services in rural areas.

Question 12a): Do you agree that these are the key cost drivers affecting children's services?

Yes. We SUPPORT the Governments thinking set out in the consultation paper and note the additional work to be undertaken on Children's Services.

Question 12b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting children's services?

Yes. We feel that the existing indicators for deprivation are too narrowly focussed around income deprivation, particularly benefit rates, and would welcome investigation of other cost drivers for Children's Services

We feel that the sparsity indicator should be considered for Children's Social Care as home to establishment transport costs more in rural areas.

Question 13a): Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?

Yes. We agree with the highways maintenance cost drivers.

Question 13b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?

We do not feel that the concessionary travel services cost driver is appropriate. When LGF undertook their work on sparsity and rurality, concessionary travel had the strongest negative correlation between sparsity and expenditure. We believe that this is a prime example of 'unmet need' – bus boardings in rural areas are so low because there simply aren't many busses to board! This is due to historic low levels of funding resulting in low or no support resulting in low or no bus service provision. We therefore STRONGLY DISAGREE with the existing formula.

We would propose that the Access to Services index from the Indices of Multiple Deprivation be used to measure need for concessionary travel and for bus support. (Question 14).

Question 14a): Do you have views on what the most suitable cost drivers for local bus support are?

We would propose that the Access to Services index from the Indices of Multiple Deprivation be used to measure need for concessionary travel and for bus support.

Question 14b): Do you have views on what the most suitable data sets are to measure the cost drivers for local bus support?

We would propose that the Access to Services index from the Indices of Multiple Deprivation be used to measure need for concessionary travel and for bus support.

Question 15a): Do you agree that these are the key cost drivers affecting waste collection and disposal services?

No.

We DO NOT SUPPORT the proposal that deprivation is a key cost driver for waste collection and disposal services. We would be interested to see the empirical evidence for the link between deprivation and lower likelihood to recycle. In any case, we believe that recycling and waste collection/disposal should be considered together and that seeking only cost drivers for waste collection and disposal may create a perverse incentive against recycling which is at odds with the Government's environmental agenda. We struggle to understand a correlation between deprivation and dog fouling.

Question 15b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting waste collection and disposal services?

Yes. We do feel that travel times, types of property and number of households are all key cost drivers.

Question 16a): Do you agree these remain the key drivers affecting the cost of delivering fire and rescue services?

Yes. Whilst we feel that the cost drivers are correct, we are of the view that the sparsity indicator is significantly under-weighted. The reductions to fire funding in rural areas have had a profound impact on service where reliance on retained staff is so important. Without an improved recognition of sparsity, we feel that fire and rescue provision and response to the most rural areas of England will be drastically reduced.

Question 16b): Do you have views on which other data sets might be more suitable to measure the cost drivers for fire and rescue services?

We do not have any views on this question.

Question 17a): Do you agree these are the key cost drivers affecting the cost of legacy capital financing?

We do not have any views on this question.

Question 17b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting legacy capital financing?

We do not have any views on this question.

Question 18a): Are there other service areas you think require a more specific funding formula?

We do not feel that there are any other services which require a more specific funding formula.

Question 18b): Do you have views on what the key cost drivers are for these areas, and what the most suitable data sets are to measure these cost drivers?

We do not have any views on this question.

Question 19): How do you think the Government should decide on the weights of different funding formulas?

Question 20): Do you have views about which statistical techniques the Government should consider when deciding how to weight individual cost drivers?

Yes. We are pleased that the Government has recognised some of the limitations with multiple regression modelling, particularly the circular 'baking in' of past funding patterns. Whilst we accept that regression modelling is a necessary part of the system, we feel that the Government should be prepared to use other statistical techniques as appropriate and also be prepared to use 'informed expert judgement' as proposed by the Society of County Treasurers at the January 2018 Technical Working Group.

Question 21): Do you have any comments at this stage on the potential impact of the options outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

We have no comments in respect of this question.