

Proposed Decision to be made by the Deputy Leader (Finance and Property) on or after 8 March 2018

Fair Funding Review – Responding to the Government’s Consultation

Recommendations

The Portfolio Holder is asked to:

- 1) Comment on the proposed principles that should underpin the Council’s response to the Fair Funding Review consultation papers, as outlined in Section 4, and approve their use in drafting the County Council’s response to the Government’s consultation paper.
- 2) Agree the County Council’s formal response to the consultation paper attached at the **Appendix**.
- 3) Authorise the Head of Finance in consultation with the Joint Managing Director (Resources) to make any final amendments needed to the response, in line with agreed principles, before it is submitted to reflect any late information.
- 4) Authorise the Head of Finance in consultation with the Joint Managing Director (Resources) to use a similar approach for any future consultations on the Fair Funding Review.

1. Background

- 1.1. 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.
- 1.2. Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures, the Government last year announced a review to address concerns about the fairness of current funding distributions. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities should be identified.

- 1.3. Last year the previous Government published a Call for Evidence on needs and redistribution, which resulted in over 200 responses from a range of local authorities and representative bodies.
- 1.4. Over the past year, the Ministry for Housing, Communities and Local Government (MHCLG) has worked in close collaboration with local authorities and their representatives on the design of the review, including through a joint Local Government Association (LGA) and MHCLG chaired technical working group.
- 1.5. This consultation focuses specifically on potential approaches that have been identified to measure the relative needs of local authorities.

2. The Current System

- 2.1. The overall level of funding available to local government is redistributed between individual councils using a number of formulas. These funding formula are populated by indicators or variables, chosen because they were considered at the time to be predictive of the costs that councils face when delivering different services.
- 2.2. For example, the adult social care relative needs formula includes variables that reflect the number of eligible older people, while the formula for highways maintenance includes variables which measure road length and usage. The formulas will allocate more money to areas where the data indicates that they have relatively more older people, or relatively more roads, and so on. For most services there is more than one indicator of 'need to spend'.
- 2.3. One of the key challenges when designing a relative needs assessment formula is to decide how many cost drivers for different services and client groups should be included. Whilst in theory, including a large number of variables to capture all of these characteristics in an effort to perfectly predict the costs for that area may be desirable, it would result in significant complexity, especially to cover multiple areas. The aim of funding formulas is therefore to identify the most efficient number of variables to explain the greatest amount of variance in 'need to spend' as is both practicable and desirable.
- 2.4. In 2006 the Government introduced the '4-block' model. The blocks in this instance referred to the four components of calculating funding under the approach, which were:

- i. the relative needs amount – this allocated funding based on relative need using formulas similar to the previous methods,
 - ii. the relative resource amount – this acted to adjust a council’s funding to take into account its relative ability to raise income from council tax,
 - iii. the central allocation – this allocated an amount of funding to each local authority based on its population, and
 - iv. the floor damping block – this ensured that all authorities received at least the floor percentage change year-on-year.
- 2.5. Since the 2013/14 local government finance settlement, councils’ underlying levels of ‘need’ have not been updated but the level of relative resource has, meaning authorities with growing council tax bases have been penalised.
- 2.6. 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. Over 120 variables were used in the last relative needs assessment and many of those variables have a relatively minimal impact on the overall distribution of funding. Using such a large number of variables across multiple different formulas, in combination with the three other steps in the existing 4-block model to adjust for relative resources, split funding between tiers of services and implement damping, has made the overall funding formula less transparent and consequently harder to comprehend.

3. Concerns With The Current System

- 3.1. This section sets out some of Warwickshire County Council’s main concerns with the current system that will need to be discussed and resolved prior to the implementation of the new funding formula.
- 3.2. One of the fundamental principles that should be promoted from the county council’s perspective is the need for any new methodology not to be based on historic spend. We strongly believe historic spending patterns are not a predictor of future need for the following reasons:
- i. *Level of service provision* – Local authorities have considerable discretion over the way in which they provide services. Differences between authorities’ level of expenditure may reflect local authorities

providing different levels of support for different services, rather than relative needs,

- ii. *Efficiency* – Local authorities facing the same levels of demand and providing the same quality of services can spend different amounts on those services. This difference is due to how efficiently councils are providing those services,
- iii. *Historic funding levels* – Local authorities have a duty to set a balanced budget and therefore their spending in a given year is limited to the amount of funding that they are able to raise in that year. Models based on expenditure continue to allocate funding to those areas that have received greater funding in the past,
- iv. *Unmet need* - If there are pockets of unmet need that affect particular local authorities or types of local authorities differently, then current levels of expenditure may not reflect the underlying demand for particular services. A common example that is cited with local government services is local bus services, where the fact a local bus service is not currently operated does not necessarily mean that there is no 'need' for such a service.

- 3.3. Additionally, the current system penalises authorities which generate a relatively higher level of income from council tax. The relative resource element of the formula is a direct measure of being able to raise more council tax income. This is then double counted by using the same ability of an authority to raise council tax as a measure of the relative wealth of the population which is assumed to reduce the need to provide a service.
- 3.4. There are elements of the current funding formula which do not take into account the additional costs associated with providing services in rural areas. This needs to be clearly addressed in any new system.
- 3.5. The degree of variation between funding of authorities is disproportionate to the actual differences in the need of those authorities. Also, the current system is simply out of date with the last major overhaul of needs assessments having taken place 14 years ago.
- 3.6. The consultation paper acknowledges these issues, but there is no commitment to identifying an alternative approach. Our response to the consultation will consider these issues within both the overall response and answers to specific questions.
- 3.7. The list of questions in the consultation paper and our suggested response are attached at the **Appendix** for information.

4. Principles for a New System

- 4.1. The range and complexity of the issues outlined in Section 3 means any response the County Council makes to the Fair Funding Review consultation papers will often need to be extremely technical and detailed. It is therefore proposed that a set of core principles around which to frame our response to any consultation paper are agreed in advance. This will ensure consistency over time and provide a basis against which to assess any options that may come forward for consideration.
- 4.2. Overall for the County Council it is proposed that we should respond to the consultation on the basis the proposals in our response are in the best interest of Warwickshire County Council and our district/borough authorities.
- 4.3. Within this overarching principle there are a number of other more specific principles outlined below:
- Local authorities deliver a wide range of important services used by residents on a daily basis, and provide essential support for the most vulnerable people in our society. The local government funding system must therefore offer appropriate levels of stability and assurance to councils to support financial planning.
 - Local authorities should have greater control over the money they raise and strong incentives to deliver services efficiently in a way that promotes local economic growth.
 - Local Government is a democratic system and must ensure sufficient flexibility for local members to use funding in accordance with local priorities and in response to local demand.
 - Funding allocations should reflect the relative 'need to spend' both currently and in the future. Past spending patterns cannot deliver this.
 - Funding allocations should take into account the capacity of authorities to fund local services through local income but this factor should not be used in both the relative need and relative wealth elements of the formula as this results in double counting.
 - The system should be more transparent whilst providing as much discretion as possible to local councils over the use of resources so as to empower the transformation of local services and ensure that councillors are accountable for deciding how funding is used locally.

- Distribution of resources should reflect ‘common sense’ understanding in the differences in need between authorities and should be as simple as is practicable. To support this the link between local circumstances and funding allocations will need to be more visible.
 - The new funding formula should be based on the most up-to-date data that is available.
 - The new funding formula should be an objective assessment that is not influenced by local decision making or ministerial discretion.
- 4.4. The Portfolio Holder is asked to comment on these principles and support their use in drafting the County Council’s response to the Government’s consultation paper.

5. Responding to the Government’s Consultation

- 5.1. The Government will publish a series of technical papers between now and the completion of the Review. These will set out the options the Government is considering on the Review’s approach to the treatment of council tax and other resources, and on transitional arrangements as well as updates on the approach to measuring need and other areas. The Portfolio Holder is request to authorise the Head of Finance in consultation with the Joint Managing Director (Resources) to respond to any further consultation papers in accordance with the principles outlined above.
- 5.2. The deadline for responding to the consultation paper is 12 March 2018. The approval process for responses to consultations is via portfolio holders. But, given the potential impact of these changes on the financing of the Council going forward, it is felt Members more widely need to know what is happening and therefore the leaders from all political groups have been invited to comment on the principles.
- 5.3. This report seeks agreement to the principles to be used as the basis of the Council’s response and recommends the suggested answers in the **Appendix** as the response to the consultation.

6. Background Papers

- 6.1. None.

	Name	Contact Information
Report Author	Andrew Harper	andrewharper@warwickshire.gov.uk Tel: 01926 41 (2666)
Head of Service	John Betts	johnbetts@warwickshire.gov.uk
Strategic Director	David Carter	davidcarter@warwickshire.gov.uk
Portfolio Holder	Cllr Peter Butlin	peterbutlin@warwickshire.gov.uk

The following Elected Members have been consulted on this report prior to its publication: Cllr Seccombe, Cllr Butlin, Cllr Chattaway, Cllr Roodhouse, Cllr Chilvers

Appendix – Response to Consultation

Responses as at 2nd March 2018 – These may be updated following Portfolio Holder approval per Recommendation 3.

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?

Local authorities deliver a wide range of important services used by residents on a daily basis, and provide essential support for the most vulnerable people in our society. The local government funding system must therefore offer appropriate levels of stability and assurance to councils to support financial planning.

Local authorities should have greater control over the money they raise and strong incentives to deliver services efficiently in a way that promotes local economic growth.

Local Government is a democratic system and must ensure sufficient flexibility for local members to use funding in accordance with local priorities and in response to local demand.

Funding allocations should reflect the relative ‘need to spend’, and take into account the capacity of authorities to fund local services through local income. Funding services through local income should not be double counted across the needs and resources assessments.

The system should be more simple and transparent whilst providing as much discretion as possible to local councils over the use of resources so as to empower the transformation of local services and ensure that councillors are accountable for deciding how funding is used locally. Any variations in the funding allocations should be explainable.

Distribution of resources should reflect ‘common sense’ understanding in the differences in need between authorities and should be as simple as is practicable. The formula needs to accept that there are differences between authorities such as geography which need to be addressed at a national level.

The new funding formula should be based on the most up-to-date data that is available and contain only the most important cost drivers.

The new funding formula should take into account the best possible objective analysis, should have limited ministerial judgement and the number of formulas within the model should be reduced.

Also, the new funding formula needs to reflect that higher council tax levels in shire areas is due to inadequacy of historic spend in determining central funding and should not be penalised for setting these higher levels.

We support both the concept of a Foundation Formula, and making the funding allocated by the Foundation Formula as large as possible. There is very little point in proposing the concept of a simpler funding formula, and then minimising its role in the new needs assessment. The Foundation Formula must be a significant element of any new funding formula and it must distribute a material proportion of overall funding if the Fair Funding review is to be credible. Any complexity that is introduced into the new needs assessment in the name of “accuracy” must be well evidenced. We would expect the Government to set a very high bar for any additional complexity and for the default setting to be to favour simplicity.

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?

We agree that the Government will need to consider cost drivers which affect eligibility, as well as those which affect demand for services, and the relationships between the two groups of drivers.

We disagree that the formula should predict future need, rather it should react to changing data over time i.e. it needs to consider the costs of rising and falling populations that projections are trying to use.

Question 3):

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

No, projections need to be updated more regularly as accuracy of 10 year population projections at age group level is difficult.

Our concern is that relying on projections without any ability to respond to significant variances – especially in social care client groups – leaves authorities open to the financial risks of demographic changes and errors in the population projections.

Question 4):

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

Yes. As a predominantly rural authority additional costs that are associated with rurality and sparsity affect Warwickshire. We would be expecting an increase in the quantum distributed through rurality or sparsity in the new Foundation Formula.

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?

Consideration needs to focus on the additional time taken to deliver services (such as waste collection and disposal, homecare, other travel-based services) and the higher unit costs of services in rural areas

The suggestion that higher unit costs should be funded via the Area Cost Adjustment is not one we would support. As these pressures can be determined by factors other than geography.

We would support the MHCLG exploring alternative methods of measuring the needs of rurality and sparsity.

Question 6):

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

Yes, however there needs to be clarity on what is being measured as the consultation appears to confuse deprivation on need to spend and deprivation on ability to pay. It would also make sense to widen-out the definition of deprivation beyond income-deprivation.

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?

The Index of Multiple Deprivation (IMD) appears to confuse need and ability to pay, so effectively funding twice for the same deprivation, this needs clarification. However, if IMD is to be used then using an age specific IMD would be more appropriate.

We would be particularly interested in how the IMD could be used to reflect the particular aspects of deprivation that are prevalent in rural areas.

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?

Age weighted population is a significant factor in where authorities focus their resources. Also, rurality as mention previously but with a greater link to density of settlements

Question 9):

Do you have views on the approach the Government should take to Area Cost Adjustments?

The existing local cost of labour varies irrespective of how services are commissioned. The impact of the National Living Wage will flatten this out.

It is impossible to assess the 'share of total costs for the block of services which is spent on employees' and the 'local level of business rates' in accurate terms due to the variability of the commissioning approach.

Agree that the cost of services should be included. Rurality should be a factor of demand but this confuses different categories.

The Area Cost Adjustments should:

- recognise differences exist
- be neutral to direct provision v commissioning
- incorporate costs and national pay scales
- include factor of alternative sources of employment/competition and strength of local economy

The most important cost-related pressures county councils are from the social care market. Much of the provision of social care is via private providers, and even in-house provision is heavily influenced by the external market. The pressures on the social care market have resulted in higher unit costs for some types of service. These unit costs are unlikely to be reflected in the overall General Labour Market factor of an area cost adjustment, however these do need to be seperately taken into consideration in the relative needs assessment.

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?

Need to decide factors in advance, not services. Every local authority has unique characteristics caused by geography/history, the effects of which will need to be minimised.

Question 10b):

Which services do you think are most significant here?

Services which are affected by coasts and country borders.

Question 11a):

Do you agree the cost drivers set out above are the key cost drivers affecting adult social care services?

Yes we agree with the measures but in relation to the identified key cost driver for adult social care 'number of adults with income and wealth that meet the means test' this cannot be used then also use council tax base as a measure of ability to resource services locally. This has the effect of penalising the same people twice.

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?

The population data used in the funding formula should be capable of reflecting the change in the client groups that are likely to generate spending pressures in social care. For example, there is net migration of older people towards many county authorities because these are popular places for retirement. Population projections do not always manage to pick-up changes in these client groups.

The financial effect of changes in these clients groups is potentially considerable, especially where they lead to higher social care spending. The potential financial cost to an authority of an increase in the number of over-85s is much greater than for an adult of working age. It is imperative that there are alternative ways of dealing with these spikes in costs caused by demographic change

Many younger adults receiving support from the local authority will do so because of health conditions that require social care support. In many cases, these will be conditions that they have had from childhood. The prevalence of these conditions will not be related to deprivation, and any new funding formula should reflect this. Where necessary, actual client data should be used to fund services rather than proxies that do not reflect the actual distribution of costs.

Question 12a):

Do you agree that these are the key cost drivers affecting children's services?

Yes, although most of the drivers will not be correlated with deprivation. Specifically, consideration will need to be given on whether there is a correlation between 'number of children for whom parents receive Disability Living Allowance' and deprivation. In relation to children's services, there are significant continuing education responsibilities and costs for local authorities. These should be included within the funding formulae.

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?

Much of the support provided through Children's Services will be for children who have certain conditions. These children will often require very high-cost placements or support packages. Their distribution throughout the country will be relatively random, and will not be correlated with deprivation. A future formula might have to

take more account of actual numbers of children in receipt of care packages or support.

Question 13a):

Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?

The formula needs to consider that there will be an interaction between the factor for concessionary bus boardings and policy decisions on subsidised public transport. The Concessionary bus boardings should be a statutory minimum scheme not local discretion to fund more.

In relation to highways maintenance, we challenge the additional weighting for “built-up roads” in the current funding formula, this currently provides twice as much funding for similar urban roads compared to those in rural areas.

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?

The proposed indicators for highways maintenance should be limited to road length, traffic flow and snow forecasts/ predicted gritting days.

Concessionary Travel is aligned to actual bus usage and costs. The formula should be updated to reflect the “need-to-travel” on public transport, which is as great in county and rural areas as it is in urban areas.

Question 14a):

Do you have views on what the most suitable cost drivers for local bus support are?

This should be excluded other than in the foundation formula and area cost adjustment. Provision is a matter for local discretion.

Question 14b):

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

A per capita approach but also reflected both the greater distances in county and rural areas but again these should be captured in the foundation formula and area cost adjustment.

Question 15a):

Do you agree that these are the key cost drivers affecting waste collection and disposal services?

Need to make sure that allocation is not linked to local collection decisions, the cost drivers need to be objective. Also, there are additional costs associated with providing this service in rural areas, including the type of vehicles that are required to operate in some very rural areas.

On 'Types of Property' need more information to understand this, using shared bins could make access for collections easier.

We disagree with using deprivation as a factor. If recycling is a public good then the formula should not reward areas that do not do it.

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?

Number of households, types of property, and travel times.

Question 16a):

Do you agree these remain the key drivers affecting the cost of delivering fire and rescue services?

Disagree with properties/population density and societal risk, there is an overlap here which can double count allocations.

It is difficult to explain why risk factors affect demand at a practical service design level. Alternatives that are explainable would be better.

Disagree with Community Fire Safety indicator, a general population or age weighted population factor would be more appropriate.

Disagree with Para. 4.3.2. Need to understand why Fire is not a universal population based service. The argument that the fire function is performed at one tier of local government is a stronger argument but implies there is a "preferred" structure, formula cannot have it both ways.

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?

No.

Question 17a):

Do you agree these are the key cost drivers affecting the cost of legacy capital financing?

Strongly disagree, debt is just a different way of servicing demand. The debt relates to services and is therefore already picked up in other factors.

The Prudential Capital Finance System will be 17 years old when the formula comes in and is therefore an irrelevant reason to still be funding legacy costs.

Strongly disagree that borrowing costs should be financed through the local government finance settlement. Decisions to commission services mean lower debt but this should not be penalised as the cost is covered in higher contract costs.

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?

No.

Question 18a):

Are there other service areas you think require a more specific funding formula?

No.

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?

No.

Question 19):

How do you think the Government should decide on the weights of different funding formulas?

By deciding on the weightings between services only. Warwickshire County Council does not support the use of regression against past expenditure to distribute future funding.

Question 20):

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

Regression models perpetuate current distribution/historic funding levels. The new formula is supposed to be a new 'fair' independent assessment. No individual cost driver that uses current/past spending should be used as it perpetuates existing patterns.

The alternatives to expenditure based regression models should be followed up in depth. Options for modelling of specific services if models can reliably determine different distributions of need.

Additionally, there is an issue of authority sizes averaging need, a solution is to measure for the standard size area then add together e.g. districts measured first then added together for county rather than taking an average across county. This will remove high needs parts of an area being smoothed out by other lower need sections of the area. Therefore, we support the use of more sophisticated statistical techniques, where these can be shown to eliminate the effect of past spending allocations between authorities and, if it can be proven, then we would support Small Area Modelling and Multi-level Modelling , as proposed, for the Children's Service and Adult Social Care formulae.

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.

No.