

Fair Funding Relative Needs and Resources

Policy Context

1. The proposal supports the Council's strategic approach 'Making Gateshead a Place Where Everyone Thrives'. In particular, it supports the pledges to tackle inequality so people have a fair chance, invest in our economy to provide sustainable opportunities for employment, innovation and growth, and work together and fight for a better future for Gateshead.

Background

2. 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.
3. Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing services and there is a recognition that the underlying data needs to be updated.
4. The Government announced a Fair Funding review in February 2016, with the stated aim of ensuring that local authorities receive a fair allocation of resources once the current business rates retention scheme is extended. The Government's original plan was to increase the proportion of rates retained locally to 100% from 2019/20, but this has now been reduced to 75% by 2020/21 following the lack of progress of the Local Government Finance Bill.
5. In July 2016, the Government published a Call for Evidence on Needs and Redistribution. The Council's response was reported to Cabinet on 11 October 2016.
6. This consultation is the latest stage in the review of fair funding. The review will set new baseline funding allocations for local authorities by delivering an up to date assessment of their relative needs and resources, using the best evidence available. This consultation focuses specifically on potential approaches that have been identified to measure the relative needs of local authorities. The consultation document is available to review at:

<https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources>
7. This consultation is specifically concerned with the review of relative needs. The Government plans to follow this consultation with a series of technical papers that will consider other aspects of the review including relative resources and transitioning to the new funding distribution. The Government has recognised that introducing a new needs and resources formula could result in significant changes to the

funding baselines of some local authorities. They have stated their intent to introduce transitional arrangements that are fair, transparent and easily understood but these are unknown at present.

8. The Government's intention is to limit the number of cost drivers included in a foundation formula to those that have a significant impact on the cost of providing services. However, it is expected that the formula will need to include more than one cost driver, which will make it necessary to determine the appropriate weighting to be given to each. The consultation explores different statistical techniques available to weight the cost drivers used in a funding formula in an objective way.
9. However, the Government also acknowledge that there may be particular service areas where a more specific approach is required based on the particular cost drivers for those services. The specific service areas under consultation are:
 - Adult social care,
 - Children's services,
 - Highways maintenance and public transport,
 - Waste collection and disposal,
 - Fire and rescue services [not applicable to Gateshead],
 - Legacy capital funding, and
 - Other service areas which local authorities consider appropriate
10. The deadline for response to the consultation was 12 March 2018. This report is to note the Council's response set out in the attached annex which was submitted by the deadline.

Consultation

11. The Council's views have been represented on the Association of North East Councils (ANEC) working group. The views of SIGOMA have been considered in the Council's response.

Alternative Options

12. There are no alternative options.

Implications of Recommended Option

13. Resources:

- a) **Financial Implications** - The Strategic Director, Corporate Resources confirms that any financial implications are subject to the outcome of the consultation and will be the subject of future reports. The Council is clear that fairness in funding should be given precedence within the new framework and that "fair funding" must be reflective of needs, resources and be transparent.
- b) **Human Resources Implications** – None.

c) Property Implications – None.

14. Risk Management Implications – Whilst the Government has outlined that the move to 75% business rates retention will be fiscally neutral on local government financing, there is a significant risk facing individual authorities in respect of the eventual baseline funding level at day one of the system and the perceived fairness of the needs assessment that underpins it.

15. Equality and Diversity Implications – None.

16. Crime and Disorder Implications - None.

17. Health Implications – None.

18. Sustainability Implications – None.

19. Human Rights Implications - None.

20. Area and Ward Implications – None.

21. Background Information – Self-sufficient Local Government: 100% Business Rates Retention Consultation Document and Business Rates Reform Fair Funding Review: Call for evidence on Needs and Redistribution.

Consultation Response – Fair Funding Review: A Review of Relative Needs and Resources

The Council welcomes the opportunity to respond to the consultation on the Fair Funding review of relative needs and resources. The Government have outlined that the review will not consider the overall quantum of funding available to local authorities which is a matter for the Spending Review, but is about the fairness of distribution. As such the review is a “fairer” review of the method of distributing a quantum of funding which itself is insufficient to deliver the diverse range of Council services and address the disproportionate cuts to the Council’s funding and “unmet” need of the borough. This fundamental issue needs to be addressed if the concept of fiscal devolution is to succeed. From the outset of the new system, only genuine fair funding that meets the needs of the borough and the wider region will enable the concept of fiscal devolution to succeed. A National Audit Office (NAO) report published 8 March 2018 on the ‘financial sustainability of local authorities 2018’ concludes that [the Department MHCLG] must set out at the earliest opportunity a long-term financial plan for the sector [local government] that includes sufficient funding to address specific service pressures and secure the sector’s future financial sustainability. The Fair Funding assessment will be the primary determinant of retained funding and the importance of the review should not, therefore, be underestimated.

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?

Funding formulae and cost drivers that are easier to understand will lead to greater transparency; however, fairness should be the primary objective. The diverse range of local authority services and differing levels of need, in conjunction with appropriate cost drivers, will necessitate an element of complexity to ensure the right level of funding for services is directed to the right authorities. As such, a complex but accurate formula would be preferable to a simple but inaccurate one, but only where the inaccuracy would have a significant financial impact – simplicity must not result in fairness being compromised.

The fair funding formula must take into consideration:

- The main cost drivers of local authority service provision across all tiers
- The ability of service users to pay for the service
- The ability of authorities to raise funds from other sources
- Changes in these factors over time, sustainability and future proofing

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

Yes, the most up-to-date and accurate data sets should be used. However, the impact of population movements on overall funding changes will need to

be assessed and understood; a change in population does not necessarily equate to a significant change in costs as the consultation points out.

In addition, analysis is needed to understand to the accuracy of projections compared to actual data, the ability to reflect unpredictable changes, suitable reset periods and how the formula would reflect inaccuracies of projected verses actual data.

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

Yes, given that the Local Government Financial Settlement is in place up to 2019/20, it is felt that this level of certainty is preferable to the potential instability that would be caused by revising the Settlement for population movements.

However, it may be an interesting exercise to understand how population changes would impact on individual councils – as there could be a valid reason for additional funding in exceptional cases

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

No, it is not felt that rurality is a common cost driver and the proposals to include it as one of the three drivers of cost is hugely over-emphasising its relevance / importance. However, if it can be empirically demonstrated that rurality is a legitimate cost driver common to all councils then the Council agrees that it should be included (appropriately weighted).

It must be stressed that if rurality is to be used as a cost driver then all types of population density should be considered, not just sparsity, as high-density urban areas often have similar issues to rural areas. For example, congestion in cities causes similar operational service delivery issues to those seen on rural road networks.

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?

As noted above, it must be empirically demonstrable that sparsity (or indeed density) has a financial cost directly attributable to it. In practice, this is unlikely to be readily quantifiable, and as such needs a discrete analysis of the financial impacts of population density on council costs before sparsity is either included or discounted. The additional complexity and opacity that this adjustment is likely to bring must be clearly justified in terms of fairness.

As a starting point, a statistical exercise could be carried out to understand the correlations (if any) between population density and specific service costs; benchmarking could be a starting point. “Additionality” will be a key issue to be addressed i.e. what is the baseline cost of providing a “standard” service and where do additional costs arise.

In addition to this, it would also be critical to overlay population density with service requirements, as having a rural or urban population does not

necessarily result in higher or lower costs. For example, a younger, healthy, affluent rural area is likely to have significantly lower costs than an older, less healthy, poorer urban area. Given that there are many demographic indicators that lead to costs and will already be factored in to the Settlement, a mechanism must exist to ensure that there is no “double-counting” of assessed needs that could potentially result in more rural areas being awarded unnecessary additional funds.

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

Yes: in the Council’s view, deprivation is a key driver of costs. However, as noted above this supposition must be supported by evidence and the financial impacts of deprivation on local authority budgets must be understood and fully built in to the Settlement at an individual level (noting again that the issue of double-counting should be carefully considered).

It must also be noted that deprivation will not necessarily impact on all local authority services, so a service-specific approach should be used unless it can be demonstrated that a simpler approach yields the same funding outcomes.

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?

Yes, the Council agrees that the Index of Multiple Deprivation is the most appropriate general indicator to be used as it encompasses a wide range of indicators that directly impact on local authority costs.

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?

The Council acknowledges that this consultation focuses on relative needs however other common cost drivers could be linked to relative resources and ability to raise funds locally.

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

The Council would wish to see empirical evidence that regional or geographical issues correlates with higher costs, or indeed lower costs. In addition, the Council’s view is that the national living wage will have diminished this issue to some degree which needs to be reflected in the formula.

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?

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

This issue is more appropriate to specific grant funding outside of the relative needs formula but will need to be overlaid with clear parameters for areas that are funded in this way, in addition to meeting the overall objectives for fair funding.

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

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 Council is in general agreement with the proposed cost drivers. Whilst the aging population has a significant impact upon the demand for social care, in Gateshead it accounts for less than 50% of the expenditure on adult social care. The demand for adults with autism and complex conditions is increasing and is an under developed market with insufficient community provision and an over reliance on residential care provision. The costs associated with providing services for those with learning disabilities or other complex physical and mental health conditions is generally more expensive due to the need to provide more 1:1 support or higher staff to service user ratios. People in these client groups also tend to require care for longer but also have lower abilities to pay for their care, therefore costing the Council more than care per person provided for older people aged 65+.

However, the measures don't sufficiently take account of healthy life expectancy which is more of a driver for service need than purely age. The inequalities associated with this need to be given greater weighting. One possible data set could be the IMD health domain which contains four indicators relating to years of potential life lost, an illness and disability ratio, acute morbidity and mood and anxiety disorders.

Income and wealth needs to be future proofed in the context of the potential to change thresholds.

The number of people who live alone needs to be taken in the context of the age profile. Perhaps a better measure could be those aged over 60 living alone.

Density could also be a factor in relation to congestion impacting on travel time.

The cost drivers may need to be revisited following the joint inquiry on the long-term funding and provision of adult social care and the Government's forthcoming Green Paper.

Question 12a: Do you agree that these are the key cost drivers affecting 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?

The Council is in general agreement that these are the key cost drivers affecting children's services but also considers the following points need to be considered.

The complexity of cases needs to be considered as this can significantly impact on the cost of placements. For example, in Gateshead, 5.5% of the Looked After Children profile consume 50% of the overall costs.

The formula needs to be suitable flexible to be able to respond to spikes in demand, for example, following high profile national cases. Demand and insufficient market regionally can also impact on higher costs due to the requirement for out of borough placements.

The extension of responsibility for children and young people up to age 25 in the Children and Families Act suggests that some form of recognition of population between the ages of 18 and 25 needs to be made.

In addition to the number of children for whom parents receive disability allowance, the Council considers it important to recognise the levels of parents that receive DLA/PIP in relation to their own disabilities although this is linked to adult social care levels of impairment above

Suitable data sets for the allocation of funding to areas around deprivation could include IDACI, Free School Meals and Children in Poverty indicator, all data sets that are currently collected and held by Government. There should also be consideration to include data sets relating to NEET and Neglect, as although they are interrelated with deprivation, there is not always an equal correlation between them.

The Council welcomes the research to be conducted in connection with the cost of providing children's services. The drivers may need to be revisited following the outcome of this research.

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

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 factors seem to be the most appropriate for these service areas.

However, in the Tyne and Wear region there is a light rail system that competes with bus usage and where a concessionary fare is also offered, reflecting bus boardings only will mean boardings are understated because some concessionary passholders will choose to travel by light rail instead of bus. The revenue forgone in respect of having a concessionary scheme on light rail should be appropriately funded.

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

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

The funding formula should protect local transport authorities that have maintained expenditure on supported bus services. Gross expenditure incurred on the provision of supported bus services will better reflect need rather than either bus boardings or mileage operated because of the high fixed costs associated with the provision of vehicles which is incurred irrespective of boardings or mileage operated.

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

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?

The cost drivers are relevant to the service areas but the Council considers that congestion can also be a factor in cost in relation to travel times. In addition, policy decisions about the frequency of collections need to be considered as this can be distorted by this “unmet” need.

Authorities who have route optimisation software will be able to provide average miles travelled per waste collection vehicle per day.

A measure may be developed such as miles of public highway per property which could indicate the relative density of properties.

Both of the above could be measured against the average time taken per day to service the properties.

This would also cover off the following factors:

- number and type of properties
- distance to the delivery point (this can change if tipping points change when contracts are subject to procurement)
- turnaround times at tipping locations (linked to capacity or third party usage)
- traffic volumes.

Other factors for consideration include recycling performance, statutory recycling targets, bin sizes and the size of fleet, type and age of vehicles, working time, and health and safety considerations.

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

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?

Not applicable

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

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?

Yes, the level of debt outstanding and associated interest rates are the key cost drivers of legacy capital funding. The actual level of debt and interest rates agreed in the initial funding agreement would seem to be the most appropriate data set to use

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

No comment

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?

Weighting according to historical levels of spending may not reflect differences in need as a result of the necessity to make cuts to services due to the reducing availability of funding in addition to the preferences of policy directions. As a result, use of historical spending patterns in the formula may have been artificially suppressed and distorted by “unmet” need.

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.

The Council's new strategic approach Making Gateshead a Place where Everyone Thrives has been developed as a result of the inequalities faced by Gateshead residents every day. In addition, the Director of Public Health's Annual Report 2017 is focused on tackling the health inequalities faced by Gateshead residents.

However, until the proposals become clear and exemplifications are available it is not possible to assess fully the implications for persons who share a protected characteristic.