

### Local Authorities' Relative Needs and Resources

#### Policy Context

1. The proposals in this report are consistent with Council priorities. In particular, it supports the priority to ensure that effective use is made of Council resources to support the framework for making Gateshead a place where everyone thrives by ensuring a sustainable financial position for the long term.

#### Background

2. There have been two previous consultations on relative needs and resources. The Council's response to these consultations was reported to Cabinet on 11 October 2016 and 20 March 2018.
3. This consultation seeks views on the approach to measuring the relative needs and resources of local authorities, with the aim of determining new baseline funding allocations for local authorities in 2020/21.
4. The current funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of their relative needs and resources. The methodology behind this assessment was first introduced over ten years ago and has not been updated since the introduction of the 50% business rates retention system in 2013/14.
5. The consultation is in three parts covering relative needs, relative resources, and transitional arrangements. The deadline for response to this phase of consultation is 21 February 2019. The Council's proposed response is shown in the attached annex. The full consultation is available at:

<https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources>

6. Alongside this consultation, the Government has published a consultation on business rates retention reform, which seeks views on the balance between risk and reward within the reformed system and how disproportionate risk and volatility should be addressed. The links between the two reviews are important as a fair funding assessment will be the primary determinant of retained funding. The Council's response to the consultation on business rates retention reform is attached at appendix 5.

#### Consultation

7. The Council is supportive of the SIGOMA and ANEC responses to this consultation.

#### Alternative Options

8. There are no alternative options.

#### Implications of Recommended Option

## 9. 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 need and be transparent. The Council has serious and major concerns as to the fairness of the current funding arrangements for local government.
- b) **Human Resources Implications** – None.
- c) **Property Implications** – None.

10. **Risk Management Implications** – There is a significant risk facing individual authorities in particular concerning the fair distribution of funding following the outcome of the review of relative needs and resources and the eventual baseline funding level at day one of the system.

11. **Equality and Diversity Implications** – None.

12. **Crime and Disorder Implications** - None.

13. **Health Implications** – None.

14. **Sustainability Implications** – None.

15. **Human Rights Implications** - None.

16. **Area and Ward Implications** – None.

17. **Background Information** – Government publications - Self-sufficient Local Government: 100% Business Rates Retention Consultation Document, Business Rates Reform Fair Funding Review: Call for evidence on Needs and Redistribution and 100% Business Rates Retention – Further consultation on the design of the reformed system, and Business Rates Retention Reform: Sharing risk and reward, managing volatility and setting up the reformed system.

### **A Review of Local Authorities' Relative Needs and Resources**

The Council welcomes the opportunity to respond to the further consultation on local authorities' relative needs and resources.

In designing a funding mechanism that is fair for every part of this country, a sustainable local government can only be achieved by a commitment to an adequate quantum of funding into the formula. This fundamental issue needs to be addressed if the concept of fiscal devolution is to succeed. Unless addressed by the Spending Review, as it stands this review could only at best result in 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 Council funding.

This Council supports the conclusions of the National Audit Office (NAO) report published 8 March 2018 on the 'financial sustainability of local authorities 2018' 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 sector needs additional investment over and above the current funding commitments to allow local government to deliver the vital services that our residents need. It is vital that the Government uses the opportunity of the 2019 Spending Review to deliver truly sustainable funding for the sector alongside a method of fair distribution

***Question 1: Do you have any 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?***

In order to further future proof the needs assessment, there should be a balance between giving local authorities medium term certainty of their funding to be able to plan appropriately, through use of ONS projections, and reflecting the actual reality of need at appropriate regularity.

Deprivation must be included within the Foundation formula as a relevant cost driver, as deprivation is heavily linked to greater service demand and higher cost per unit (also linked to less available income streams to cover cost) of foundation service areas cited, such as public transport, libraries, leisure, homelessness, sports and recreation.

Deprivation is cited in the consultation as "not a significant cost driver for foundation service areas", however in the government's own regression analysis included in the consultation, it is highlighted as the most significant cost driver after population. 4% as a percentage of total non-social care spending nationally is significantly material, and therefore requires to be distributed based on deprivation. There is no detail to describe the exact evidence used to arrive at the decision to not include it, therefore it is requested that government publish a technical note to detail the evidence gathered to justify the proposal to demonstrate the reviews guiding principles of robustness and transparency. It would also be useful to understand the rationale behind the expenditure sample chosen to perform regression analysis, as the choice of 2014-15 to 2015-16 expenditure data will have had the effect of suppressing the impact of deprivation as a cost driver, due to the disproportionately high levels of

cuts to those local authorities with higher levels of deprivation over the period 2010 onwards.

According to the graph on page 43, Metropolitan authorities would have almost 30% of their spend affected by the foundation formula. This is significant given deprivation is excluded.

As a member of both the LGA and SIGOMA, Gateshead Council endorses both of their individual responses to this consultation. In support of the above comments, the SIGOMA response highlights that from analysis they have undertaken relating to the impact of deprivation on members' expenditure on foundation services only, Gateshead's variation of actual 2017/18 spend to the total weighted head spend highlighted in the consultation document is significant and demonstrates that extremes of deprivation can have a significant impact on local authority spend.

Highways Maintenance – needs to incorporate other cost drivers such as forecast snow days and predicted grit days to reflect the cost impact of roads that exist in colder climates to ensure a fairer allocation.

Homelessness – The Government proposes not to have a separate funding formula for homelessness, so proposes to include it in the foundation formula. As there is a highly positive correlation between deprivation and homelessness in different parts of the country, this reinforces the necessity to include some weighting measure within the foundation formula for deprivation.

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

The government proposes that this service area formula be transferred into the foundation formula. In its description of the expenditure based regression around fire services spending, the second most significant cost driver after population was deprivation. If the government seeks to transfer this service into the foundation formula, it must recognise deprivation as a significant cost driver within the foundation formula and reflect that in the weighting of the formula to be used.

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

The Council is in total disagreement with the governments' view that the home to school transport and concessionary transport formula should be included in the upper tier foundation formula, as this would not provide an adequate basis for allocating funds against relative needs. This is because home to school transport should factor in the prevalence of special educational needs in an area, deprivation and rurality. Concessionary transport needs to reflect deprivation, adult social care and rurality.

In relation to local bus support, the consultation forms the view that this area is not important enough to warrant its own formula, so proposes to include it in the foundation formula. It is Gateshead Council's view that local bus support needs its own formula to recognise the important role that buses play in economic growth and environmental protection, something which the government highlight itself as being important.

A separate formula for concessionary travel and local bus support is also supported by the LGA Needs & Redistribution Technical Working Group, which concluded that "concessionary travel should remain a bespoke formula". This consultation

highlights that the recommendations of the working group have been largely ignored by government but further analysis continues.

Link to technical working group paper:

(<https://www.local.gov.uk/sites/default/files/documents/Concessionary%20Transport%20cost%20and%20funding%20by%20NECA%20%28NR%20TWG%2018-17%29.pdf>)

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

The Council does not agree with the proposal to include “Accessibility” as a cost adjustment, as the consultation document does not identify the basis of evidence to support this proposal.

***Question 5: Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and 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 Council agrees that there is a need to take account of non-discretionary council tax discounts in the calculation of relative resources. To not do so would be a disincentive to councils to offer localised non-discretionary discounts to assist residents. This information can be gathered by the Government from each Local Authority’s Calculation of Council Tax Base (CTB) form, which is required to be submitted to MHCLG on an annual basis.

***Question 6: Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?***

The information relating to discounts, including the levels of relief given for empty properties, is contained within the CTB form submitted by LA’s to MHCLG.

***Question 7: Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?***

It is the Council’s view that the Government should take account of income foregone due to local council tax support for working age people in the relative resources calculation, as to not take account of it would have the effect of unfairly reducing the final funding position of an authority. If it is not to be taken account of, an adjustment must be made to taper the calculation for deprivation levels per authority.

***Question 8: 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 Council agrees that the government should take a notional approach to council tax levels in the resources adjustment, and that the higher the notional council tax level used, the better, in order to support greater equalisation of funding relative to assessed need.

**Question 9: What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?**

The actual council tax collection rate should be used in the calculation of relative resources, as this will ensure that the calculation of available resources most accurately reflects the reality. For example, where two authorities are identical aside from their collection rates, the one with the higher collection rate would have more relative resources and would need (and receive) relatively less baseline funding through the formula.

**Question 10: 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?**

The government should use actual council tax tier splits, as this is much more transparent in the calculation of individual local authority relative resources calculations than using an England average.

**Question 11: 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 Council's view is that for the purposes of ensuring fair funding, the preferred approach would be to include full projections for council tax resource at the outset of the period, as this reflects the actual plans for individual local area, also reflecting individual local circumstances relating to housing growth, demographics and the local environment.

**Question 12: Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?**

The Council agrees that surplus sales, fees and charges should be taken into account when assessing local authorities' relative resources adjustment. This ability to generate additional income over the cost of providing certain services allows them resources to cover the costs of other demands upon the council, thus reducing the level of baseline funding required through the formula, allowing resources to be directed to those authorities with less ability to generate surplus sales, fees and charges. The ability to pay and levels of deprivation also need consideration.

**Question 13: 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?**

The revenue outturn reports that local authorities are required to complete annually clearly identify the net expenditure position for on and off-street parking each year.

**Question 14: Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?**

The Council agrees with the transition principles of stability, transparency, time-limited and flexibility, however it must be highlighted that in terms of time limited, the fixed period of time must not extend greater than the period of the next spending review.

**Question 15: Do you have views on how the baseline should be constructed for the purposes of transition?**

No

**Question 16: 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.**

The key area of impact upon equalities that will result from the proposals outlined in the consultation is upon those people living in deprivation, who are more likely to require services like homelessness support, libraries and public transport every day. The proposal in relation to not including deprivation as a weighting factor in the foundation formula goes against all the established evidence that confirms deprivation is a key driver for requiring greater levels of public services. People who do not own property are at greater risk of becoming homeless. People who cannot afford a car are more reliant on public transport, and people who cannot afford a computer are more likely to rely on libraries to look for work and function in this digital age.

The Council's strategic approach Making Gateshead a Place where Everyone Thrives has been developed as a result of the inequalities faced by Gateshead residents every day. Whilst the Council will fulfil its responsibilities regarding duties set out in the Equality Act, there remains a risk that protected groups may not be sufficiently protected due to the disproportionate cuts imposed on areas with high levels of deprivation. 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.