



Joint Strategic Committee
6 March 2018
Agenda Item 7
Key Decision: No
Ward(s) Affected: All

ADUR & WORTHING COUNCILS

FAIRER FUNDING REVIEW

REPORT BY THE DIRECTOR FOR DIGITAL AND RESOURCES

EXECUTIVE SUMMARY

1.0 PURPOSE

- 1.1 Funding allocations to Local Government as outlined in the local government finance settlement are based on an assessment of individual council's relative needs and resources. The current allocations are based on formulas which were introduced over 10 years ago and which have not been updated since the introduction of the 50% business rate retention system in 2013/14. Consequently the allocations are now significantly out of date.
- 1.2 In the intervening time, changes to demographic pressures has impacted on the cost of delivery of services, particularly those services aimed at older persons. The Government announced a review last year to address concerns about the fairness of the local government funding allocations in recognition of the fact that the allocation of funding not longer reflected current demography and cost pressures,
- 1.3 The funding allocations not only influence the amount of Revenue Support Grant that the Councils receive, but also the amount of business rate income that can be retained via the Business Rate Retention Scheme (BRSS).
- 1.4 The report outlines the proposed response of the technical consultation on the fairer funding review (FFR). The consultation focuses specifically on potential approaches that have been identified to measure the relative needs of local authorities. The consultation was released on the 19th December 2017 as part of provisional settlement and closes 12th March 2018.

2.0 RECOMMENDATIONS

- 2.1 The Joint Strategic Committee is recommended to approve the draft consultation response detailed in Appendix 1 and delegate any final amendments to the Chief Financial Officer in consultation with the Executive Members for Resources.

3.0 CONTEXT

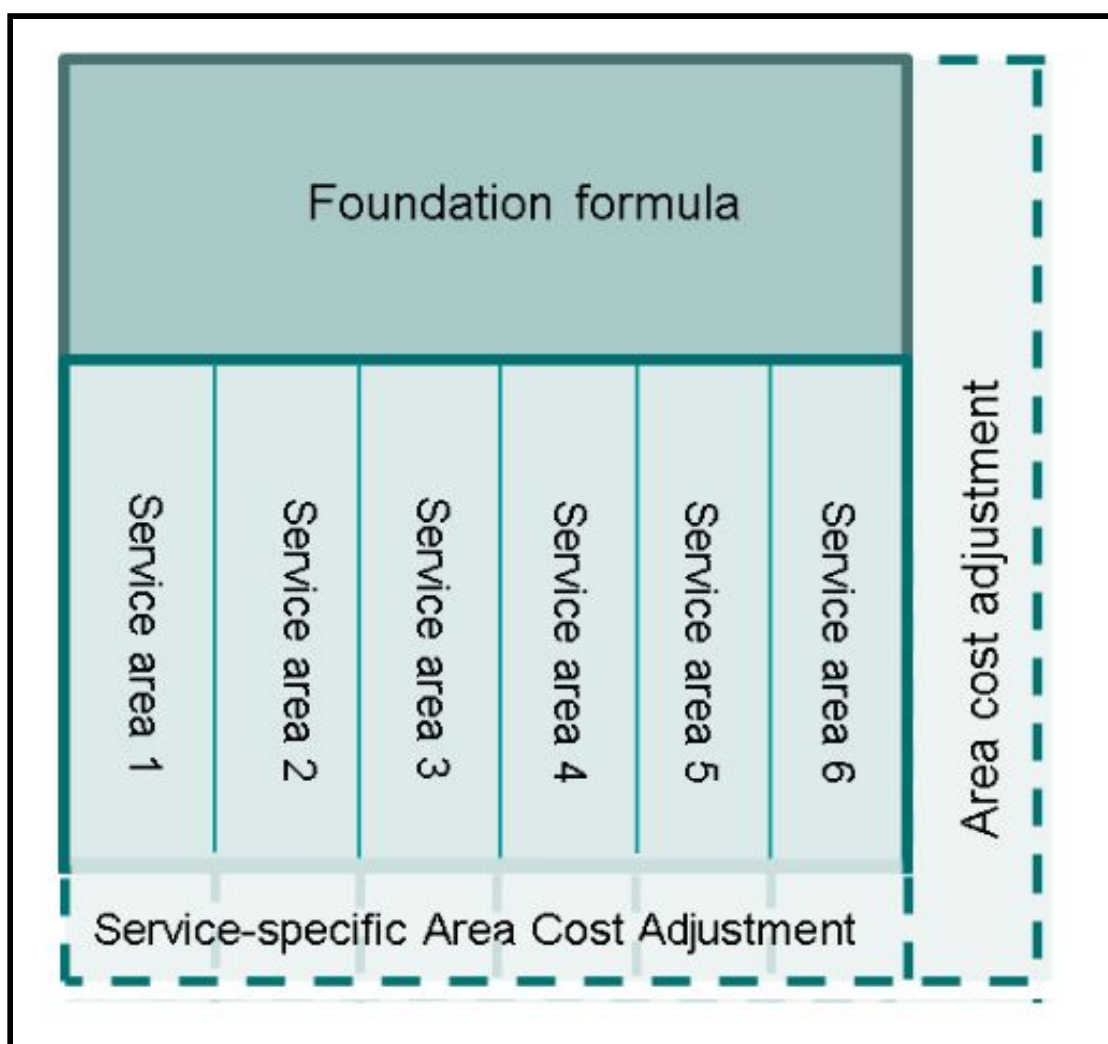
- 3.1 Local Government delivers a wide range of important services used by residents every day and provides support to the most vulnerable people in society. The Government is clear in its aim that the reformed funding system for local government must offer appropriate levels of stability and assurance to the sector to support financial planning whilst giving greater control over the money raised locally. Any proposed new system should provide strong incentives to deliver services efficiently and in a way that promotes local economic growth. The paper outlines 6 core principles for the new funding system:

- Simplicity
- Transparency
- Contemporary
- Sustainability
- Robustness
- Stability

- 3.2 The current consultation document deals mostly with the overall structure of the funding formulae, and with the possible indicators that might be used to allocate funding. It is proposed that there will be a Foundation Formula to provide a simplified funding methodology, and for there to be separate funding formulae for specific services where it is necessary to reflect a more complex set of variables. Examples of services where a separate funding formula may be required include:

- Adult Social Care
- Children's Services
- Highways maintenance and public transport
- Waste collection and disposal
- Fire and rescue services

3.0 CONTEXT



Source: Briefing note from CIPFA

The consultation in effect rules out a separate funding formula for each type of service, as this would require many tens if not hundreds of separate funding formulae and undermines the fundamental principle of simplicity. However comment is invited on whether any further services should be subject to separate funding arrangements.

- 3.3 Three blocks of indicators are proposed for the Foundation Formula. They are population, deprivation and rurality. This simplified approach will benefit authorities with lower needs. Those Councils with higher needs will broadly gain from complex formula which reflect the differing demands on service provision. More complex formulae tend to have a larger number of different indicators to measure different types of need, or to measure need in different ways.
- 3.4 Unfortunately the formulae for the major needs blocks are not very far advanced at this time, and there is no clear indication of how they will be developed, or even the broad direction of travel.

3.0 CONTEXT

- 3.5 The current consultation is limited to dealing with methods for assessing “needs”. The way that the Fair Funding Review (FFR) deals with the overall funding allocated to each element of the system, adjusts for resources raised locally (council tax) and any implements any transition arrangements will be at least as important and the funding formula for many authorities. These will be the subject of future consultation papers.
- 3.6 The Government is now clearly working towards an implementation for the 2020-21 financial year. The mechanics of developing the new funding formulae make this the earliest practical deadline for implementation.
- 3.7 Another consultation paper on the FFR is expected in late 2018 or early 2019. The Councils should be concerned that they will not start to see the potential outcomes of the FFR until shortly before we set our 2020-21 budgets. Consequently, 2020/21 will present distinct challenges in developing the budget.
- 3.8 It is unclear whether the New Homes Bonus Scheme will be phased out as part of the Fairer Funding Review or whether this will continue to be dealt with separately.

4.0 ISSUES FOR CONSIDERATION

- 4.1 Outlined at Appendix 1 is the Councils’ proposed response to the consultation. Members are asked to consider the responses and approve if appropriate.

5.0 ENGAGEMENT AND COMMUNICATION

- 5.1 A joint response is being prepared on behalf of the County-area although at the time of drafting this report, the joint response has not yet been compiled. The approach to be taken in developing the combined response is to advocate areas which maximise the gain across the whole County area. Where appropriate, the outcome of this exercise will be reflected within the final individual responses from Adur and Worthing Councils.
- 5.2 In addition, a number of joint responses are currently being prepared by representative bodies such as the Society of District Treasurers.

6.0 FINANCIAL IMPLICATIONS

- 6.1 The Fairer Funding Review affects not only how much Revenue Support Grant that a Council receives, but also the amount of business rates that Council can keep via the Business Rate Retention Scheme.

6.0 FINANCIAL IMPLICATIONS

- 6.2 The amount of funding that the Councils will eventually receive (or keep via the BRRS) will depend not only on the formula but on the amount of funding allocated to each element of the funding arrangements. Once Adult's and Children's Services are given specific formulae, well over 50% of funding is likely to be in a specific service blocks, leaving the minority of funding to go through the Foundation Formula. It is possible that district councils might find that most or even all their funding comes via the Foundation Formula. The only current possible exceptions for District Councils are elements of funding for waste collection and legacy capital financing payments.
- 6.3 The outcome of the fairer funding review will change the level of business rates that the Council will retain from 2020/21 onwards, although at this time it is not possible to quantify the final impact of the review. Current expectations are that the Councils will see significant reductions in the overall amounts of funding as a result of the proposed changes with Adur losing potentially £491,000 and Worthing losing £844,000.

7.0 LEGAL IMPLICATIONS

- 7.1 The proposed changes to the allocation of government funding have no legal implications for the Council.

Background Papers

Fairer funding review: A review of relative needs and resources - DCLG technical consultation document.

Fairer Funding Review - Consultation paper (December 2017) - CIPFA and Pixel Financial Management

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SUSTAINABILITY AND RISK ASSESSMENT

1. ECONOMIC

Matter considered and no issues identified

2. SOCIAL

2.1 Social Value

Matter considered and no issues identified

2.2 Equality Issues

Matter considered and no issues identified

2.3 Community Safety Issues (Section 17)

Matter considered and no issues identified

2.4 Human Rights Issues

Matter considered and no issues identified

3.0 ENVIRONMENTAL

Matter considered and no issues identified

4. GOVERNANCE

Matter considered and no issues identified

CONSULTATION QUESTIONS:

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?

Proposed response:

The Council is broadly supportive of the move towards a simpler system. However, the viability of the proposal depends on the amount of funding that will be allocated via the service specific blocks and the foundation formula...

The Councils would like an objective assessment of the amount of funding that should be allocated via each element of the new funding arrangements

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?

Note:

Population growth varies considerably between the regions. Population growth in England as a whole was 0.9%, however this ranged from 0.2% in the North East of England to 1.6% in London.

The dilemma for the Councils is whether to support the mid-year estimates which are generally two years out of date when they are used in the funding formula or whether to support the use of projections which are less accurate but which will reflect the growth trends. Both datasets are produced by the ONS.

However, given the growth in populations, and the regional variations in growth, the use of projections is preferable but with the caveat that these are regularly refreshed so that any flawed projections are not baked into the system for a number of years. Whilst annual funding allocations would change as a result, the annual variation is unlikely to be significant.

Proposed response:

The Council is supportive of the use of population projections provided that these are regularly updated.

CONSULTATION QUESTIONS:

Question 3):

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

Proposed response:

The Council believes that it would be preferable to update the key data sets annually to reflect the most up-to-date information about local need.

Question 4):

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

Note:

Lobbying by rural authorities has been very successful in recent years as a consequence this now features in the proposed new formula. However, there has been some research undertaken by rural Councils that supports the contention that rural councils experience higher costs. The inclusion of this factor will benefit many of the Councils within West Sussex, but not necessarily Adur or Worthing as we are not rural Councils.

Proposed response:

The Councils agree to rurality being included as a common cost driver.

However, the Council would observe that within rural areas it can be easier to deliver housing growth and consequently to benefit from both New Homes Bonus and additional Council Tax revenue streams.

The interrelationship between the different funding streams will need to be considered in the overall design of the funding system including New Homes Bonus.

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?

Proposed Response:

The Councils have no view on the most appropriate measures for rurality.

CONSULTATION QUESTIONS:

Question 6):

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

Proposed response:

The Councils agree with the inclusion of deprivation in a future funding formula. The Councils are interested to see how deprivation will be addressed within the new formula.

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?

Proposed response:

The Councils support DCLG’s proposal to look more widely for non-income related deprivation indicators and would support the use of the Index of Multiple Deprivation.

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?

Note:

The old formula allowed for some other cost pressures to be adjusted for:

- Density - Density is a very significant top-up and is very important indeed for inner-city authorities, particularly those in London and in the major conurbations. There is very little research on the costs associated with density (in contrast to the research on sparsity).
- Additional population top-up (net in-commuters and day visitors). The purpose of this top-up is to compensate for the additional costs incurred by authorities receiving large numbers of in-commuters and/ or visitors. This tended to benefit the City areas.
- Fixed Cost Amount. It is of particular benefit to smaller authorities and to district councils. There is a strong argument that this should continue as there is a core cost to running a Council irrespective of size.

CONSULTATION QUESTIONS:

Proposed response:

The Government should consider continuing with the Fixed Cost Amount which reflects that there is a fixed element of cost associated with running a Council irrespective of size.

Question 9):

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

Note:

The current Area Cost Adjustment (ACA) compensates authorities with higher labour costs and higher business rates.

The DLCCG is considering whether the ACA should be widened to include other running costs, and whether rurality/ sparsity should be included (on the grounds that sparsity can lead to higher unit costs).

Proposed response:

The Council thinks that the Area Cost Adjustment should be widened to allow for the impact of higher labour and business rate costs on the cost of supplies and services purchased locally by the Council.

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?

Proposed response:

The Council considers that Coastal Defence should be separately funded. Coastal Defences not only benefit the coastal area that funds them but can have regional significance.

Question 10b):

Which services do you think are most significant here?

Proposed response:

Coastal defence

CONSULTATION QUESTIONS:

Question 11a):

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

Proposed response:

The Council has no opinion on this question as it does not deliver 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?

Proposed response:

The Council has no opinion on this question as it does not deliver adult social care services.

Question 12a):

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

Proposed response:

The Council has no opinion on this question as it does not deliver 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?

Proposed response:

The Council has no opinion on this question as it does not deliver children's services.

CONSULTATION QUESTIONS:

Question 13a):

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

Proposed response:

The Council has no opinion on this question as it does not deliver 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?

Proposed response:

The Council has no opinion on this question as it does not deliver routine highways maintenance and concessionary travel services.

Question 14a):

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

Proposed response:

The Council has no opinion on this question as it is not responsible for support to local bus services.

Question 14b):

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

Proposed response:

The Council has no opinion on this question as it is not responsible for support to local bus services.

CONSULTATION QUESTIONS:

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

Proposed response:

Waste Collection – The indicators listed in the consultation (Number of households, types of property, travel times, and deprivation) all appear relevant cost drivers for waste collection. Alternatively road length could be used in the place of travel time.

The Council has no opinion on the cost drivers to be used for disposal as it is not responsible for Disposal which is a County responsibility.

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 Council considers that the most important cost drivers affecting waste collection services are the number of households and the travel time (or potentially road length as a proxy for travel time as this would be easier to collect)

Question 16a):

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

Proposed response:

The Council has no opinion on this question as it is not responsible for 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?

Proposed response:

The Council has no opinion on this question as it is not responsible for fire and rescue services.

CONSULTATION QUESTIONS:

Question 17a):

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

Note:

Until April 2004, the Government used to provide support to the capital programme through the issue of 'credit approvals' which were a permission to borrow. The government would then support the cost of this borrowing through the Revenue Support Grant. The Government continued to offer some support for revenue impact of borrowing through the Revenue Support Grant system until 2011. After this time, support was provided exclusively in the form of capital grants.

The Government is proposing to continue to support these legacy payments via the finance system using outstanding debt and assumed rates of interest as cost drivers in the new formulas.

The Councils did not really benefit from this adjustment as we received little in the way of capital financing support in the previous system.

Proposed Response:

The Council agrees that the use of debt charges and interest rates are reasonable cost drivers in the new system.

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?

Proposed Response:

The Council believes that both factors are relevant in determining support for capital legacy payments. Although this support should be phased out gradually as the 'debt' is repaid.

CONSULTATION QUESTIONS:

Question 18a):

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

Proposed response:

The Councils believe that consideration should be given to Housing Services being allocated specific funding. The drivers behind homelessness are complex and the pressures are not seen equally across the Country

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?

Potential cost drivers for assessing the impact of homelessness include:

- Population
- Deprivation
- The cost of market rents compared to the Local Housing Allowance.
- The number of residents in receipt of housing benefit

Question 19):

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

Note:

Principle and good practice strongly suggest that funding blocks should be set with reference to the actual local expenditure on the relevant services. To allow too much ministerial judgement would reduce the credibility of the new formulae, and would make it more difficult for authorities to predict how funding formulae would be updated after 2020-21.

Proposed response:

The Government should use actual expenditure on the relevant funding blocks to determine the weights of the different funding formulas

CONSULTATION QUESTIONS:

Question 20):

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

Proposed response:

The Council is supportive of the use of a range of statistical methods in developing appropriate formula. However in the absence of any detail regarding the output from these methods, it is difficult to comment on which statistical technique would be most appropriate.

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.

Proposed response:

The Council has no comment on the potential impact of the options outlined as it is impossible to predict the impact of the changes on the level of funding available.