

District Councils' Network response to the Fair funding review: a review of relative needs and resources

About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of 200 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the Local Government Association.

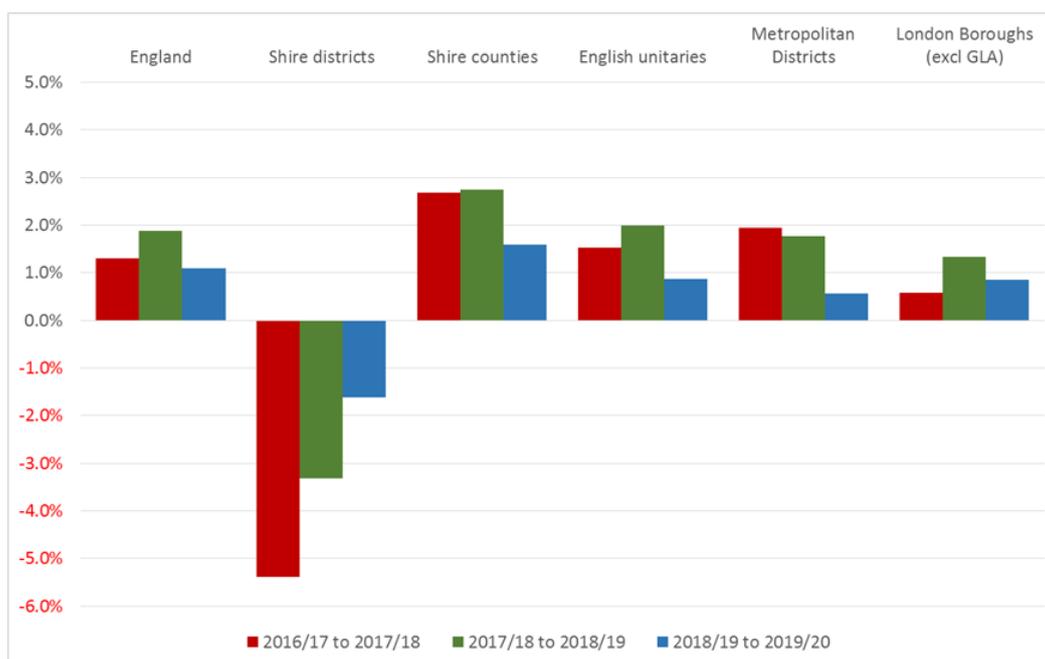
District councils in England deliver 86 out of 137 essential local government services to over 22 million people - 40% of the population - and cover 68% of the country by area.

District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow.

Summary

In relation to the spending review period as the NAO have recently confirmed 'district councils will see a 13.9% real-terms reduction during this period. The majority of district councils... will stop receiving the revenue support grant by 2019-20¹'. Districts are continuing to see reductions in their core spending power for the whole period, compared to other councils who are all seeing an increase. Overall since 2010/11 the median reduction for district councils has been just over 30%.

The year-on-year changes in core spending power in the Local Government Finance Settlement have hit district councils far harder than others, with disproportionate reductions in core spending power for shire districts of over 5% from 2016-17 to 2017-18 and over 3% from 2017-18 to 2018-19, as shown in the graph below.



¹ <https://www.nao.org.uk/wp-content/uploads/2018/03/Financial-sustainability-of-local-authorities-2018.pdf>

District services are close enough to families, streets and places to solve problems to reduce the caseload on the wider State. Solving problems means that resources elsewhere in the Council and Health systems can be better focused on those with greater needs. So, this review must recognise this crucial role that districts undertake and rebalance the unfairness in the current distribution of resources to bring all types of local authority to a fair starting point.

In addition to the overall funding reductions, specific areas face specific challenges, for example; rural authorities have higher sparsity costs, coastal communities have unique challenges and those that are urban or in national parks cannot benefit from New Homes Bonus to the same extent as others due to the lack of available land for development. Any formula based approach needs to be sensitive enough to accommodate these individual issues. Whilst simplification is an objective in a new formula, it should not come at the price of being so simplistic, that local factors are overlooked

Whilst recognising that need is greater in some areas than others, the formula should also include powerful incentives to grow the economy and avoid perverse incentives.

We recognise that this consultation focuses on the relative needs assessment, but we look forward to the Government's discussion papers on treatment of resources, such as council tax, fees and charges, and any further technical papers as necessary which are just as important in determining local authority funding baselines.

Based on the 2018-19 Settlement data, 146 out of the 201 District Councils (72%) will be facing a negative RSG position by 2019-20. When local authorities accepted the 4 year settlement offer they did so against the background of 100% Business Rates retention being introduced within this 4 year settlement period and before changes to New Homes Bonus: today's situation is very different.

It is important that the Fair Funding Review continues at pace. The current Spending Review period and four-year settlement offer both expire from April 2020. The Government also intends to implement greater business rates retention, improvements to the retention system and the results of the Fair Funding Review at the same time. The financial uncertainty facing local authorities makes financial planning meaningless without some guidance from Government on what could be expected. We continue to call for the Government to provide exemplifications of the impact of the Review, and details of the transition mechanism – in particular in the 2020-2022 period – as soon as possible. In particular it would be helpful if the Government could provide more detailed feedback on business pilots both in relation to those bids that were unsuccessful as well as successful.

Ultimately, the Fair Funding Review will only be successful and lead to a sustainable **outcome if it is introduced alongside additional resources to close the funding gap which all local authorities are facing**. The councils that we represent – both rural and urban – all face real spending pressures and therefore we support the LGA in calling for substantial additional funding for the sector to ensure that the potential changes can work and that residents and local businesses can continue to receive the services they deserve.

The DCN welcomes the opportunity to respond to this consultation paper and would make the following headline points.

- It is important that any new scheme is understandable rather than over simplified – simplicity cannot be an end point in itself
- The new scheme must be introduced alongside additional resources to close the funding gap which local authorities are facing
- The new scheme must create incentives for growth and support those authorities embracing and delivering innovation whilst providing a safety net for those authorities where growth is more difficult.
- Housing must be better reflected in any new funding formula. We would therefore propose that General Fund services for Housing and Homelessness should have a specific formula to reflect the demand for these services.
- The service-specific formulae currently omits public health – this must be included within the fair funding review and crucially must also recognise District Councils' roles in prevention to reduce the demand on adult social care.

- It must also recognise that Districts with their own housing and supported housing can take great pressure off adult care services and the NHS and there should be recognition of this in the formula. Equally the new system must incentivise those councils who are able to provide bespoke solutions to complex problems and who reduce demand on the NHS and adult social care
- The New Homes Bonus should be protected in its current form and should be funded outside the fair funding review as it is the most responsive metric to changes in population growth. Put simply, the delivery of much needed additional homes will need additional services to support those living in new homes.
- It is important that disincentives are prevented within the system to avoid perverse incentives which reward inefficiency
- The new system needs to account for authorities who have committed to long term investments based on the current system of funding
- There needs to be sufficient detail to reflect the granularity of what District Councils deliver including specific costs facing rural, coastal and urban communities

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?

The DCN is supportive of the proposals to simplify the relative needs assessment and focus on the most important cost drivers to determine needs. We feel that it is more important for the new scheme to be understandable rather than overly simplistic. The new scheme must also create incentives for growth and support all those authorities who are embracing and delivering innovation. It is important that the new system must prevent disincentives and avoid perverse incentives which reward inefficiency

The New Homes Bonus (NHB) scheme should be protected in its current form and should not form part of the fair funding review. It should therefore be funded outside the resources distributed by the fair funding formula. The NHB is a transparent, easily understood, reward driven and is a proven scheme which provides a steady funding stream to local authorities and recognises District Councils’ role as the planning and housing authorities as well as providing funding to County Councils.

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

Yes, we agree that official population projections should be used, as population is a key driver of need in all authority services. However projections must be timely and be able to take into the account the rapid positive growth in population numbers in many district areas. The DCN would also propose that these projections would need to take account of transient population such as students, commuters and those on holiday, as large numbers of transient population can have a major impact on an authority’s service demand and reduces tax raising ability. It should also be noted that the more diffuse nature of rural populations can be difficult to measure and quantify in more rural areas in relation to service delivery. Equally there are also additional costs in providing services in densely-populated wholly urban areas, resulting for example from urban deprivation and higher concentrations of businesses and infrastructure to support and maintain.

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

In order to provide authorities with some stability for their medium term plans, we agree that population projections should not be updated until the relative needs assessment is refreshed. However we also believe there is a risk where extreme large one-off changes in population could result in pressures to authorities’ service demand and the funding would not match. We would therefore propose that a ‘variance’ mechanism is included which would allow for funding to be adjusted for authorities if actual population varies from projections by more than a set percentage.

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

Yes, we agree that rurality should be included in the relative needs assessment as a common cost driver. Government has recently increased funding in 2018-19 to reflect the needs of rural authorities through the Rural Services Delivery Grant. Where services involve a significant degree of travel time there is a general tendency for more rural authorities to have greater costs associated with travel and greater staff travel downtime. The LG Futures research identified services such as parking, waste collection recycling and disposal, homelessness and regulatory services (such as licensing). Government should also carry out its own studies to determine the effects. The impact of peripherality particularly in relation to coastal communities and areas with poor infrastructure access must also be considered as well as communities who are home to a higher proportion of people who have English as a second language.

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?

One of the major driver for increased costs in rural areas is the distance between homes in a rural area, which impacts on services involving travel, such as waste collection, social care worker travel times. We would propose that consideration is given to measuring the level of dispersal of households (number of homes per hectare) as well as measuring sparsity of population.

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

Yes, we agree that deprivation should be included in the relative needs assessment as a common cost driver but this should not create any unintended perverse incentives. Measurement of deprivation must also reflect the costs of pockets of extreme deprivation that might exist in an otherwise relatively wealthy area – both in rural and urban areas.

Rural deprivation, which is diffuse and can be hard to measure, must not be overlooked. A mechanism to recognise diffuse needs in all areas is required to avoid over-simplification.

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 IMD process can provide data to be used in the assessment. However the three-year pause between releases, and the 'ranking' nature of the end result of the calculations, means that the indices themselves should only be seen as a 'backstop' if no other reliable means to measure deprivation emerge.

Mechanisms need to be incorporated that take into account future demand, for example by integrating future housebuilding trajectories. Historic census information will be out of date by the time of the implementation of this review and will not respond adequately to changing population patterns which drive demand at a time when we must deliver a huge increase in. This a problem that particularly affects a large number of fast growing district councils that surround city population centres with tightly drawn boundaries.

There should be an evidence-based process in determining the weighting of this, and any other, cost driver. In particular the diffuse nature of deprivation must be properly measured.

Many of the complex issues that districts councils commonly tackle are complex and multi-disciplinary requiring a range of bespoke interventions to solve a specific issues for individuals and families. For example helping with debt advice and housing can solve people from becoming homeless. It will be vital that in seeking simplicity there should not be an 'over-compartmentalisation' of data recording that fails to recognise innovation in multidisciplinary interventions that reduces the overall aggregate demand for services in the medium term.

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?

We believe that the proposed common cost drivers are the right ones, as they are the cost drivers which drive the majority of authorities' demand and do not suggest any further cost drivers for consideration. To start including further cost drivers which only cover smaller demand areas would begin to complicate the new system before it has started. It is also important that disincentives are prevented within the system to avoid perverse incentives which reward inefficiency

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

The formula should not 'reward' authorities with higher staff numbers and more office space by counting such data within the formula, as this would create a perverse incentive not to become more efficient or digitalise services or to contract services in/out of house. An area cost adjustment in respect of differentials in wage costs should be applied only as part of the overall formula for a service.

We do however agree that costs differ throughout the country and would suggest alternative measures are used if this is to be included in the formula. This would also make allowance for areas of high commute where employees may live in one area, which increases the cost to the Council in that area, but commute to a higher paying area.

We also agree that rurality should be included within the Area Cost Adjustment to reflect the higher costs of delivery in rural areas, if it is not addressed through being a common cost driver (question 4 above).

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?

District councils provide a huge variety of services at a very local level and the granularity of our provision must be reflected in the new funding formula. Specific areas face specific challenges, for example; rural authorities have higher sparsity costs, coastal communities have unique challenges and those that are urban or in national parks cannot benefit from New Homes Bonus to the same extent as others due to the lack of available land for development. Any formula based approach needs to be sensitive enough to accommodate these individual issues.

Using the example of funding for flood defences and also expanding this for coastal management, we believe it would be more appropriate to provide this funding directly to the affected authorities. Trying to incorporate it into a fair funding scheme will create additional complication to a system which is aiming to be simple and understandable.

We would also like to take the opportunity to again suggest that Internal Drainage Board (IDB) levies are subject to a separate precept on the Council Tax bill rather than being included in an authorities base budget. This would provide more local transparency and flexibility for an important area of funding.

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

Flood defences and coastal management are likely to be significant.

In addition, costs facing those districts hosting ports post Brexit could be significant and require direct funding.

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

Not entirely: There must be consideration of the interactions between cost drivers.

Any cost drivers should recognise the important role which District Councils play in prevention which reduces demand on the NHS and county councils services, thereby reducing costs in the longer term for local government as a whole and the NHS. District Councils also provide services such as leisure and recreation, open spaces, homelessness and supporting debt advice (for example through funding for CAB's).

At present district councils are unable to raise council tax to the same extent as those with social care functions. This means that in district/county areas, authorities are unable to raise the district element of the council tax precept which impacts on funding in these areas and must be taken into account in the fair funding review. Analysis by the DCN has found that a 2% precept could raise up to an additional £25m for District Councils which would help keep residents and their families from needing to access acute social care and the NHS by reducing demand for these services. For a Band D property in a district area this would be an estimated 7p per week increase on the average district council tax charge.

The King's Fund report noted that for every £1 spent on prevention, district councils could make up to £70 worth of savings on health spending in the long term, for example:

- By adapting 100,000 homes to meet the needs of older people, districts could save the NHS £69 for every pound spent.
- Investing in sport, leisure and recreation – core district functions – not only delivers health benefits but can generate £11.2 billion a year in savings, £1.7 billion of which is thought to be via savings to health care-associated costs.
- By improving 100,000 homes to protect older people from the cold weather districts could save the NHS £34.19 for every pound spent.
- The average cost to the State of a fractured hip is £28,665. This is 4.7 times the average cost of a major housing adaptation (£6,000) and 100 times the cost of fitting hand and grab rails to prevent falls.

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 DCN would call on the Government to ensure that the prevention services provided by councils which reduce demand on adult social care should be factored into the assessment of overall adult social care services. We believe that rurality could be included here as well.

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

We agree that these are some of the key cost drivers, but we would propose two further drivers that impact on the demand for services.

Firstly, rural isolation, since whilst this alluded to in the distance to schools, there are many other factors outside mainstream education that affects children's ability to thrive, including ability to travel post age 16 to college/apprenticeships.

Secondly, the number of children in families who have both parents out of work is a strong indication of the level of support those children will need.

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?

To measure rural isolation, we would suggest measuring the number of families who live outside of main transport routes and the number of families who live in communities of less than 1,500 people.

We have concerns about the the Index of Multiple Deprivation as set out in Question 6 . This index uses multiple proxy layering which can be a danger in formula creation as multiple outlier data are compounded, which in turn, can exaggerate the effect of ostensibly small impacts.

The DCN would advocate that IMD should only be used when other first-hand data sources are unavailable and we would add the number of children who are Not in Education, Employment or Training (NEET) and the number of working age people who have children who are out of work as cost drivers here.

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

Yes, we agree.

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

We believe that in district/county areas, county councils are better placed to respond to this question, but would note that save that sparsity and DfT network datasets are important cost drivers

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

We consider that the need for bus services increases based on the proportion of the population who do not have access to a car. Costs will also be driven by how far buses have to travel to population centres and therefore sparsity will be a factor.

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

We believe that county councils are better placed to respond to this question.

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

We agree that these are some of the key drivers, though we would modify the number of households to reflect the average number of persons constituting a household and demographics since property numbers alone are not indicative of the mass of waste produced. Smaller, older households tend to produce less waste overall, but older households are likely to make less use of recycling services.

We would add an additional cost drivers:

The DCN would add the density of properties in a given land area, but also reflecting the proportion of properties in urban, suburban and rural areas, as costs would tend to vary by those types of areas.

We would also comment that contamination of the recycling stream is a key driver of the actual cost of recycling, though it would be necessary to get a nationally comparable measure of this if it were to inform this block.

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?

“Waste dataflow” (a national database which should be looked at for data mining) can be interrogated for supportive information such as waste per household.

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

We have no specific comment on this question.

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

We have no specific comment on this question.

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

We would consider that the actual levels of outstanding debt and assumed interest rates would be the key cost drivers.

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?

Where borrowing is from the PWLB, data should exist to show actual outstanding debt and the related interest rate on this debt which could be suitable to measure this cost driver accurately.

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

The list of service-specific formulae currently omits public health. This must be included and must also recognise the vital contribution in prevention and reducing demand on adult social care. District councils are responsible for home adaptations, providing debt advice, social prescribing and environmental health all of which can reduce the burden on adult social care and reduce DTOCs. The new funding formula must create incentivise councils who create bespoke solutions to solving problems which reduce the burdens on other parts of the system including adult social care and the NHS.

We feel that Housing must be better reflected in any new funding formula as good quality housing and social housing has been proven to reduce demand on adult social care and the NHS . We would therefore propose that General Fund services for Housing and Homelessness should have a specific formula to reflect the demand for these services. In particular the rising costs of tackling homelessness must be reflected in the new formula.

We would also re-iterate that the new scheme must create incentives for growth and support those authorities embracing and delivering innovation. It is also important that disincentives are prevented within the system to avoid perverse incentives which reward inefficiency.

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?

Cost drivers could be based on measures likely to drive the local balance of housing demand and supply and therefore require local authority intervention in housing markets at a local level, for example, measures of housing affordability such as income against rental levels and house prices. The ONS publishes annual statistics that bring together data on house prices and annual earnings to calculate affordability ratios for local authority areas (Housing affordability in England and Wales Statistical bulletins).

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

We agree that it would be better to remove the level of judgement involved in weighting, as this will promote a more stable and sustainable system. We therefore believe it makes sense to weight different services based on actual national expenditure along with an assessment of future pressures on services. In particular, weightings should not be fixed from one year to the next otherwise there is little incentive for those with the greatest need to innovate and reduce demand.

However, when the relative needs formulae are refreshed, the level of actual pressure experienced should be assessed against what was originally forecast and the weighting adjusted prospectively where the actual differs significantly from forecast. This would help to address the issue of partly basing funding on future pressures that actually turn out to be greater than forecast

Though we recognise that this is an assessment of relative need, we would argue that the total needs of local authorities and their residents do need to be considered first before assessing relative

needs. It would be very helpful to have an assessment of the total need of authorities to spend to deliver fully all their statutory obligations and their roles in place-shaping and promoting economic growth. It may be that the total income of local authorities may have to increase over time to match the total need. Without this assessment, debates over relative need of particular types of authority, e.g. those with social care responsibilities, may simply be hiding an unquantified shortfall in how the total need for particular services is being funded.

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

We consider that simple expenditure based regression based indicators are not a reliable or appropriate indicator of need if they are used in isolation. We are aware that the department (through its ongoing working groups) are looking at other techniques to make data sets more relevant and forward looking which we welcome and will continue to feed into.

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.

It is not possible to comment on the potential impact of the options at this stage.

Should you require any further information about this response please contact the DCN at dcn@local.gov.uk or 0207 664 3049.