



## **RESPONSE TO THE CONSULTATION ON THE REVIEW OF LOCAL AUTHORITIES' RELATIVE NEEDS AND RESOURCES**

**February 2019**

### **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.

In relation to the current 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 2019-20". 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%. This will need to be addressed in the next spending review period. District Councils have had to bear a disproportionate share of the reductions in local government funding and therefore it is crucial that the future funding formula reverses this trend and increases the spending power of District areas, for the benefit of our residents and businesses.

At a time when, due to the demands on the social care system in particular, many County Councils are struggling financially, it is crucial that the system is not further destabilised by more reductions in funding to District Councils that would undermine their ability to do work on prevention that saves money for both social care and the NHS. Now is actually the time to give Districts more financial flexibilities that will help them to deliver on their prevention role.

## **Key points:**

- The DCN wants to see the inclusion of a higher fixed costs element in the lower tier Foundation Formula that takes proper account of the fixed costs of doing business for both District Councils and all other Councils.
- There should be an additional 3% prevention precept for all District Councils, reflecting the fact that we have a clear and active role in prevention that saves money for the rest of the public sector, but that it is difficult to incorporate Districts' prevention work into a funding formula.
- Deprivation should remain as a factor in the foundation formula, with development of a clear evidence base for the weighting for this cost driver.
- The DCN supports the transition principles and advocates a transition period of 4 years with particular emphasis on the first year of transition due to the expected late announcement of allocations for 2020/21.
- The transition should be based on actual funding levels. We therefore propose that the baseline should include income from business rates and from New Homes Bonus. The baseline should not include any adjustment for Negative Revenue Support Grant which should be treated as zero.
- We support the use of a national average council tax collection rate for the resources adjustment. Districts have higher than average collection rates and there would be a perverse incentive in using actual collection rates as this would reduce resources for high performing councils.
- We do not support taking account of car parking income when considering relative resources.

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

### **Foundation Formula**

In relation to the current 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 2019-20". 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%. This will need to be addressed in the next spending review period. District Councils have had to bear a disproportionate share of the reductions in local government funding and therefore it is crucial that the future funding formula reverses this trend and increases the spending power of District areas, for the benefit of our residents and businesses.

We broadly welcome a simpler, clearer more transparent population-based formula and this will be supported by many District Councils. We also support the use of population projections to set a 'forward path' of funding baselines for a number of years as this will give greater certainty to councils when assessing their future funding. Population projections should take account not only of ONS projections, but other information such as Council tax base and NHS GP registrations.

However, some district councils face increased costs relating to deprivation. For example, Districts are facing rising demand for homelessness services and consequent costs, with a 34% increase in demand over the last 6 years according to the NAO. Given the widespread support for consideration of deprivation as part of the Government's previous consultation, and potentially a not insignificant 4% explanatory power, we believe that the starting point should be for deprivation to remain as a factor in the foundation formula, but with the development of a clear evidence base for the weighting for this cost driver.

The funding allocated to deal with rising homelessness is insufficient and the DCN calls for additional central government resources to address the issue of homelessness, outside of the funding formulae.

Some District Councils with significant tourist numbers are concerned about the removal of additional population from the formula. To provide greater support to those councils who face significant additional costs we would urge the government to engage with us to consider the introduction of a levy on tourism or hotel accommodation, as suggested to the APPG inquiry into District Council Finances to provide councils with greater financial flexibilities.

## **Fixed Costs**

We note that fixed costs contribute 1.4% to explaining variation in past expenditure included in the lower tier Foundation Formula. We view this evidence as a significant finding, particularly considering that the fixed costs element of the EPCS formula was limited to £325,000 and therefore would never be expected to explain a large proportion of the variance in expenditure. This is a particular issue for District Councils given that we face unique challenges and often have to serve large geographic areas and still have fixed costs from doing business that are common to all councils. Outturn figures for 2017/18 show that Districts had to spend £1,863,144 on average on their Corporate and Democratic Core, which is lower than the average for all authorities (£2,898,097). Therefore, the existing fixed costs element is already clearly insufficient for all Councils and should not only be included in the Foundation Formula but preferably increased significantly.

Analysis of the current formula shows that 99% of Districts will lose out from the removal of a fixed costs element. Removing fixed costs would therefore be unjustly unfair on District Councils as a group, when we are still rightly expected to provide the same level of support for democratic services and elections as Councils that would not lose out.

We note that many respondents to the previous consultation advocated a fixed costs element in the formula. The MHCLG view that this would “add unnecessary complexity” is not persuasive, since the current fixed costs element is actually one of the simpler parts of the present formula and readily understandable by both the public and councils. MHCLG has not provided any evidence to support its assertion that “fixed costs... are already identified through the wider assessment of needs” and would need to demonstrate how the substantial fixed costs of all local authorities are adequately reflected in the proposed formula.

## **Prevention**

The work of District Councils in prevention, which saves money for social care and the NHS, is not recognised through the formula. For example, Districts’ role as housing authorities is fundamental to the determination of health and wellbeing. We recognise that it would be difficult to include this in a formula and therefore we reiterate our call for an additional 3% prevention precept for all District Councils. A 3% precept would reflect the key role that districts play in prevention and demand reduction for the wider public sector across the country. This is in addition to existing council tax arrangements for district councils. In unitary areas, unitary councils are able to apply the adult social care precept in addition to the general Council Tax precept, but this option is only available to counties in district/county areas, which creates an imbalance in those areas.

If all districts raised an additional 3% prevention precept on their existing council tax charge, this has the potential to raise up to an additional £42m funding per year (based on an approximate £5.42 increase on the district council charge on an average Band D property). In order to access this additional precept, we would expect Districts to work with partners to set out a strategic “Prevention Plan” showing how the additional Council Tax raised will be invested in services that manage demand and reduce costs elsewhere in the public sector, particularly in social care and health.

## **Flooding and Drainage**

We welcome the inclusion of a flood defence and coastal protection formula, since this is a significant issue for a number of our members. The formula should take account of the costs of Internal Drainage Board levies faced by some authorities.

Flooding is a high impact, high cost event when it happens but the financial system that underpins flood prevention and internal drainage is unsatisfactory. The current levy system of funding of Internal Drainage is not transparent for the local taxpayer. The costs of local drainage measures are managed and controlled by the Internal Drainage Boards (IDBs) and under legislation these costs are levied on the local authority. For many years much of the sum levied was reimbursed through the Revenue Support Grant. The significant reductions in Revenue Support Grant in

recent years are perceived to substantially erode the proportion of the cost of drainage levies reimbursed to local authorities. As a consequence, local authorities now find it necessary to raise their council tax or make savings against their own services to meet increases in the drainage levies voted for by the Board Members of IDBs.

The Special Levy is not separately identified within the council tax bill and consequently there is no awareness or visibility to the council taxpayer that a part of their council tax payment contributes towards the vital work of the IDBs locally in terms of drainage, water management and flood defences.

If Internal Drainage Boards (IDBs) levied a separate precept onto Council Tax, this would enable their costs to be funded locally in a more transparent manner and avoid distortions to Council Tax increases for Districts generated by IDB levies over which they have no control.

## **Transition**

We would support a fixed but sufficiently long transition period for those Councils that are worse off under the new formula, which should match the usual length of a Spending Review period, i.e. 4 years. There is a particular need for transitional protection in 2020/21 as Councils will have very little notice of their new allocations and will not have time to make thought through and sustainable adjustments to their budgets. There is a potential “perfect storm” of uncertainty for District Councils given that there could also be changes to business rates and New Homes Bonus in 2020/21, which underlines the need for a proper transition.

## **Transparency**

District councils need to know that all the factors they have suggested that affect their need to spend have been tested as part of the work on the formula. If some of these factors have been excluded there should be an explanation as to why that is the case. In particular, this consultation must be accompanied by a much more detailed technical note about the exact evidence used to arrive at each view on the relative needs assessment. This evidence should include the cost drivers tested, the expenditure data used (including reference years, whether total spending or spending per head was measured, and whether it was deflated for area cost differences), and regression/correlation analysis results.

Where new burdens are introduced as part of funding reforms, Districts need to be formally involved in agreeing what these burdens are and what level of funding is needed to support them.

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

No comments.

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

The inclusion of Concessionary Travel in the non district element of the formula would not recognise those areas where this service is provided by Districts. Moreover, it would not address unmet need in some areas. The population-based approach in the Foundation Formula is a better way of identifying the likely need for this service. There should be an attempt to capture the population need for this service, such as a weighting factor for a high proportion of school age children or the elderly.

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

We support the proposed approach to the Area Cost Adjustment which gives greater granularity through being applied at a district level and takes account of costs arriving through longer journey times in both urban and rural areas as well as recognising the additional cost pressures of those districts with high rateable values and labour costs

**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?**

We agree. Councils should not bear the costs of national Government policy decisions. We propose the use of council taxbase statistics returns to enable the calculation to be made.

**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 starting point must be that no discretionary discounts or premiums (with the exception of local council tax support for working age claimants) should be adjusted for, with councils bearing the full cost or receiving the full income from the use of these powers.

**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?**

We agree. The DCN view is that the Government should use a formula-based approach to estimate the likely demand for local council tax support schemes for working-age households, which takes account of deprivation. As a result, the potential demand rather than actual policy decisions would be adjusted for, with individual councils covering the costs or retaining the savings from any deviation. This is in line with the principle that financial costs and benefits of local decisions

should be retained in full by councils. We propose the use of council taxbase statistics returns to enable the calculation to be made.

**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?**

We would refer to individual local authorities' responses to this question.

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

We strongly support the use of a national average collection rate which is fair to all Councils. There would be a clear perverse incentive in using actual collection rates as this would reduce resources for high performing councils. Districts are, on average, the most efficient authorities at collecting Council Tax. In 2017/18, the average collection rate for shire districts was 97.9%, compared to 96.3% for all other billing authorities. Therefore, their efficiency in collecting Council Tax should not be penalised through a perverse incentive.

**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?**

We would refer to individual local authorities' responses to this question, but would comment that the allocation between tiers should take account of the adult social care precept as this is real income for County Councils in district/county areas.

**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?**

We would refer to individual local authorities' responses to this question.

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

Yes, we agree. Taking wider income into account would act as a disincentive for Councils to expand their income at a time of reduced funding, which is a perverse result. It would be contrary to the government's approach of encouraging councils to generate more income through being more commercial.

**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?**

We do not support taking surplus parking income into account. There is again a risk of creating a disincentive for Councils to expand their income at a time of reduced funding. Moreover, we do not believe there is sufficient data available to assess

councils' capacity to generate such income and to assess to what extent such income is a result of policy decisions, making reliable and objective assessments difficult.

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

We agree with these principles. We would support a fixed but sufficiently long transition period for those Councils that are worse off under the new formula, which should match the usual length of a Spending Review period, i.e. 4 years. We are proposing that reforms to the business rates system are delayed by one year, until 2021/22, which would assist Councils with transition by avoiding the "Big Bang" approach currently being applied, which could lead to a "perfect storm" of changes for Councils.

We would add that there is a particular need for transitional protection in 2020/21 as Councils will have very little notice of their new allocations and will not have time to make thought through and sustainable adjustments to their budgets. The later the timing of the Spending Review, the greater will be the need for substantial transition in the first year.

We consider that the level of funding changes means that there is now an even stronger case for the removal of the current referendum limits for all councils, so that they can manage more of the financial impact themselves.

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

The transition should be based on actual ongoing funding levels. We therefore propose that the baseline must include income from business rates, with growth up to and including 2019/20, and from New Homes Bonus in 2019/20. The baseline should not include any adjustment for Negative Revenue Support Grant which should be treated as zero, since government has accepted that negative RSG was unfair and it has had to be eliminated, so it does not come within actual funding levels. Equally those councils that are in receipt of revenue support grant should have this fully factored into their baseline.

**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.**

No comments.