

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

20 March 2018

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 FAIR FUNDING REVIEW

Alongside the 2018/19 Provisional Local Government Finance Settlement, the then Department for Communities and Local Government published a technical consultation paper entitled '*Fair funding review: a review of relative needs and resources*'. This report provides an overview of the paper, comments and observations and our response.

1.1 Introduction

1.1.1 In October 2015, the Government announced that, by the end of the Parliament, local government will keep 100% of the income raised through business rates, and will take on new responsibilities to be funded from this additional income as central government grants are phased out. This has since been overtaken by events with the snap General Election in June 2017 delaying the move to 100% Business Rates Retention (BRR). The aim now is to move to 75% (currently 50%) BRR in 2020/21 followed by 100% at a future date.

1.1.2 Alongside the move to 75% BRR is to be a Fair Funding Review. Its aim to provide councils with their fair share of funding according to local needs under the new system.

1.2 Fair Funding Review

1.2.1 The Fair Funding Review will set new baseline funding allocations for local authorities by delivering an up to date assessment of their relative needs and resources, using the best evidence available. Detailed below are the terms of reference and set of principles identified for the Fair Funding Review.

Terms of reference

- Set new baseline funding allocations.
- Deliver an up to date assessment of the relative needs of local authorities (and use the redistribution of business rates to fund it).

- Examine the relative resources of local authorities (look again at how council tax income should be taken into account when redistributing business rates and also consider other potential sources of income).
- Focus initially on the services funded through the local government finance settlement.
- Be developed through close collaboration with local government.

Principles to guide the review

- Simplicity – be based on the most important factors that drive the need to spend.
- Transparency – should be understood by those affected.
- Contemporary – based on the most up to date data that is available and data, as far as practicable, that can be regularly updated.
- Sustainability – to be based on current and future cost drivers.
- Robustness – the formula should use the best possible objective analysis.
- Stability – should be predictable, in order to support longer term planning.

1.3 Fair funding review: a review of relative needs and resources

1.3.1 In December 2017, the then Department for Communities and Local Government published a technical consultation on relative need entitled '*Fair funding review: a review of relative needs and resources*' setting out the Government's current thinking on updating the current needs assessment formulae. Future papers concerning transitional arrangements (damping) and how the system will take into account the resources that can be raised locally are to follow.

1.3.2 The consultation paper can be found at the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669440/Fair_funding_review_consultation.pdf

1.3.3 The return date for responses to the consultation was 12 March 2018. A copy of the responses agreed with the Leader and Cabinet Member for Finance, Innovation and Property under delegated authority can be found at **[Annex 1]**.

1.4 Overview and Comments / Observations / Response

1.4.1 This consultation is at a high level and focuses specifically on potential approaches that have been identified to measure the relative needs of local authorities (the relative need aspect of the funding formulae). It does not include

any exemplifications showing potential funding allocations and, therefore, difficult to make an informed response in isolation.

- 1.4.2 The paper is split into four main subject areas: Measuring Need; Common Cost Drivers; Service Specific Cost Drivers; and Weighting Funding Formulas and Cost Drivers, each of which is discussed in turn below.

Measuring Need

- 1.4.3 This chapter outlines the previous approaches that have been used to measure the relative needs of local authorities and considers the structure of a new relative needs assessment formula. It highlights the complexity of the current system concluding that this has made the overall funding formula less transparent and harder to understand.

- 1.4.4 As a result the Government believes that only the most important cost drivers should be used, with the aim of developing a simpler, more transparent system. The paper highlights the need for those used to be the right ones and proposes criteria to help assess their suitability.

- Relevant – it should have a significant impact on the cost of providing services.
- Objective – the cost driver should be measurable using robust, up to date data that is collected on a consistent basis across England. Local authorities should not be able to directly affect the indicator.
- Distinct – the cost driver should explain significant variation in the ‘need to spend’ that is not covered by another cost driver.
- Stable – the cost driver should not exhibit unpredictable or large changes year on year.
- Future proof – the cost driver should be expected to drive the ongoing costs of providing services.

- 1.4.5 The three broad approaches that can be taken for the new relative needs assessment outlined in the paper are:

- 1) Individual funding formulas for each duty – local government funding would depend on a large number of overlapping formulas that use the same data to drive allocations. Could make it difficult to understand the principal factors that drive the need to spend and would lead to a much complicated system than currently exists.
- 2) Grouping services into blocks – would see similar services use a single formula and, therefore, reduce the number of formulae. Could simplify the current funding formulas while enabling the necessary accuracy to be

retained for specific areas. It could also lead to the exclusion of some specific cost drivers of need for smaller or more specialised services.

- 3) A simple 'foundation' funding formula – a simple formula based on basic demographic characteristics (common cost drivers) would be used to determine relative need. Would make the system much simpler, but would lead to particular cost drivers for some large specific service areas being excluded, leading to a less fair distribution.

1.4.6 In considering the structure of the new relative needs assessment the Government is committed to implementing an approach that is as simple and transparent as possible, but recognises this should not be at the expense of accuracy and fairness. It proposes the new system begins with a transparent foundation formula to allocate all (or at least a proportion) of the available funding to each type of local authority using common cost drivers, but acknowledging certain service areas may require a more specific approach, service specific cost drivers.

Comments / Observations / Response

- 1.4.7 The proposal that the new system begins with a transparent foundation formula to allocate all (or at least a proportion) of the available funding to each type of local authority using common cost drivers, but acknowledging certain service areas may require a more specific approach, service specific cost drivers at face value seems reasonable.
- 1.4.8 However, we would ask does the system not need to first recognise and fund particular arrangements that only exist in some local authorities such as internal drainage boards' special levies and consideration given to also including local council tax support funding. This to be stage one, stage two; the foundation formula plus the service areas which may require a more specific approach.
- 1.4.9 Furthermore, the integrity of the system will be better served if wherever possible an easily updated and readily understood evidenced-backed approach is used.
- 1.4.10 On face value subject to paragraph 1.4.8, a foundation formula plus one or two service specific areas for district council services could be the way forward. Clearly, further data and modelling is required to better understand these choices and how the various strands might come together to make an informed response.

Common Cost Drivers

- 1.4.11 This chapter outlines the cost drivers proposed as the starting point for a simple foundation formula. The chapter identifies three cost drivers that the Government believes affect the costs of delivering a wide range of services and, in turn, responsible for most of the variation in local authorities need to spend (Population, Rurality and Deprivation) and considers whether adjustments need to be made for

varying costs faced across different parts of the country (the Area Cost Adjustment).

- Population – whilst recognising that population overall is the main cost driver the paper suggests that the age profile is also important and as such necessary to reflect in an assessment of need. It also considers the need to reflect changing population figures.
- Rurality – to what extent rural authorities face additional costs in delivering services compared to urban authorities.
- Deprivation – Government's view is that deprivation remains an important cost driver for a wide range of services. However, it also believes the current income measure is potentially too narrow and is considering using an alternative measure, e.g. the Index of Multiple Deprivation.

Comments / Observations / Response

- 1.4.12 The intention to limit the number of cost drivers included in a simple foundation formula to those that have a significant impact on the cost of providing services fits with the aim of developing a simpler and more transparent system. From the information provided the cost drivers and the number of cost drivers proposed for inclusion in a simple foundation formula seems reasonable. Each of the cost drivers (Population, Rurality and Deprivation) are discussed below.
- 1.4.13 Population – is the main determinant on need to spend and agree the age profile is also important. A consideration is whether population estimates or projections should be used. Annual updating of data would allow the system to respond to relative need changes and could lessen the resulting stepped change from periodic updates. Use of projections over a set funding period, on the other hand, should aid short to medium term financial planning.
- 1.4.14 Rurality – the paper recognises further exploration on how to measure the impact of rurality on local authorities need to spend is needed in order to determine data sources available that measure or proxy the relative cost of providing services in rural areas. Until the outcome of that work is known supplemented by exemplifications showing potential funding allocations it is difficult to make an informed response.
- 1.4.15 Deprivation – the Index of Multiple Deprivation could be appropriate. Further data and modelling is required to make an informed response.
- 1.4.16 It is important to reflect differences in the costs of delivering services (area cost adjustment) in any future funding formula, but does need to be fair (seen to be fair) transparent and readily understood. Experience suggests this is not straightforward where one authority finds itself in one group and a seemingly similar neighbouring authority in a different group. Further data and modelling is required to make an informed response.

Service Specific Cost Drivers

1.4.17 This chapter considers the main service areas which may require a more specific approach. Most of the service specific areas identified are upper tier services (adult social care, children's services, highways maintenance and public transport and bus services) suggesting a foundation formula could be particularly relevant for district council services. The service areas identified relevant to district council services are waste disposal and collection services and legacy capital financing.

Comments / Observations / Response

1.4.18 The service specific areas identified relevant to district council services seem appropriate. The service area legacy capital financing is not applicable to this Council. On the assumption this cost area does not apply to many district councils and if it does is time limited is there an argument for this cost area to be dealt with separately rather than as a service specific area within the relative needs assessment.

Weighting Funding Formulas and Cost Drivers

1.4.19 Whilst the inclusion of a particular cost driver will be important, its weighting will also be a relevant factor. The weighting of the respective cost drivers will be key in determining funding allocations. Chapter 5 seeks views as to how these weightings should be determined.

Comments / Observations / Response

1.4.20 The weighting assigned to different formulas should not be based on the proportion of local government spending assigned to those services. This would penalise district councils who have seen the greatest reduction in spending power as a result of the austerity measures since 2010/11. Basing future weightings on expenditure would perpetuate the uneven impact of these cuts on district councils. When weighting formulas lower-tier services should account for at least the same proportion of overall needs as in the existing formula.

1.4.21 It is difficult in the absence of any exemplifications showing potential funding allocations to make an informed response in isolation.

1.5 Summary

1.5.1 The new system on needs assessment and redistribution should be fair, transparent and capable of being kept up to date and clearly the simpler the system, the easier it should be to explain and understand. The problem is whatever the funding formulae it will be seen to be a fair, satisfactory or unsatisfactory representation of relative need depending on the outcome. The Fair Funding Review will involve some doing better and others worse. Members may not be surprised to hear that previous assessments of relative need have not been particularly positive for this Council.

- 1.5.2 That said, on face value subject to paragraph 1.4.8, a foundation formula plus one or two service specific areas for district council services could be the way forward. Clearly, further data and modelling is required to better understand the impact of the various choices before reaching a conclusion.
- 1.5.3 Of further (probably greater) concern to this Council is New Homes Bonus (NHB). This is a critical component of our overall grant funding and included in core spending power calculations. To put this into context in 2019/20 our Settlement Funding Assessment is projected to be around £1.3m and NHB £3.4m. Papers on future funding are silent on this source of funding which we again ask be made a permanent part of overall funding rather than open to potential change year on year. The current arrangement does not aid financial planning and at worse could put financial sustainability at risk.
- 1.5.4 As the level of funding attributed to any one council post 2020 could decrease markedly, transitional arrangements in the form of damping will be a prerequisite.
- 1.5.5 A view expressed previously and again is to give greater control and flexibility over their finances council tax levels should be a decision for councils and the council tax referendum principles withdrawn.

1.6 Legal Implications

- 1.6.1 The legislative framework for the billing, collection, recovery and administration of national non-domestic rates (business rates) is set out in the Local Government and Finance Act 1988.

The Local Government Finance Act 2012 and regulations that followed introduced the current Business Rates Retention scheme.

1.7 Financial and Value for Money Considerations

- 1.7.1 A key part of the jigsaw is the Council's baseline funding level and how does this compare to that reflected in the Medium Term Financial Strategy taking into account transfer of any new responsibilities?
- 1.7.2 This Council has not fared favourably on previous assessments of need.
- 1.7.3 Of further (probably greater) concern is the ongoing uncertainty about the future of New Homes Bonus which we again ask be made a permanent part of overall funding rather than open to potential change year on year. The current arrangement does not aid financial planning and at worse could put financial sustainability at risk.
- 1.7.4 The level of funding any one authority receives in future could decrease markedly and place financial sustainability at risk where transitional arrangements in the form of damping will be a prerequisite.

1.8 Risk Assessment

- 1.8.1 There is so much uncertainty and volatility that financial planning is becoming increasingly difficult with the increased risk of significant variances compared to projections; and the consequent implications on the level of reserves held to deal with potentially greater income volatility.

Background papers:

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Nil

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