

**Agenda Item No 7(c)**

**DERBYSHIRE COUNTY COUNCIL**

**CABINET**

**26 April 2018**

**Report of the Director of Finance & ICT**

**FAIR FUNDING REVIEW**  
(STRATEGIC LEADERSHIP, CULTURE AND TOURISM)

**1 Purpose of the Report**

To provide Members with details of the Fair Funding Review technical consultation document.

**2 Information and Analysis**

On 19 December 2017, the Government issued the latest consultation document 'Fair Funding Review: a review of relative needs and resources: Technical consultation on relative need'.

Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of a local authority's relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013-14.

Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures, the Government last year announced a review to address concerns about the fairness of current funding distributions. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities should be assessed under a 100% business rates retention system.

On 19 December 2017, the Government published the 'Fair Funding Review – a review of relative needs and resources'.

The system for funding local government has been criticised for its complexity and lack of transparency. The current Four-Block allocation model is based upon relative needs and relative resources from 2013-14, when the current 50% Business Rates Retention Scheme was first introduced.

The local government Fair Funding Review began in February 2016, with the aim of ensuring that local authorities receive a fair allocation of resources once the current Business Rates Retention Scheme is extended. The

Government originally intended to increase the proportion of rates retained locally to 100% from 2019-20, however, the Provisional Local Government Finance Settlement announced that it was working towards 75% rates retention by 2020-21.

The review is aimed to:

- deliver an up-to-date assessment of the relative needs of local authorities;
- examine the relative resources of local authorities;
- use the new assessments of relative needs and relative resources to set new baseline funding allocations for local authorities;
- focus initially on the services currently funded through the annual local government finance settlement;
- be developed through close collaboration with local government.

A set of guiding principles has been identified which will be used to develop the framework of the new relative needs methodology:

- Simplicity – the review recognises that the current needs formulas are complex, poorly understood and may now have less relevance;
- Transparency – to make the link between local circumstances and funding allocations more viable;
- Contemporary – using the most up-to-date data available, which can also be regularly updated at planned intervals;
- Sustainability – the new funding formula must be able to identify cost drivers and demand now and into the future;
- Robustness – the new formula should be based on the best possible objective analysis;
- Stability – the system should support predictable, long-term funding allocations, ideally as part of a multi-year settlement, but the review recognises that transitional arrangements may be needed to ensure no undue year-on-year changes in funding.

The consultation details some of the previous approaches used to measure relative needs. It proposes that there are fewer cost drivers than the number currently used and that all potential cost drivers in the new formula are assessed based on the following criteria:

Relevant – there should be evidence to demonstrate that the cost driver has 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.

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.

The consultation gives three potential common cost drivers that the Government believes affect the costs of delivering a wide range of services. It also considers whether adjustments need to be made for the different costs facing authorities across different parts of the country. The three common cost drivers that the Government believe are responsible for most of the variation in the need to spend are:

Population – recognised as the single most important cost driver, but the review accepts that the cost of different services are driven by different sections of the population and age profiles will need to be reflected in the formula.

Rurality – the sparsity weightings in the current formulas may not fully reflect the challenges faced by rural authorities.

Deprivation – various measures of deprivation are used within the current relative needs formulas and the review reflects the widespread view that deprivation remains an important cost driver for a range of local authority services.

The Government believes that service specific cost drivers would also be required for:

- Adult Social Care
- Children's Services
- Highways Maintenance and Public Transport
- Waste Collection and Disposal
- Fire and Rescue Services
- Legacy Capital Financing

The current relative needs formula includes different elements of needs assessment which are set by ministers.

To move away from this, the review suggests that weightings given to the different formulas are based on the proportion of spending local government as a whole commits to different services, combined with trend analysis to predict how spending is likely to change in future years. However, the total funding available would still be constrained by ministers through the settlement process.

Many of the current weightings are based upon regression analysis of past expenditure. The review recognises the limitations of this approach, in that aggregated historic patterns of expenditure may not accurately reflect the relative needs of different communities.

A second option would be to include historic funding within cost drivers to produce regression models that showed the relationship between cost drivers and spending where all authorities received the same level of funding per head, but the review recognises that this technique may not be analytically robust.

Details of the Council's response is shown as Appendix One. The consultation closed on 12 March 2018. Following approval from the Council Leader, the Council submitted its response on that day.

### **3 Considerations**

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

### **4 Background Papers**

Fair funding review: a review of relative needs and resources. Technical consultation on relative need – Ministry of Housing, Communities and Local Government.

### **5 Key Decision**

No.

### **6 Call-in**

Is it required that call-in be waived in respect of the decisions proposed in the report?

No.

### **7 Officer's Recommendation**

That Cabinet notes the details of the consultation and the Council's response.

PETER HANDFORD

Director of Finance & ICT

## APPENDIX ONE

### **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 Council is concerned about the level of ministerial judgement that would be required under the 'foundation' funding formula. There have been elements of ministerial judgement used in previous distribution methodologies, such as the scaling factor in the Four Block model. Authorities experienced year-on-year changes in their grant allocations as a result of those ministerial judgements.

Given local authorities have had their funding reduced by an estimated 37% in real terms since 2010, it is imperative that local authorities have certainty in the funding mechanism. Local Government is facing a period of significant demand for social care services. The cost of this funding gap is estimated to be £2.6bn by 2020. A key aspect of any new finance system has to be certainty.

The multi-year settlements announced in 2016 were welcome and provided local authorities with the assurance of funding levels over the four year period which in turn lead to local authorities being in a position to develop robust medium term financial plans. It is essential that ministerial judgement is not the overriding determinant within the system, to ensure that local authorities have the confidence to deliver services within a confirmed medium term funding envelope.

We are keen to see a transparent formula, and preferably one that is simple. However, it must reflect the cost pressures faced by the local authorities, therefore there can be no compromise for a system that needs to be robust in its methodology.

### **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?**

The Council agrees that the official population projections should be used to reflect the changing population size. As in the previous funding formulas such as the Four Block Model and SSA, it is important that different age groups are included within any formula to represent the different demographics in an area.

The Council recognises that to reflect actual population changes in the formula may require more frequent updates. The proposal is to use population projections based on a set of associated assumptions. The sector will need assurance that the data used for projections is robust and 'fit-for-purpose'. We are keen to ensure that lessons from the past are noted. For example, previous funding formulae have been heavily reliant on population data used from the National Census, and was therefore updated some two to three years after each Census has been completed. Having population data that is accurate and timely must be a dominant feature of the funding formula.

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

Updating the population projections prior to the relative needs assessment being refreshed is likely to add instability to the system, with 'winners' and 'losers'. At a time when local government finances are being stretched, refreshing the projections

is likely to bring an element of upheaval to some authorities who have sought some certainty from the multi-year settlement. Where significant population changes can be evidenced then some form of top-up funding may be more appropriate rather than wholesale formula changes.

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

The Council agrees that rurality should be included in the relative needs assessment as a common cost driver. Recent LGA research states that in 2017-18, the Settlement Funding Assessment in predominantly rural areas amounted to £215.67 per head compared to £340.01 per head in predominantly urban areas. The gap is estimated to widen further in 2018-19, due to changes made in calculating SFA as part of the four-year funding settlement by the inclusion of Council Tax income in the formula meaning that those authorities, many of them rural, with greater reliance on Council Tax, received steeper cuts in SFA.

Rural authorities have, on average, higher Band D council taxes, which supports our contention that there is a structural funding gap. If rural and urban authorities were funding on an equal footing, then we would expect average council taxes to be similar or the same.

**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?**

Population sparsity has been used in the distribution methodology for a number of years. It has the advantage of being simple to understand. Historically, it has been updated with each Census. This has the disadvantage of not being the most up-to-date information. For example, the 2013-14 calculation was based on the 2001 Census data.

Furthermore, the methodology is unsophisticated.

The Technical Working Group has cited further examples of other indications that may be used including:

- Access to services
- Road Networks
- Peripherality

The Council is not strongly opposed to exploring changes to the methodology, however they require careful consideration and authorities would need to scrutinise the distributional effect of any changes to the methodology to determine the most effective approach.

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

The Council agrees that deprivation should be included in the relative needs assessment.

There have been reports recently such as the recent Joseph Rowntree Foundation commissioned report entitled 'Counting the Cost of UK Poverty' that highlight deprivation and service costs.

**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 appears to be the most effective measure, however the Council is not opposed to other methodologies, provided they are appropriate and 'fit for purpose'.

**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?**

No.

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

The Council is of the opinion that the Area Cost Adjustment should be both service-specific and cross-cutting within any revised methodology. It should also reflect national pay scales and London weighting rather than the wider salaries across both public and private sectors.

**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?**

The Council considers that lower tier authorities are best placed to answer this question.

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

See above.

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

Yes, these are some of the main cost drivers that affect the demand on Adult Social Care services. However, the two biggest drivers that are currently increasing demand are:

- The large increase in the number of young adults with extremely complex needs.
- The additional costs associated with clients moving from long-term health-funded places as part of the Transforming Care Programme (TCP).

**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 difficult figure to project is the impact of the Transforming Care Programme, as this will vary significantly across authorities, dependant on the number of clients currently in health-funded long-term care. However, the relevant Clinical Commissioning Groups must be aware of the number of cases and the current spend on these clients, so their data could be used to estimate the cost impact for Local Authorities.

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

Yes

**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?**

The Council agrees with the Number of Children indicator, which is readily available from the school census. However, Local Authorities have a duty to provide home to school/college transport free of charge to adult learners (aged over 19), if they have learning difficulties and an Education Health and Care Plan, so the cut-off point should not be 18.

The Disability Living Allowance (DLA) indicator would seem reasonable for additional educational needs, as it is used, in part, to derive the High Needs Block (HNB) of the Dedicated Schools Grant (DSG). However, it does depend upon the level of take up of benefits, which may vary across the country. The HNB of the DSG is also driven by "the number of children in bad health", as recorded on the 2011 population census. This factor, which is given an equal weighting to the DLA indicator, is presumably not based on the level of claims but on medical assessments and as such could be considered for Local Authority funding purposes.

In respect of the Deprivation indicator, the National Funding Formula uses a combination of free school meals, Ever 6 free school meals and the Income Deprivation Affecting Children Index (IDACI). The first two are based on school census data, whereas IDACI scores are derived from Office of National Statistics analyses, which are undertaken already by the Ministry of Housing, Communities and Local Government, which publishes the data. Typically, the data sets are updated every three to four years.

Distance to schools should be a factor, as this is relevant for home to school transport costs. However, population sparsity should also be used, as a more disparate population will undoubtedly add costs in terms of how social care services are organised, for example a greater number of smaller units and/or increased travelling time for social workers. Dividing total population by total area would not reflect the distribution of populations. However, population data is already captured which would enable a sparsity factor to be calculated at, say, super output level, the results from which could be aggregated to give an overall Local Authority sparsity score.



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

The Council agrees that the day-to-day cost of maintaining roads is strongly correlated with the length of roads being maintained and traffic volumes, particularly that of heavy goods vehicles and the need to spend more on snow clearance and gritting in areas where a larger number of snow or ice days is predicted. However, the Council considers that these indicators fail to sufficiently appreciate the unique differences between Highway Authorities where:

- a predominance of structural assets other than bridges (i.e. retaining walls) may reflect a steeper topography;
- a more urban or rural situation exists;
- exceptional numbers of structural assets are required to provide connectivity to small hamlets/villages; or
- significant investment has been made to promote and provide for a more sustainable use of cycling/walking infrastructure.

The use of the data set recommendations in response to Question 13b) will provide for the maintenance of the key assets of a wider highway inventory, more attuned to the individual circumstances of the Highway Authority.

Approaching the funding of future maintenance requirements on a more equitable platform provides greater security of networks being safe, available and resilient to the changing demands of the population, economy and adverse weather.

The Council also agrees that concessionary bus boarding is a main cost driver, however it is not the only cost driver. To ensure that the “fully funded scheme” principle underpinning the English National Travel Concession Scheme (ENCTS) is achieved, there also needs to be a transparent link to the reimbursement cost that each boarding incurs. This either needs to be wrapped up as a single reimbursement value (the Association of Transport Co-ordinating Officers has calculated that the average reimbursement for each ENCTS concessionary trip made in England in 2016-17 was £1.15), or the factors that determine this value must also be considered. So factors such as the average adult fare foregone and the level of generated travel must also be taken into account as cost drivers too, as it is these that ultimately determine what reimbursement is made for each bus boarding.

**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?**

- Road Lengths by Maintenance Hierarchy. Whilst this presents consistency problems in the detail, the idea of classification is no longer viable, as the network has substantially changed in its use. The Maintenance Hierarchies used in support of the new Code of Practice “Well managed highway infrastructure” will be supported by actual traffic flows. Whilst it is for the Department of Transport to work out how to classify the information required, how they might identify sections of hierarchy that will be consistent across all authorities is a bigger issue but one that will have to be addressed in time, if the relationship between the Code of Practice, Maintenance Hierarchies and a fair funding approach is to succeed.

- Traffic Flows – certified from the work done to develop the Maintenance Hierarchy.
- Snow/Ice/gritting days, based on a 10 year rolling average so as to accommodate the changing weather patterns.
- Footway lengths, weighted towards the higher end of the footway hierarchy to accommodate the emphasis on people and place and a more sustainable approach to town centres.
- Structures, split between Masonry/Concrete (separate classifications for Pre 1980/Post 1980 to accommodate some of the early construction/design flaws).
- Retaining Walls/Contained/Restrained Rock Face, for those areas where the topography and the need to provide linkage to small hamlets/villages requires exceptional engineering.
- Strategic Cycleway, where the investment in sustainable travel will require long term support.

These recommendations will provide a more equitable platform, providing greater security of networks being available, resilient and safe to the changing demands of the population, economy and adverse weather.

In addition, the concessionary boarding supporting information can be obtained from smart ticketing data (or through operator ticket machine returns where no smart ticketing data is available). This is already supplied by each Travel Concession Authority through the Department for Transport's annual Concessionary Travel Survey. Further data on the value of reimbursement for each boarding made can be obtained through this survey and also through the Association of Transport Co-ordinating Officers' annual Local Authority Passenger Transport Survey.

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

The level of rurality is the key determining cost driver for local bus service revenue support.

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

The Council suggests the Rural-Urban Classification of Local Authorities.

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

These are important cost drivers for waste collection costs. In relation to waste disposal services we would suggest the following additional drivers should also be considered:

- **Housing density** (this could replace travel times) – it is more expensive to provide services (including HWRD and transfer infrastructure) in less densely populated areas. Rural area generally have higher transport costs for waste and recycling as processors. As an example of this,
- **Home ownership** – managed accommodation and furnished properties are likely to produce less household waste as they are operated on business basis and much waste would fall out of the scope of household waste.

- **Deprivation** – whilst the link between recycling rates and street cleansing costs with deprivation is acknowledged, in more prosperous areas, total waste arisings tend to be higher as well as total tonnage of recycling increasing the overall costs of managing waste. In addition, overall waste arisings are affected by the health of the economy as a whole. For example, waste arisings fell in the recession. This supports the link between prosperity and total waste production. Also, cleansing costs covering large geographic areas can be high too but for different reasons to urban areas.
- **Diversity** – it is more challenging and therefore more expensive to provide services in more diverse areas where effective and full participation in services can be problematic particularly with cultural and language barriers.

**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?**

As above, housing density is likely to be a more transparent/easily accessible measure than travel times. Although the index of multiple deprivation is a useful indicator, the relationships are complex and likely to be non-linear.

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

The Council does not have Fire and Rescue responsibilities, therefore it considers that those authorities with responsibility are best placed to answer 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?**

See 16a above.

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

The Council agrees that these are 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?**

See 17a above.

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

No.

**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?**

See above.

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

The Council refers to earlier comments made in this response, in that we are keen to ensure that any elements of ministerial judgement are avoided in developing the revised formula. We would prefer the alternative method that has been suggested which is to base the weightings on the proportion of spending local government as a whole currently commits to different services.

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

Regressions to past expenditure have been previously used.

**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.**

The Council, along with other local authorities in the country has expressed concern over the cost pressures associated with the provision of children's social care. Many local authorities and the Local Government Association have urged Government to provide additional funding for the service.

The Local Government Association has highlighted that 75% of local authorities overspent on their children's services budgets by at least £0.5m each in 2015-16. Collectively, councils surpassed their children's social care budgets by £605m in order to protect children at immediate risk of harm. The estimated outturn for 2017-17 shows an overspend of approximately £17m. The service is facing increased demand including rising numbers of children in care and children in need.

The following illustrates the increased demand for social care provision for children:

- **Children subject to a child protection plan** – in 2010-11, there were 554 children that were subject to a child protection plan. By the end of 2016-17 this had risen to 914.
- **Social care referrals** – whilst the number of referrals to social care has remained fairly stable in recent years, the referral rate per 10,000 population continues to be higher than the rate nationally. In 2016-17, the referral rate in Derbyshire was 565 per 10,000 population compared to 532 per 10,000 population for England.
- **Children in need** – the number has increased in Derbyshire from 271 per 10,000 population in 2010-11 to 336.5 per 10,000 population by 2016-17.
- **Special Guardianship Orders** – the number of children subject to an order has increased year-on-year from 141 in 2012-13 to 370 in 2016-17.
- **Children in care** – whilst the numbers of children in care have decreased up to 2015-16, there has been a 7.7% increase in numbers during the last year. The number of Unaccompanied Asylum Seeking Children in care also remains comparatively low, this has increased from 16 in 2015-16 to 31 this year, and is expected to rise over the medium term to a potential figure of 120.
- **Social worker caseloads** – the average social worker caseloads are high in Derbyshire as a result of the increasing demands outlined above.
- **Children with additional needs** – the number of children in Derbyshire schools with complex educational needs is estimated to have risen by approximately 30%

since 2004. The proportion of pupils with statements or Education Health and Care Plans (3%) has increased since 2010-11 and is higher than the England average of 2.8%. The proportion of pupils with Special Educational Needs (SEN) support has reduced since 2010-11 but at a slower rate than the England average.