

# Consultation Response

## **A review of local authorities' needs and resources**

### **Introduction**

1. The CCN represents 36 English local authorities that serve counties. CCN's membership includes both upper tier and unitary authorities who together have over 2,500 councillors and serve over 26m people (47% of the population) across 86% of England. CCN develops policy, shares best practice and makes representations to government. CCN is a member-led organisation which works on an inclusive and all-party basis.
2. We welcome the opportunity to respond to the Ministry of Housing, Communities and Local Government's latest consultation on the Fair Funding Review (FFR). CCN has consistently argued for reform of the way councils are funded to address long held concerns that the current funding formula, largely introduced in 2003/4, updated and frozen in 2013/14, is based on a fundamentally unfair way of measuring relative need. It is extremely welcome that this Government is seeking to address these imbalances through the FFR.
3. Counties, as is the case for all parts of the sector, have been heavily involved in the evolution of the review of the funding formula through the Steering and Technical Working Groups. We believe all parts of the local government sector have been provided with equal opportunity to input their specific views and evidence. This submission seeks to build on this engagement to date and has been developed in close consultation with member councils and the Society of County Treasurers (SCT). We would also specifically draw the department's attention to the responses of our individual member councils.
4. To support our evidence-base on the fair funding and Spending Reviews CCN has commissioned PriceWaterhouseCoopers to undertake an independent analysis of local government funding and expenditure. The project is nearing completion and in the coming weeks CCN will engage Government and the wider sector with the findings.
5. In taking forward the next stages of the review, CCN remain open and committed to working with all parts of the sector. We recognise that the achievement of consensus is unlikely, but to ensure that the FFR is implemented in a timely and successful manner, this submission recognises that compromises on all parts of the sector will be necessary to achieve the guiding principles of the review.
6. **Before setting out our responses to the individual consultation questions, we provide an overview of our response.**

### **Consultation Response – Overview**

7. In addressing the historic imbalances in local government funding, CCN has worked with SCT, member councils, and wider stakeholders to advocate a simple and transparent 'cost drivers' approach to measuring relative need, alongside greater recognition of the real drivers of cost faced by upper-tier councils.
8. **CCN strongly supports the overall direction of travel outlined in the latest consultation paper.** We acknowledge the extent that ministers and officials have had an

open mind to the evidence and proposals that CCN has put forward in recent years. Based on the proposals outlined in the consultation paper, there are now the building blocks in place to give counties the funding settlement that they need and deserve in 2020-21.

### ***Foundation Formula***

9. **CCN supports the Government's proposal to create a Foundation Formula for the services outlined in the consultation. This will help create a simpler, more transparent formula.** Ultimately, we want to see a flatter distribution of funding than is currently the case as we believe that this will provide a fairer outcome. The consultation sets out proposals to achieve this, supported by accompanying evidence to justify the approach.
10. Considering recent debate within the sector on **deprivation** we recognise that the Government may wish to consider whether deprivation should be included at a small weighting. However, we are clear that this should only be reconsidered if the evidence supports its inclusion and it does not compromise the review's guiding principles of *simplicity, transparency and robustness*.
11. In setting out its proposals on the foundation formula, **we believe the Government has also begun to address our concerns over "unmet need" in rural areas.** This is where services have not been provided in more rural areas due to the historical availability of funding in different areas. The current regression methods of measuring need do not account for these factors, nor reflect differences in the efficiency with which different councils deliver services. This is particularly important in relation to inclusion of bus support and concessionary fares in the foundation formula; proposals we strongly welcome.

### ***Service Specific Formula***

12. **CCN supports the proposed number of service specific formula.** We recognise that the Government has reduced the number of formulae to what is realistically the minimum number. The proposals strike a reasonable balance between providing specific funding allocations where this is justified, and creating a simpler, fairer formula for other services.
13. In relation to **home to school transport (HTST)** a service specific formula would likely result in a higher allocation of resources to counties. However, recognising our overall support for the principles of the review, CCN is prepared to support the inclusion of HTST in the foundation formula alongside concessionary fares. The inclusion of HTST within the foundation formula increases the importance of ensuring the Area Cost Adjustment (ACA) provides appropriate and sufficient weighting for rurality and remoteness, given the clear links between the costs of providing HTST and rurality.
14. **Most fundamentally, we want to see a funding formula that is capable of funding and responding to the growth in adults and children's social care pressures in county authorities and across the wider local government sector.** We fully support the development of service specific formula for adults and children's social care and is pleased to see a shift away from using expenditure-based regressions. Nonetheless, as we outline below, we remain concerned over the lack of detail contained in the consultation on the proposed formula for children's and highlight specific concerns in relation the proposed adult social care formula. We also raise some specific questions regarding the revised public health formula.

### ***Area Cost Adjustment***

15. One of the central reasons for the disparity in funding between counties and other parts of the country is due to the disproportionately high weightings given to density in the current formula and the lack recognition of the costs of providing services in rural areas. Although rurality has been downgraded from a common-cost driver since the previous consultation,

we outline below that **we support the use of travel times in the ACA, alongside a remoteness indicator**. We believe this will better recognise the costs associated with both density and rurality, alongside the impact remoteness can have on local service markets.

### ***Council Tax***

16. Of equal importance to county authorities is the treatment of resources, particularly council tax. The approach should incentivise authorities to grow their council tax base but not result in a penalty for county residents in doing so. The current funding regime places an unfairly large burden on council tax payers in county and rural areas. The consultation paper sets out options for council tax equalisation that are capable of treating council tax payers in county areas fairly. **We strongly support the use of notional council tax and a partial council tax equalisation**. Furthermore, we fully support the concept that council tax should not be redistributed, and that as far as possible it should be spent where it is raised.

### ***Fees & Charges and Parking***

17. CCN agrees that surplus sales, fees and charges should not be taken into account in the relative resource adjustment. **However, in relation to parking, there is a very strong case for taking car parking income into account in the resource adjustment**. The level of car parking income is considerable (£874m) and its distribution is very uneven. There is a good case to be made that the super-profits being made by inner London boroughs has enabled them to set very low Band D council tax.

### ***Transition***

18. Transitional arrangements have to be able to provide financial support and certainty to each and every local authority. Whatever happens to the distribution of resources between authorities there has to be a safety net in place to ensure that no authority is at risk of financial failure. **A shorter period would be preferable - within 3-5 years – but we may consider a longer period if the redistribution of resources is larger**. Any transitional arrangements must, however, demonstrate that they are time-limited, and they should show any damping is unwound over a period of time.

### ***Spending Review & Overall Package***

19. The final shape of the FFR will depend on many factors, and we recognise that ministers will have to take decisions about the overall package of funding to local government as a whole and to each individual local authority. **The introduction of a fair funding formula will not on its own solve the financial pressures faced by local authorities**.
20. CCN strongly support the wider sector in advocating for a Spending Review settlement that delivers an uplift in funding for all local government. Our advocacy, and that of the LGA, has been well documented over the past 12 months. CCN has shown that our members have faced a funding gap of £3.2bn between 2018-20, with £1bn of funding reductions being implemented over the coming financial year.<sup>1</sup> While the additional support provided at the Local Government Settlement will enable some councils to narrow their funding gap, our research has shown that **only one third of County Council Leaders are not confident they will be able to deliver a balanced budget in 2020/21 without additional resources**. The aforementioned PwC study will provide further evidence on the true extent of the funding gap facing counties and other parts of the local government sector.

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<sup>1</sup> Provisional Local Government Finance Settlement 19/20: CCN response <https://www.countycouncilsnetwork.org.uk/download/1940/>

21. In order to ensure that the new fair funding formula can cope with growing cost pressures, the quantum of funding available to local government must not only provide assistance with the transition to the new funding model but must also be sufficiently large enough to fund the well-documented unfunded cost pressures currently being borne by the local government sector.
22. The new funding formula must genuinely reflect the actual costs that are incurred by local authorities and will inevitably lead to “winners” and “losers” from a change in local authorities assessed needs. **While it is essential that additional resources are allocated to local government as part of the Spending Review, the fair funding review should not be reliant on an increase in the quantum.** CCN members will be disappointed if this is used as a pretext not to proceed with the implementation of genuinely new needs-led funding formula.
23. Reforms to business rates retention, reforms to New Homes Bonus and the forthcoming Adult Social Care Green Paper are all important to the overall package.
24. CCN has been consistent in arguing for Government to make available to local government the remaining 25% of central Government’s share of business rates *without new responsibilities*, building on the recent announcement to move to 75%. This would provide resources to meet the funding gap facing local government and also provide resources to help put in place appropriate transitional funding arrangements to ensure a smooth move to the new system.
25. We also believe that alongside business rates retention other ‘incentive’ based funding, such as New Homes Bonus (NHB) must be considered. This should consider the future of this policy as a whole and, in particular, how it operates in two-tier areas. Research carried out by Pixel for CCN estimated that currently there is around £2.5bn in incentive based funding in the system from the BRR and the NHB; which will be higher than Revenue Support Grant by 2019/20. CCN support the inclusion of some incentive-based funding but the right balance must be struck between needs based and incentive based funding. For instance, MHCLG’s evaluation of NHB found that due to the policy shire counties without fire responsibilities were £45m worse off, with counties with fire responsibilities £25m worse off by 2014/15. This is set against a net positive financial benefit for district councils of £250m.<sup>2</sup>
26. CCN acknowledge that there is more work to do on the FFR over the rest of this year – as well as the outcome of both the Spending Review and other reforms mentioned above. We would like to see exemplifications of the potential effect of the proposals in the consultation. We would also like to see some indication of how ministers intend putting together the overall package of funding in 2020-21. The sooner we can see how the overall funding package will work, the sooner we can fully understand whether the proposals meet the funding needs of our members. Late notification would lead to crisis management in the sector with serious issues for the services provided.

**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***

27. CCN strongly supports the approach that to needs assessment that is outlined in the consultation paper. It had become clear that the current funding formula is too complicated and was no longer suitable for the current distribution of needs. The Government proposals rightly move towards a needs assessment that is simpler and more transparent, with fewer

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<sup>2</sup> [Evaluation of New Homes Bonus, Department for Communities and Local Government, December 2014](#)

cost drivers (or indicators) within each formula. CCN supports this approach because it will create a more credible, workable funding system; be more understandable for users; and crucially, better reflect the real spending needs of different types of local authorities to provide a more consistent level of service across the country.

28. We accept that moving towards a simpler funding formula might result in the use of greater ministerial judgement. This is a trade-off that we would accept in return for a simpler formula that meets the needs of county authorities. It is essential though that ministerial judgement is informed by robust evidence and transparent formula must be the key. Whilst we support simplicity, we recognise that the funding of local government services is complex and support the use of service formulae for adults and children's social care.
29. A simpler formula will result in a flatter allocation of needs between authorities. Our view is that the current funding formula is too weighted towards deprivation and has too little weighting for the standard per-capita funding that is of most importance for most local government services. There is evidence that population is overwhelmingly the most important factor in determining the costs that will be incurred by local authorities for most services. County authorities have known this for many years, and the concept has been incorporated into other funding formulae, most notably the schools' funding formula. The Foundation Formula is the most obvious example of services that should be funded on the basis of population: these are services that are population-based, with variations in costs largely caused by travel times or other variations in unit costs.
30. Importantly, we believe the proposals are more capable of recognising "unmet need" in rural areas. This is where services have not been provided in more rural areas due to the historical availability of funding in different areas. The current regression methods of measuring need do not account for these factors and leads to unfair inconsistency in the level of services provided across the country that do not reflect real spending need and differences in the efficiency with which different councils deliver services.

### ***Deprivation***

31. In the fair funding review consultation last year, CCN supported including deprivation as one of the cost-drivers but argued that the weighting was too excessive and lacked evidence. The Government have clearly accepted this argument and specifically highlighted that it will continue to play a major role in the formulas for people-based services.
32. We continue to believe that the evidence presented in the consultation justifies a significant reduction in the role of deprivation from foundation formula. MHCLG's own analysis shows that deprivation only explains a very small proportion of the variation in spending within those services that the Government is proposing to include in the Foundation Formula.
33. For the majority of services in the foundation formula a per capita allocation would be a fairer outcome for services such as libraries, waste, bus support and concessionary fares within this formula on this basis. For adults, children's and public health, while the weightings for deprivation must be evidence-based, it will clearly have a more prominent role.
34. However, rather than ruling out its inclusion entirely, CCN is willing to consider whether a small weighting for deprivation could be considered if the evidence supported this and it does not compromise the review's guiding principles of *simplicity, transparency and robustness*. The evidence presented by the department suggests that, even if deprivation were included in the foundation formula, it would only warrant a very small weighting. We are clear that in arriving at a position, those wishing to see a deprivation weighting higher than 4% would need to provide clear evidence to support the case. We also believe any

statistical analysis underpinning the decision must be based on the use of the latest available data, as recommended by the Institute for Fiscal Studies.<sup>3</sup>

35. Whatever the decision that is taken in the end, current indicators for deprivation tend to have an urban bias. The current methodology rewards authorities where its residents claim benefits rather than those authorities where residents are more likely to stay in work even where pay might be low.
36. If evidence supports of the inclusion of deprivation at a low weighting, it is essential the definition of deprivation is widened beyond income-deprivation. In many county areas, deprivation is associated with low-pay rather than benefits claimants.
37. The recent report by the County All Party Parliamentary Group (APPG) on social mobility emphasised this point. Supported by data analysis by Localis and qualitative evidence from our member councils, it showed that current measures of deprivation do not always capture small pockets of deprivation in counties; whether within small towns and cities, coastal communities or remote rural areas. Moreover, reforms to welfare and housing benefit introduced from 2010 have potentially changed the pattern of needs in London and counties.<sup>4</sup>
38. The following data sources for an indicator could therefore be considered;
  - Index of Multiple Deprivation 2015 (“Income”)
  - Aged 16-74 Never Worked and Long Term Unemployed (from Census)

### ***Service Specific Formula***

39. CCN supports the proposed number of service specific formula. We recognise that the Government has reduced the number of formulae to what is realistically the minimum number. The proposals strike a reasonable balance between providing specific funding allocations where this is justified, and creating a simpler, fairer formula for other services.
40. In each of these cases, achieving the correct distribution will be important. We are pleased that the preferred modelling options move away from expenditure-based regressions. Using small area analysis offers the chance to break any circular links caused by systemic over/under funding and should be welcomed by all.
41. Although we support the development of service specific formula’s for adults and children’s social care, we remain concerned over the lack of detail contained in the consultation on the proposed formula. With these formulas responsible for distributing 65% of county funding, the lack of detail creates real uncertainty that the fair funding review will deliver a genuinely fairer settlement for county authorities.
42. CCN will be focussing on the share of funding that is allocated to counties in the new social care formulas, together with whether the overall quantum available is sufficient for the sector’s funding needs. We will also want to be assured that there is provision for the funding to grow over the spending review period in line with those pressures
43. More detailed analysis and commentary on several of the proposed service specific formulae is provided in **Appendix 1**, but below we provide a brief overview for each;

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<sup>3</sup> **IFS (2018)** The Fair Funding Review: is a fair assessment of councils spending needs feasible? P.34 <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

<sup>4</sup> **County APPG**. Social Mobility in Counties: A Report by the County All Party Parliamentary Group, supported by the County Councils Network and Localis (2018), p. 22-23.

- **Children’s Services:** In principle, CCN supports the proposed approach of multi-level small area activity modelling. However, with the research incomplete, it is difficult to ascertain the distributional impact of the formula. CCN are eager to continue engage the department and LG Futures on the development of the formula.
- **Adult Social Care:** CCN and SCT have concerns the cost drivers outlined in the consultation will not necessarily reflect the true costs of service delivery and meet counties growing demand-led pressures in both older adults and working age adults, including learning disabilities. The Ministry has shared details of the preferred option for the revised Adult Social Care formula which has allowed SCT and the CCN to offer a more considered response. CCN, alongside the SCT, see a shift away from using expenditure-based regressions as we believe that it perpetuates a situation where deprivation measures attract an unfair share of the funding. And, whilst we support the use of small area modelling, we hold reservations about the accuracy of some of the base assumptions underlying this work. This is further explored in Appendix 1.
- **Public Health:** CCN supports the proposal to have a separate funding formula for Public Health, and we look forward to engaging in the development of this service formula. The proposed formula to be used for public health would result in a higher level of public health funding for county areas than is currently the case, however counties will remain the lowest funded type of council for public health. In Appendix 1, we provide further commentary on the proposed formula and outline concerns regarding (i) modelled costs for substance misuse and sexual health services (ii) the weighting for standardised mortality ratio (iii) sparsity adjustment.
- **Highways Maintenance** - CCN welcomes the changes in the highways maintenance formula. Simplifying the formula so that it reflects only road length and traffic flow makes sense. It takes as its starting point that the cost of maintaining a road is the same whether that road is in a rural or urban location. We welcome the removal of the uplift in the current formula whereby roads in urban areas are funded at twice the level of those in rural areas. There is no evidence to support this adjustment. We will also recognise some members concerns over the removal of the uplift for winter services; whilst the expenditure on this service within local government as a whole is not statistically important, for some of our authorities it is very substantial.
- **Legacy capital finance** - CCN supports the principle of funding capital financing on the basis of the borrowing approvals that have been issued to local authorities in previous years. Actual levels of debt do not necessarily reflect the liabilities that the Government had promised to fund.

44. Some services will not have their own service specific formula, although we understand there was some support within local government for additional formulae. We support the Government’s proposals to include funding for these services within the Foundation Formula, as outlined in the below table. We address home to school transport and concessionary fares further on.

**Table 1 – Comments on services funded within Foundation Formula**

<b>Local Bus Support</b>	CCN fully supports the proposal to transfer this service to the Foundation Formula. We support the concept that transport services should be funded on the basis of population based on our above commentary on unmet need and evidence showing that rural bus services have been cut at a disproportionate rate compared to urban areas.
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<b>Homelessness</b>	CCN supports the inclusion of this service in the Foundation Formula. We agree with the consultation's conclusion that while some areas of the country such as London and other urban cities do have higher demands for this service, the Government intends to fund these costs outside of the core local government settlement.
<b>Fixed Costs</b>	CCN agrees with the removal of the fixed cost adjustment from the funding formula. It had limited justification when it was introduced and adds to the complexity of the overall formula. We support the argument that there are other elements within the proposed funding formula that will fund the fixed costs of authorities.

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

45. CCN supports the two options that are proposed in the consultation paper. Ideally a new formula would be created using multi-level modelling but there might not be sufficient time to undertake the research and develop a credible new formula.
46. We were concerned at the time by the paper the National Fire Chiefs Council presented at the working group in May 2018. The had a partial view of the cost drivers of fire services across the country and was over-reliant on deprivation and over-65 population. It failed to recognise the additional costs of providing fire services in county areas, particularly those in more rural or remote parts of the country.
47. Many of our member authorities have large coastlines and benefit from the coastline top-up in the current formula. Authorities such as Cornwall, Northumberland, Cumbria and Norfolk have the longest coastlines in the England. As a result they are less able to rely on neighbouring fire authorities to provide support in an emergency. It is essential that this factor is recognised in any future fire formula.
48. An ACA should be included in the new fire formula to reflect the additional travel time involved in providing a fire service in more rural parts of the country.

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

49. Concessionary fares is one of the most significant and important illustrations of unmet need in shire counties. CCN strongly feel that unmet need should be addressed if the new formula is to be fair. It is acknowledged by Government that the existing formula 'bakes in' current spending patterns and is therefore less capable at reflecting unmet need. This is most obvious in bus travel where significantly lower spending in rural areas is due to low levels of funding rather than low need to spend.
50. CCN welcomes the proposal to including Concessionary Fares in the Foundation Formula alongside local bus support. The Government is recognising that there is unmet need in this type of service in county areas and that access to transport should be a universal service. The current funding for concessionary fares is heavily slanted towards bus-boarding data and hence favours urban areas.
51. Evidence supports the inclusion of concessionary fares in the foundation formula, showing that concessionary fares is now a disproportionately large percentage of overall bus journeys in shire counties.



52. Table 3 shows the latest Government data total bus journeys and concessionary fares. The figures show that whilst the number of concessionary journeys in county areas are around one fourth of the country's entire total, the number of concessionary journeys in counties as a proportion of all journeys is 36% - higher than anywhere else.

**Table 3 – Department for Transport: Annual bus statistics (March 2018)**

Council type	2010/11 Journeys (m)	2017/18 Journeys (m)	2010/11 % of all journeys	2017/18 % of all journeys
CCN	268.4	229.6	36%	36%
Metropolitan	291.7	232.6	29%	27%
Non-CCN UA	172.5	183.9	35%	32%
London	318.0	351.7	14%	16%
England	1050.6	997.8	29%	28%

53. It is clear that Metropolitan areas have a greater percentage of working age people contributing towards their bus service, meaning that bus routes will be easier to sustain and that the burden for Shire counties and Unitaries is disproportionate. Urban authorities typically have more extensive public transport networks than many county areas. If authorities - whether urban or county authorities – want to have higher levels of public transportation then this should be something that is funded by local council tax payers. By funding this service on a population basis it also gives county authorities the opportunity to put more funding into concessionary fares and other public transport, particularly in rural areas where there is a severe under-provision.
54. In relation to home to school transport (HTST) a service specific formula would likely result in a higher allocation of resources to counties. Last year, CCN produced research showing that costs for HTST were 10 times higher in county areas compared to urban cities,<sup>5</sup> and the cost associated with SEN HTST had risen 30% since 2014 in counties.<sup>6</sup>
55. However, recognising our overall support for the principles of the review and the role of the foundation formula in providing funding for universal services, CCN is prepared to support the inclusion of HTST in the foundation formula.
56. In supporting the proposal, it is crucial the Government continues to recognise that whilst HTST is a universal service the statutory duty is far more likely to come into force in a county area. This is due to more students being eligible for the service due to the size and rural nature of counties, and there are less likely to be alternative public transport options available in shire counties.
57. To mitigate these factors, the inclusion of HTST within the foundation formula increases the importance of ensuring the Area Cost Adjustment (ACA) provides an appropriate and sufficient weighting for rurality and remoteness, given the clear links between the costs of providing HTST and rurality. Moreover, the continuing inclusion of both concessionary fares and bus support within the foundation are equally important to ensuring there is a more consistent level of local bus support to potentially reduce overall demand for the service.
58. Looking ahead to the Spending Review there are opportunities to review whether a change to statutory obligations on HTST, such as the introduction of a means-test, could reduce the disproportionate financial burden of this service on county authorities.

<sup>5</sup> CCN analysis, Special Educational Needs Home to School Transport (2018) <https://www.countycouncilsnetwork.org.uk/download/1872/>

<sup>6</sup> CCN analysis, Mainstream (pre-16) Home to School Transport <https://www.countycouncilsnetwork.org.uk/download/1585>

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

59. CCN supports the proposed changes to the Area Cost Adjustment and we support the use of the ACA to fund that additional unit costs associated with sparsity (and density). This is subject to the final decisions on weighting within the ACA.
60. In our response to the consultation on the FFR in March 2018, CCN provided evidence on the additional costs of providing rural services in county areas across several different service areas, from waste collection to adult social care.<sup>7</sup>
61. Since then, together with the Rural Services Network (RSN), CCN has undertaken research into the additional costs associated with sparsity and particularly the additional travel times involved in providing services to more dispersed populations. This research was presented to the technical working group in September 2018, with a full technical report shared with the department.
62. Our new research has focussed on the provision of waste collection services in North Yorkshire. Pixel developed a 'proof of concept' model based on waste collection, which is a universal service. By using authority-level activity data and overlaying this with national statistics on rural/urban classification at output area level, we were able to calculate differentials in time taken to collect refuse from different areas within the same authority.
63. Through our research we have shown that fewer households can be collected from in rural areas. We have compared the time taken in rural rounds compared to urban rounds in the same district. Our research indicated that, in one instance, the waste collection rounds take 17% longer in villages and 59% longer in hamlets and more isolated areas.
64. Our research could be applied to more densely-populated parts of the country and could be used to show the additional travel times that are associated with service provision in urban areas across a wider range of services beyond waste collection. The same approach can therefore be used to measure both density and sparsity. The approach we have developed is therefore fully consistent with the proposals in the consultation paper to have a single measure of density and sparsity based on travel times.
65. Our remaining concern, however, is with the weighting that will be given to the overall ACA and the sparsity element within it in the future funding formula. Our member authorities would want to see the weighing for travel times in rural areas fully compensating those authorities for their additional costs. We would not want to see this approach as being a way of diluting the funding that is currently directed towards the sparsity. Currently there are a number of sparsity indicators throughout the formula, as well as a separate Rural Services Delivery Grant outside the settlement. Some of our members are major beneficiaries of these funding streams and we would expect to see them at least matched in the new funding formula.
66. It should be noted that, whilst we do support these proposals for funding the additional units costs in rural areas, MHCLG has yet to provide compelling evidence that there is no additional incidence of additional costs in rural areas as a result of higher levels of demand. We believe that there is still a case for the inclusion of demand or volume related factors elsewhere in the funding formula to reflect some of the additional costs in rural areas. Home-to-school transport is one example.

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<sup>7</sup> Fairer Funding Consultation: Measuring Relative Need - CCN Response <https://www.countycouncilsnetwork.org.uk/download/1406/>

67. Finally, we are also very supportive of the proposal to include remoteness in the new ACA. This is a factor that is very important to some of our members. We would urge MHCLG to work with these authorities to understand the scale of additional cost associated with remoteness. In places, the indicator proposed might require more fine-tuning.
68. We would want to see that provision is made to reflect the additional fixed costs in rural areas for providing more local hubs in order to reduce travel time between service recipient and hub. To reduce travel times to minimally acceptable levels, local authorities with a large proportion of rural residents are likely to require more delivery points – and therefore higher staffing and overhead costs – per resident.
69. Other factors also increase the cost of delivering services in rural areas. This includes the relative scarcity of transport links. A lack of digital access in rural areas may also prevent CCN authorities from benefiting from mobile or internet service provision, which could reduce overheads, reduce geographical barriers and potentially increase uptake for services where privacy is a consideration.
70. Pixel Financial Management, on behalf of the RSN, have previously shared research with the Technical Working Group which looked at the differential number of fire stations and appliances which are required in rural and urban areas to provide adequate coverage to meet response times. This showed that more hubs are required in a dispersed area to reduce travel times.
71. This analysis of fire stations is an example of how service-delivery hubs are distributed in sparsely populated areas and the methodology can be applied to other services, such as;
- Residential care homes – these are statutory services and we would expect a sparsely populated area to have a greater number of homes per head of population. This will lead to greater fixed costs for services and lower economies of scale.
  - Libraries – authorities have more discretion over the extent of service provision and are likely to have located libraries in hubs. Travel times for users from rural areas will be much greater than for their urban counterparts. Whilst cost might be lower for authorities with large rural areas, it shows that there is greater unmet need in rural areas. Greater travel times can be used to indicate where there might be greater unmet need.

**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?**

72. The taxbase used in the Relative Resource adjustment should be adjusted so that it excludes any statutory discounts or exemptions. Authorities have no control over these discounts or exemptions, and it would be wrong to effectively deduct them from an authority's funding allocation.

**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?**

73. In principle, CCN supports excluding discretionary discounts and exemptions from the Relative Resource adjustment. There should be no perverse incentive to authorities to increase discounts and exemptions. There is merit in using an assumptions-based approach and we would be interested in seeing how this might work.

74. Our main concern is that this does not penalise those authorities who have used the empty homes discount/ premium or second homes discount. In many cases, these authorities have used these tools to help manage their local housing economy and it would be wrong to penalise or “tax” any income that arises in these cases.

**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?**

75. We would support an assumptions-based approach to the treatment of local council tax support in the Relative Resources adjustment. We understand that some authorities are still bearing some of the cost of LCTS. But we would object to any system whereby authorities who have funded the cost themselves subsidise other authorities. Any assumptions should assume that the cost of LCTS is largely passed on to the those residents.

**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?**

76. CCN is a very strong supporter of using notional council tax in the Relative Resource adjustment. Band D council tax is much higher in county areas because our funding has failed to keep pace with the cost of providing services. Areas with very low Band D council tax, particularly in inner London, have been able to achieve these low levels of councils because of higher funding and very high levels of car parking income. Allowing the situation where certain regions are able to set such low council tax is both unfair and represents an untapped resource. The SCT estimates that if inner London boroughs increased their band D bills to closer to the national average then there would be over £400m additional funding in the system for local services.
77. Notional council tax ensures that all authorities are treated fairly, regardless of the local policy decisions that have been made on council tax levels. The alternative – using actual council tax – is unfair. Using actual council tax in the resource adjustment effectively doubly penalises county authorities for having to increase their Band D council taxes.
78. With the exception of the settlements between 2016-17 and 2019-20, notional council tax has been the preferred method of assessing the ability of councils to generate council tax income. This is a tried-and-tested methodology that has widespread support with the sector and the case for using notional council tax in 2020-21 is overwhelming.
79. CCN support the SCT in arguing that the notional figure must be close to the national average precept to ensure local services can be adequately resourced without some tax payers getting a better deal than others. Government has not been clear on the future policy for the ASC precept however, given the ring-fenced nature of the income, we do not feel it should be subject to a resource adjustment.
80. There is a good case for exploring the level of notional council tax that should be assumed in the new funding formula. Decisions on the level of council tax equalisation are now very important because council tax makes up such a large proportion of overall local government resources. We would strongly prefer partial equalisation of council tax because this allows authorities to retain some of the growth in taxbase; whereas full equalisation removes any incentive to invest in and grow the local taxbase. Furthermore, full equalisation causes huge turbulence within the funding system, and particularly for authorities with large taxbases. Many of these are county authorities and the uncertainty about the level of council tax equalisation is very destabilising indeed.

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

81. CCN supports having a consistent collection rate when calculating the notional council tax for each authority. There is clearly a very wide divergence in the collection rates across the country; an element will be caused by poor performance and some by other factors. These have not been well-explored and there is no evidence informing why collection factors do vary. Authorities should not be rewarded for poor performance.

**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?**

82. CCN's view is that MHCLG will need to look again at the way it determines tier split for the resource adjustment. Council tax tier split in two-tier areas is only a subset of the overall council tax nationwide and is not necessarily representative; the sample size is just too small. We are not convinced that the split between districts and fire is credible, and appears to place too much of the taxbase onto the fire function. MHCLG should continue to take into account the implied level of council tax in areas where the fire function is still delivered by county councils and other county unitaries, as well as in Metropolitan areas and London.
83. Furthermore, some consideration needs to be taken about the policy incentives that the Government has used in respect of council tax. It has encouraged upper-tier authorities to increase council tax through the Adult Social Care Precept, for instance. These increases should be excluded from any assessment of the relative taxbase shares for different tiers.

**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?**

84. CCN supports having a fixed measure of council tax resources of the period between resets. Updating the taxbase each year would cause disruption and uncertainty for authorities in their financial planning. Furthermore there is no external or independent source for forecasting council taxbase change, as there is with the ONS's population projections.

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

85. CCN agrees that surplus sales, fees and charges should not be taken into account in the relative resource adjustment.

**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?**

86. There is a very strong case for taking car parking income into account in the resource adjustment. The level of car parking income is considerable (£874m) and its distribution is very uneven. There is a good case to be made that the super-profits being made by inner London boroughs has enabled them to set very low Band D council tax. Many authorities across England see the amount of car parking income being collected as unfair, and that it would be fair if this was taken into account when assessing the resources that are available to each authority.

87. County councils are particularly disadvantaged by car parking income. Counties receive very little car parking income (the function is principally discharged by the district councils). We estimate that counties receive £9.9m, or 1.1% of the total generated nationally.
88. We would like to see MHCLG starting work very quickly on designing a formula that reflects the ability of every local authority to generate income from car parking; we accept that it is probably unrealistic to use actual car parking income. A formula should take into account factors such as: visitor numbers, commuter numbers, rateable values, and density. It should also reflect the different responsibilities that counties and districts have in two-tier areas.

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

89. Transitional arrangements have to be able to provide financial support and certainty to each and every local authority. Whatever happens to the distribution of resources between authorities there has to be a safety net in place to ensure that no authority is at risk of financial failure. Many authorities – particularly county councils – are experiencing severe financial stress and the transitional arrangements need to ensure that the new funding formula does not make this situation worse. We are confident that even those authorities who gain from the changes in funding will support this as a first principle.
90. It is difficult to imagine that any county authorities would be able to cope with a reduction in their resources relative to 2019-20. The pressures on county services are so great – and growing – that reductions in resources could result in the financial failure of one or more county councils within a short space of time. We cannot comment on the financial position of other types of authority – although other authorities receive more incentive-based funding, such as New Homes Bonus and Retained Business Rates – which will not by its very nature be fully committed to funding core services. In contrast, all the funding received by county councils is fully committed now and any reduction in funding will by necessity result in a reduction in core services (if there is any further scope to do so in county authorities).
91. We understand that developing such a damping system may well require a good deal of flexibility so that different classes or authority types can be treated differently.
92. A shorter period would be preferable - within 3-5 years – but we may consider a longer period if the redistribution of resources is larger. Any transitional arrangements must, however, demonstrate that they are time-limited and they should show any damping is unwound over a period of time.
93. There are not sufficient resources in the current system for other areas of local government to be funding this transition, so funding must be made available centrally to ensure a successful transition to a fair funding distribution.

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

94. It is essential that the transitional arrangements provide proper financial support to authorities whose overall resources are reducing. To achieve this, the baseline for transitional support should include the widest range of local government financial resources. This should include: baseline funding, council tax, retained business rates, New Homes Bonus and other grants. A wider transitional baseline will provide greater financial stability to the sector.

95. We understand that the future of New Homes Bonus will be consulted on later in 2019 and if that grant does not continue post-2020 then it should not feature in the baseline but be dealt with separately.

**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.**

96. None

**Appendix 1**

**Comments on each of the proposed service specific formulae**

<p><b>Adult social care</b></p>	<p>Service provision for older people has a similar cost wherever it occurs in the country, and we would expect the research to show that the cost of providing care to an older person is similar whether they live in London, a metropolitan borough or a county. This is the type of service formula that should be largely driven by population, with additional indicators to reflect client wealth, income and demand. CCN authorities have the highest share of over-65 and over-85 populations. It is also growing more quickly in county areas because of the movement of many retirees to county areas.</p> <p>Sparsity is an element in both the current adult formulae and we would expect the new formulae to reflect the additional costs of service provision in rural areas. This should be done through a combination of recognising any additional volume or demand drivers (rural areas have a high proportion of older people than urban areas) as well as the additional unit costs of providing services in rural areas (through the ACA).</p> <p>Looking beyond older persons care, learning disabilities is increasingly creating more financial pressure on county authorities. PwC analysis for CCN last year showed that costs in caring for working-age adults with learning disabilities are set to rise by over £900m by 2025 – almost half of the total cost for the whole of England.<sup>8</sup> CCN are currently finalising this model to present updated an updated analysis.</p> <p>Expenditure on this client group is more unpredictable and the longer life expectancy of people with learning disability is creating financial pressures that are growing very quickly indeed. Due to the unpredictable nature of demand, longer life expectancy and lower wealth/asset profile of service users there is less of a link between service demand and deprivation.</p> <p>Three further technical observations on the formula are provided below from an analysis by the SCT;</p> <ul style="list-style-type: none"> <li>• <b>Utilisation:</b> we are concerned by the essential assumption that current utilisation is a good proxy for need. The Society feels this is unlikely to be true. There are numerous examples and independent reports of unmet need within the current system and past funding decisions are certain to impact in the situation where a service is as</li> </ul>
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<sup>8</sup> <https://www.countycouncilsnetwork.org.uk/councils-warn-that-costs-of-caring-for-adults-with-learning-disabilities-could-increase-by-almost-2bn-by-2025/>

	<p>under such severe demand pressures as Adult Social Care. For instance, research published in February 2019 by Age UK they report that over 50,000 people have died in the last two years whilst waiting for a care package adding that 1.3 million pensioners have an unmet need such as being able to wash or dress. They estimate that over 600,000 people have had requests for social care turned down over the same period.<sup>9</sup> The SCT would have liked the normative approach to have been given greater consideration by the Technical Working Group before it was ruled out in preference for the utilisation approach. Our members suspect that this has been through a fear centrally of defining more specific eligibility criteria above any technical difficulties.</p> <ul style="list-style-type: none"> <li>• <b>Income/wealth:</b> Ordinarily property ownership would be a proxy for wealth/income but the Society are concerned that in the case of social care that it may lead to incentives not to offer care packages in clients' homes – in direct opposition to government policy. For example, a formula which includes a measure of home-ownership could be distorted by the extent to which intensive community care is available in a given area. If it is not on offer, then in-effect a high-needs client is forced to opt for residential care, potentially resulting in an empty home that is then sold to pay for care costs. This would reduce costs for the local authority (as they become a self-funder), but the formula would reward the authority through lower rates of home-ownership. However, if the intensive care package were available then the client can remain in their home, the value of which is excluded from their financial assessments. The result for the local authority is higher net costs but no change to assessed need as the number of home-owners remains unchanged.</li> <li>• <b>Deprivation:</b> We would also wish to seek assurances that deprivation/low income measures will not continue to be weighted unfairly with the continued use of a low-income adjustment in addition to the need formula, which does already capture the means test eligibility. Providing a "double count" on deprivation/low income measures concerns SCT members that the distribution resulting from the new formula will not be significantly different to the one it replaces.</li> </ul>
<b>Children's Services</b>	<p>County authorities are reporting very large increases in the cost of this service. Funding needs to reflect the current and future spending pressures in this service. We await further details on the proposed formula to provide detailed commentary on its potential implications.</p>
<b>Public Health</b>	<p>CCN supports the proposal to have a separate funding formula for Public Health. However, under the new (2016) formula every CCN authority's target allocations per resident will still be lower than the England average. Below, we provide further detailed observations on the formula which we would ask MHCLG and the Department for Health to consider.</p> <p><b><i>Modelled costs for substance misuse and sexual health services</i></b></p>

<sup>9</sup> <https://www.ageuk.org.uk/latest-press/articles/2019/february/more-than-50000-older-people-have-now-died-waiting-in-vain-for-care-during-the-700-days-since-the-government-first-said-it-would-publish-a-care-green-paper/>



Two major reasons for the CCN authorities' lower allocations are the modelled costs for substance misuse and modelled costs for sexual health services. These predict the costs for each local authority based on the characteristics of local residents and past use of services.

We would request that MHCLG considers how well the models are able to explain differences in costs across local authorities, particularly in rural or sparsely populated areas. The predicted costs are based on statistical models produced by the University of Manchester. From the technical report that accompanies the modelling, it appears that the recommended formula was able to explain 47% of variation in actual costs of providing substance misuse services to individuals, and only 7% of the variation in actual costs of providing sexual health services. This would mean that a large share of the variation in costs is not explained by the models being used.

We ask the department to (i) to confirm the statistical goodness-of-fit of the models that underpin the proposed formula or any future formula, to assess how good the models are at explaining variation in need, (ii) to assess whether the models systematically underestimate costs for certain authorities, including those in rural or sparsely populated areas, and (iii) to consider whether the models address the potential for unmet need in rural areas; for example, the possibility that costs appear to be lower simply because residents have not been able to access services.

### **The SMR<75**

The standardised mortality ratio, or SMR<75, is used as a general measure of the health of local residents. In the new (2016) formula, weightings for this indicator increase exponentially for residents in the least healthy areas, carrying ten times as much weight as those in the healthiest areas. It is unclear from the consultation documents as to why a ratio of 1:10 was selected. We ask MHCLG clarify the reason for this choice, and what the supporting evidence was.

### **Sparsity**

Sparsity is the only cost driver that increases the CCN authorities' share of target allocations (on average), but it plays a very small role in the new (2016) formula.

On average, allocations for the CCN authorities are only 0.5% higher than what they would have been in the absence of sparsity adjustment. The most sparse authority in England, based on the measure used in the formula, is Herefordshire, yet sparsity only accounts for 1.2% of this authority's overall target allocation.

We believe that the current sparsity adjustment is very narrow, restricted to only one component (children's services ages 0-5) and to one type of cost associated with sparsity (employee travel time).

It could be argued that the formula fails to reflect the additional service delivery costs associated with a lack of economies of scale in rural areas. It is likely that a number of public health services provided by local authorities require face-to-face interactions with residents. This requires home visits and other outreach services (with associated travel times) or fixed service delivery points, such as clinics, GP surgeries, schools, leisure centres and so on. To reduce travel times to minimally acceptable levels, local authorities with a large proportion of rural residents are likely to

	<p>require more delivery points – and therefore higher staffing and overhead costs – per resident. These additional costs are not specifically reflected in the public health grant formula.</p> <p>Other factors also increase the cost of delivering services in rural areas. This includes the relative scarcity of transport links: only 49% of households in the most rural areas had access to a regular bus service in 2012, and this is likely to have increased with subsequent cuts to funding for bus services in rural areas. A lack of digital access in rural areas may also prevent CCN authorities from benefiting from mobile or internet service provision, which could reduce overheads, reduce geographical barriers and potentially increase uptake for services where privacy is a consideration, such as sexual health services.</p>
<p><b>Highways maintenance</b></p>	<p>CCN welcomes the changes in the highways maintenance formula. Simplifying the formula so that it reflects only road length and traffic flow makes sense. It takes as its starting point that the cost of maintaining a road is the same whether that road is in a rural or urban location.</p> <p>We welcome the removal of the uplift in the current formula whereby roads in urban areas are funded at twice the level of those in rural areas. There is no evidence to support this adjustment (and nor was there when the adjustment was introduced many years ago).</p> <p>Some of our member authorities are concerned about the removal of the uplift for winter services. Whilst the expenditure on this service within local government as a whole is not statistically important, for some of our authorities it is very substantial. These are authorities – such as Cumbria, Northumberland and Durham – where the cost of managing the road network in winter can be considerable. For these authorities, the cost of winter services is demonstrable and very material. The loss of the winter services uplift would potentially result in this important service receiving less funding than it needs.</p>
<p><b>Legacy capital finance</b></p>	<p>CCN supports the principle of funding capital financing on the basis of the borrowing approvals that have been issued to local authorities in previous years. Actual levels of debt do not necessarily reflect the liabilities that the Government had promised to fund.</p> <p>County authorities have a very large share of the overall borrowing approvals that were issued and a large share of the resulting legacy capital finance liabilities (shire counties have 34% of the outstanding borrowing liabilities). It is very important that the control total for this block recognises the full cost of the liabilities. This is something that we would expect MHCLG to share with local government in the next few months.</p>
<p><b>Flood defence and coastal protection</b></p>	<p>CCN supports the approach that is set out in the consultation paper for lower-tier authorities. The costs for these services can be substantial and they are not distributed in a way that reflects population. It is reasonable that they should be funded in a separate block.</p> <p>We do not support the proposal to transfer upper-tier funding to the Foundation Formula. MHCLG has justified this proposal on the basis of statistical analysis alone (i.e. that it only explains 0.5% of the variation in expenditure). However, the same case can be made for upper tier</p>

	<p>responsibilities as for lower tier: these are responsibilities and costs that can be substantial and are not related to population.</p> <p>Funding on that basis in the Foundation Formula makes no sense. Furthermore, splitting upper and lower tier funding in the way that is proposed makes it less clear how much funding is available for coastal protection and flooding defence, both of which are crucially important.</p>
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