

# Fair funding Review: Call for Evidence on Needs and Redistribution.

## SIGOMA RESPONSE

### 1. About SIGOMA

1.1. SIGOMA is one of the largest special interest groups within the LGA. It comprises 46 local authorities in the northern, midland and south-coast regions of England, consisting of 32 metropolitan districts and 14 major unitary authorities, covering key urban areas.

1.2. The authorities SIGOMA represent are among those facing the greatest challenges. They face pressures both in terms of the demographics that determine demand for services but also in terms their ability to grow income locally, either due to low Council Tax banding, a low and weak business rate base or lack of substantial infrastructure investment.

- SIGOMA authorities represent 24.8% of English households and 24.5% of the English population. However:
- SIGOMA represent 29% of all households on council house waiting lists.
- SIGOMA residents have an average life expectancy at birth 2 years less than the national average, and have adult obesity levels 1% worse.
- SIGOMA care for 35% of the country's looked after children.
- 33% of all households living in poverty are from SIGOMA authorities.

1.3. This trend has persisted over a number of years:

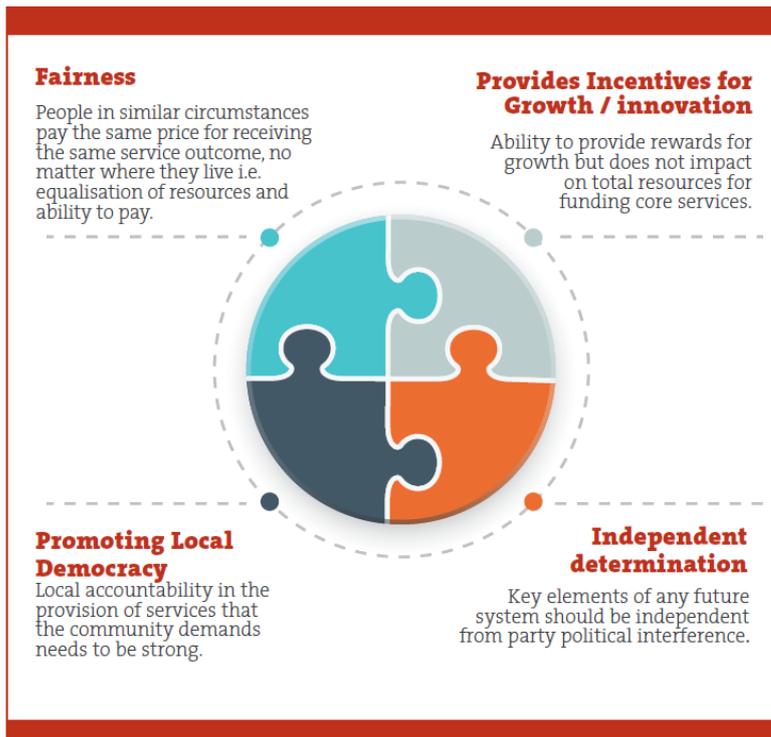
Percentage of households claiming out of work benefits

	2011	2012	2013	2014
	%	%	%	%
SIGOMA authority average	6.9	6.5	6.3	5.8
Rest of England average	4.8	4.5	4.2	3.8

1.4. The deprivation related data affects not only the demand for services but also the ability of an authority to recover costs from service users or to raise funding from other sources. Concerning parking, for example, only 4 SIGOMA authorities earn a higher income per head than the national average and all of the top ten earners per head are in London and the South.

1.5. Our members are concerned not only about a fair starting position but about ensuring an ongoing system that will not leave poor authorities locked into a subsistence budget or worse whilst others thrive.

1.6. In our policy document, "*Protecting Vital Services*" we illustrated our view of the fundamental principles that must apply to any local authority funding system, these were illustrated in the document thus:



1.7. Our view if these principles has not changed.

1.8. We also identified in the policy document the key features that a funding mechanism should have; listed below:

- Stable and predictable – *Early notification of all forms of grant is essential if authorities are to be able to implement longer term planning. This may also include measures to ensure changes are phased in*
- Focused on outcomes – *Any new system should be forward-looking and not reliant wholly on what has happened in the past*
- Reflects Capacity – *The system needs to reflect current taxable capacity of each authority*
- Plausible - *Clearly if any system is to be acceptable as being fair, the outcome needs to be seen to reflect overall perception of what it should be.*
- Does not reward inefficiency - *Any new system must be capable of dealing with inefficiency as well as need.*
- Removal of any form of capping – *Any capping is contrary to local democracy and accountability, whether direct, reserved or indirect.*
- Transparent/Understandable – *Any system needs to be seen to be fair by citizens, members and officers, and to be readily understood by those interested*
- Flexibility to respond to changing circumstances - *This obviously needs to be considered alongside the need identified above for a system to be stable and predictable.*

1.9. Again, members agree that these are essential features of the new system.

1.10. We have been pleased to see some movement towards SIGOMAs view in recent settlements, with a measure of resource aligned more closely to overall spending, an acknowledgement of the differing ability to raise finance locally and a re-orientation towards a focus on the cost of delivering services.

1.11. We welcome the chance to respond to the consultation and trust that the move back towards a fairer funding system will continue.

**Question 1: What is your view on the balance between simple and complex funding formulae?**

Members are clear that a simpler system tends to produce less fair results.

We have heard the views of colleagues from other authorities that it is too difficult to formulate a model of the costs of delivering all services. At the same time there is a proposal for a much simpler formula. We suggest that the two positions are not tenable. Either service demands are complex and require a subtle formula model or they are simple and should therefore be susceptible to formulating a unit cost of essential services.

The perceived complexity in the current formula model arises, we feel, not so much from the variety of the underlying measures used but because it is extremely difficult, in some cases impossible, to match funding allocations to specific service needs within the final funding allocation.

This is because the historic DCLG model sets *thresholds allocations* (which determine shares of the basic amount block) and *needs allocations above the threshold* (which determine shares of the needs equalisation block) at local authority tier level.

We appreciate that this situation has arisen, at least partially, from historic representations from local government. This was as a result of past pressure exerted on local authorities from funding Departments to demonstrate that hypothetical allocations were spent in the service area in which they had most interest. We suggest that the transition to 100% retention will remove the ability of other Government Departments to exert pressure in this way.

The approach has also made it simpler for DCLG to apply reductions in funding at a tier level but makes it impossible for authorities to trace the resultant allocations back to a specific area of service. This can and should be simplified for authorities so that thresholds (and amounts above the threshold) are set at service level or at least can be traced back to services.

Any fair funding formula must take into account:

- the main cost drivers of local authority service provision
- the ability of service users to pay for the service (i.e. for the authority to recover costs)
- the ability of the authority to raise funds from other sources
- changes in these factors over time

The first of these, the cost drivers of local authority service provision, has a significant link to populations or population sub-sets, households, or in some cases other simple measures such as miles of road.

The fact that these, in themselves, are not a sufficient measure of the factors driving cost is already illustrated in our opening statement. Therefore, weightings of baseline populations and households are needed to reflect the proportion of the local populace that is driving demand for local services; these proportions are not the same across all authorities.

In addition, not all authority costs currently funded through Settlement Funding appear explicitly in local authority service cost lines. Most notable among these are:

#### Council Tax Support Grant

This former benefit was transferred into local authority formula funding at £3.3 billion in 2013-14. It is not represented in any local authority service line and links specifically to former Council Tax benefit claimant numbers, we would expect this to be identified as a rolled in cost.

#### Capital Financing (CF)

This recognises individual local authority debt servicing costs. According to our calculations CF need represented around £3.4 billion of 2013-14 allocations before damping, around 12.7% of the combined need + basic amount blocks.

For SIGOMA authorities, CF need represented 14.8% of their combined need and basic amount allocation.

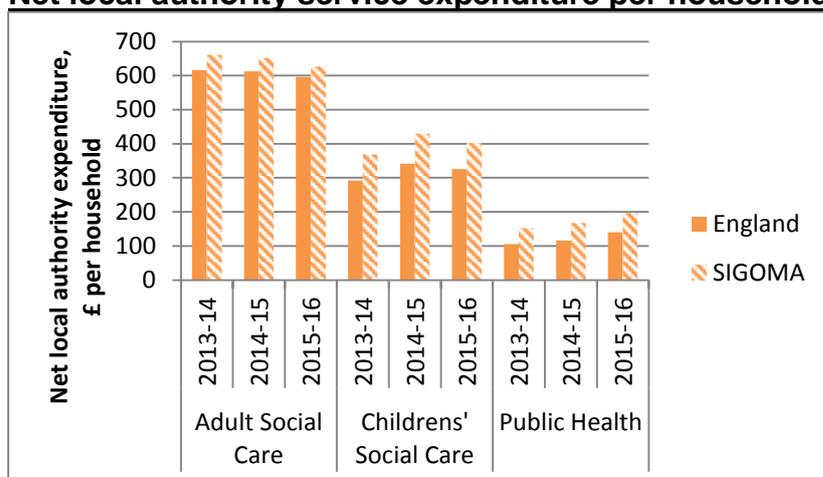
### **Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?**

We have already commented on what we think the complexities of the current system are and that these complexities are not attributable to the level of detail in service need formulae. On the specific issue of detail we do not believe that the level of detail is inappropriate though the underlying measures used should be revisited. Mostly, of course the detailed measures have arisen as a result of past local authority representation.

We believe that the costs of Education, Health, and Children's' and Adults' care services in particular require subtle measures, not only of the proportions of people in need but also of variations in the degree of need.

These services are both demand and demographic driven and consistently accounts for a higher proportion of expenditure per household in SIGOMA authorities than the national average, as shown in the graph below.

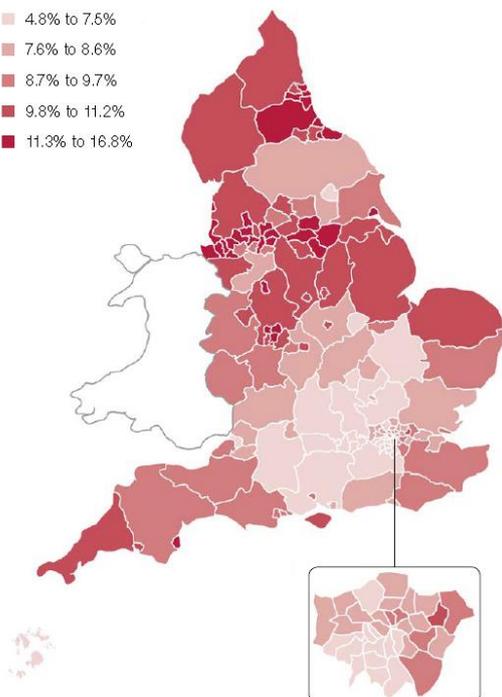
## Net local authority service expenditure per household<sup>1</sup>



The graph illustrates, in expenditure terms, the budgetary pressures facing authorities who are being forced to cut expenditure whilst demand for services rise. As this double pressure of reducing budgets and increasing demand worsens it is essential that detailed measures of cost drivers are used to distribute available funding fairly.

There is significant variation in demand for these high cost services. Whilst it is accepted that historic spend should not be relied upon solely as a measure of need, appropriate measures are necessary to account for unequal demographic pressures that may shift from year-to-year and which may exhibit marked variation from one authority to the next, as illustrated in the following census data extract.

- 4.8% to 7.5%
- 7.6% to 8.6%
- 8.7% to 9.7%
- 9.8% to 11.2%
- 11.3% to 16.8%



**Adults (aged over 16) with major limitations on their day-to-day activities, by region.**

Source: National Audit Office., *Local public service reform: insight report and resource guide*, September 2016, P7

<sup>1</sup> 0-5 children's public health commissioning was transferred to Local Authorities on 1 October 2015 This will account for a proportion of the increase in local authority healthcare spending per household in 2015-16

This heat map, as the NAO point out in their report, demonstrates the marked variations across the country in a condition that must have an impact on demand for social and health services. So appropriate weightings must be devised to ensure a fair reallocation of resources that fully reflects this variation in cost pressures.

The following table of expenditure compares 2016 Revenue estimates with 2013-14 Revenue out-turn. It illustrates that:

- the proportion of expenditure that makes up children’s and adults social care is increasing, but increasing at a greater rate for SIGOMA authorities
- the change over the 4 years represents harsher settlements for SIGOMA authorities than the rest of England in every service area.

Revenue expenditure data Extract from Revenue estimate and revenue outturn data	2016 estimates		% change since 2013-14 RO	
	SIGOMA £'000	England Exc luding SIGOMA £'000	SIGOMA	England Exc SIGOMA
Education services	8,983,908	25,226,784	-4.88%	-4.57%
Highways and transport services	480,604	3,211,749	-10.03%	-8.37%
Children Social Care	2,121,246	5,713,273	9.93%	14.61%
Adult Social Care	3,381,035	11,008,718	-1.30%	-1.18%
Public Health	1,087,358	2,408,419	36.75%	40.62%
Housing services (GFRA only)	346,180	1,263,856	-25.89%	-18.86%
Culture and related services	627,400	1,684,649	-17.19%	-17.10%
Environmental and regulatory services	900,931	3,753,813	-6.61%	1.77%
Planning and development services	205,500	812,865	-38.25%	-18.99%
Police services	-	3,023,769		
Fire and rescue services	-	2,052,238		
Central services	651,070	2,290,528	-5.05%	12.08%
Other services	43,759	298,334	6.47%	494.87%
<b>TOTAL SERVICE EXPENDITURE</b>	<b>18,828,991</b>	<b>62,748,995</b>	<b>-2.84%</b>	<b>-0.69%</b>
<b>Total Excuding Education police and fire</b>	<b>9,845,083</b>	<b>32,446,204</b>	<b>-0.89%</b>	<b>2.29%</b>
<b>Childrens and Adult social care as % of total 2016</b>	<b>55.9%</b>	<b>51.5%</b>		
<b>Childrens and Adult social care as % of total 2013</b>	<b>53.9%</b>	<b>50.8%</b>		

We have however heard the arguments of colleagues in respect of the feasibility of a broader brush approach to certain services, such as Environmental, Protective and Cultural Services, and accept that there may be some scope for simplification of the EPCS formula in these areas.

**Question 3: Should expenditure based regression continue to be used to assess councils’ funding needs?**

Our view is that regression based expenditure assessment may be of use in:

- establishing proportionate weightings to allocate overall funding into the various sub-blocks, such as Children’s Services and Adults’ Personal Social Services. The profiles of spend and direction of spending cuts/increases seems similar across authorities

- testing models of a baseline plus needs allocation that might be used to arrive at a weighted average absolute cost of service delivery, which could then be used as a basis for rewarding more efficient councils
- considering the impact of high spend on ameliorating needs data which might otherwise be worse, so as to adjust for this impact.

**Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?**

We agree with colleagues in other authorities and the LGA that a needs assessment should be based, wherever possible, on objective evidence of representative underlying cost drivers for the relevant service. This will involve finding statistics with strong correlations to the service in question, e.g. life expectancy at birth for public health related expenditure.

Often this will be based around a sub-population of the general population, which will need weighting for factors which increase service requirements or make service provision more costly.

This data could be enhanced or corroborated by local authority generated quantitative and qualitative statistics (as opposed to financial data) supporting the extent of service provision at a service user level. This could also help DCLG statisticians to adjust data where the needs information may have been ameliorated by the previous high spend of the authority.

Other statistics may also be used which are not population based and are more relevant to the service in question such as miles of road for highways.

**Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?**

Weighting populations for need characteristics, independent of authority collected data, will provide the most objective proxy. Use should be made of available statistics to weight populations.

The interruption in national benefits statistics through the partial roll-out of Universal Credit presents some difficulties.

Universal Credit will replace the following:

- Jobseeker's Allowance
- Housing Benefit
- Working Tax Credit
- Child Tax Credit
- Employment and Support Allowance
- Income Support

Each of these has been used in previous needs formulae.

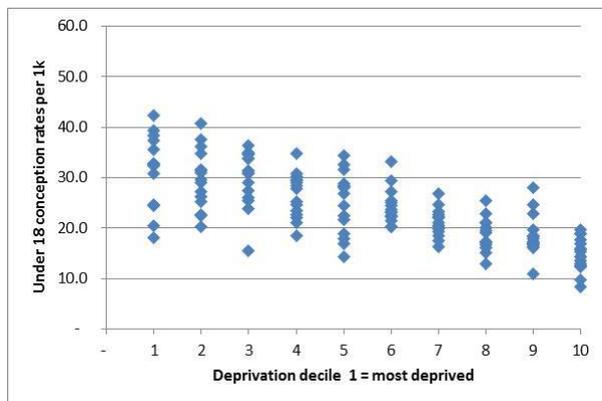
We would urge DCLG to seek or commission proxies where they affect formula allocations. This could include engaging the DWP/ONS to project poverty statistics in the available time, to use as a proxy in 2020.

In addition, local authority collected non financial-statistics could be collected and used to test and corroborate projections whilst local authority expenditure data could be used to assess the impact of previous high spend resulting in lower than expected need.

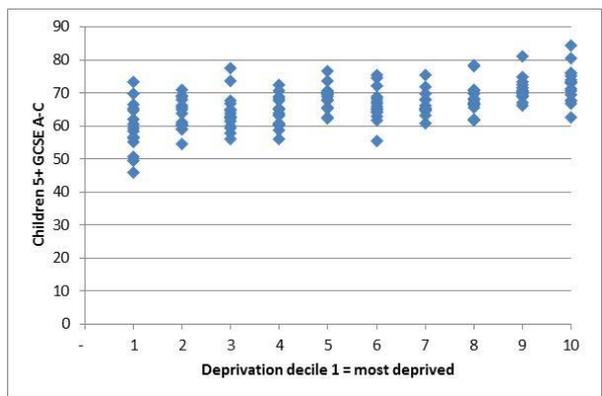
**Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?**

Examination of most services suggests that poverty is a key influencing factor in both demand for services and the ability of the authority to recover costs.

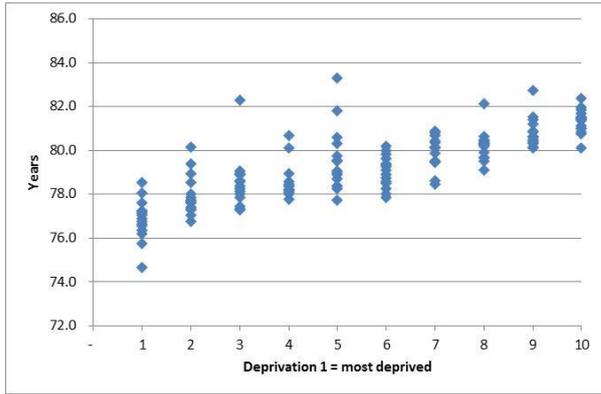
Enclosed are just a few charts illustrating some health, education and care profiles ranked by authority deprivation.



**Health and children's services**  
*The scatter plot shows, for each authority, the rate per thousand of under 18yo conception and its deprivation ranking in deciles 1-10. The most deprived authority has more than double the rate in the least deprived.*



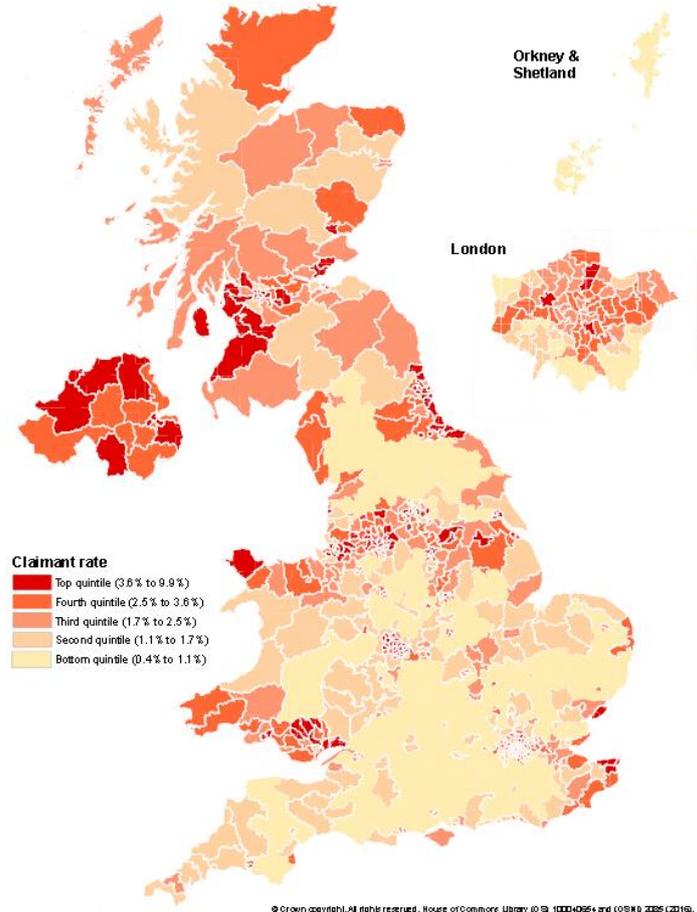
**Education**  
*The plot shows the proportion of children achieving 5+ GCSEs at A-C. The most deprived authority is 15% lower than worst attainment level of the least deprived. The differences are most marked between the very highest and lowest deprivation deciles.*



**Adult care**  
*The plot shows life expectancy at birth in years. The highest deprivation decile is around 4 years greater than the lowest. If morbidity correlates with mortality then more deprived areas face greater adult health issues.*

The model should also account for variation in ability to pay by considering factors such as unemployment, which vary significantly from one authority to the next, as shown below, since this will directly impact on authorities' ability to recover the costs associated with service delivery.

**Unemployment by constituency, July 2016**



Source: House of Commons Library<sup>2</sup>

<sup>2</sup> Residence-based claimant rate: % of economically active population aged 16-64 claiming JSA or claiming Universal Credit and required to seek work - House of Commons Library Briefing Paper, Unemployment by Constituency, August 2016, P8

**Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?**

Needs formula includes a resource adjustment. This was based on the relative size of Council Tax base in each authority. This resource adjustment was set at £6.5 billion in 2013-14 and has diminished in size since then with RSG, while rate bases have grown. A fresh resource adjustment total should be calculated at reset and used to inflate the Needs Equalisation and Basic amount, as was done in 2013.

Funding settlements should seek to match funding to needs at the highest level. The Department has gone some way towards this in the latest settlement and we would encourage spending and resource equalisation at the level of core spending or above.

**Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment? See Q9**

**Question 9: If not, what are your views on how we should transition to the new distribution of funding?**

It is important that government maintain a broad overview of the impact of the new system within overall local government funding, not merely take a narrow view of formula changes.

As we have already stated, with ever diminishing resources the key challenges are to obtain a fair and accurate measure of needs and then match this, as soon as possible, to the available funding.

We know the department are aware of possible anomalies whereby an individual authority may receive transition funding protection while, at the same time, retaining substantial rate growth, leaving it in a better position than others who have suffered a transition funding cost. The new system must take account of and avoid this effect. Members do not readily accept that historic funding levels should be protected at the expense of authorities demonstrably in greater need and question the point of a review of needs indicators which is then rendered ineffective by perpetual transition adjustments.

We believe that transition funding should be made short term (ending, at the latest, within a 3 year reset) and should only be made available in extreme examples.

Within these constraints, members accept the principle of some transition funding for extreme impacts.

**Question 10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?**

Members support the general local government association view that we should not lose sight of authority level needs and funding information.

We agree with our colleagues that larger geographical combinations have their place where they arise from a local demand and fit within the local political and administrative agenda.

We oppose the imposition of these from central government

**Question 11: How should we decide the composition of these areas if we were to introduce such a system?**

Local authority leaders should decide by unanimous agreement.

**Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?**

See answers to 10 and 11

**Question 13: What behaviours should the reformed local government finance system incentivise?**

The system should :

- promote local decision making
- incentivise and reward efficient delivery of services
- focus authority attention on service delivery
- include a growth incentive which takes into account variations in ability to grow

**Question 14: How can we build these incentives in to the assessment of councils' funding needs?**

These incentives can be built in by:

- giving local authorities more control over local multipliers and reliefs to encourage local agency and innovation
- ensuring a careful assessment of the cost drivers of service delivery is made
- reviewing these cost drivers with each new responsibility acquired
- undertaking a regular reassessment of needs
- ensuring the clear and open disclosure of the basis for allocations
- removing close ministerial involvement in the mechanism year-on-year
- creating benchmarking standards for efficiency initiatives
- engaging with other Departments in the consideration of shared service costs
- producing and sharing national data on service unit costs