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Fair funding review: a review of relative needs and resources

We are writing on behalf of the Association of County Chief Executives (ACCE) in response to the latest fair funding review ***consultation on review of relative needs and resources***. ACCE brings together the Chief Executives of over 30 large English upper tier and unitary authorities. Counties are one of the largest groupings of councils in England, providing services to 26 million people and responsible for almost of half of the country's spend on adults and children's social care. Members of ACCE work to identify common challenges, commission research and share solutions, and discuss key issues with senior Whitehall Civil Servants.

In responding to the technical contents of the consultation, ACCE would like to add our support to responses that have been submitted by both the County Councils Network (CCN) and the Society of County Treasurers (SCT).

However, while drawing the attention to the department to the submissions made by the CCN, SCT and our individual member councils, we would seek to add some additional overarching points which we believe are crucial to delivery of the fair funding review. Last year, ACCE welcomed the overall direction of the review and proposals to put in place a funding formula that is simpler and more transparent.

We believe the introduction of the fair funding formula will not on its own solve the financial pressures faced by local authorities. Analysis by the Society of County Treasurers (SCT) and County Councils Network (CCN) showed that county and county unitary authorities face funding pressures amounting to £3.2bn between 2018-20. Counties aren't alone; the whole of the local government sector faces a funding gap of almost £8bn by 2024/25.

The seriousness of the financial challenges facing our councils is recognised at the most senior of political and officer levels. ACCE recently surveyed chief executives on their confidence in delivering balanced budgets over the coming period, with the results showing that by 2020/21 only 19% of chief executives are confident they can deliver a balanced budget without additional resources.

We believe that it is therefore crucial that the FFR is delivered alongside a significant uplift in funding for local government at the Spending Review, otherwise the Review will simply not result in either fair or sustainable funding. The quantum of funding available to local government must provide assistance with the transition to the new funding model be sufficient to fund the sector's well-documented unfunded cost pressures.

That said, the proposals outlined in the latest consultation are to be welcomed in building on these principles, including a foundation formula for the majority of universal services where costs are largely driven by population. This is alongside a limited number of service specific formula for people-based services, where the distribution of funding has a wider range of cost-drivers. Moreover, this consultation also sets out the approach to the treatment of resources such as council tax, including the welcome use of a notional council tax measure and the potential for a partial Council Tax equalisation.

Given recent political debate in the sector on the impact of the review on different types of authorities, we believe it is important that Counties remain open and committed to working with all parts of the sector.

We recognise that the achievement of consensus is unlikely, but to ensure the FFR is implemented in a timely and successful manner, ACCE and CCN recognise that continuing dialogue and compromise on all parts of the sector will be necessary. This includes whether deprivation warrants inclusion in the foundation formula; but ensuring any decision is evidence-based and proportionate to the actual impact on the costs of services being funded through the foundation formula.

Below, we provide some more specific observations on the proposals.

Foundation Formula

- ACCE supports the proposed foundation formula and its principles. For the majority of services in the foundation formula a per capita allocation would better reflect the costs borne by councils. We believe also that the Government should include services such as libraries, waste, bus support and concessionary fares within this formula, on this basis. There is evidence that population is overwhelmingly the most important factor in determining the costs incurred by local authorities for most services.
- It is important that the Government addresses counties' concerns over "unmet need" in rural areas. This is where services have not been provided in more rural areas due to the differential historical availability of funding. The current regression methods of measuring need do not account for these factors, nor do they reflect differences in the efficiency with which different councils deliver services.
- In relation to deprivation, we support the CCN in asking the department to consider whether a small weighting for deprivation could be considered if the evidence supported this. 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. The evidence presented by the department suggests that, even if deprivation were included in the foundation formula, it would only warrant a weighting of 4%.

Service Specific Formula

- ACCE supports the proposed number of service specific formula. 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.
- However, we remain concerned over the lack of detail contained in the consultation on adults and children's social care. 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 local government.
- The SCT and CCN have raised several technical concerns in relation to adults, children's and public health formulas, and we would welcome the department, alongside the departments for health and education, engaging more with ACCE over the coming months to ensure the distribution methods are robust and account for the full range of cost drivers.

Area Cost Adjustment

- In our consultation response last year, we welcomed the recognition that rurality must play a larger role of in the new funding formula. It is right that the proposed changes to the Area Cost Adjustment recognise the additional unit costs associated with sparsity and density. We also welcome the remoteness indicator, which will better reflect the weaknesses in service markets in county areas and the additional costs this can generate.
- We would emphasise the importance of the weighting given to the overall ACA (and the sparsity element within it) in the future funding formula. Our authorities want to see the weighing for travel times in rural areas fully compensating those authorities for their additional costs.

Concessionary Fares & Home to School Transport

- Concessionary fares is one of the most significant and important illustrations of unmet need in shire counties and a very important issue for the councillors we serve. ACCE welcomes the proposal to including Concessionary Fares in the Foundation Formula alongside local bus support. The Government recognises 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.
- 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 the role of the

foundation formula in providing funding for universal services, ACCE joins CCN and SCT in supporting the inclusion of HTST in the foundation formula.

- If HTST is included in the foundation formula it is critically important that if HTST is included in the foundation formula the ACA must provide 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. Looking ahead to the Spending Review there are opportunities to review whether a change to statutory obligations on HTST can reduce demand. Our Leaders through the CCN have argued for the introduction of a means-test which could reduce the disproportionate financial burden of this service on county authorities.

Council Tax

- CCN, on behalf the leaders of our authorities, have consistently argued that the funding regime places an unfairly large burden on council tax payers in county and rural areas. We agree the approach to resource adjustment shouldn't seek to penalise those councils with higher tax-bases – which are partly a result of historical funding levels. It should incentivise authorities to grow their council tax base but not result in a penalty for county residents in doing so.
- The consultation paper sets out options for council tax equalisation with potential to treat council tax payers in county areas fairly. We support the use of notional council tax and a partial council tax equalisation.
- ACCE 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.

Transition (Damping)

- It is essential that the transitional arrangements provide proper financial support to authorities whose overall resources are reducing. Transitional arrangements have to be able to provide financial support and certainty to all authorities. There must be a safety net in place to ensure that no authority is at risk of financial failure. It is difficult to imagine that any county authorities would be able to cope with a reduction in their resources relative to 2019-20.
- 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.

- A shorter period would be preferable - within 3-5 years – but we may consider a longer period if the redistribution of resources is significantly 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.

Yours Sincerely



Anthony May

Chair ACCE

Chief Executive Nottinghamshire County Council



Richard Flinton

Secretary, ACCE

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