

Cabinet
Council

20th February 2018
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Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor J Mutton

Director Approving Submission of the report:

Deputy Chief Executive (Place)

Ward(s) affected: None

Title:

Consultation Response: Fair funding review: a review of relative needs and resources

Is this a key decision?

No

Executive Summary:

The Government issued a consultation document on 19th December 2017 entitled “Fair funding review: a review of relative needs and resources”. Responses are required by 12th March 2018.

The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources. The new funding allocations are expected to take effect from financial year 2020/21 at the same time as a new 75% Business Rates retention model.

Given the significance of the outcome of such a consultation it is important for the Council to add its own response. The expectation should be that such a review results in a system that is evidence based and fair and the proposed responses to the consultation’s question are intended to be technical in nature and/or are framed in such a way that are directed at achieving a rational and fair outcome.

Recommendations:

That Cabinet recommend to Council the approval of recommendation (1):

Council are recommended to:

- 1) Approve the attached consultation response to be sent to the Ministry of Housing, Communities and Local Government.

List of Appendices included:

Appendix1: Coventry City Council Consultation Response: Fair funding review: a review of relative needs and resources

Other useful background papers:

None

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes 20th February 2018

Report Title: Consultation Response: Fair funding review: a review of relative needs and resources

1. Context (or background)

1.1 The Government issued a consultation document on 19th December 2017 entitled “Fair funding review: a review of relative needs and resources”. Responses are required by 12th March 2018. The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources. The new funding allocations are expected to take effect from financial year 2020/21 at the same time as a new 75% Business Rates retention model.

2. Options considered and recommended proposal

2.1 There are two options, to respond or not to respond. Given the significance of the outcome of such a consultation it is important for the Council to add its own response and this is the recommended option.

2.2 The response is attached at Appendix 1. The expectation should be that such a review results in a system that is evidence based and fair. On this basis the proposed responses to the consultation’s question are intended to be technical in nature and/or are framed in such a way that are directed at achieving a rational and fair outcome. It is in the interests of Coventry and of the wider local government community to achieve such an outcome. If the consultation resulted in a model that was distorted by particular interest groups this would not provide a robust basis for the local government finance mechanism going forward.

2.3 The response incorporates the following broad elements:

- Simplicity and fairness are both appropriate principles for establishing a needs assessment but fairness is the paramount objective.
- Agreeing the principle of using population projections in the distribution methodology including flexibility to adjust for annual shifts in population.
- Proposing that the relative needs assessment should be refreshed annually with the results applied the year after the forthcoming year.
- Agreeing that rurality and deprivation should be included as cost drivers in the needs assessment to the degree that the evidence demonstrates a significant link between these factors and expenditure pressure. Rurality should not be double counted in the Area Cost Adjustment.
- The weight of different funding formulas should be evidence based, supported by statistical analysis of actual spend levels not the judgement of central government.
- A preference for techniques that minimise the role of judgement and opposition to models such as outcome based regression in which authorities are funded according to the success in delivering outcomes.
- Outliers identified during the statistical analysis may warrant a separate approach, which could include the allocation of specific grants.
- Agreement that the service specific cost drivers set out in the consultation appeared to be broadly appropriate.

3. Results of consultation undertaken

3.1 No specific consultation has been undertaken.

4. Timetable for implementing this decision

- 4.1 It is intend to that the eventual outcome of the consultation will be seen in the Local Government Finance Settlement for 2020/21.

5. Comments from Director of Finance and Corporate Services

5.1 Financial implications

From 2020/21, Local Government Finance Settlements will be determined by the way in which the finance model is constructed, influenced by some of the issues dealt with in the consultation. Although local councils will be in a position to influence their overall financial position to some degree, in most cases this will be a secondary consideration to the resource starting point provided by the model. The proposed response does not seek to challenge the fundamental premise of a redistributive system.

Given that the Government has not kept the existing local government finance model up to date and has retained an element of damping in the current system (protection of funding levels for some authorities which disadvantages authorities such as Coventry) there is a reasonable expectation that a fair outcome will also be one that does not adversely affect Coventry's relative funding position within the model.

5.2 Legal implications

There are no specific legal implications resulting from the report. Any changes to future funding may require consultation to ensure compliance with the public sector equality duty contained in Section 149 of the Equality Act 2010.

6. Other implications

Any other specific implications

6.1 How will this contribute to achievement of the Council's Plan?

The consultation will not impact directly on the Council's Plan but future funding decisions will determine the financial parameters within which the Council will operate from 2020/21.

6.2 How is risk being managed?

There is some risk that any revised local government funding model may adversely affect the Council. It is not possible to predict the outcome of this and the Council will continue to adopt relatively prudent financial assumptions for 2020/21.

6.3 What is the impact on the organisation?

The consultation will not impact directly on the organisation but future funding decisions will determine the financial parameters within which the Council will operate from 2020/21.

6.4 Equalities / EIA

Future funding decisions will determine the financial parameters within which the Council will operate from 2020/21 based on an assessment of needs across a number of areas of activity. This could have a positive or negative impact on the level of resources allocated to services to people including groups with protected characteristics but it is not possible at this stage to predict this.

6.5 Implications for (or impact on) the environment

The consultation will not impact directly on the environment.

6.6 Implications for partner organisations?

The consultation will not impact directly on partner organisations.

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Director: Martin Yardley	Deputy Chief Executive	Place Directorate	1/2/18	6/2/18
Members: John Mutton	Cabinet Member Strategic Finance and Resources		9/2/18	9/2/18

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www.coventry.gov.uk/meetings

Appendix 1 Consultation Response

Q1): What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?

The twin objectives of simplicity and fairness, although entirely right and proper, are naturally competing principles. Our view is that priority should always be given to making any resource distribution system as fair as possible.

Recognising the expenditure pressures that local authorities face in their role of providing a wide range of disparate services will always involve assessing the interaction of large number of factors. Some of these factors will be more significant than others but if any factors or variables can be shown to influence the level of pressure (above some defined level of statistical significance) then they should be included in any distribution methodology (DM).

Q2): Do you agree that the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities?

We agree with the principle of using projections, including with regard to population, as part of any DM wherever the uncertainty of any estimates are below a certain level. The specific issue with population projections is that socio-economic events on a local, national or even international level can influence population change within a shorter time frame than originally envisaged.

Therefore we would advocate that any new DM includes the flexibility to adjust for shifts in population every year, taking effect not for the forthcoming year but affecting the needs assessment for the year after that. This would mean that authorities would have certainty for the forthcoming year, but that needs assessment would not move too far adrift from reality and that step changes resulting from less frequent updates would be avoided.

In addition we think that this should be coupled with a commitment from central government to be responsive to local authorities facing specific significant challenges over shorter timescales.

Q3): Do you agree that these population projections should not be updated until the relative needs assessment is refreshed?

Yes, but we would propose that the relative needs assessment should be refreshed every year, taking effect not for the forthcoming year but for the year after that (as per answer to Q2). In that manner local authorities would have certainty regarding their settlement position for the year in which they are actively budgeting, without creating long and variable intervals before updates.

Q4): Do you agree that rurality should be included in the relative needs assessment as a common cost driver?

Only if the evidence demonstrates a significant link between rurality and expenditure pressure.

Q5): How do you think we should measure the impact of rurality on local authorities' 'need to spend'? Should the relative needs assessment continue to use a measure of sparsity or are there alternative approaches that should be considered?

Common sense would suggest that sparsity would influence transport costs and that there could be a positive correlation with expenditure. We are open to the use of any objectively and consistently measurable variable that has both statistical and common sense link to rurality.

Q6): Do you agree that deprivation should be included in the relative needs assessment as a common cost driver?

Yes. As with other variables, deprivation (and its various constituent elements) should be included to the degree that is justified by the statistical analysis of its impact on the needs assessment.

Q7): How do you think we should measure the impact of deprivation on ‘need to spend’? Should the relative needs assessment use the Index of Multiple Deprivation or are there alternative measures that should be considered?

Whilst we are not opposed to the principle of using the Index of Multiple Deprivation (IMD), as a combination of constituent variables, we think that analysis should be carried out to determine if any of the constituent variables have more explanatory power than in combination as the IMD.

Q8): Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?

The proposed factors appear broadly reasonable we do not have any specific comments.

Q9): Do you have views on the approach the Government should take to Area Cost Adjustments?

In our view the Area Cost Adjustments (ACAs) should not be determined through any separate or parallel statistical analysis, which could risk double counting the importance of factors such as rurality/sparsity. We acknowledge that the factors listed in the consultation, in relation to ACAs could all have the potential to explain variations in spending pressure. However they should be brought into the same overall statistical assessment of factors, rather than analysed separately.

Q10a): Do you have views on the approach that the Government should take when considering areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities?

We recognise that there may be outliers identified during the statistical analysis that may warrant a separate approach, which could include the allocation of specific grants.

Q10b): Which services do you think are most significant here?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q11a): Do you agree the cost drivers set out above are the key cost drivers affecting adult social care services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q11b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting adult social care services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q12a): Do you agree that these are the key cost drivers affecting children’s services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q12b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting children's services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q13a): Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q13b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q14a): Do you have views on what the most suitable cost drivers for local bus support are?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q14b): Do you have views on what the most suitable data sets are to measure the cost drivers for local bus support?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q15a): Do you agree that these are the key cost drivers affecting waste collection and disposal services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q15b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting waste collection and disposal services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q16a): Do you agree these remain the key drivers affecting the cost of delivering fire and rescue services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q16b): Do you have views on which other data sets might be more suitable to measure the cost drivers for fire and rescue services?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q17a): Do you agree these are the key cost drivers affecting the cost of legacy capital financing?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q17b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting legacy capital financing?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q18a): Are there other service areas you think require a more specific funding formula?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q18b): Do you have views on what the key cost drivers are for these areas, and what the most suitable data sets are to measure these cost drivers?

The proposed factors appear broadly reasonable, we do not have any specific comments.

Q19): How do you think the Government should decide on the weights of different funding formulas?

This should be evidence based, carrying out statistical analysis of actual spend levels, as opposed to the judgement of central government.

Q20): Do you have views about which statistical techniques the Government should consider when deciding how to weight individual cost drivers?

Although we would not want any specific approaches to be ruled out at this stage, we have a strong preference for techniques that minimise the role of judgement. In particular we think that the 'outcome based regression models' (in which authorities are funded according to the success in delivering outcomes) would always be open to the criticism of subjective bias.

In our view, the factor analysis and principle component analysis approaches (which try to simplify complex data sets down to just the most important factors) should be explored. Though complex, these have the greatest potential to deliver a solution which minimises the number of cost drivers in any overall (or indeed service specific) model of needs, carrying out this selection in an objective fashion. As such we would propose that a significant proportion of the effort is focused on these approaches.

Q21): Do you have any comments at this stage on the potential impact of the options outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

No comments at this stage.