

## Fair Funding Review – December 2018 Consultation

### Purpose of report

For discussion.

### Summary

This report provides a summary of the Government's recently published consultation on the Fair Funding Review and asks for member comment on the draft LGA response which has been developed with the LGA Task and Finish Group on Business Rates Retention and the Fair Funding Review.

### Recommendation

That members provide comments on the draft LGA response ([Appendix B](#)).

### Actions

Officers to amend the draft response on the basis of the comments of members of LGA Leadership Board and Executive and to submit the final version ahead of the 21 February 2019 deadline for responses.

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## Fair Funding Review – December 2018 Consultation

### Introduction

1. On 13 December 2018, the Government published its anticipated [consultation on the Fair Funding Review](#). The consultation closes on 21 February 2019. This paper summarises the key points made in the consultation and provides a draft response (please see **Appendix B**) for members' clearance.
2. The Government's consultation document addresses all three strands of the Fair Funding Review:
  - 2.1 Assessing relative needs;
  - 2.2 Assessing relative resources;
  - 2.3 Transition from the current pattern of funding distribution to the new one.
3. The three strands come together as follows:

<p style="text-align: center;"><i>Funding position = (relative needs share – relative resources adjustment) ± possible transitional arrangements</i></p>
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### Consultation: assessing relative needs

4. As expected, the Government has used the consultation document to outline its leading options for the structure of the relative needs assessment, covering the suggested funding formulas, the likely cost drivers, and techniques used to weight cost drivers against one another (as well as formulas against one another). It also includes the Government's proposed approach to the Area Cost Adjustment.
5. Table 1 sets out the proposed formulas and which types of local authorities they would apply to. **Appendix A** contains a detailed table which sets out the services covered by these formulas and the suggested cost drivers. One key point to note is that the Government is proposing that the foundation formula should be based solely on population and an area cost adjustment, with the latter including adjustments for remoteness and journey times among others.
6. The Government also considered a number of other areas as candidates for specific formulae. They are set out in table 2.

Table 1 – proposed structure of the relative needs assessment

RELATIVE NEED FORMULAS		SHIRE AREAS			METROPOLITAN AREAS	LONDON	OTHER
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs	Fire authorities
Foundation Formula	'County' services	●	●		●	●	
	'District' services	●		●	●	●	
1) Adult Social Care (18-64 and 65+ elements)		●	●		●	●	
2) Children and Young People's Services		●	●		●	●	
3) Public Health		●	●		●	●	
4) Highways Maintenance		●	●		●	●	
5) Fire & Rescue		●	●				●
6) Legacy Capital Finance		●	●	●	●	●	●
7) Flood Defence and Coastal Protection		●		●	●	●	

Table 2 – Other services Government considered for specific formulas

Area under consideration	Government Proposal
Concessionary fares	Current proposal is to include in the foundation formula ('county' services). The Government will develop a separate formula to see if it would lead to materially different funding allocations, which would have to be the case for them to reconsider.
Home to school transport	Current proposal is to include in the foundation formula ('county' services). The Government will develop a separate formula to see if it would lead to materially different funding allocations, which would have to be the case for them to reconsider.
Local bus support	Include in the foundation formula ('county' services) due to relatively small size of the budget.
Waste services	Include in the foundation formulas as population is the main cost driver.
Homelessness	Include in the foundation formula ('district' services) due to relatively small size of the budget.
Fixed costs	Exclude to simplify.
Unaccompanied Asylum Seeking Children	No specific formula due to difficulty of predicting likely pressures in individual areas. The Government expects those authorities, that already have a relatively high need to spend on social care services for this client group, to be identified within the new children and young people's services formula, but will test this assumption through further engagement with local authorities.
People with no recourse to	No specific formula due to difficulty in defining relevant spending and service types, as well as unpredictable demand and availability of funding outside of the settlement.

public funds	
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7. The Government also set out its proposed structure for the area cost adjustment, which would be used to modify the results of the formulas to reflect factors outside of local authority control which could lead to different costs in service provision among authorities with broadly similar characteristics.
8. The Government is minded to incorporate the factors set out below:
  - 8.1. **a rates cost adjustment**, including rents, to reflect the variation between areas in the cost of using equivalent premises due to differences in local supply and demand factors. This is a feature of the current area cost adjustment;
  - 8.2. **a labour cost adjustment**, including accessibility, to reflect the fact that authorities will need to compete with other potential employers to secure and retain suitably skilled staff, including an assessment of extra journey times in rural and densely populated areas. There is a labour cost adjustment in the current area cost adjustment but this has not, in the past, included journey times; and
  - 8.3. **a remoteness adjustment**, to account for variation in the cost of some inputs due to the size of local markets or isolation from major markets.

### Consultation: adjusting for relative resources

9. As expected, the Government's consultation document includes proposals on how the relative resources deduction could be calculated. The following elements were identified in the calculation of council tax adjustments:
  - 9.1. **A measure of council tax base, including treatment of discounts, exemptions, premiums and local council tax support.** The Government proposes to adjust in full for all mandatory discounts, exemptions and premiums, including the pension-age element of local council tax support and is consulting on how to treat discretionary discounts and premiums. The Government is looking for suggestions on how to adjust for the working-age element of council tax support given its mixed mandatory/discretionary nature.

*multiplied by*
  - 9.2. **A measure of council tax level.** The Government is minded to use a notional council tax level across England rather than actual council tax levels, and is looking for views on the level at which it could be set.

*shared according to*
  - 9.3. **An approach to council tax tier splits in multi-tier areas.** This is in effect the same as identifying how the notional council tax level (set at unitary level) breaks down into specific authority tiers. A larger tier split for an authority type means a larger share of the resources deduction for the tier as a whole, with the use of

notional council tax level ensuring that within the tier the distribution of this deduction is only based on relative taxbase size.

10. The Government is also seeking views on whether to take council tax collection rates into account in the resources adjustment. In the formula grant system, this was implicitly assumed to be uniform across England so as not to create perverse incentives or to penalise councils with higher collection rates; but the Government is asking whether there is any merit in using individualised council tax collection rate assumptions. There is a strong correlation between collection rates and the index of multiple deprivation, with more deprived areas having a tendency of lower collection rates. The Government is also considering whether to project changes in the council tax base over a number of future years.
11. The Government is minded to not include an assessment of fees and charges in the resources deduction, but is asking about how best to adjust specifically for parking income should it decide to do so.

**Consultation: transition**

12. Finally, the consultation document outlines the Government's early thinking on how a transition mechanism could work. The Government asks for views on the main principles that could underpin the transition mechanism as set out in the table below.

**Table 3. Potential principles to underpin the transition mechanism**

<b>Principle</b>	<b>Description</b>
<b>Stability</b>	The transition from the existing funding position to new target allocations must be manageable and sustainable for both the sector and individual local authorities, in the context of wider changes to the local government finance system.
<b>Speed</b>	Support for those authorities with reductions in settlement funding allocations using deferred gains for those authorities that see an increase in allocations should be provided over a fixed period of time to enable target allocations to be reached as soon as practicable.
<b>Transparency</b>	The process must be clear and understandable to support both financial planning and explaining the nature of transition to a wider audience.
<b>Flexibility</b>	The speed of change could vary across the sector to achieve greater efficiency. Considerations might include local revenue raising capacity, distances from target allocations and/or relative funding pressures, for example, to deliver statutory services.

13. The Government is of the view that the actual funding position for 2019/20 should form the starting point for the transition path, instead of a constructed notional set of baselines. However, this invites questions on whether, for example, council tax income should count as part of the baseline, or whether it should be more limited.

## **LGA Response**

14. **Appendix B** contains a draft response based on policy positions agreed by the Leadership Board and Executive during previous meetings, and policy lines proposed by the LGA Task and Finish Group at their meeting in December 2018. Members of the Task and Finish Group have also commented on the draft consultation response.
15. This response was also shared with officials from County Councils Network, District Councils' Network, London Councils and the Special Interest Group of Metropolitan Authorities. Given the distributional consequences of some of the proposals contained within the consultation document, there were differences of views on a number of issues in particular on the foundation formula. The draft response aims to balance the views of these organisations although the position on the foundation formula, in terms of including a deprivation factor, was the firm view of the LGA's cross party Task and Finish Group.
16. Sections of the draft response highlighted in yellow are based on policy positions suggested by the Task and Finish Group during their December 2018 meeting. Leadership and Executive are invited to comment and provide clearance of the draft response. Responses to questions 5, 6, 7, 11 and 12 are based on policy positions agreed by Leadership Board and Executive at its December meetings.

## **Next steps**

17. Officers will amend the draft response on the basis of the comments made by members of Leadership Board and Executive.
18. This response will be finalised before the 21 February 2019 deadline for responses. It is proposed that the LGA Chairman and Group Leaders provide any final clearance if required.
19. LGA and MHCLG officials are also in the process of running a series of regional events to discuss the consultation directly with officials and politicians from local authorities across England. At the time of the meeting, events in London, Taunton and Bury St Edmunds will have taken place, with events in Leeds and Birmingham to follow in early February.

## **Implications for Wales**

20. Local government funding is a devolved matter and the Fair Funding Review is limited to English local authorities.

## **Financial Implications**

21. This work is part of the core LGA work programme and as such is budgeted for within 2018/19 budgets.

**Appendix A. Detailed make-up of the proposed relative needs assessment**

Formula subject	Which council types will it apply to?	Cost drivers included	Analytical technique used to add weights to cost drivers	Will an Area Cost Adjustment apply?	Example services covered by the formula	Comments
Foundation formula – 'district' services	Shire districts, unitaries, metropolitan districts, London boroughs	Total population	n/a	Yes	Waste services, environment, homelessness, sports and recreation, planning, central services	
Foundation formula – 'county' services	Shire counties, unitaries, metropolitan districts, London boroughs	Total population	n/a	Yes	Waste disposal, public transport, libraries, leisure, central services	
Adult social care - 18-64	Shire counties, unitaries, metropolitan districts, London boroughs	Proportion of people aged 16 to 64 with day-to-day activities limited a lot; Proportion of people aged 16-59 claiming JSA, IS and ESA <sup>1</sup> ; Proportion of people of all ages living in households with one family; People aged 16-24 inclusive per person aged 16-64 inclusive	Small area (multi-level) modelling	Yes	Learning disability support; Physical disability support; Social care activities; Mental health support; Support with memory and cognition; Commissioning	This formula is the result of a multi-year research exercise commissioned by DH in 2012. It is underpinned by robust data modelling which could not be re-run without significant cost or in time for April 2020, but some cost drivers include benefit claimant statistics which can no longer be updated due to the rollout of Universal Credit.

<sup>1</sup> Job Seekers' Allowance, Income Support and Employment Support Allowance.

Formula subject	Which council types will it apply to?	Cost drivers included	Analytical technique used to add weights to cost drivers	Will an Area Cost Adjustment apply?	Example services covered by the formula	Comments
Adult social care - 65+	Shire counties, unitaries, metropolitan districts, London boroughs	Proportion of people aged 65 and over entitled to Attendance Allowance; People 85 and over with limiting (significantly) condition, per Census person aged 65 and over; People 80 and over claiming pension credit, per person aged 65 and over; Proportion of households over 65 who are couples; Proportion of households over 65 who are home owners (outright ownership only) multiplied by proportion of properties in Council Tax bands A,B,C,D and E; Proportion of households over 65 who are home owners (outright ownership only) , multiplied by proportion of properties in CT bands F to H.	Small area (multi-level) modelling	Yes	Learning disability support; Physical disability support; Social care activities; Mental health support; Support with memory and cognition; Commissioning	This formula is the result of a multi-year research exercise commissioned by DH in 2012. It is underpinned by robust data modelling which could not be re-run without significant cost or in time for April 2020, but some cost drivers include benefit claimant statistics which can no longer be updated due to the rollout of Universal Credit.

Formula subject	Which council types will it apply to?	Cost drivers included	Analytical technique used to add weights to cost drivers	Will an Area Cost Adjustment apply?	Example services covered by the formula	Comments
Children and young people's services	Shire counties, unitaries, metropolitan districts, London boroughs	TBC pending results of research project	Small area (multi-level) modelling	Yes	Child, young people and family support services; Safeguarding, social work assessment, case management, and commissioning; Looked after children, supporting legal permanence in alternative families and care leaver services; Sure Start children's centres / Flying Start and early years; Youth justice.	This formula will be the result of a multi-year research exercise commissioned by DfE. It will be underpinned by analysis of the national pupil database which includes detailed demographic information at individual pupil level. The results of the research are expected to be available in summer 2019.

Formula subject	Which council types will it apply to?	Cost drivers included	Analytical technique used to add weights to cost drivers	Will an Area Cost Adjustment apply?	Example services covered by the formula	Comments
Public health	Shire counties, unitaries, metropolitan districts, London boroughs	Population estimates; Sub-national population projections by age and sex; Standardised mortality ratios for those under 75; Age-gender indices based on service weights by age-group and sex for: nutrition, obesity and physical activity; smoking; non-mandated sexual health services and children's 5-19 public health services; Modelled costs for substance misuse services by age-group and postcode sector; Predicted costs for sexual health services by age-group, sex and local authority; Sparsity adjustment for health visiting services.	Weighted capitation formula; needs-weighting partially based on person-based/multi-level modelling	Yes	Mandated services; Non-mandated services (including sexual health services relating to advice, prevention and promotion); Substance misuse services; Sexual health services; Children's services (0-5yrs);	This is the formula that was subject to consultation in 2015. The consultation document is clear that the inclusion of public health is contingent on the final decision on whether public health grant will be rolled into business rates retention.

Formula subject	Which council types will it apply to?	Cost drivers included	Analytical technique used to add weights to cost drivers	Will an Area Cost Adjustment apply?	Example services covered by the formula	Comments
Highways maintenance	Shire counties, unitaries, metropolitan districts, London boroughs	Road length; Traffic flow.	Local authority-level expenditure-based regression	Yes	Environmental, safety and routine road maintenance; Structural maintenance; Street lighting; Winter service.	
Legacy capital finance	All	Assumed debt repayment; Assumed interest charges.	n/a	No	n/a	This formula would use the same cost drivers as a similar formula in the previous system and is intended to compensate councils for Government-supported borrowing which was granted prior to the prudential borrowing system being introduced.
Flood defence and coastal protection	Shire districts, unitaries, metropolitan districts, London boroughs	Flood defence: Length of ordinary watercourse; Properties at risk; Agricultural land at risk.  Coastal protection: Properties at risk; Length of coast.	Local authority-level expenditure-based regression	Yes	Defences against flooding; Land drainage and related work; Coast protection;	

Formula subject	Which council types will it apply to?	Cost drivers included	Analytical technique used to add weights to cost drivers	Will an Area Cost Adjustment apply?	Example services covered by the formula	Comments
Fire and rescue services	Councils with in-house fire and rescue functions and standalone fire authorities	To be confirmed	To be confirmed	Yes	Fire fighting and rescue operations; Community fire safety; Fire and rescue service emergency planning and civil defence.	The Government is considering three different options: updating the current formula; designing a new simplified formula based on population and deprivation; or to develop a multi-level modelling exercise along the lines of a children's services formula. It has committed to continued communication with National Fire Chiefs' Council on this.

## **Appendix B. Draft LGA response to the December 2018 Fair Funding Review consultation**

### Introduction

The Local Government Association (LGA) welcomes the opportunity to respond to the Government's consultation on the relative needs assessment as part of the Fair Funding Review.

The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.

This response has been approved by LGA Leadership Board and Executive, under advisement by the LGA Business Rates Retention and fair Funding Review Task and Finish Group.

### General comments

Local authorities broadly welcomed the Fair Funding Review when it was announced in 2016 and have been active in providing their input. The current system of funding distribution is opaque, overly complex and out of date.

We continue to work closely with the Ministry for Housing, Communities and Local Government on the Fair Funding Review to ensure that the Review is objective and transparent and that there is extensive engagement with local government. This joint working, and the fact that all papers of the technical working group have been made publicly available, is welcome and we intend to continue this approach.

It is clear that the Government is starting to make choices that will have distributional consequences. This is unavoidable given the scope and aims of the Review.

In order to ensure the results of the Review are as credible as possible, it is crucial that the Government is transparent and provides sufficient evidence behind its decisions. We recognise the attempts made to do this as part of the consultation document, but this needs to go further.

Above all, we are clear that the outcome of the Fair Funding Review will not be sustainable unless it is delivered together with additional funding. Regardless of how funding is distributed, it is simply insufficient to ensure sustainable delivery of council services. We estimate an £8 billion funding gap forming by 2024/25, with £3.1 billion in 2019/20.

As a result, we do not agree that the review should be taking place in a revenue-neutral manner; the Government must provide additional resource as part of the 2019 Spending Review.

We continue to remain concerned about the lack of clarity over funding for local authorities. With further business rates retention, the results of the Spending Review and the outcome of

the Fair Funding Review all being implemented from April 2020, local authorities have no reliable basis on which to appropriately plan their budgets even in the short term. At the moment it is unclear how much funding there will be from April 2020, how it will be distributed, and the means of delivery.

As a result, local authorities will have to make assumptions about future funding and, in some cases, this will result in completely unnecessary cutbacks to services which could be avoided with more certainty. This is unacceptable, especially at a time when councils will have dealt with a £15 billion reduction to their annual core government grant over this decade.

The Government should provide local authorities with exemplifications of further business rates retention and the Fair Funding Review in spring 2019, rather than the summer or autumn of next year as currently planned. They can be revised in line with Spending Review announcements when this is available.

Of particular concern will be the lack of clarity on formulas for children and young people's services, public health, fire and rescue services, concessionary fares and home-to-school transport at this stage. It is also important to test whether the proposed adult social care formula is still reflective of relative local authority needs, especially given the out-of-date welfare statistics that are used. Together, these services account for a significant part of local authority budgets.

### Responses to detailed questions

#### **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?**

Overall, we would like to direct the Government to our member authorities' responses to this wide-ranging question, but the following are several points we would like to make.

The distributional consequences of the Review mean that it is important to provide a robust evidence base behind the decisions made as part of the Review.

We note that the Government has provided some explanation for most of the decisions it is making regarding the structure of the relative needs assessment. This is welcome, but we believe the Government must go further in order to ensure that the process and outcomes of the Fair Funding Review are as transparent as possible, and in line with the Government's second principle guiding the Fair Funding Review. It is clear a significant amount of analysis has gone into developing the emerging outcomes, but it has not been shared in full.

Councils will want to know that all the factors they have suggested affect their need to spend have been tested as part of the work on the formula. If some of these factors have been excluded there should be an explanation as to why that is the case.

The Government has provided some evidence on the cost drivers tested and the expenditure data used. However, some important details are missing in some cases. This includes, on a case-by-case basis, reference years, whether total spending or spending per

head was measured, and whether spending was deflated for area cost differences, and full regression/correlation analysis results.

We understand that this level of detail might be too complex for the format of the consultation document. However, this consultation must be accompanied by a much more detailed technical note about the exact evidence used to arrive at each view on the relative needs assessment.

This applies in particular to the decisions to:

- Exclude deprivation as a cost driver from the foundation formula;
- Include lead local flood authority spending in the foundation formula; and
- Include homelessness in the foundation formula.

#### Foundation formula

We note the Government's aim to deliver a simplified foundation formula with a small number of cost drivers reflected. The LGA continues to maintain that simplicity is welcome, but not at a disproportionate cost to accuracy.

It is welcome that the Area Cost Adjustment will now be reflective of factors such as population sparsity and density. It is logical that issues such as journey times would lead to different unavoidable cost of delivering services. However, our members in both sparsely and densely populated areas will look to ensure that the weightings for these factors are developed on robust evidence.

Overall, given the widespread support for consideration of deprivation as part of the Government's previous consultation, and potentially a not insignificant 4% explanatory power, we believe that the starting point should be for deprivation to remain as a factor in the foundation formula, with development of a clear evidence base for the weighting for this cost driver.

#### Adult social care formula

The use of multi-level modelling to arrive at the most relevant cost drivers and their weightings within the formula is welcome, and we note the significant effort and resource that was employed by the Department for Health and Social Care in developing this formula.

However, our members will be concerned that the cost drivers include out-of-date factors related to deprivation due to the use of benefit claimant data which is no longer updated as a result of the introduction of Universal Credit. More evidence is needed to demonstrate that the formula is still valid as a result of this and that it is 'future proof' against significant macroeconomic shocks.

As part of the technical note mentioned above, the Government should provide a backwards-looking analysis of how individual local authorities' values for welfare-related factors changed from 2007 (or as far as possible into the past, if later) to the present day (or as close as possible to the present day).

If the results show significant divergence in funding shares between local authorities would have taken place as a result of shifts in the welfare-related indicators, the formula should be reviewed as soon as a consistent dataset on Universal Credit claimants becomes available.

Children and young people's services formula

We welcome the Government's approach to developing this formula. It is likely that this formula will be used to distribute a large share of the relative needs baseline, and urge the Government to deliver the results of this project as soon as possible, to allow for a more timely publication of draft funding baselines.

We would point the Government to the LGA's own study conducted by Newton Europe that looked in depth at the cost drivers associated with the delivery of children's social care.

Public health

The LGA is disappointed to see continued uncertainty over the future of the funding of public health. The Government has committed to this grant being rolled into business rates retention (and, as such, forming part of the Fair Funding Review) multiple times – including Chancellor's Budgets.

We note that the Government consulted on the proposed formula in 2015, but chose not to implement its results. Analysis must be carried out to provide evidence that the formula is fit for purpose and suitable for implementation.

Highways

We welcome the Government's attempt to simplify the highways formula; the cost drivers of road length and usage are an intuitive starting point. More information on the analysis conducted to narrow down the cost drivers to two would be welcomed, in line with our overall request for a detailed technical note.

Legacy capital formula

The Government must clarify the methodology that will be used to estimate the historic level of supported borrowing as well as the interest rate, as part of the technical note mentioned above.

Population projections

We support the use of population projections to set a 'forward path' of funding baselines for a number of years.

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

The LGA supports a collaborative approach between the fire authorities and the Government in developing a new fire and rescue services' relative needs formula. We would like to direct the Government to responses of our fire authority members for more detail.

There is a need to carefully consider the fact that fire services are now delivered by a number of different authorities, each with a specific wider remit, such as standalone fire and rescue service bodies, police and crime commissioners, combined authorities, and council-run services.

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

The LGA supports an evidence-based approach to assessing the need for specific relative needs formulae for these services, and would encourage the Government to engage with councils most affected by the cost pressures on these services as part of arriving at its decision.

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

The LGA supports an evidence-based approach to developing a set of refreshed Area Cost Adjustments.

To aid transparency, the Government should publish a full technical note on the analysis it has carried out, and the evidence it has used, to estimate the impact of all factors included in, or excluded from, the ACAs, in particular those related to geographical sparsity, density and remoteness.

**Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions, including 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?**

The LGA agrees with this, and proposes the use of council taxbase statistics returns to enable the calculation. Councils should not bear the costs of national Government policy decisions. This includes incidence of discounts such as single persons discount and the student exemption.

**Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions, including the income forgone due to local council tax support for working age people, should be made when measuring the council tax base? If so, how should we do this?**

The starting assumption should be that no discretionary discounts or premiums (with the exception of local council tax support for working age claimants) should be adjusted for, with councils bearing the full cost or receiving the full income from the use of these powers.

The LGA believes that the Government should use a formula-based approach to estimate the likely demand for local council tax support schemes for working-age households. As a result, the potential demand rather than actual policy decisions would be adjusted for, with individual councils covering the costs or retaining the savings from any deviation.

This is in line with the principle that financial costs and benefits of local decisions should be retained in full by councils.

**Question 7): 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?**

The LGA agrees that a notional council tax level should be used in order to ensure that local authorities are not rewarded or penalised as a result of historic political decisions.

We note that in many cases, other factors – such as the level of Government funding – will have had a significant impact on council tax level decisions made by councils; but there is no reliable method to adjust for these factors in the council tax adjustment.

**Question 8): What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?**

We do not believe that actual council tax collection rates should be taken into account as this could inadvertently penalise councils which are more effective.

However, we note that there is a very strong correlation between 2017/18 collection rates and the average score of the 2015 index of multiple deprivation. As a result, we believe that the ability to collect council tax could be adjusted for using a formula approach.

**Question 9): 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?**

We would direct the Government to responses of our member authorities on this question, but we are clear that this should be decided in a transparent way.

If the Government were to use actual council tax income as the basis for the split, it is important that the measure of council tax income:

- Only includes adult social care precept income if the improved Better Care Fund is rolled into the relative needs assessment;
- Does not make any adjustment related to take-up of the council tax freeze grant;
- Excludes parish council tax precepts and special levies, such as internal drainage board levies.

**Question 10): 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?**

The LGA agrees with this approach. The Government's methodology should not presuppose increases in council tax income in calculations of the resources adjustment or of the baseline for the transition mechanism, regardless of whether those assumed increases arise from expected taxbase growth, or from expected increases in council tax levels.

**Question 11): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?**

We agree that sales, fees and charges should not be taken into account in this way. Local authorities have been required to develop a more commercial approach to running services as a result of the £15 billion reduction in core government funding over this decade. Therefore, taking such income into account on an 'actuals' basis would penalise councils that have been working hard to mitigate funding cuts. The level of data available is also insufficient to assess the capacity to generate such income and to assess where such income is a result of policy decisions, making reliable and objective adjustments on a 'notional' basis impossible.

**Question 12): 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?**

While there are clear outlier councils in relation to parking income, we do not believe there is a sufficient level of data available to assess councils' capacity to generate such income and to assess to what extent such income is a result of policy decisions, making reliable and objective assessments difficult.

**Question 13): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?**

We agree these principles are important to look at. However, it is clear there will be trade-offs. It is difficult to see how a transition mechanism could include both a reasonable time limit and meaningful protection for the councils that are most significantly affected, without additional Government resources.

As a result, the LGA continues to be clear that the outcome of the Fair Funding Review, and the transition path from the current pattern of funding allocations, should be delivered alongside sufficient resources to meet the £7.8 billion funding gap facing local authorities by 2024/25.

**Question 14): Do you have views on how the baseline should be constructed for the purposes of transition?**

We believe that there is merit in considering including the current income from council tax in calculating the transition baseline and target (not the Fair Funding Review baseline). This would give a more rounded picture of the real impact of the Fair Funding Review on local authority budgets.

However, under no circumstance should the inclusion of council tax income in the transition baseline/target come with any assumptions about council tax increases, either due to taxbase growth or due to assumed future council decisions on council tax levels.



**Government**

Association

Company Number 11177145

**LGA Leadership Board**

23 January 2018

**Question 15): 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.**

We would like to direct the Government to the responses of our member authorities.