A review of local authorities’ relative needs and resources

Technical consultation on the assessment of local authorities’ relative needs, relative resources and transitional arrangements
Ministerial foreword

Every day, local authorities and the many hard-working, dedicated people who work for them deliver vital services, improving the lives of the most vulnerable in the communities they serve.

I am determined, therefore, to ensure every council gets the resources and support to rise to new challenges, grow their economies and deliver opportunity for all.

Central to this is the question of how we should allocate the funding we have, and I am confident we can design a funding formula local authorities have faith in; one that draws a more understandable link between the need for services and local funding.

While there may be differing views on elements of any formula, I know there is strong support from those I meet up and down the country for a simpler methodology, based on a robust approach and using the best available evidence.

This is why our review has been informed by a process of listening to the sector, testing issues and progressively narrowing our focus. And it is now taking shape, with this consultation offering a valuable opportunity to refine how we determine relative needs for services before we consult again in 2019.

This consultation also highlights the issue of local resources; to explore how we can take account of the sources of local income that councils can use to fund services in a way that is fair, transparent and easily understandable.

I urge everyone with an interest to respond to this consultation, by 21st February 2019.

As we work together to give local government more control over the money it raises locally, developing a better, fairer means of distributing funding will serve authorities now and for years to come. I am positive councils and communities can face the future with confidence.

Secretary of State for Housing, Communities and Local Government

The Rt Hon James Brokenshire MP

December 2018
### Scope of the consultation

<table>
<thead>
<tr>
<th>Topic of this consultation:</th>
<th>This consultation seeks views on the approach to measuring the relative needs and resources of local authorities, with the aim of determining new baseline funding allocations for local authorities in England in 2020-21.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope of this consultation:</td>
<td>This consultation seeks views on the approach to measuring the relative needs and resources of local authorities.</td>
</tr>
<tr>
<td>Geographical scope:</td>
<td>These proposals relate to England only.</td>
</tr>
<tr>
<td>Impact Assessment:</td>
<td>No impact assessment has been produced for this consultation.</td>
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</table>

### Basic Information

<table>
<thead>
<tr>
<th>To:</th>
<th>The consultation will be of particular interest to local authorities and their representative bodies.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Body/bodies responsible for the consultation:</td>
<td>Local Government Finance Directorate within the Ministry of Housing, Communities and Local Government.</td>
</tr>
<tr>
<td>Duration:</td>
<td>This consultation will last for 10 weeks from 13 December 2018 to 21 February 2019. All responses should be received no later than 23:45 on 21 February 2019.</td>
</tr>
<tr>
<td>Enquiries:</td>
<td>For any enquiries about the consultation please contact the Local Government Finance Settlement Team: <a href="mailto:NeedsAndResources@communities.gov.uk">NeedsAndResources@communities.gov.uk</a></td>
</tr>
<tr>
<td>How to respond:</td>
<td>Consultation responses should be submitted by online survey: <a href="https://www.surveymonkey.co.uk/r/needsandresources">https://www.surveymonkey.co.uk/r/needsandresources</a></td>
</tr>
</tbody>
</table>

The online survey will allow you to save a draft response and return to the survey at a later time. You may also submit additional information or evidence to support your response to this consultation. Further advice on how to use these features is available on the home page of the online survey.

Should you be unable to respond via the online survey you will need to complete the consultation response pro-forma published alongside this consultation paper. Additional information or evidence may be provided in addition to the completed pro-forma. Pro-forma responses and any additional information or evidence may be sent by email to: NeedsAndResources@communities.gov.uk
Written responses may also be sent to:

Local Government Finance Settlement Team
Ministry of Housing, Communities and Local Government
2nd floor, Fry Building
2 Marsham Street
London
SW1P 4DF

When replying to this survey please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

—your name,
—your position (if applicable),
—the name of organisation (if applicable),
—an address (including post-code),
—an email address, and
—a contact telephone number
1. Introduction

1.1. About this consultation

1.1.1. The use of formulas to distribute financial resources to local authorities can be traced as far back as the 19th century, and the basis on which distribution takes place has been subject to periodic review. The current funding baselines for local authorities in England, as determined by the annual local government finance settlement, are based on an assessment of their relative needs and resources. The methodology behind this assessment was first introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013-14.

1.1.2. Whilst this approach has ensured that councils which have grown their business rates since this time have benefited from the additional income generated, it also means that councils’ underlying levels of ‘need’ have not been updated since the 2013-14 settlement. In addition, a desire to fully capture every aspect of local authorities’ needs has led to increasingly large numbers of variables being included in the formulas, many of which had a relatively minimal impact on the overall distribution of funding. The House of Commons Communities and Local Government Committee highlighted this with their independent research which concluded that a simplified needs assessment formula, based on a smaller number of indicators, could achieve outcomes that were a good approximation of those of a more complex system.1

1.1.3. In order to address concerns that the current formula is unfair, out of date and overly complex, the Government is carrying out a review of local authorities’ relative needs and resources (the ‘review’) to develop a more robust and up-to-date approach to distributing funding across all councils. The review will enable the Government to reconsider the drivers of local authorities' costs, the resources available to them to fund local services, and how to account for these in a way that draws a more transparent and understandable link between local circumstances and resource allocations.

1.1.4. The Government’s December 2017 consultation on relative needs2 was an opportunity for local authorities to tell us about the important factors which drive costs for the services they deliver on a day-to-day basis. The consultation resulted

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2 https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources
in over 300 responses from a range of local authorities, representative bodies and others, which have been carefully considered in taking forward the work of the review and in preparing this consultation paper. A summary of the responses received has been published alongside this consultation:

https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources

1.1.5. This consultation paper marks the next step in developing a new distribution methodology. There are a number of outstanding issues that need to be settled, around which the Government would like to seek further input before consulting on a preferred approach next year. This paper therefore sets out the progress we have made so far in developing a proposed approach to measuring the relative needs of local authorities, which we will keep under review before setting out final proposals. This paper also introduces potential approaches that have been identified to measuring the relative resources of authorities, and proposes a set of principles to guide the future development of transitional arrangements. Responses to this consultation are requested by 21 February 2019.

1.1.6. The Ministry of Housing, Communities and Local Government has worked closely with local authorities and their representatives on the review, including through a joint Local Government Association and Ministry of Housing, Communities and Local Government-chaired steering group and technical working group. Records of technical papers and discussions from the meetings are available on the Local Government Association's website.3

1.1.7. Alongside this consultation, the Government has published a consultation on business rates retention reform, which seeks views on the balance between risk and reward within the reformed system and how disproportionate risk and volatility should be addressed. The Government’s ambition for business rates retention is to continue to give local government greater control over the money they raise, to spend on public services and to support local economic growth, empowering authorities to create a locality that is open for business. However the Government recognises the complexity of the business rates retention system and believes that, where possible, reform should not exacerbate complexity and should contribute to a system which is flexible and responsive to potential future changes. Responses to the consultation on business rates retention reform are also requested by 21 February 2019.


1.2. Terms of reference

1.2.1. The review of local authorities’ relative needs and resources will:

- set new baseline funding allocations for local authorities,

- deliver an up-to-date assessment of the relative needs of local authorities using the best available evidence. The Government has been clear that there will continue to be redistribution of business rates between local authorities to take account of relative needs; we will examine the factors that drive costs for local authorities and consider a wide range of options in order to determine what the basis of that redistribution should be,

- examine the relative resources of local authorities. The Government will take a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils,

- focus initially on the services currently funded through the local government finance settlement, with subsequent consideration on a case-by-case basis of additional responsibilities devolved to local government under further business rates retention,

- consider appropriate transitional arrangements to ensure changes in local authorities’ funding are introduced in a manageable way,

- be developed through close collaboration with local government to seek views on the right approach.

1.3. Guiding principles

1.3.1. The Government has established the following guiding principles to test a wide range of options for designing a new distribution methodology. Respondents to the December 2017 consultation demonstrated a broad consensus around these principles as well as strong support for the Government’s wider approach to the review so far, which is examining each aspect of the distribution methodology from first principles:

i) Simplicity – we will introduce a more straightforward methodology with enhanced levels of simplicity, but recognise that this should not be at the expense of accuracy and fairness. Where a more sophisticated approach may
be appropriate we will consider the trade-off between this and the other guiding principles of the review,

ii) Transparency – those affected by the local government finance settlement should be able to understand what factors have influenced the levels of funding received by a local authority so that they can hold their local representatives to account for the decisions that they make. To support this we will make a clearer link between the relative needs assessment and local circumstances, and take account of the ability that councils have to fund services through locally raised resources in order to determine funding allocations,

iii) Contemporary – the new relative needs assessment will be based on the most up-to-date data possible. To facilitate more frequent updates, as far as practicable the funding formula will be based on data that can be updated at planned intervals. If the collection of data or other technical requirements means that desirable changes cannot be made at the point of implementation, the Government will consider whether and how to introduce these at a later date whilst providing councils with financial certainty,

iv) Sustainability – an evidence-based approach will be deployed to identify the factors which drive costs for local authorities. The new funding formula must, as far as is practicable, anticipate future demand for services and take account of the relative resources available to local authorities as part of the overall picture of local authority sustainability,

v) Robustness - the new funding formulas should take into account the best possible objective analysis, and where appropriate provide an opportunity for experts in local government to sense check the results,

vi) Stability – the funding formula should support predictable, long-term funding allocations, ideally as part of a multi-year settlement. Local authorities will also be assisted by temporary transitional arrangements to guide the introduction of new funding baselines.

1.3.2. In addition to these principles, a key objective of the review is to work in conjunction with wider reforms to local government finance to ensure that councils can continue to deliver a better deal for local tax payers whilst maintaining satisfaction with local public services, by providing them with strong incentives to grow their local economies and use their resources as efficiently as possible.
1.4. Implementation

1.4.1. The Government is working towards implementing the outcome of the review as part of the 2020-21 local government finance settlement, alongside increased business rates retention, a full business rates baseline reset, and the 2019 Spending Review. We believe that this provides the best opportunity to deliver sustainable, coherent reforms to the local government finance system. The implementation of local government finance reforms will be kept under review as our work progresses, and we will continue to explore ways in which we can provide further certainty to local authorities about the likely outcomes.

1.4.2. We recognise that early notification of final funding allocations in particular would help councils’ medium term financial planning and service delivery. Given that final confirmed allocations will be subject to the timing and outcome of the planned Spending Review, the Government’s current aim is to publish indicative allocations through a further stage of formal consultation before the 2020-21 provisional local government finance settlement.

1.4.3. Where possible we also intend to publish relevant data sources for wider scrutiny at this time, in order to meet our principle of introducing greater levels of transparency.

1.5. This consultation

1.5.1. The focus of the review is broadly divided into three closely related strands of work, all of which are discussed in this consultation:

   i) relative needs,
   ii) relative resources, and
   iii) transitional arrangements.

1.5.2. Local authorities’ baseline funding levels will equal their relative needs share as assessed by the new needs formula, less a relative resources adjustment. An authority’s final funding position will be its baseline funding level, subject to possible transitional arrangements, plus its actual local resources.

\[
\text{Final funding position} = (\text{relative needs share} - \text{relative resources adjustment}) \pm \text{possible transitional arrangements} + \text{actual resources income}
\]
1.5.3. This consultation:

- proposes to simplify the assessment of local authorities’ relative needs by introducing a simple Foundation Formula, alongside several ‘service-specific’ formulas. Each formula will include relevant cost drivers, for which there is a robust and transparent process to establish their relative importance. The majority of these formulas will be subject to a service-specific Area Cost Adjustment (Chapter 2),

- considers the type of adjustment that will be made to an authority’s relative needs assessment to take account of the relative resources available to them to fund local services, such as council tax (Chapter 3),

- proposes a set of principles that will be used to design transitional arrangements and examines how the baseline for the purposes of transition should be established (Chapter 4), and

- seeks views on the potential impact of the options outlined in this consultation document on persons who share a protected characteristic (Chapter 5).
2. Relative needs

2.1. Introduction

2.1.1. The relative needs of local authorities are determined by the use of funding formulas, which incorporate relevant local demographic or other data, thought to predict the relative demand councils face when delivering different services. In order to reflect the fact that some ‘cost drivers’ are more significant than others in determining authorities’ ‘need to spend’, each cost driver is ‘weighted’ in the formula to reflect its relative importance. The formula can then be adjusted for other factors which affect the relative costs of service delivery – such as salary or property costs.

2.1.2. At present, 15 different relative needs formulas and several tailored distributions for services previously supported by specific grants are used to determine annual funding allocations through the settlement. These formulas involve over 120 cost drivers and were last updated in 2013-14 (although the underlying statistical modelling which determined the cost drivers and weightings given to them can be traced back even further).

2.1.3. This chapter focusses on how we will establish the relative needs share for each local authority, and considers each of the following elements of this assessment in turn:

- **The structure of the needs assessment** – in order to strike a balance between simplicity, transparency and precision, the Government has taken a number of factors into consideration when settling the number and type of relative needs formulas required, and the cost drivers included in them. This section summarises the approach the Government is minded to take towards the needs assessment for different types of authority, and provides an overview of each relative needs formula. Final decisions will be subject to further consultation and analysis before a preferred approach is determined in 2019,

- **Weighting of funding between services** – it will be necessary to decide what proportion of the overall funding that is available through the settlement will be allocated by each formula,

- **Weighting cost drivers in a formula** – to minimise the use of judgement in the needs assessment, statistical techniques offer the best available empirical basis

**Final funding position = \((relative \ needs \ share - relative \ resources \ adjustment)\ ± possible \ transitional \ arrangements + actual \ resources \ income\)**
for determining which cost drivers are most significant in driving authorities’ need to spend on particular services, and the relative importance (or weighting) of cost drivers included in a formula,

- **Area Cost Adjustment** - the needs assessment separates factors between those which drive demand for the number of services or interventions required (e.g. the number of people living in a local authority area), and those which affect the cost of delivering those services or interventions (e.g. the cost of employing staff which will vary across the country, or the impact of providing services across congested or sparsely populated areas). Where some factors can be argued as spanning both demand and cost domains, a clear distinction has been drawn between the two, based on which is most significant, in order to promote transparency in our approach,

- **Future proofing the needs assessment** – a key consideration is the balance we wish to strike between future-proofing the formula and offering funding certainty for authorities.

### 2.2. Structure of the relative needs assessment

2.2.1. The overall structure of the needs assessment - the number and type of formulas used – will have a significant bearing on the overall level of simplicity introduced by a new methodology. Respondents to the December 2017 consultation expressed significant support for our proposal to simplify the relative needs assessment. The general consensus was that deploying several service-specific formulas, alongside a Foundation Formula, would help to ensure an appropriate balance between simplicity, transparency and precision.

2.2.2. However, many respondents who favoured a simple and transparent approach also argued that the needs assessment should take account of specific factors that were relevant to their circumstances or those of a particular group of authorities. In particular, a large number of additional cost drivers were suggested, along with several service areas that might warrant a specific funding formula. The level of consensus around many of the suggestions that were made was not high; however, those that received a reasonable level of support are discussed in this chapter.

**Settling the structure of the needs assessment**

2.2.3. The Government remains committed to introducing a simpler and more transparent needs assessment, but we recognise that these objectives should not be pursued at the expense of accuracy. Therefore whilst our starting assumption has been that all council services are included in the Foundation Formula, we have also considered
on a case-by-case basis whether a standalone funding formula is merited for particular service areas.

2.2.4. In order to establish a threshold to determine whether introducing further complexity or detail in our approach adds significant value to the needs assessment, the Government has considered the following criteria:

- **Complexity** – services for which demand is driven by unique cost drivers that are not correlated with the overall size of the population of an area may require a separate funding formula. This could include services with complex means testing arrangements or eligibility criteria, which do not serve the wider population,

- **Scale** – many local authority services represent a relatively small proportion of overall expenditure. We have considered the proportionality of introducing specific funding formulas for different service areas,

- **Distribution of relative need** – some service areas may only account for a small proportion of overall local government expenditure, but have a significant impact on particular outlying councils. Where the distribution of relative need is concentrated in particular geographic areas or groups of authorities, and is driven by unique cost drivers, we have considered the case for introducing a specific funding formula,

- **Similarity** – some service areas have similar ‘bases’; for example the size of a local population, the number of children in an area, or road length. Where this is the case we have considered whether it is analytically more robust to group these services together under one relative needs formula.

**Proposed structure of the needs assessment**

2.2.5. Having considered the trade-off between simplicity, transparency and precision the Government is minded to deploy a per capita Foundation Formula for upper and lower tier authorities, alongside seven service-specific funding formulas. The table below summarises which of the proposed formulas apply to the different classes of authority:
Table 1: Relative need formulas by class of authority

<table>
<thead>
<tr>
<th>RELATIVE NEED FORMULAS</th>
<th>SHIRE AREAS</th>
<th>METROPOLITAN AREAS</th>
<th>LONDON</th>
<th>OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unitaries</td>
<td>Counties</td>
<td>Districts</td>
<td>Metropolitan Districts</td>
</tr>
<tr>
<td>Foundation Formula</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>1) Adult Social Care</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>2) Children and Young People’s Services</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>3) Public Health</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>4) Highways Maintenance</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>5) Fire &amp; Rescue^5</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>6) Legacy Capital Finance</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>7) Flood Defence and Coastal Protection</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
</tbody>
</table>

2.2.6. The overall level of funding available for redistribution at the 2020-21 local government finance settlement will be subject to the outcome of the 2019 Spending Review. Further consideration will be needed before we establish what proportion of the overall funding is to be allocated by each formula. Section 2.4 of this consultation discusses control totals in more detail.

2.2.7. In order to illustrate where specific council services are captured in the proposed relative needs assessment, we have ‘mapped’ expenditure lines from local authority general fund revenue account outturn forms to specific areas of the needs assessment. This is set out in a technical paper published alongside this consultation.

https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources

2.2.8. Funding allocations for the Isles of Scilly and the non-police and non-fire functions of the Greater London Authority may require separate determination outside of the review.

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^4 This includes stand-alone fire authorities, including metropolitan fire authorities, combined fire authorities and London Fire.

^5 Not all County and Unitary authorities are responsible for Fire and Rescue services.
Individual relative needs formulas

2.2.9. The following section provides an overview of each of the proposed relative needs formulas.

2.2.10. **Foundation Formula**

<table>
<thead>
<tr>
<th>Upper or lower tier formula:</th>
<th>Separate upper and lower tier formulas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost drivers included in formula:</td>
<td>— Total population</td>
</tr>
<tr>
<td>Analytical technique used:</td>
<td>Per capita basis</td>
</tr>
<tr>
<td>Will an Area Cost Adjustment apply?:</td>
<td>Yes</td>
</tr>
<tr>
<td>Example service areas included in formula:</td>
<td></td>
</tr>
</tbody>
</table>

| Upper tier: | Waste disposal  
Public transport  
Libraries  
Leisure  
Planning  
Central services |
| Lower tier: | Waste services  
Environment  
Homelessness  
Sports and recreation  
Central services |

2.2.11. The balance between simplicity, transparency and precision has been a key consideration for the Government in determining a new relative needs assessment methodology. On the basis that several specific funding formulas are proposed for some of the largest and most complex service areas provided by councils, the Government believes that there is a strong case for introducing a Foundation Formula which distributes funding for the remaining services on the most simple and transparent basis possible.

2.2.12. The number of people in each local authority area is an important predictor of the costs that councils face for services included in the Foundation Formula. Our analysis (set out on the following pages) demonstrates that overall, population is by far the most important cost driver for the Foundation Formula. On this basis, the Formula includes population size (based on Office for National Statistics population projections) as the only cost driver, which means these services will be funded on a simple ‘per capita’ basis, with an Area Cost Adjustment applied.

2.2.13. In order to reflect the structure of local government and the responsibilities of different tiers, the Government will introduce separate upper tier and lower tier Foundation Formulas. In the case of single tier authorities both a lower and upper tier formula would apply.
2.2.14. The Foundation Formula will represent a large proportion of the relative needs assessment for both upper and lower tiers. Whilst adult social care and children’s services together account for the majority of expenditure for upper tier authorities, the number of service areas included in the upper tier Foundation Formula means that on average it would be the third largest upper tier service area. For lower tier authorities the great majority of funding would be distributed through the Foundation Formula, which reflects the fact that a large proportion of lower tier services can be considered population driven ‘universal services’.

2.2.15. In the case of London, separate funding is provided to the Greater London Authority for the functions that it provides. These are upper tier functions which include public and other transport planning, local bus support, rail support, other transport support and public transport co-ordination. It will be necessary to take account of this to avoid an overestimation of relative needs for London authorities. Therefore in line with past settlement methodologies, a ‘London adjustment’ will be used to reflect that there is no ‘need to spend’ on these service areas for London authorities. This is represented in the chart below (Figure 1) as a ‘London indicator’.

**Other potential cost drivers**

2.2.16. Alongside population, the December 2017 consultation sought feedback on the potential inclusion of rurality and deprivation as cost drivers for the Foundation Formula. Respondents also suggested a number of additional potential cost drivers which have been subject to further analysis.

2.2.17. To understand whether including additional cost drivers significantly improves the precision of the Foundation Formula, we have compared the amount of variation in past expenditure that was explained by different combinations of cost drivers, to the total amount of variation in expenditure.

2.2.18. The impact of including additional cost drivers sequentially in the upper and lower tier Foundation Formulas is shown in Figure 1 and Figure 2. For instance, in Figure 1 (the upper tier Foundation Formula), population alone explained 88.1% of all variation in past expenditure. Adding deprivation as an additional cost driver increased the proportion of all variation explained by 4.0 percentage points. At each stage of the process, the cost driver which had the next largest incremental impact on the percentage of variation explained in a per population regression was added to the cost drivers already selected. The way that each individual cost driver interacted with the area cost adjustment and population meant that it may impact the proportion of overall expenditure that was explained. We would expect cost

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6 Figures 1 and 2 are based on variation in total expenditure, using a per capita regression covering expenditure between 2014-15 and 2016-17 on services included in the upper or lower tier Foundation Formula, deflated to take account of area costs.
drivers which explain more variation overall to also explain more variation in the per population regression.

**Figure 1 – Graph showing the impact of including additional cost drivers in the upper tier Foundation Formula**

2.2.19. Figure 2 shows that population alone explained 84% of variation in past expenditure included in the lower tier Foundation Formula. Adding deprivation as an additional cost driver increased the proportion of all variation explained by 0.4 percentage points, and 1.4 percentage points when fixed costs were also included.

**Figure 2 – Graph showing the impact of including additional cost drivers in the lower tier Foundation Formula**
2.2.20. **Deprivation**

2.2.21. Whilst in aggregate terms, deprivation was not shown to be a major cost driver for the services included in the Foundation Formula, the Government takes the view that relative levels of deprivation do remain an important cost driver for some specific service areas.

2.2.22. To ensure that deprivation is appropriately accounted for in the relative needs assessment, deprivation, or a suitable proxy for deprivation, is taken into account in four of the service-specific formulas set out in this chapter. When combined, the size of these service areas (adult social care, children and young people’s services, public health and fire & rescue services) means that deprivation is included as a cost driver across a significant proportion of the overall relative needs assessment.

2.2.23. **Rurality**

2.2.24. Almost two thirds of consultation respondents agreed with the potential inclusion of rurality as a cost driver in the Foundation Formula. Specific reasons included the impact that increased journey times have on staff productivity, the absence of economies of scale that can be achieved in rural settings, and the increased costs of service provision due to a separation from major markets.

2.2.25. The Government acknowledges these arguments. Our intended approach draws a clear distinction between factors which drive demand for services (e.g. cost drivers) and factors which affect the cost of delivering a particular service (e.g. the need to provide multiple service hubs across sparsely populated locations or travel between different locations). The responses that we received highlighted that sparsity and remoteness can have a significant effect on the cost of providing some services, rather than being factors which drive additional demand.

2.2.26. On that basis, a specific rural cost driver is not included in the Foundation Formula; instead section 2.3 of this paper explains how we propose to consistently capture variations in the cost of delivering services, including those caused by rurality, by introducing a new Area Cost Adjustment methodology. The new Area Cost Adjustment will be applied to the Foundation Formula, so that together they will determine needs allocations.
2.2.27. **Adult Social Care**

<table>
<thead>
<tr>
<th>Upper or lower tier formula:</th>
<th>Upper tier</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary of cost drivers included:</strong></td>
<td></td>
</tr>
<tr>
<td>18-64 formula:</td>
<td>— Proportion of people aged 16 to 64 with day-to-day activities limited a lot</td>
</tr>
<tr>
<td></td>
<td>— Proportion of people aged 16-64 claiming JSA, IS and ESA</td>
</tr>
<tr>
<td></td>
<td>— Proportion of people of all ages living in households with one family</td>
</tr>
<tr>
<td></td>
<td>— People aged 16-24 inclusive per person aged 16-64 inclusive</td>
</tr>
<tr>
<td>65+ formula:</td>
<td>— Proportion of older adults entitled to Attendance Allowance</td>
</tr>
<tr>
<td></td>
<td>— Proportion of people aged 85 and over with limiting (significantly) condition</td>
</tr>
<tr>
<td></td>
<td>— Proportion of people aged 80 and over claiming Pension Credit</td>
</tr>
<tr>
<td></td>
<td>— Proportion of households over 65 who are couples</td>
</tr>
<tr>
<td></td>
<td>— Number of home owner households (outright ownership only) aged 65 and over</td>
</tr>
<tr>
<td><strong>Analytical technique used:</strong></td>
<td>Small Area Modelling</td>
</tr>
<tr>
<td><strong>Will an Area Cost Adjustment apply?</strong></td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Example service areas included in formula:</strong></td>
<td>— Learning disability support</td>
</tr>
<tr>
<td></td>
<td>— Physical support</td>
</tr>
<tr>
<td></td>
<td>— Social care activities</td>
</tr>
<tr>
<td></td>
<td>— Mental health support</td>
</tr>
<tr>
<td></td>
<td>— Support with memory and cognition</td>
</tr>
<tr>
<td></td>
<td>— Commissioning and service delivery</td>
</tr>
</tbody>
</table>

2.2.28. As a targeted service with strict eligibility criteria, adult social care is a complex area that accounts for the largest proportion of expenditure for upper tier authorities. The Government believes that the best available option for adult social care is to deploy the most up-to-date, service-specific formula available, which offers appropriate levels of analytical robustness.

2.2.29. The Government’s leading option is to base an adult social care relative needs formula on work by LG Futures (a specialist consultancy firm), together with the Personal Social Services Research Unit at the University of Kent and the London
School of Economics and Political Science, using data collected in 2012-13. The research underpinning this formula has been peer reviewed and is available online.\(^7\)

2.2.30. To reflect the different patterns of service use between the two groups, the new formula is divided between two components: **working age** (18 to 64 years old) and **older adults** (65 years and over, including a separate 85+ element). Small area data consisting of 13,000 observations was gathered from a representative sample of 53 councils for the older adult component, and 50 councils for the working age component.

2.2.31. The main advantages of the new formula include:

- **analytical robustness** - the formula incorporates a substantial level of detail, and has the advantage of identifying patterns of need inside, as well as across, council areas. This enables us to attempt to eliminate any undue impact of individual council expenditure decisions,

- **contemporary data** - the formula benefits from the incorporation of variables that were not previously available or not used in the previous adult social care formula, such as Census data on the number of people with a significantly limiting condition. The formula also enables us to incorporate some up-to-date cost driver data (e.g. population) in the model before it is used in the needs assessment,

- **transparent** - the cost drivers used in the formula are linked to the design of the social care means test, providing a clear explanation as to why they would be used to determine the funding allocations councils receive for adult social care, and

- **objective** - the formula was estimated by independent researchers who are experts in their field.

2.2.32. Whilst the advantages offered by the formula are significant, using this approach does have some data limitations. The majority of the cost drivers in the formula can be refreshed with the most up-to-date data available prior to the formula being used. However, the underlying model incorporates Census data from 2011. The Census is unique as it is the only available source of data available at a small area level that allows us to measure the impact that health conditions have on peoples’ daily lives. The working age component of the formula also uses welfare benefit data from 2012-13, which cannot be updated. The roll-out of Universal Credit across the

\(^7\) [https://www.pssru.ac.uk/project-pages/adult-social-care-rnf-review/](https://www.pssru.ac.uk/project-pages/adult-social-care-rnf-review/)
country means this is the latest data set that allows all areas of the country to be compared on a like for like basis.

2.2.33. Whilst a formula constructed using a more simple local authority level expenditure based regression approach could potentially offer more transparency and increased flexibility by allowing the inclusion of data that can be updated, the Government believes that the precision of the formula would be substantially compromised by reducing the number of observations from 13,000 to 152 (i.e. an expenditure level for each social care authority). In addition, a local authority level regression would only be capable of accounting for variation between (and not within) local authorities, which means that it would not be able to fully eliminate the impact of individual councils’ decisions on usage or expenditure levels.

2.2.34. Having considered the balance between simplicity, transparency and precision, the Government is minded to pursue an approach which offers the greatest analytical robustness, which in this case is a formula based on small area modelling.

2.2.35. The Government intends to publish a technical paper which will provide further background information regarding the adult social care formula.

2.2.36. **Children and Young People’s Services**

<table>
<thead>
<tr>
<th>Upper or lower tier formula:</th>
<th>Upper tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost drivers included:</td>
<td>— To be determined</td>
</tr>
<tr>
<td>Analytical technique used:</td>
<td>Multi-level model</td>
</tr>
<tr>
<td>Will an Area Cost Adjustment apply?:</td>
<td>Yes</td>
</tr>
</tbody>
</table>
| Example service areas included in formula: | **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 and early years**  
**Youth justice**  
**Information, advice and guidance for young people** |

2.2.37. Children and Young People’s services is a complex area with unique cost drivers. A significant proportion of expenditure is on services for the most vulnerable children, which are relatively low incidence, but high cost. Children and Young People’s services represents the second largest area of expenditure for upper tier authorities.
and the Government believes that the best available option is to develop a new service-specific formula which offers appropriate levels of analytical robustness.

2.2.38. To do this, the Ministry of Housing, Communities and Local Government and the Department for Education jointly commissioned a children’s services data research project. LG Futures were appointed to lead this research and are working alongside academics from the Universities of Huddersfield and Plymouth. The research will lead to a new funding formula utilising a multi-level model approach, using individual-level data from the Department for Education’s data sets (e.g. the school census and children’s social care activity data). This has been supplemented with data collected from local authorities.

2.2.39. The multi-level model will use children’s social care activity data, in conjunction with wider child data and socio-economic data about the area, to predict demand at an individual, client-level providing a highly nuanced and robust formula.

2.2.40. This approach means the formula will be able to incorporate substantial levels of detail, and has the advantage of accounting for variation and patterns of need within as well as between local authorities in order to attempt to eliminate any undue impact of individual councils’ decisions on usage levels.

2.2.41. **Public Health**

2.2.42. In December 2017, the Government announced its aim to increase business rates retention to 75% by devolving grants of equivalent value, including the Public Health Grant. The Government is continuing to engage stakeholders on the implementation of this aim. This includes consideration of what more needs to be done to build a full range of assurance arrangements for delivering public health services and outcomes. The Government will take a final decision on these matters in 2019.

2.2.43. Whilst the scope of the December 2017 consultation on relative needs was limited to those services already funded through the local government finance settlement, a number of respondents took the opportunity to make the case for a specific public health formula if this fell within the scope of the review.

2.2.44. Public health is a significant area of expenditure for upper tier authorities and includes a wide range of services, some of which are universal (e.g. health visitor programmes) and others which are targeted at specific population groups (e.g. drug misuse treatment services). In addition, some public health activity is currently prescribed in regulations, which local authorities are legally required to provide.

2.2.45. Given the complexity and size of this service area, the Government believes a service-specific approach would be required for public health if it falls within the
scope of the review. On this basis, the leading option would be based on a new public health formula that was developed by the Advisory Committee on Resource Allocation. This formula was the subject of formal consultation in 2015.8

<table>
<thead>
<tr>
<th>Upper or lower tier formula:</th>
<th>Upper tier</th>
</tr>
</thead>
</table>
| Summary of cost drivers included9: | – 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 |
| Analytical technique used: | Weighted capitation formula; needs-weighting partially based on person-based/multi-level modelling |
| Will an Area Cost Adjustment apply?: | Yes |
| Example service areas included in formula: | • 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) |

2.2.46. The new public health formula has a number of significant advantages; in particular:

- **analytical robustness** – the formula is based on an evidence-based review of public health needs, and utilises detailed person-level datasets on substance misuse and sexual health service activity. It also addresses concerns that the 2012 public health formula was insufficiently sensitive to areas with the most extreme deprivation,

- **contemporary** - the formula would be based on the most recent data available. It also reflects new local authority public health responsibilities and more closely aligns to public health delivery on the ground, with new components for sexual health services and children’s 0-5 services,

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9 Subject to further formula development and review.
• **objective** – the formula uses modelled, rather than actual drug misuse treatment activity, which removes any incentive to treat more people rather than invest in prevention services.

2.2.47. The Department of Health and Social Care and Public Health England are continuing work to ensure that the public health formula is up-to-date, and are assessing the suitability of the new formula for use under devolved funding arrangements.

2.2.48. The Government intends to publish a planned technical paper which will provide further background information regarding the public health formula in 2019.

2.2.49. **Highways Maintenance**

<table>
<thead>
<tr>
<th>Upper or lower tier formula:</th>
<th>Upper tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost drivers included:</td>
<td>— Road length</td>
</tr>
<tr>
<td></td>
<td>— Traffic flow</td>
</tr>
<tr>
<td>Analytical technique used:</td>
<td>Local authority level expenditure based regression</td>
</tr>
<tr>
<td>Will an Area Cost Adjustment apply?:</td>
<td>Yes</td>
</tr>
<tr>
<td>Example service areas included in formula:</td>
<td>• Environmental, safety and routine road maintenance</td>
</tr>
<tr>
<td></td>
<td>• Structural maintenance</td>
</tr>
<tr>
<td></td>
<td>• Street lighting</td>
</tr>
<tr>
<td></td>
<td>• Winter services</td>
</tr>
</tbody>
</table>

2.2.50. There was broad agreement across respondents to the December 2017 consultation that the two cost drivers discussed in the paper - road length and traffic flow – were the most significant. The Government is therefore minded to implement a straightforward formula for this service area that incorporates these two cost drivers:

- **Road length**, as defined by the Department for Transport, with an equal weighting given to all classes of road, and
- **All traffic flow**, as defined by the Department for Transport, with equal weighting given to all vehicle types.

2.2.51. Other cost drivers that were tested did not significantly improve the precision of the formula. Therefore, consistent with the guiding principles of the review, the Government intends to use local authority level expenditure based regression for this service area as the basis for further analytical work to determine the appropriate weighting for the cost drivers.
2.2.52. The existing Highways Maintenance formula includes specific cost drivers based on forecast snow days and predicted grit days, to account for the winter services authorities provide (e.g. gritting). Whilst consultation respondents expressed some support for the continued inclusion of weather factors in the Highways Maintenance formula, ‘winter services’ on average accounts for a small proportion of local authorities’ total expenditure on Highways Maintenance. Given the overall scale of this particular service, on balance the Government does not believe it is proportionate to include an additional cost driver to account for weather factors.

2.2.53. **Legacy Capital Finance**

<table>
<thead>
<tr>
<th>Upper or lower tier formula:</th>
<th>Upper and lower tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost drivers included:</td>
<td>— Assumed debt repayment</td>
</tr>
<tr>
<td></td>
<td>— Assumed interest charges</td>
</tr>
<tr>
<td>Will an Area Cost Adjustment apply?:</td>
<td>No</td>
</tr>
</tbody>
</table>

2.2.54. A separate Legacy Capital Financing relative needs formula is required to ensure that local authorities with borrowing commitments that were agreed to be funded through the local government finance settlement, prior to the introduction of the Prudential Capital Finance System, have that cost recognised in their relative needs assessment.

2.2.55. Legacy Capital Finance remains a pressure on authorities and the Government believes that the unringfenced funding distributed by the settlement provides local authorities with the greatest flexibility to service this historical debt.

2.2.56. Respondents to the December 2017 consultation expressed a strong consensus around the need for these pressures to be reflected through the use of a service-specific formula, and for the cost drivers proposed. Some respondents suggested that actual debt levels should be taken into account through the formula. However local authority revenue outturn reports do not make a clear distinction between historical debt serviced by legacy payments and new borrowing undertaken under the Prudential Code, which is not supported with additional resources by central government.

2.2.57. **Flood defence and coastal protection**

<table>
<thead>
<tr>
<th>Upper or lower tier formula:</th>
<th>Lower tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential cost drivers included:</td>
<td>Flood defence:</td>
</tr>
<tr>
<td></td>
<td>— Length of ordinary watercourse</td>
</tr>
<tr>
<td></td>
<td>— Properties at risk</td>
</tr>
<tr>
<td></td>
<td>— Agricultural land at risk</td>
</tr>
</tbody>
</table>
Coastal protection: Properties at risk — Length of coast

<table>
<thead>
<tr>
<th>Analytical technique used:</th>
<th>Local authority-level expenditure based regression</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will an Area Cost Adjustment apply?:</td>
<td>Yes</td>
</tr>
</tbody>
</table>
| Example service areas included in formula: | • Defences against flooding  
• Land drainage and related work  
• Coast protection |

2.2.58. Expenditure on flood defence and coastal protection on average accounts for a small proportion of local authorities’ total expenditure. However, whilst the overall level of expenditure for these service areas is on average low, they do have a significant impact on a small number of lower tier authorities. Respondents to the December 2017 consultation highlighted both service areas as potentially requiring a separate funding formula, and the Government is minded to agree.

2.2.59. The existing funding allocations for coastal protection made through the local government finance settlement are relatively straightforward; consisting of a relative needs formula in the Environmental, Protective and Cultural Services block which allocates funding to both upper and lower tier authorities.

2.2.60. The funding distribution for flood prevention funding through the settlement is more complex:

- within the Environmental, Protective and Cultural Services block, a ‘flood defence’ formula distributes funding to lower tier authorities and a ‘continuing Environment Agency levies’ formula distributes funding to upper tier authorities,
- Lead Local Flood Authority grant funding was incorporated into the settlement over three years (2013-14 to 2015-16) and baselined into Revenue Support Grant and business rates baseline funding. The grant funding methodology was developed in 2010 based on an assessment of the estimated costs upper tier authorities would face as a result of the Flood and Water Management Act 2010,
- in recent years the Ministry of Housing, Communities and Local Government has allocated a separate grant to local authorities to ensure a real terms increase in notional Lead Local Flood Authority grant allocations.

**Upper tier authorities**

2.2.61. In order to determine the implications of potentially including Lead Local Flood Authority functions in the Foundation Formula we compared upper tier funding (using Core Spending Power visible lines of Lead Local Flood Authority grant funding) to the funding distribution of the upper tier Foundation Formula. The
The graph below shows that the difference between having a separate Lead Local Flood Authority grant distribution and including this in the Foundation Formula is minimal; making more than 1% difference for only nine upper tier authorities, and the maximum being just over 2%.

**Figure 3 – Percentage change in funding comparing upper tier Lead Local Flood Authority funding with the Foundation Formula**

2.2.62. We also investigated Environment Agency levy flood funding, which allocates just 0.02% of upper tier authorities’ total relative need. Similarly, coastal protection expenditure for upper tier authorities accounted for an extremely small proportion of overall expenditure.

2.2.63. In light of the above considerations, the Government believes that it is proportionate to incorporate upper tier flood defence and coastal protection within the upper tier Foundation Formula, on the basis of the overall scale of expenditure and the distribution of relative needs.

**Lower tier authorities**

2.2.64. The pattern of lower tier authorities’ expenditure on flood defence and coastal protection is different to that of upper tier authorities:

- nationally, the average proportion of lower tier authorities’ total expenditure on flood defence in 2017-18 was only 0.3%. However, for some outlying authorities the proportion was higher, and for one authority flood prevention accounted for more than 10% of total expenditure,

- coastal defence also accounted for a small proportion of lower tier authorities' average total expenditure in 2017-18, at just 0.28%. However, there were
again some outlying authorities, and in the case of three authorities coastal
defence accounted for more than 5% of their total expenditure.

2.2.65. These spending patterns suggest separate flood defence and coastal protection
relative needs formulas could be introduced for lower tier authorities. After initial
analysis, we believe the following cost drivers are the most significant for flood
defence and coastal protection:

- **Flood defence:**
  - length of ordinary watercourse,
  - properties at risk, and
  - agricultural land at risk.

- **Coastal protection:**
  - properties at risk, and
  - length of coast.

2.2.66. The Government will use local authority level expenditure based regression as the
basis for further analytical work to determine whether these are the most
appropriate cost drivers, before taking a view on the best approach.

2.2.67. **Fire and Rescue Services**

<table>
<thead>
<tr>
<th>Upper or lower tier formula:</th>
<th>Upper tier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost drivers included:</td>
<td>To be confirmed. This will depend on which option is identified as most appropriate</td>
</tr>
<tr>
<td>Analytical technique used:</td>
<td>To be confirmed</td>
</tr>
<tr>
<td>Will an Area Cost Adjustment apply?:</td>
<td>Yes</td>
</tr>
<tr>
<td>Example service areas included in formula:</td>
<td>Fire fighting and rescue operations, Community fire safety, Fire and rescue service emergency planning and civil defence</td>
</tr>
</tbody>
</table>

2.2.68. There is a strong rationale for retaining a separate funding formula for Fire and
Rescue Services in the needs assessment on the basis that these services are
carried out by stand-alone fire authorities in some instances. In addition, this service
area is distinct as it takes account of risk as well as demand factors, which may justify
taking a more specific approach.

2.2.69. Section 2.5 of this consultation sets out why the Government believes that
expenditure based regression, which uses past expenditure data as a proxy for need,
is a robust analytical method for determining the relative need of local authorities.
However, the Government is mindful of the fact that expenditure data is collected for
fewer fire authorities (45) in comparison to the expenditure data collected for other
local government services. In addition, London Fire alone accounts for a significant
proportion of the national expenditure (19% of total expenditure based on 2017-18
data).
2.2.70. Following the December 2017 consultation and wider engagement with the sector including the National Fire Chiefs Council, the Government has used an expenditure based regression approach to **develop a formula based on cost drivers with the greatest explanatory power for Fire and Rescue Services spending**. The cost drivers which have been identified so far as having the greatest explanatory power and aligning with the policy objectives for this service area are as follows:

- **total population**,  
- **deprivation**, and  
- proportion of **residents aged 65 and over**.

2.2.71. Our analysis suggests the expenditure based regression approach results in significant changes compared to the current funding shares, specifically for those authorities which benefited previously from the density and coastline top-up. Whilst this approach broadly meets the principles for needs-based allocation of the review, the relatively small size of the expenditure data sample means this approach may not fully identify the factors which drive costs and take account of future needs; other cost drivers may need to be taken into account if this formula is developed further. The Government believes it is important to build consensus behind the approach we adopt and has therefore identified potential alternative approaches in order to seek views on the best way forward.

2.2.72. If the Government were minded to minimise the change in sector funding shares, an option is to **update the existing Fire funding formula as far as possible**. This would involve updating the indicators in the current funding formula (where possible) and keeping the original weightings (the coefficients from the original Fire funding regression model) as well as the supplementary top-ups. It is not possible to update the risk index (an index which includes measures of deprivation), the property and societal risk index (an index which includes measures of building type and the associated risk) or the community fire safety indicator (an index of demographic groups with greater need for fire safety assistance) due to data availability. These indicators would either be removed from the formula or kept at their current values and weightings. Sparsity, coastline and density are included as cost drivers in the current formula. Careful consideration will be given to the application of the proposed Area Cost Adjustment which, as set out in section 2.3, includes measures of accessibility and remoteness, in order to mitigate any risk of ‘double counting’ similar factors in a Fire and Rescue Services formula.

2.2.73. Another option under consideration is to **develop a multi-level model using fire incident data as a proxy for relative risk**. Fire incident data is available at a more granular level (e.g. Mid Super Output Area which provides around 7,200 data points). This allows the testing of a more sophisticated multi-level model to analyse variation
in data at lower levels. Preliminary analysis demonstrates this is a viable approach, although further work and views from the sector are needed to determine if fire incidents adequately reflect fire service activities.

2.2.74. Further work is required to identify an appropriate approach to develop the new funding formula for this service area. As this work progresses the Government will sense-check the results of our analysis with experts in the sector, including the National Fire Chiefs Council. Subject to the outcome of this consultation and additional analytical work the Government will form a view on the best approach.

Other potential service areas

2.2.75. A number of other potential service areas were suggested by consultation respondents as requiring a separate funding formula. Given the considerations set out in section 2.2.4 regarding complexity, overall scale, distribution of need and similarity, the Government is minded not to introduce separate formulas for these areas and instead include them in the Foundation Formula.

2.2.76. The overall level of consensus around most of the suggestions made was low. However, the following section explores the service areas where we received the greatest number of representations, or where further work is required to confirm whether a Foundation Formula approach is appropriate.

Concessionary transport

2.2.77. Upper tier local authorities have a statutory responsibility to provide free or concessionary transport for specific groups of people, which means that they have little control over the costs they incur in providing these services.

2.2.78. In the case of children, authorities must provide free Home to School Transport for a child attending the nearest suitable school if:

- this is over a prescribed distance from their home,
- they are unable to walk to school because of special educational needs, disability or mobility problems, and
- they cannot reasonably be expected to walk there because the nature of the route is deemed unsafe.
2.2.79. Expenditure across mainstream and special educational needs pupil transport was over £1bn\(^{10}\) nationally in 2017-18. At present, funding for home-to-school transport is distributed via the ‘Central Education Functions’ relative needs formula, which is part of the Children’s Services block. As with the Children and Young People’s Services formula, the number of children is a significant driver of cost for Home to School Transport. However, other drivers of cost are likely to differ to those for Children’s Social Care, such as the distance to schools and the proportion of special educational needs pupils in an authority.

2.2.80. Local authorities also provide elderly and eligible disabled people with free off-peak Concessionary Travel on buses, with a wider statutory concession in place in London. In 2017-18, the statutory concession accounted for over £1bn of local authority expenditure. A Concessionary Travel formula has been used in the local government finance settlement since 2011-12 and the current formula uses a ‘modelled’ bus boardings methodology.

2.2.81. Respondents to our December 2017 consultation expressed mixed views regarding the optimum way to fund Concessionary Travel in future. Some argued against deploying a service-specific formula on the basis that there was ‘unmet need’ for local bus services in some areas and that funding on this basis therefore risked reinforcing existing patterns of provision. Local authorities’ support for non-commercial bus routes is a policy issue which merits separate consideration within the review and this is discussed below (see section 2.2.83).

2.2.82. In the first instance, the Government is minded to include Home to School Transport and Concessionary Travel within the upper tier Foundation Formula on the basis that this would introduce further simplicity and transparency into the relative needs assessment. We will, however, carry out further analysis on potential alternative approaches in order to determine whether this approach adequately reflects local authorities’ relative needs. We will take a final view following the completion of this consultation exercise.

**Local Bus Support**

2.2.83. Nationally, local authority expenditure on Local Bus Support was approximately £250m in 2017-18 (excluding spending by the Greater London Authority), and accounted for more than 1% of total net current expenditure in just 9 local authorities; 6 of which were combined authorities. Outside of the local government finance settlement, the Department for Transport’s Bus Service Operators’ Grant provides funding to local authorities and bus operators; the main components of

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\(^{10}\) This includes spending related to Extended Rights, which is funded through an unringfenced grant from the Department for Education (c.£20m per annum). It is not possible to disaggregate the proportion of total expenditure that relates to Extended Rights duties.
which include £42m paid directly to authorities specifically in relation to non-commercial services they support under tender agreement, and a £197m operator reimbursement grant for some of the fuel duty paid.

2.2.84. Historically, Local Bus Support has been included in the ‘county-level’ Environmental, Protective and Cultural Services formula, although there are currently no specific cost drivers used to calculate Local Bus Support. Local Bus Support was cited by some consultation respondents as an example of ‘unmet need’, on the basis that local authority funding for rural bus services has reduced and an increasing number of commercial bus services in rural areas have been withdrawn.

2.2.85. Given the overall scale and distribution of expenditure for this service area, the Government does not believe that it is proportionate to introduce a specific funding formula for this service area. Including this in the upper tier Foundation Formula so that it is broadly distributed on a ‘per capita’ basis, with a new ‘Area Cost Adjustment’, means that the funding for this service area will be distributed according to the characteristics of local authority areas and not directly linked to historical decisions about funding levels.

Waste Services

2.2.86. In the existing relative needs assessment, there is no separate funding formula for household waste or street cleansing services. The December 2017 consultation asked whether separate waste formulas should be introduced, and there was some agreement to do so given the visibility of this service area to the general public and the scale of expenditure at upper and lower tier. However, there was broad agreement that the number of households affects the demand for waste services, and our analysis suggests that population is the most significant cost driver.

2.2.87. The Government is therefore minded to distribute funding relating to waste services through the upper and lower tier Foundation Formulas rather than introduce separate funding formulas for these services.

Homelessness

2.2.88. Lower tier authorities have a statutory responsibility to prevent or relieve homelessness and where this is not possible, to secure accommodation for unintentionally homeless households in priority need. English local authorities’ total expenditure on homelessness services in 2017-18 was £1.42bn, the majority of which was associated with the cost of temporary accommodation. However the majority of temporary accommodation costs are met through housing benefit payments, and separate funding for homelessness services and projects is made
available outside of the local government finance settlement.\textsuperscript{11} In order to determine the proportionality of introducing a separate homelessness funding formula, due consideration has been given to the remaining ‘net’ costs that are met through settlement funding.

2.2.89. Once other sources of homelessness funding are accounted for, the remaining cost of homelessness met through the settlement in 2017-18 was approximately £340m across England. Nationally, the average proportion of lower tier authorities’ net current service expenditure\textsuperscript{12} that related to homelessness in this year was less than 5%. However, for some outlying authorities the proportion of expenditure was higher, and in the case of eight authorities accounted for more than 10% of expenditure.\textsuperscript{13}

2.2.90. On the basis that homelessness on average represents a relatively small proportion of net expenditure for the majority of councils and the fact that there is no separate funding formula for homelessness in the current methodology, the Government believes that it would be disproportionate to introduce further complexity into the needs assessment for this service area. As a result, the Government is minded to account for homelessness within the Foundation Formula.

2.2.91. Final decisions about homelessness funding available outside of the settlement beyond 2019-20 will be made through the 2019 Spending Review. Subject to the outcome of this process, the Government will reach a final view on the basis on which homelessness costs met through the settlement are reflected in the assessment of relative needs.

\textbf{Fixed costs}

2.2.92. The current relative needs assessment includes a separate fixed costs element within the Environmental, Protective and Cultural Services block. In principle, a fixed costs element allows funding to be distributed to each authority regardless of their size or relative need.

\textsuperscript{11} Homelessness funding outside of the settlement includes the Flexible Homelessness Support Grant (£617m from 2017-18 to 2019-20); £73m of funding over three years to help authorities meet the requirements of the Homelessness Reduction Act 2017; as well as project focussed grants including Homelessness Prevention Trailblazers (£20m) paid over two years from January 2017; a Rough Sleeping Grant (£18m between 2016-17 to 2018-19); and Social Impact Bonds (£11m over 2017-18 to 2020/21).

\textsuperscript{12} Excluding spending financed by ringfenced public health and education grants.

\textsuperscript{13} In April 2017 the Flexible Homelessness Support Grant replaced the Department for Work and Pensions’ temporary accommodation management fee. Funding is now given out in the form of a grant rather than claimed back retrospectively, and we are working to provide clarity on how local authorities report this new grant. To determine the ‘net’ cost of homelessness met through the settlement, we have assumed that the Flexible Homelessness Support Grant was not recorded as income in the homelessness section of the revenue outturn tables.
2.2.93. Whilst many consultation respondents expressed support for retaining a fixed costs element within the needs assessment, the Government is minded not to retain this element on the basis that it adds unnecessary complexity and because fixed costs, as well as variable costs, are already identified through the wider assessment of relative needs.

**Unaccompanied Asylum Seeking Children**

2.2.94. Unaccompanied Asylum Seeking Children are defined as individuals under the age of 18 who are not cared for by an adult, separated from both parents, and who have applied for asylum in the United Kingdom in their own right. Similar to other care leavers, councils may retain responsibility for these individuals once they turn 18 years of age until they turn 25 or move back to their home country when an asylum claim is not upheld. Some consultation respondents argued that a specific formula was required to reflect local authorities’ need to spend on these individuals.

2.2.95. The Government is minded not to include a specific Unaccompanied Asylum Seeking Children formula in the needs assessment on the basis that this is a service area for which the pattern of demand may be subject to unpredictable changes between authorities. It would not be possible to reflect these sudden shifts through a relative needs formula; particularly in a way that adequately fulfils our guiding principle of stability to support predictable, long-term funding allocations.

2.2.96. In addition, outside of the local government finance settlement, the Home Office provides separate funding contributions to local authorities’ costs for supporting Unaccompanied Asylum Seeking Children and Unaccompanied Asylum Seeking Children care leavers (who were unaccompanied asylum seeking children and who are now “former relevant children” within the meaning of section 23C(1) of the Children Act 1989).

2.2.97. With regard to children’s social care, the Children and Young People’s Services formula (Section 2.2.36) will allow the prediction of demand at an individual, client-level, including those children that share similar characteristics to Unaccompanied Asylum Seeking Children. We therefore expect 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 formula. However, we will test this assumption through further engagement with authorities as our research progresses.

**People with no recourse to public funds**

2.2.98. Some consultation respondents argued that a specific formula was required to reflect local authorities’ support towards non-UK nationals who do not have entitlement to welfare benefits, social housing or UK Government asylum support.
2.2.99. The Government is minded not to include a specific relative need formula on the basis that ‘no recourse to public funds’ is a broad term used to summarise a diverse set of individuals and households whose circumstances vary significantly from case to case (e.g. some Unaccompanied Asylum Seeking Children care leavers, ‘Zambrano’ carers, people in the UK on a spousal visa, student visa, or who have limited leave granted under family or private life rules). Identifying suitable cost drivers which meet the criteria set out in our December 2017 consultation would therefore be challenging.

2.2.100. In addition, the pattern of demand for ‘no recourse’ individuals may be subject to unpredictable changes over time. It would not be possible to reflect these shifts through a relative needs formula; particularly in a way that adequately fulfils our guiding principle of stability to support predictable, long-term funding allocations.

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?

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

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

2.3. Area Cost Adjustment

2.3.1. There is a precedent for considering variation in local costs both in local government funding settlements and also across police funding, national funding for schools, and the National Health Service. The approach to the relative needs assessment in this review distinguishes between relative needs formulas, which determine demand for services, and the Area Cost Adjustment, which account for factors that affect the costs of services.

2.3.2. The cost of delivering the same services may vary between local authorities for a number of reasons - for example:

- the costs of employing staff or renting non-domestic properties can vary considerably between different places, and

- some local authorities face unique pressures related to their geography; such as the costs associated with conducting business from isolated or
peripheral communities (including islands and coastal areas), or providing services to widely dispersed or densely concentrated populations.

2.3.3. These are referred to as ‘multiplicative’ factors, and mean that even authorities with broadly similar characteristics (e.g. population size) could experience different costs in service provision as a result of factors that are outside of their control.

2.3.4. The Government believes that it is important to include an Area Cost Adjustment in the assessment of relative needs and has identified the following criteria to determine which factors are taken into account:

i. **significance** - the impact of a factor on local authority spending must be sufficiently large,

ii. **variation** - the impact of a factor must vary sufficiently between local authorities,

iii. **data availability** - there must be sufficiently detailed data available at the right level of geography, and

iv. **appropriate incentives** - the Area Cost Adjustment should maintain incentives for local authorities to design services which deliver at the lowest possible cost.

2.3.5. Having reviewed the Area Cost Adjustment from first principles and considered a range of additional factors, including those suggested by respondents to the December 2017 consultation, the Government is minded to incorporate the factors set out below:

i) **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,

ii) **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, and

iii) **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.
i) Rates Cost Adjustment

2.3.6. Local authorities experience different costs as a result of the premises that they use to deliver services; in particular business rates or rents. The relative costs that authorities face for using an equivalent space will vary between areas as a result of local supply and demand factors.

2.3.7. The Rates Cost Adjustment would be made using an index of rateable values per square metre of building space, using Valuation Office Agency data.

2.3.8. As rateable values for the majority of properties are based on market rents, the same index can be used to adjust for variation in rents paid and/or the income foregone by using space which would otherwise be rented at market rates, and other premises’ costs, in addition to the cost of business rates.

ii) Labour Cost Adjustment

2.3.9. Local authorities have to compete for staff with all other potential employers. In order to secure and retain suitably skilled staff, authorities need to pay the local ‘going rate’. This rate will also reflect local living and housing costs, skills, career opportunities, population and commuting costs.

2.3.10. The Labour Cost Adjustment would be calculated as an index of average weekly pay for all workers in each area, using data from the Office for National Statistics Annual Survey of Hours and Earnings. In order to avoid comparing very different sets of workers between areas due to differences in demographics or economic activity, controls are used to take account of differences in industry and occupation, age, gender, hours worked and the public / private sector mix.

Accessibility

2.3.11. Local authority employees see relatively longer periods of ‘down time’ when they spend more time travelling; either as a result of longer distances, poorer transport links or connectivity, or traffic congestion. For example, the time that homecare staff spend travelling between appointments counts as paid employment; in addition, the travel costs that they incur are also reimbursed.

2.3.12. As a result, labour productivity is likely to be lower in areas with longer journey times because authorities will have to pay their staff for more hours to deliver similar services.

2.3.13. We have therefore identified two robust and evidence-led measures to account for the additional costs associated with accessibility. These are based on the methodology used by the Department for Transport to produce statistics on
journey times to key services. The Government is minded to apply these measures within the labour cost adjustment on the basis that areas with greater journey times incur higher labour costs:

i. ‘Dispersal’ - measures journey times between (groups of) households to service ‘hubs’, reflecting travel to households for services such as child protection visits,

ii. ‘Traversal’ – subject to data availability, measures journey times between groups of households (for example, Census-based Medium Super Output Areas produced by the Office for National Statistics) to reflect delivery routes for services such as waste collection.

2.3.14. Local authorities covering sparsely populated areas may maintain a larger number of smaller points of service delivery, such as libraries, or invest in public transport provision in order to support access to services. In order to compensate authorities for costs outside of their control, while maintaining incentives to invest in improved service access and to deliver outcomes at the lowest possible cost, the Government is minded to use a definition of ‘service hubs’ for the dispersal measure above, which is based on local demographics. For example, there is a precedent for using settlements of more than 10,000 residents in definitions of rurality used by Department for Environment, Food and Rural Affairs and the Office for National Statistics.

iii) Remoteness

2.3.15. Separation from major markets will in some cases increase the cost of service provision for local authorities. This differs from the effects of pockets of very low population density (i.e. sparsity), due to the fact that some specialised inputs may only be produced where demand is sufficiently concentrated. For example, assistive technology for residential care placements, or professional training for town planners, may not be available in areas that are remote from major towns and cities.

2.3.16. Similarly, areas with low or dispersed demand for services support a smaller number of potential service providers; this may reduce competition and as a result increases the cost of purchased or tendered goods and services – for example, adult social care placements.

2.3.17. The Government is therefore minded to make a separate remoteness adjustment using a proxy measure of journey times from small groups of households to major

14 Technical information on the statistics is published online: https://www.gov.uk/government/collections/journey-time-statistics
towns and cities. Once again, this could be based on statistics published by the Department for Transport.

2.3.18. Local authorities may choose instead to support production at a smaller scale, for example, if this is less costly than providing transport to or from major markets. In this case, adjusting for remoteness by assuming that journeys are made to or from major markets compensates authorities for costs outside of their control while maintaining their incentive to deliver services at the lowest possible cost.

2.3.19. The Isle of Wight is a uniquely isolated and remote authority as it is only possible to reach a major town or city from households on the island via a ferry journey. The Government therefore considers it necessary to take account of the additional time taken by ferry transport in any measure of remoteness, including the time taken on board the ferry and at embarkation and disembarkation.

**Proposed Area Cost Adjustment methodology**

2.3.20. Whilst a consistent approach to Area Costs will be adopted across the relative needs assessment, the Government intends to tailor the Area Cost Adjustment for the Foundation Formula and each service area it is applied to, in order to reflect the different impact of these costs.

2.3.21. The factors set out above (a Labour Cost Adjustment (inclusive of accessibility), a Rates Cost Adjustment (inclusive of rents), and Remoteness) will be weighted together into a single index for each funding formula, using evidence-based weights which are appropriate for the relevant service(s).

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

2.4. **Weighting of funding between services**

2.4.1. The Government intends to introduce several funding formulas, which means that it will be necessary to decide the proportion of overall funding that is allocated by each one.

2.4.2. Respondents to the December 2017 consultation expressed some support around using the proportion of spending that local government as a whole currently commits to different services as a basis for this, potentially supplemented with trend analysis or time series modelling to set control totals that reflect the pressures that we expect local government will face in the coming years.
2.4.3. The Government intends to further explore the approach to determining control
totals, and will ensure that any assessment of the future pressures local authorities
may face is aligned with the wider 2019 Spending Review, which will determine
the overall level of funding available for redistribution at the 2020-21 settlement.

2.4.4. In order to provide an indicative sense of scale for each formula across different
classes of authority, the graph below (Figure 4) summarises the level of averaged
new current expenditure over three financial years, as a share of total expenditure.

Figure 4: Graph demonstrating the relative scale of each proposed service area as
a proportion of past expenditure, by class of local authority

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Unitary Authorities</th>
<th>Shire Counties</th>
<th>Shire Districts</th>
<th>Metropolitan Districts</th>
<th>London Boroughs</th>
<th>Fire Authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundation Formula</td>
<td>27.5%</td>
<td>19.7%</td>
<td>94.6%</td>
<td>28.8%</td>
<td>28.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Adult social care</td>
<td>32.8%</td>
<td>39.9%</td>
<td>0.0%</td>
<td>29.2%</td>
<td>29.6%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Children &amp; Young People’s services</td>
<td>22.8%</td>
<td>22.0%</td>
<td>0.0%</td>
<td>23.7%</td>
<td>26.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Public health</td>
<td>7.5%</td>
<td>6.5%</td>
<td>0.0%</td>
<td>8.5%</td>
<td>8.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Legacy capital finance</td>
<td>5.3%</td>
<td>5.5%</td>
<td>3.6%</td>
<td>5.8%</td>
<td>4.0%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Fire &amp; Rescue</td>
<td>0.4%</td>
<td>1.9%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>97.8%</td>
</tr>
<tr>
<td>Highway maintenance</td>
<td>3.5%</td>
<td>4.5%</td>
<td>0.0%</td>
<td>3.9%</td>
<td>2.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Flood defence and coastal protection</td>
<td>0.2%</td>
<td>0.0%</td>
<td>1.8%</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

The graph uses average Net Current Expenditure by service area for 2015-16, 2016-17 and 2017-18. For
the purposes of the graph:
- Greater London Authority / Manchester Combined Authority expenditure for fire services is captured
  within ‘Fire Authorities’;
- expenditure on the integrated transport levy and waste disposal levy has been attributed to the
  Foundation Formula, and
- legacy capital finance is not captured in Revenue Outturn data, so the above graph is a projection based
  on debt allocations in 2010.
2.5.  Weighting cost drivers in a relative needs formula

2.5.1.  Statistical techniques offer an evidence-based way to determine funding allocations by minimising the use of judgement in constructing funding formulas. The use of statistical techniques enables us to determine which cost drivers have the most significant impact on an authority’s need to spend, and the relative importance (or weighting) of one cost driver against another within a formula.

2.5.2.  On the basis that some statistical techniques may be more suitable for particular service areas in the needs assessment than others, we have considered the merits of a range of techniques that could be used. Alongside the principles of the review, a number of other considerations were taken into account, including:

   i.  the **analytical robustness** offered by a technique,

   ii. the **level of sophistication** employed by a technique (and the trade-off between complexity, robustness and transparency), and

   iii. **practicalities**, including the availability of appropriate data sources.

2.5.3.  The two leading statistical techniques identified for the review are ‘multi-level’ modelling and expenditure based regression:

**Multi-level models**

2.5.4.  Local authority level expenditure based regression models (discussed below) aim to account for variances in relative needs between local authority areas. Multi-level models do the same thing, but also aim to account for variances in relative needs inside an individual local authority area. This has the advantage of helping us to eliminate any undue impact that individual council expenditure decisions may have had on the pattern of relative needs identified. Multi-level modelling does this by taking data at the lowest level for which robust data is available - for example small geographic areas like Lower Super Output Areas, or even at the level of individuals within the local authority - and combines this with hierarchical levels of data up to the unit of allocation (in this case, a local authority).

2.5.5.  The Government believes that local authority expenditure at a lower geographic level is a better proxy of need because it is more dependent on the service demand from that area and therefore less influenced for example by past central government allocation patterns. However multi-level models are more complex than simple regression models and rely on a large amount of detailed information related to the level and distribution of spending within local authorities. Therefore whilst the use of these models offers a more analytically robust approach for some service areas
where data is available, this comes at the expense of some of the transparency potentially offered through less sophisticated techniques.

2.5.6. The possibility of adopting multi-level modelling for some service areas was welcomed by many respondents to our December 2017 consultation as it was recognised as a more robust approach for services which represent a significant proportion of expenditure and where future levels of need are more challenging to predict. This consultation proposes the use of this techniques in relation to Adult Social Care and Children and Young People’s Services.

2.5.7. For Adult Social Care we propose a multi-level model based on small geographic areas (Lower Super Output Areas) and, due to the availability of comprehensive and robust individual level data, we propose to build a multi-level model based on individual child-level data for Children and Young People’s Services – see Section 2.2 of this consultation for further information.

**Local authority level expenditure based regression models**

2.5.8. A significant challenge in determining the relative needs of local authorities is that there is no objective measure of ‘need’. The most commonly used proxy of need in the past has been past spending per head (of relevant population), which is considered by Government to be reflective of the relative cost and importance of a service for local government.

2.5.9. Such local authority level expenditure based regression models measure and compare the relationship between the ‘need to spend’ on council services and independent data sets which drive the cost of service delivery. The model attaches a ‘weighting’ to each cost driver included in a funding formula, and the greater the extent to which a cost driver explains the pattern of past expenditure, the more weight is attached to that cost driver.

2.5.10. The model estimates the average relationship between each cost driver and past expenditure across all local authorities. This makes it possible to understand how much, on average, an additional unit of a particular cost driver represents a change in the need to spend – and therefore how much of the funding available for distribution should be allocated. Allocations are therefore determined by the value for each cost driver in each authority.
Example 1: Using routine Highways Maintenance as an example, two factors are believed to drive costs: the length of roads (the cost of repairing roads will be dependent on the length of roads in an area) and traffic flow (increased journeys carried out inside and between local areas will lead to more wear and tear on roads).

- Past expenditure on Highways Maintenance is matched against road length for each authority. This is then used to calculate average spend per metre of road for each authority.
- If average spend per metre of road is higher for authorities which also have higher average traffic flow, then traffic flow will have a larger weighting as a cost driver in the formula.

2.5.11. Some criticisms have been raised against use of local authority level expenditure based regression. However, after careful consideration the Government believes it is still the best statistical approach in certain circumstances for the following reasons:

- **It does not allocate more funding to councils that have spent more in the past**, because there is no direct link between past funding and future funding allocations. Past spending at local authority level is used to determine the national weightings for each relevant cost driver. This means that funding allocations for a council are driven by the specific characteristics of the authority (e.g. the relevant cost drivers), and the weighting applied to those cost drivers is based on national averages. In other words, the allocation for each authority is determined by their ‘score’ under each cost driver; the regression calculation simply determines the national weighting each cost driver receives.

- **It does not penalise efficiency.** The weightings attached to the cost drivers included in a funding formula are based on national averages; this means that relatively efficient councils will receive a higher level of funding than their level of expenditure would indicate they need. Likewise, for a council whose expenditure is above average (controlling for their cost factors) the assessed level of need will be in line with the national average for their set of cost drivers, and it will not receive higher funding as a consequence of being less efficient.

2.5.12. Some respondents to the December 2017 consultation expressed concern that the use of past expenditure as a measure of need may fail to identify whether there are pockets of ‘unmet need’ in particular service areas. By definition, the distribution of any unmet need would be impossible to measure through any statistical model that relies on local authority level expenditure as a proxy for need. However, the Government will consider this issue as part of our wider engagement with experts in the sector.
Engagement with experts in the sector

2.5.13. Some aspects of a relative needs assessment, such as identifying relevant cost drivers, may be more intuitive for some in local government, which means there has been broad consensus around those set out in our earlier consultations. Statistical techniques are, however, less widely understood and although they minimise the use of judgement, the technicality that sits behind them can often be perceived as lacking transparency.

2.5.14. Many respondents to our December 2017 consultation demonstrated support for the idea of 'sense-checking' the results of any analysis with experts in the sector, for example with representative bodies such as the Association for the Directors of Adult Social Services, the Association for the Directors Children’s Services and the Association of Directors of Environment, Economy, Planning and Transport. The Government agrees with this proposal as an important way of building further consensus behind the review, and will ensure further engagement with these bodies as the work of the review progresses.

2.6. Future proofing the needs assessment

2.6.1. The Government recognises that the impact of population and demographic changes over time is a particular concern for many in local government. The rate and nature of population change is likely to vary from one local authority area to another, which means a key consideration is the balance to strike between future-proofing the formula and offering funding certainty for authorities.

2.6.2. The Office for National Statistics produces a number of products, including population projections indicating the future size and age structure of national and local populations. The projections are based on a set of assumptions around future fertility, mortality and migration. Using these projections would allow the needs formula to reflect expected future population changes while giving authorities certainty over their income for the duration of the funding period.

2.6.3. Taking account of expected population changes may reduce the risk of a relative needs assessment becoming quickly out of date. However, population projections cannot reflect unpredictable changes - reflecting actual population changes more accurately in a relative needs formula would require more frequent updates, which may reduce medium term financial certainty for local authorities.

2.6.4. Respondents to our December 2017 consultation expressed strong consensus around using official population projections to reflect changing population sizes when assessing the relative needs of local authorities. Given these considerations,
the Government is minded to agree that using Office for National Statistics population projections to calculate allocations for each year of a forward funding period, at the outset of the period, and updating these when the needs assessment is refreshed, is the most appropriate way to reflect future population changes, while giving authorities certainty over their income for the duration of the funding period.
3. Relative resources

3.1. Introduction

3.1.1. In addition to funding allocated through the local government finance settlement, councils raise resources locally. An authority’s capacity to raise resources locally will depend on a number of factors, including their local circumstances and priorities, central Government policy and the legal framework in which they operate. Authorities’ capacity to fund the services they provide through local resources therefore varies across the country depending on both their relative levels of needs and the resources they can raise.

3.1.2. The principle of taking account of councils’ locally raised resources when determining the distribution of funding at local government finance settlements has been well established in past methodologies. The Government believes that it remains important to continue to take account of councils’ relative ability to raise resources. Local resources include:

- Council tax will account for a greater proportion of the income available to local authorities since the last review of the funding formula. However, the proportion varies at an individual local authority level, and

- Sales, fees and charges are another source of income for many local authorities, which – like council tax – vary by local authority. Whilst the majority are raised at cost recovery levels for services delivered, in some areas an authority’s income from sales, fees and charges generates a surplus.

3.1.3. A relative resources adjustment will therefore be a key step in allocating settlement funding:

\[
\text{Final funding position} = (\text{relative needs share} - \text{relative resources adjustment}) \pm \text{possible transitional arrangements} + \text{actual resources income}
\]

3.1.4. The Government has identified supporting principles that will be used to determine an approach to a new relative resources adjustment:

- our approach to assessing relative resources will result in no redistribution of council tax or sales, fees and charges resources between authorities,

- we do not intend to reward or penalise authorities for exercising local discretion, and
- local authorities with a lesser capacity to fund services through locally raised resources will receive a smaller reduction to their relative needs share.

3.2. Council Tax

3.2.1. In 2020-21, council tax will account for a greater proportion of the income available to local authorities than ever before. However, the proportion varies between local authorities, so that different authorities will have a varying ability to fund services through the resources that they raise locally.

3.2.2. The amount of council tax income that local authorities raise varies depending on the size of their council tax base and the council tax level that they set each year, subject to collection rates:

- a local authority’s council tax base depends on the number of properties in their area for which council tax is liable, the council tax bands into which those properties fall, and revenue forgone or gained due to council tax discounts, exemptions, premiums and local council tax support. Local authorities have relatively little discretion over the size of their tax base as most discounts and exemptions which affect it are set centrally by the Government;

- council tax levels are determined by individual authorities on an annual basis as part of their budget setting process. Whilst local authorities have discretion over the level of council tax they set, the Government ensures that council taxpayers have the ability to veto excessive increases through a local referendum.

3.2.3. To reflect councils’ varying ability to raise local resources, the Government will need to determine a measure of council tax income for the purposes of the relative resources adjustment.

3.2.4. In determining a measure of council tax resources, there are several factors which need to be accounted for and these are set out below. In line with the principle set out above, authorities would retain their actual council tax income no matter how the relative resources adjustment is assessed.

i) A measure of council tax base, including a treatment of discounts, exemptions, premiums and local council tax support, multiplied by

ii) A measure of council tax level, multiplied by
iii) A measure of the council tax collection rate, shared according to

iv) An approach to council tax tier splits in multi-tier areas.

v) It is also necessary to agree an approach to council tax in successive years.

Figure 5): The measure of council tax resources equals:

A treatment of each of these elements is explored below.

3.2.5. In broad terms (not including sales, fees, and charges), a local authority’s final funding position will consist of its relative needs share of total England notional spending power\(^{16}\) less its assessed measure of council tax resources, subject to transitional arrangements, plus its actual council tax income,

\[
\text{Final funding position} = (\text{relative needs share} - \text{assessed measure of council tax}) \pm \text{possible transitional arrangements} + \text{actual council tax}
\]

i) Tax base

3.2.6. The size of a local authority’s tax base is defined as the number of Band D equivalent dwellings after accounting for council tax discounts, exemptions and premiums. Properties in other bands are set as proportions of Band D: for example,

---

\(^{16}\) Total England notional core spending power is equal to total retained business rates plus total notional council tax resources. The level of total funding available will be determined at the 2019 Spending Review.
a Band H property is set as twice the value of a Band D, whilst a Band A property is two-thirds the value.

3.2.7. A higher number of Band D equivalent dwellings could be the result of a larger housing stock, higher banded dwellings, higher premiums and/or lower levels of revenue foregone to discounts, exemptions, premiums and local council tax support.

- The effect of discounts, exemptions and premiums is measured in terms of ‘Band D equivalents’.
- For example, four Band D dwellings and two Band H dwellings are equivalent to eight Band D equivalents.
- If these dwellings were all subject to the Single Person Discount (25%), it would result in a reduction to a local authority’s tax base of two Band D equivalents.

3.2.8. The total number of dwellings in England as at October 2018 was 24.3 million, which equated to 22.5 million Band D equivalents, or 18.1 million Band D equivalents after accounting for discounts, exemptions and premiums. There are multiple categories of discounts, exemptions and premiums for which local-authority level data is available. Some, such as the single person discount and student exemptions, are set nationally by the Government. Others, such as second homes discounts, empty homes discounts, empty homes premiums and local council tax support are set with some local discretion.

3.2.9. The effect of most discounts, exemptions and premiums on the national council tax base is relatively minor. However, the single person discount equates to around 7% of the pre-reductions tax base and local council tax support equates to around 10%. The next largest effect is that of ‘all classes of exemption’, which together total only 2%. These vary at an individual local authority level.

3.2.10. The treatment of discounts, exemptions and premiums in the measure of council tax resources needs to be determined. Previous methodologies have included the effect of non-discretionary discounts and exemptions in a measure of tax base and made consistent assumptions about the use of discretionary discounts and exemptions, so that local decisions do not directly affect funding allocations.

3.2.11. Local council tax support is provided to both low income pensioner and working age residents to help them pay their council tax. Whilst it is mandatory to provide a local council tax support scheme for both pensioner and working age residents, the level of support that is offered to working age residents is something over which local authorities have discretion. In 2018, the national council tax base was 10% lower once local council tax support had been taken into account, although there was variation at an individual local authority level.
3.2.12. The 2013-14 local government finance settlement set baseline funding levels at the point that council tax benefit was localised and incorporated into Revenue Support Grant and business rates baseline funding. This means that there is no precedent for accounting for local council tax support in the most recent relative needs and resources assessment.

Non-discretionary discounts and exemptions

3.2.13. The three non-discretionary discounts and exemptions with the largest impact on the 2017-18 tax base were:

- Single Person Discount (-7.28%),
- reduction due to the pension-age element of local council tax support (-4.43%), and
- student exemptions (-1%).

3.2.14. The Government is minded to continue including the effect of all non-discretionary discounts and exemptions in its measure of the tax base for the purposes of the resources adjustment, using data captured by local authority council tax base returns. To ensure consistency, the Government is also minded to also take account of the impact that the pension-age element of local council tax support has on an authority’s ability to raise council tax income. As a result, a smaller resources adjustment would be applied to those authorities that have a greater number of properties in their area subject to mandatory discounts or exemptions.

Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?

Discretionary discounts and premiums

3.2.15. The approach towards discretionary discounts in the 2013-14 calculation of authorities’ relative needs and resources was assumption-based. For example, it assumed that every council charged a 100% discount on every empty home. This enabled local authorities to benefit from offering a reduced discount, as this extra income was not factored into the assessment of relative resources.

3.2.16. In order to avoid taking direct account of local policy choices, the Government is minded to continue with an assumption-based approach to take account of
the second homes discount, the empty homes discount and the empty homes premium in its measure of council tax base.

3.2.17. On this basis, there are options for the level of discount that is assumed. For example, the Government could assume that each local authority makes the full discount available for empty homes and second homes, and that no council applies the empty homes premium. Alternatively, we could assume that no authority makes a discretionary discount and use a higher tax base measure accordingly.

3.2.18. Although they are required to have a scheme in place, local authorities have discretion over the level of council tax support that they offer working age residents. Local flexibility can be applied to both the design of the scheme (i.e. the level of support offered) and the eligibility criteria used to determine entitlement.

3.2.19. Whilst the Government recognises that the working age scheme also has an impact on authorities’ ability to raise council tax income, we are not attracted to an approach based on a measure of actual income forgone, as this would draw an explicit link between local policy decisions on working age support schemes and funding allocations. Another option might be to develop an assumption-based approach that does not draw an explicit link with local authorities’ actual design of their schemes, and so would not reward or penalise local decision making.

3.2.20. The Government wishes to explore options for taking account of the working age element of local council tax support when determining the measure of authorities’ council tax base. We are keen to hear wider views before determining a preferred approach.

**Question 6):** Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?

**Question 7):** Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?

3.2.21. The Government is minded to adopt this approach to tax bases, discounts, exemptions and premiums in the measure of tax base in a resources adjustment (although work will continue on this).
ii) Council tax level

3.2.22. In 2018-19, the national average Band D council tax level is £1,671, ranging from £711 to £1,991 at local authority level. There are multiple factors that impact upon local decision making when setting council tax levels, including:

- setting precepts (e.g. local spending priorities),
- the Adult Social Care precept (introduced in 2016-17 alongside the improved Better Care Fund),
- levies (e.g. the Environment Agency and Internal Drainage Board levies), and
- historic Government policies (e.g. council tax freeze grant).

3.2.23. There are two options for the treatment of council tax levels in the measure of council tax income: taking **actual** account or taking **notional** account.

3.2.24. Taking account of **actual** council tax levels has a precedent in the 2016-17 improved Better Care Fund methodology and the 2016-17 Settlement Core Funding methodology. However, an ‘actual’ approach would undermine the Government’s intention to not reward or penalise authorities for historic local decision making, and this approach would see a greater reduction in those areas with higher council tax, regardless of the historical reasons or circumstances that have led to this. An actual approach may also introduce undesirable incentive effects by linking local decisions directly to the funding methodology. Furthermore, distributing less business rates to areas with higher council tax levels may contribute to discrepancies in the amounts of council tax paid by residents in England for the services they receive.

3.2.25. **The Government is therefore minded to use a notional assessment of council tax levels when making the relative resources adjustment.** This is an approach that has precedent in previous local government funding settlements, including the 2013-14 methodology.

3.2.26. Using a notional council tax level, as part of a notional measure of council tax resources, would mean that two local authorities with similar tax bases and a similar assessment of relative needs would receive broadly similar baseline funding levels, irrespective of their actual council tax levels.

\[
\text{Final funding position} = (\text{relative needs share of total notional England spending power}^{17} - \text{notional measure of relative council tax resources}) \pm \text{potential transitional arrangements} + \text{actual council tax resources}
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\(^{17}\) Total England notional core spending power is equal to total retained business rates plus total notional council tax resources. The level of total funding available will be determined at Spending Review 2019.
3.2.27. In line with the guiding principles of the review, the Government is aiming for a simple and transparent approach. We are therefore minded to set a uniform notional council tax level for all areas (although work will continue on this). There are multiple options for where to set the notional level and we are keen to hear wider views before determining a preferred approach.

3.2.28. Some of the implications of a uniform notional level are intuitive:

- **Example 2:** Comparing the effect of a uniform notional council tax level on two local authorities
  - All else being equal, the authority with the higher level of relative need would have a higher funding allocation. The higher the notional level is set, the greater the extent to which this would be true.
  - All else being equal, the authority with the higher actual council tax level would have a higher funding allocation. This is as a result of retaining the actual council tax income raised (which is not redistributed). The strength of this effect would be independent of the notional level that is set as part of the new resources adjustment.

3.2.29. If a uniform notional council tax level is applied, a local authority’s notional council tax income will increase in proportion to the size of their tax base measure, because the tax base measure is multiplied by the council tax level. This means that as the notional council tax level increases, the size of the relative resources adjustment will increase at different rates for different local authorities. The impact of the level at which the notional council tax level is set will therefore vary depending on the measure of the local authority’s tax base (discussed from section 3.2.6) and its relative need share (discussed in chapter 2).

- **Example 3:** An authority with a large tax base and low relative need
  - In this scenario, the interaction between the authority’s relatively large tax base and the notional council tax level would create a larger relative resources adjustment.
  - This would result in a lower baseline funding level compared to an authority with either a smaller tax base or higher level of relative needs.

3.2.30. One consequence of this relationship between the measures of tax base, notional council tax level and relative needs share is that authorities with high relative needs compared to their tax base are better off (i.e. receive a higher baseline funding level) when the uniform notional council tax level is set higher rather than lower –
regardless of whether their actual council tax level is above or below the notional level. This is because, with a higher notional level (see Example 2):

- for all local authorities, their relative need shares increase because the notional level is applied to a larger total England notional spending power (retained business rates plus total England notional council tax receipts);
- for all local authorities, their relative resources adjustments increase because the higher notional council tax level means their notional council tax income is higher. This is in proportion to their tax base.

3.2.31. A local authority therefore has higher spending power with a higher notional council tax level if their share of total England need is higher than their share of the England tax base (i.e. if they are less able to meet their need locally for a given council tax level). This means that local authorities do not systematically win or lose from a higher or lower notional council tax level relative to their actual council tax level.

3.2.32. It would therefore be misleading to draw conclusions from a comparison of a local authority’s actual council tax level against a notional council tax level, without considering the way in which this interacts with the tax base and levels of relative need.

Figure 6): The impact of the level at which a notional council tax level is set will vary depending on the ratio of the local authority's tax base to its relative needs share
Figure 6 demonstrates that:

- **Council A relative to Council B would benefit from a higher notional council tax level,** because its share of total need is higher than its share of the tax base (i.e. if they are less able to meet their need locally for a given council tax level).

- **Council B relative to A would benefit from a lower notional council tax level,** because its share of total need is lower than its share of the tax base.

- A higher notional council tax level increases the needs shares of spending power for all authorities.

- A uniform assumed collection rate and tier split in the above calculation would not impact individual councils.

3.2.33. Another consequence of the relationship between the measures of tax base, notional tax level and relative needs share is that a significantly high notional council tax level may result in a number of authorities that will be expected to meet their needs entirely through their actual council tax income (depending on the level of funding available to local government, as determined at Spending Review 2019).

In calculating a council’s baseline funding level, if the relative resources adjustment exceeds their relative needs share they would be subject to a 100% tariff on their retained business rates. Since the Government is committed to no redistribution of council tax, the tariff would be capped at a maximum of 100%. In effect this would mean that the council would not retain any business rates locally because their relative need was assessed as met through other local resources; however, the authority would continue to retain a proportion of business rates growth as determined by the national business rates retention scheme.

3.2.34. In summary, **a higher notional council tax level supports greater equalisation of funding relative to assessed need.** However, it increases the likelihood of a small number of authorities paying 100% of their business rates baseline as a tariff. A high notional council tax level also increases the number of authorities with an actual council tax level significantly below the notional level.

3.2.35. Conversely, a lower notional level reduces these effects. However, the lower the notional council tax level, the greater the incidence of authorities with higher need or higher tax levels who have lower settlement funding allocations than other authorities with lower need or lower tax levels.

**Question 8):** Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?
### iii) Collection rate

3.2.36. In 2017-18, the average England-level council tax collection rate was 97.1%, ranging from 90.0% to 99.5% at individual local authority level.

3.2.37. The measure of council tax in the relative resources adjustment requires an assumption around collection rates at the local authority level. One approach would be to use councils’ actual collection rates. However, this would mean that for two authorities that are identical aside from their collection rate, the one with the higher collection rate would receive a lower baseline funding level.

3.2.38. Another approach is to apply a single, uniform collection rate to the measure of each local authority’s council tax income. This uniform collection rate could be set at various levels (e.g. at the minimum, average, or maximum collection rate); however, it would have the same effect for all authorities in the relative resources adjustment irrespective of their actual collection rate (see Figure 5). In all scenarios, the incentive towards full council tax collection remains.

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

### iv) Tier splits

3.2.39. Council tax is collected by a billing authority and in multi-tier areas the income is split between each tier and/or fire and rescue authorities. Once an assessed measure of council tax is agreed, the Government will need to determine how to split or allocate the resources adjustment for areas where upper tier, lower tier and/or fire responsibilities are carried out by different local authorities. This approach would not pre-judge the split of growth in business rates between tiers.

3.2.40. The Government is minded to calculate the average share in council tax receipts in multi-tier areas between the shire county precept, the shire district element and the fire element of council tax bills across the country, and apply that percentage uniformly to the measure of council tax in the resources adjustment for relevant areas. Using this methodology\(^{18}\), the 2018-19 band D tier split for England would be Upper Tier (83.2%), Lower Tier (11.9%), and Fire Tier (4.8%). However, we are keen to hear wider views before determining a preferred approach.

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\(^{18}\) We would also exclude parish precepts and the police precepts.
3.2.41. Another approach might be to use actual council tax tier splits in each area. However, this may not be transparent and may fund authorities differently for factors outside of their control.

- **Example 4:** Tier splits in a shire county with an actual council tax precept of £1,000
  
  In this scenario, if there were three shire districts with actual council tax levels of £100, £150, and £200 respectively (and no fire and rescue authority), it would be straightforward to calculate the actual district tier splits:

  - District 1 = £100 / (£1,000 + £100) = 9%
  - District 2 = £150 / (£1,000 + £150) = 13%
  - District 3 = £200 / (£1,000 + £200) = 17%

  However, this is less simple for the shire county. It may be necessary to total council tax receipts as if the area were treated as a unitary authority, which would require a weighted average for the shire county dependent on the bills and relative size of the shire districts.

  We can compare the first hypothetical shire county to a second, identical, neighbouring hypothetical shire area, except that the neighbouring county has set an actual council tax precept of £2,000 instead of £1,000. The share for each of the shire districts in the neighbouring area would be lower than the first, which would mean that the resulting baseline funding levels between these otherwise similar authorities would differ as a result of the difference between the two county areas, whose decisions were taken independently:

  - District 1 = £100 / (£2,000 + £100) = 5%
  - District 2 = £150 / (£2,000 + £150) = 7%
  - District 3 = £200 / (£2,000 + £200) = 9%

**Question 10)**: Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?

**v) Council tax in successive years**

3.2.42. In the case of a multi-year settlement from 2020-21 onwards, it will be necessary to consider the treatment of council tax income in successive years as part of a resources adjustment.
3.2.43. There are broadly two approaches:

i. **a single measure of council tax resource fixed over the period.** This approach has a precedent in the 2015-16 four-year settlement methodology. This approach may reward local authorities who build more houses and grow their tax base over time as they will be able to retain that growth in their tax base – the increase in council tax resources will not be taken into account in the resources adjustment beyond year one;

ii. **Include full or partial projections of council tax resource at the outset of the period including tax base and/or tax levels.** Such an approach may support authorities who are less able to grow their council tax receipts to meet their need. However, this approach may disadvantage areas whose tax base does not grow in line with projections due to unforeseen shocks or local policy choices, since the reduction in their baseline funding level due to this measure of their tax base will not be offset by an increase to their actual council tax income.

3.2.44. In line with the guiding principles of the review, the Government is minded to fix a single measure of council tax resource over the period. This approach has the advantage of rewarding authorities for growth in their council tax receipts whilst not linking the methodology to a measure of projections of council tax resources that may be uncertain.

**Question 11):** Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?

### 3.3. Sales, Fees and Charges

3.3.1. **Sales, fees and charges** are another source of income for many local authorities, which - like council tax – vary by local authority. Whilst the majority are raised at cost recovery levels for services delivered, in some areas an authority’s income from sales, fees and charges generates a surplus.

- Local authorities can charge for **statutory services**, where the power to charge is prescribed by legislation. This legislation is usually 'sponsored' by specific Government departments (e.g. the Department for Environment, Food and Rural Affairs for waste or the Department for Transport for on-street parking), and may specify the charging framework (e.g. at or below cost recovery levels) and
potential restrictions on the use of income (e.g. ringfencing for specific purposes).

- Local authorities also have the power to charge for **discretionary services** up to full cost recovery where there is no pre-existing legislation governing the charging regime. However if authorities wish to charge above cost recovery for services, they may do this commercially via a trading company.

3.3.2. Unlike council tax, sales, fees and charges have not previously been taken into account in a relative resources adjustment. However where past expenditure is used as a proxy for local authorities’ relative needs, the income received through sales fees and charges has previously been netted off against authorities’ gross expenditure to determine the level of net revenue expenditure, which is in turn used as a proxy at national level for local authorities’ relative needs.

3.3.3. The Government has considered whether it is appropriate to make a more direct adjustment for sales, fees and charges income when assessing local authorities’ relative resources, and the practical considerations that would apply. The following considerations have been taken into account:

i) **Scale:** Sales fees and charges (excluding trading income) are generally charged at up to cost recovery. In 2017-18, relatively few areas generated a significant surplus across a wide range of local authorities. The service area that generated the largest surplus was parking income; the surplus generated at a national level for on and off-street parking exceeded £874m.

ii) **Ability, choice and incentive effects:** Unlike the measure of a council’s council tax base, there is no well defined measure of a local authorities’ ability to raise sales, fees and charges revenue. As such we would have to use the actual income that they receive, which would reflect both an authority’s capacity to raise sales, fees and charges, as well as local policy decisions.

Not all local authorities are equally able to raise income from sales, fees and charges - even two authorities with a broadly similar ability to charge may generate very different levels of actual sales, fees and charges due to local policy decisions.

The incentive effects of adjusting resource allocations to take a more direct account of sales fees and charges are unpredictable, and the Government does not wish to disincentivise local authorities from making efficient and considered policy decisions in this area.
iii) **Volatility:**  In order to allow the measurement of sales, fees and charges income over a funding period, it should ideally exhibit a level of stability. Large increases or decreases will mean that a local authority’s sales, fees and charges income is either not sufficiently accounted for through the resources adjustment, or the adjustment is based on income that they no longer generate.

At a local authority level, sales, fees and charges income is consistently more variable than that of council tax. Business rates income shows a similar level of change year-on-year to sales, fees and charges; however, safety net arrangements are in place to manage this volatility.

iv) **Data availability:** Any direct measurement of sales fees and charges income would need to be made from actual sales fees and charges income data recorded through revenue outturn forms. This data becomes less robust as it is disaggregated (for example, parking within Highways and Transport) due to the way that local authorities record income and expenditure between categories.

Such inconsistencies make comparisons across local authorities challenging, and may compromise analysis on sales, fees and charges income below broad service category headings.

3.3.4. Having taken the above considerations into account, the Government recognises that there are practical challenges in taking a direct account of sales, fees and charges income through the resources adjustment and we are therefore broadly minded not to do so.

3.3.5. However, there may be a case for taking specific service areas into account which have generated an increasingly significant level of surplus income for some authorities, such as on and off-street parking. The Government are keen to hear wider views on potential options before determining a preferred approach.

3.3.6. The Government will also continue to use net revenue expenditure when past expenditure is used as a proxy for local authorities’ relative needs.

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19 Legislation requires ring-fenced surplus revenue from on-street parking income and off street enforcement income to be spent on parking schemes, or in some circumstances wider transport services, highways or road transport improvement or environmental improvement. The use of charges for parking and for enforcement activity must not be used for revenue generating activity; however, this may happen in the course of local authorities fulfilling their duty to ensure the expeditious movement of traffic on their road network and those networks of surrounding authorities.
Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities’ relative resources adjustment?

Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?
4. Transitional arrangements

4.1. Introduction

4.1.1. Calculating local authorities’ relative needs and resources using new relative needs formulas and updated data is likely to result in changes to the level of funding individual councils receive. Once new funding baselines have been established, the Government intends to introduce transitional arrangements that will determine the basis on which authorities reach their new funding allocations.

\[
\text{Final funding position} = (\text{relative needs share} - \text{relative resources adjustment}) \\
\pm \text{possible transitional arrangements} + \text{actual resources income}
\]

4.1.2. Our aim is that transitional arrangements will unwind over time to ensure that every council reaches their full funding allocation as quickly as practicable. The Government recognises that councils’ medium-term financial planning and stability in delivering services is supported by clarity around future funding levels. A number of changes will take place in the local government finance system in 2020-21, and a coherent approach between these components will help simplify any transitional measures and aid the transparency of the wider system.

4.1.3. We will therefore ensure that transitional arrangements are introduced in a way that takes into consideration wider factors including the business rates baseline reset, any further development of the business rates retention system and the 2019 Spending Review. Other considerations will include the balance we wish to strike between future-proofing the formula (e.g. incorporating new Census population data) and the financial certainty offered by a potential multi-year settlement.

4.1.4. We will investigate a wide range of options regarding the design and scope of transitional arrangements. Whilst our approach will only be finalised after local authorities’ new funding baselines have been determined, the Government would like to build an early consensus around the principles that will be employed in designing these arrangements next year.

4.2. Principles for transition

4.2.1. There are multiple options for the design of transitional arrangements. One key trade-off is between efficiency and stability, at local authority and system-wide
levels; namely between the length of time taken to reach target allocations and the pace of change required of those authorities to do so.

4.2.2. The most efficient transition arrangement might be to move all local authorities to their newly assessed level of funding from day one. However, this would likely result in costs for those facing the greatest change, while significant short term movements in funding levels might prove more difficult to plan for and sustain.

4.2.3. Transition arrangements that unwind over time may help those local authorities with an increase in settlement funding allocations move to their new funding positions quickly, whilst supporting those authorities with reductions to transition in a sustainable way. There is a tension between these objectives.

4.2.4. Given the wide range of options available, the Government intends to use the principles set out below, along with the wider principles of the review in designing transition arrangements:

i) **stability** – the transition from the existing funding position in 2019-20 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,

ii) **transparency** – the process must be clear and understandable to support financial planning and help explain the nature of transition to a wider audience,

iii) **time-limited** – support for those authorities with a reduction 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,

iv) **flexibility** – the speed of change could vary across the sector to achieve greater efficiency. Considerations might include local revenue raising capacity, distances from target allocations or relative funding pressures, for example to deliver statutory services.

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

4.3.1. The scale of transition will depend on the baseline it is measured from, and we propose that the starting baseline for the purposes of transition will be a measure of the funding available to each local authority in 2019-20.

4.3.2. However, this position may require some form of 'adjustment' in order to reflect wider considerations such as the increase in business rates retention, decisions on the treatment of business rates growth achieved during the current spending period and due to be ‘reset’ in 2020, or so-called negative Revenue Support Grant.

4.3.3. There are a number of options for establishing the baseline, and further engagement with those in the sector will be required in order to define the best possible measure.

**Question 15):** Do you have views on how the baseline should be constructed for the purposes of transition?
5. Equalities impacts of the proposals in this consultation paper

5.1.1. The Public Sector Equality Duty requires Ministers to have due regard to the need to eliminate discrimination and other conduct prohibited under the Equality Act 2010, advance equality of opportunity, and foster good relations between persons who share protected characteristics and those who do not.

Question 16): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.
About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.
Annex A – Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer
The Ministry of Housing, Communities and Local Government is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
The Data Protection Act 2018 states that, as a government department, the Ministry of Housing, Communities and Local Government may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:
   a. to see what data we have about you
   b. to ask us to stop using your data, but keep it on record
   c. to ask to have all or some of your data deleted or corrected
   d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. The data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in terms of data protection will not be compromised by this.

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system. If you respond via Survey Monkey, your personal data will be transferred to a secure government IT system following the end of the consultation period.
Annex B – Summary of 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?

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

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

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

Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?

Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?

Question 7): Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?

Question 8): Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?

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

Question 10): Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?

Question 11): Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?

Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities’ relative resources adjustment?
Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?

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

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

Question 16): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.