



Solace Submission to the consultation on the review of local authorities' relative needs and resources

1. Solace is the representative body for more than 1500 chief executives and senior managers working in the public sector in the UK, committed to promoting public sector excellence. We provide our members with opportunities for personal and professional development and seek to influence debate around the future of public services to ensure that policy and legislation are informed by the experience and expertise of our members. Whilst the vast majority of Solace members work in local government, we also have members in senior positions in health authorities, police and fire authorities and central government.
2. We welcome the opportunity to respond to the consultation on the Review of Local Authorities' Relative Needs and Resources, as part of the Fair Funding Review, but note that our members belong to Solace as individuals, not as representatives of the organisations that they work for. Therefore, speaking as the voice of the Solace membership, this submission will indicate broad opinions and themes as opposed to providing detailed local authority evidence, which we expect will be sent directly from a number of local authorities and representative organisations.
3. We wish to register the following principles on behalf of our membership:
 - 3.1 As we have said before, our members have very strong concerns about focusing on issues of distribution before the more fundamental question of sufficiency has been addressed. The Local Government Association has [estimated](#) there will be an £8bn funding gap by 2024/25. The National Audit Office has [concluded](#) councils' position is "not financially sustainable over the medium term". Changing the distribution of funding within a pot that already does not meet aggregate spending pressures simply means that some councils may be in a marginally less challenging position in the short-term while others are pushed closer to breaking point sooner than projected. This cannot be anyone's definition of fairness or sustainability.
 - 3.2 This consultation notes that "in 2020-21, council tax will account for a greater proportion of the income available to local authorities than ever before". It also acknowledges that "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". Basing the future funding of local services so heavily on regressive and outdated tax mechanisms as council tax – properties have not been revalued since 1991 – and business rates poses greater, rather than fewer, risks to sustainability. The [Institute for Fiscal Studies \(IFS\) reinforced this view in December](#) when, following the publication of the 2019-20 Local Government Finance Settlement, it said "revenues from business rates and council tax will not keep pace with rising costs and demands for services."
 - 3.3 Moreover, we are strongly opposed to any assumptions about future council tax income, whether from projected growth in the base or as a result of local democratic decisions,

being factored into the future distribution of funding, although there is a case for including considerations about current council tax income in establishing baseline positions.

3.4 With so much uncertainty surrounding the timing, contents and outcomes from the spending review and the Fair Funding Review, local authorities are struggling to plan and budget even in the short-term. This is already having a significantly detrimental impact on the way councils can plan and deliver services for their communities and even greater uncertainty could lead to even more services being cut unnecessarily as well as poorer outcomes. Our members would like to reinforce that, if by 2020 local government funding is to be based almost entirely on council tax and business rates revenue, councils will need long-term certainty, stability and flexibility more than ever in order to be able to plan effectively. In a similar vein, we would warn that the current pattern of central government taking unilateral mid-year policy decisions regarding rates relief, referenda threshold, etc. erodes the long-term planning horizon that we need to be able to undertake in order to ensure the value-for-money of every public pound that is spent.

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

4. Solace welcomes the proposed inclusion of rurality as a cost driver in the Foundation Formula, through Area Cost Adjustment methodology. Remoteness, sparsity and journey times are important factors which have not historically received enough weight in terms of the impact they have on councils' budgets and resources.
5. However, excluding deprivation from the Foundation Formula strikes Solace members as being a glaring omission, especially as 86% of those who responded to the [December 2017 Technical Consultation on Relative Need](#), as part of the Fair Funding Review, were in agreement "of the need to take deprivation into account". This reflects the fact that individuals and households living with deprivation are more likely to access certain services than more prosperous individuals, leading to higher costs. This latest consultation also acknowledges that "adding deprivation as an additional cost driver increased the proportion of all variation explained by 4.0 percentage points" – a not insignificant number. In its [response to this consultation](#), the IFS has outlined why basing the Foundation Formula on population alone is "poor" as its modelling showed how deprived areas stand to lose out even more than they do now. Moreover, the [formula](#) used to provide Clinical Commissioning Groups their indicative funding allocations between 2019-20 to 2023-24 is based on population, age profiles and deprivation. Given the vital role local government plays in wider determinants of health and wellbeing this is another example of a lack of coherence in decision-making across government.
6. In addition to this, excluding deprivation from the Foundation Formula is perverse and counter-intuitive as many of our places are driving fast economic growth through bold interventions and are striving to ensure that this growth is both sustainable and fully inclusive of all of our communities. However, that demand on local government's high cost, critical services is growing exponentially and disproportionately within the most deprived wards. So this omission feels akin to tying the hands of local government behind our backs and potentially putting further obstacles in the way for delivering genuinely inclusive growth which will help deliver the industrial strategy and re-balance the UK economy. Solace

therefore agrees with the LGA that deprivation should remain a factor in the Foundation Formula.

7. Decisions about how rurality and deprivation are weighted in the Foundation Formula need to be based on robust evidence. In a September 2018 survey conducted by Solace, in conjunction with Municipal Journal, local authority chief executives were asked to rank the three principles the Ministry of Housing, Communities & Local Government said would underpin the new system. Members were clear that, above the others, they valued the process being robust which MHCLG defined as: “The assessments should be based on the best possible objective analysis of spending needs.” As a result we join voices with the LGA in a call for the Government to publish “sufficient evidence to back up its decisions” and “go further [than it already has] in order to ensure that the process and outcomes of the Fair Funding Review are as transparent as possible, and in line with the Government’s second principle guiding the Fair Funding Review.”

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?

8. It is absolutely vital that there is adequate planning undertaken with regard to any transitional arrangements that will be needed to avoid what our immediate past President characterised as “shocks to an already shocked system”. Solace agrees with the broad principles on transition, especially in relation to any changes being “manageable and sustainable”, transparent and flexible. Solace and its members stand ready to assist in any discussions about how a safe transition period could be achieved.

Final considerations

9. The LGA has [submitted a more detailed response on the technicalities of the consultation](#) to which we urge the Government to give strong consideration to. In particular, we wish to endorse the following points:

- The current system of funding distribution is opaque, overly complex and out of date
- The Government should provide local authorities with exemplifications of further business rates retention and the Fair Funding Review in spring 2019, rather than the summer or autumn of next year as currently planned. These can then be revised in line with any Spending Review announcements.
- Of particular concern will be the lack of clarity on formulas for children and young people’s services, public health, fire and rescue services, concessionary fares and home-to-school transport at this stage. It is also important to test whether the proposed adult social care formula is still reflective of relative local authority needs, especially given the out-of-date welfare statistics that are used. Together, these services account for the vast majority of many local authority budgets.
- While evidence on the cost drivers tested and the expenditure data used might be incredibly detailed and complex, a much more detailed technical note about the exact evidence used to arrive at each view on the relative needs assessment must be published. This applies in particular to the decisions to:
 - Exclude deprivation as a cost driver from the foundation formula

- Include lead local flood authority spending in the foundation formula; and
 - Include homelessness in the foundation formula
- Concern that the cost drivers in the adult social care formula include out-of-date factors related to deprivation due to the use of benefit claimant data which is no longer updated as a result of the introduction of Universal Credit. More evidence is needed to demonstrate that the formula is still valid as a result of this and that it is 'future proof' against significant macroeconomic shocks.
- The Government should publish a full technical note on the analysis it has carried out, and the evidence it has used, to estimate the impact of all factors included in, or excluded from, the Area Cost Adjustment, in particular those related to geographical sparsity, density and remoteness.

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