

This matter is being dealt with by:

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12 March 2018

Dear Sir/Madam,

**Response to the consultation on Fair Funding Review: a review of relative needs and resources**

I write on behalf of Nottinghamshire County Council in response to your consultation on the review of relative needs and resources as part of the Fair Funding Review. As the Section 151 Officer I write this as the response of Nottinghamshire County Council.

The Council understands that the fair funding review is primarily concerned with the distribution of the quantum rather than the quantum itself; however, we believe that without sufficiency of funding, fairness will be impossible to achieve. We therefore call on the government to provide additional resources as simply redistributing existing funding will not address the extreme funding pressures in local services.

During summer 2017 the Society of County Treasurers (SCT) undertook a survey of its members in order to exemplify these unfunded cost-pressures. The survey estimated that in SCT member authorities these would grow to £2.6bn by 2020-21. This is as a result of growing service demand for Adult Social Care services and the rapidly growing pressure in Children's Services budgets.

The SCT survey showed that counties face unfunded pressures in adult social care of just under £1bn by 2020-21 equating to an average cost pressure of £26m per member. Similarly members forecast that costs associated with delivering children's services will increase by 159% between 2016-17 and 2020-21. Consequently members believe that funding of preventative services should be a priority to stop the number of families relying on the support of children's social care from continuing to grow.

This echoes the earlier work undertaken by the County Council's Network. In response to the Local Government Settlement in January 2017, the CCN provided evidence to the DCLG. This highlighted that local government is at a significant crossroads which will determine the future sustainability of core statutory services, in particular children's and adult social care. Counties have transformed services and made extraordinary efficiency savings to safeguard frontline services, this in the face of an estimated 37% real-terms reduction in government funding since 2010 and facing a 93% reduction in the revenue support grant from 2015/16-2019/20.

In addition, as you are aware Nottinghamshire, along with other areas in the East Midlands, has suffered from the lowest levels of public expenditure in the country over a number of years. A report by East Midlands Councils has identified that our region has missed out over a number of years in terms of public expenditure based on evidence from the HM Treasury. The East Midlands suffers from:

- Third lowest expenditure on services in real terms between 2011-12 and 2015-16.
- Lowest level of expenditure on economic affairs (economic development type spending).
- Lowest percentage increase in spending on economic affairs between 2011-12 and 2015-16.
- Lowest levels of transport spending 2015-16, and lowest percentage increase between 2011-12 and 2015-16.
- Lowest levels of expenditure on rail per head of the population.

The region does not just compare poorly to London and the South-East – it was similarly poor when compared against the Northern Powerhouse and the West Midlands. The implications are significant – it identifies a poor situation and the need to increase spending in our infrastructure if we are not to fall further behind.

Although we recognise that the review of local government funding is separate to this the continued level of under investment does play a significant impact on the demand placed upon and the long term sustainability of funding for local government services. As such it should be considered alongside any reform of local government finance.

It is clear that there is a fundamental mismatch between the level of funding available to county areas and levels of demand. Counties remain underfunded in comparison to other local authority groups, most significantly due to the remit of adult social care, and the gap is increasingly being met by county tax payers. Residents of inner London pay below average council tax, by any measure, yet earn 47% more than the national average. Residents in shire areas, where salaries are only £200 a year above the national average, find themselves paying the highest band D council tax, the highest council tax per household and the highest per adult council tax.

Whilst local politics will have had some influence over levels of council tax there can be no doubt that patterns as ingrained as these must have also be driven by other factors, namely the distribution of revenue support grants and business rates.

Consequently, the fair funding review should provide not only the opportunity to address the disparity in funding for Nottinghamshire County Council but also the inequalities highlighted in the East Midlands Councils report.

Placed alongside the potential to increase the retention of business rates the Council believes that the outcome of the Fair Funding Review must be implemented alongside this increase. These are two elements of the complex system of local government funding and to implement them separately would be counterintuitive and cause significant delay in moving the system to a fair footing.

The need for the review demonstrates that in order for the Fair Funding Review to be successful a system must be developed whereby the formula and data can be kept up to date. The existing formulae have suffered from becoming out of date and, as a result, discredited and unreliable. Furthermore whilst we support simplicity where achievable, we recognise that the funding of local government services is complex and believes that simplicity should not be at the price of fairness. A transparent formula must be the key.

The Council also opposes the use of formulae derived from expenditure-based regression. It is widely accepted that historic expenditure must be driven by historic funding. Using this expenditure data as the dependent variable in a regression will not be capable of capturing need driven by factors which have previously been systematically underrepresented in funding allocations. It is therefore paramount that a formula is developed based on independent and sector-led expertise to inform the drivers of need and attempt to capture this unmet need.

A new funding formula, in the absence of additional funding, will clearly result in both “winners” and “losers”. For some local authorities it is likely that implementation of the new system will result in a considerable change in their need allocation. With implementation just two years away it is essential that local authorities are notified of allocations under the new formula early to allow local authorities to plan appropriately. Late notification would lead to crisis management in the sector with serious issues for the services provided. Announcements must also include the effects of appropriate transitional funding arrangements to ensure a smooth move to the new system.

Nottinghamshire remains very supportive of returning business rates to local government and a fundamental review of the needs and distribution for local government funding.

We have made detailed responses to each of the questions set out in the consultation and hope you have found this letter helpful.

Again we would like to record our appreciation of the openness and collaborative nature that the Ministry and the LGA have adopted in working with all colleagues, and look forward to continuing that way of working going forward.

Regards



Nigel Stevenson  
Service Director for Finance, Procurement & Improvement and Section 151 Officer  
On behalf of Nottinghamshire County Council

DRAFT

**Question 1): What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?**

In all cases we are in agreement that simplification is preferable however this should not be at the expense of cost drivers that explain the regional, authority type or the characteristics of service need. Hence there is an expectation that some level of complexity is needed in any distribution formula based on evidence.

There is a definite need to remove formulas that rely on historical spending analysis and those that are weighted too heavily on judgements; instead we see transparency as being paramount.

**Question 2): Do you agree that the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities?**

Yes; however, projections have often proved different to reality and therefore we suggest that a threshold mechanism will be required in order to ensure outlying authorities where significant differences to the predictions of population generally, or with a particular characteristic significantly, appear between resets are adequately compensated for this growth or adjusted accordingly.

**Question 3): Do you agree that these population projections should not be updated until the relative needs assessment is refreshed?**

Yes.

**Question 4): Do you agree that rurality should be included in the relative needs assessment as a common cost driver?**

We believe some recognition for the extra cost for the provision of services in rural communities should be reflected in the relative needs assessment. However, we ask that more detailed evidence is required to demonstrate the relative impact and allow further understanding of this proposed adjustment. This would reduce the requirement for judgements in the distribution formula.

Whilst we support the use of rurality, alongside deprivation and population as a key cost driver the formula must be designed to recognise small areas or pockets of rurality that currently get averaged out over larger geographical areas. We believe further evidence should be gathered to understand the impact of this in order to ensure a robust formula for distribution is developed.

**Question 5): How do you think we should measure the impact of rurality on local authorities' 'need to spend'? Should the relative needs assessment continue to use a measure of sparsity or are there alternative approaches that should be considered?**

We feel that the impact of rurality on local authorities' 'need to spend' can be separated into two different categories and each should be reflected by the Fair Funding Review differently. Where rurality increases the need to spend due to increased service demand, then this should be addressed by the "need formula". However, where rurality is driving up the cost of service delivery, it should be addressed by the Area Cost Adjustment.

**Question 6): Do you agree that deprivation should be included in the relative needs assessment as a common cost driver?**

Similarly to our response to question 4, we do understand the need to reflect deprivation in the relative needs formula. However, we ask that more detailed evidence is required to demonstrate the relative impact and allow further understanding of this proposed adjustment as the term “deprivation” encompasses a wide variety of types of deprivation including health deprivation, income deprivation, poor educational attainment and rural deprivation.

As mentioned previously, the formula must also be designed to recognise small areas or pockets of deprivation that currently get averaged out over larger geographical areas.

**Question 7): How do you think we should measure the impact of deprivation on ‘need to spend’? Should the relative needs assessment use the Index of Multiple Deprivation or are there alternative measures that should be considered?**

The most appropriate measure would be to use the relevant index of deprivation to reflect the relevant characteristic of group being measured and resources being allocated. A general indexation would not be appropriate in all parts of the relative needs assessment.

**Question 8): Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?**

The Council is in agreement with the Government that population, rurality and deprivation are the most important characteristics of a community that affect the costs a local authority faces in the delivery of services. However, we do not yet understand the impact of including other specific grants into the quantum of funding. These grants are distributed outside the current relative needs assessment formula, for example Public Health. We believe it is important that these are brought into the Fair Funding review of relative needs as early as possible.

**Question 9): Do you have views on the approach the Government should take to Area Cost Adjustments?**

We understand the need to reflect the differing costs of delivery of services through some form of area cost adjustment. It is vital that elements that reflect differences in service delivery due to rurality, e.g. through more time required to deliver home based services, are not confused with those that are of cost due to differences in labour rates and business rate values. Again it is important that thresholds are employed to enable swifter changes in costs between base funding level resets. So too is the need to ensure these measures are in line with business rate revaluation cycles.

**Question 10a): Do you have views on the approach that the Government should take when considering areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities?**

We do not believe any adjustment should be made to reflect this as this adds unnecessary complexity and undermines the arguments made for population, rurality and deprivation being the most important characteristics affecting the costs a local authority faces in the delivery of services.

**Question 10b): Which services do you think are most significant here?**

Please see response to question 10a.

**Question 11a): Do you agree the cost drivers set out above are the key cost drivers affecting adult social care services?**

The only addition we would make relate to young adults. Many younger adults receiving support from the local authority will do so because of health conditions that require social care support. In many cases, these will be conditions that they have had from childhood. The prevalence of these conditions will not be related to deprivation, and any new funding formula should reflect this. Where necessary, actual client data should be used to fund services rather than proxies that do not reflect the actual distribution of costs.

**Question 11b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting adult social care services?**

Other than to seek the addition of the numbers of learning disability clients included since these clients commonly generate the most expensive packages over a prolonged period of time the Council has no issues with the proposed data sets.

**Question 12 a): Do you agree that these are the key cost drivers affecting children's services?**

The Council does not believe the number of indicators reflect the complex nature of the service nor the demand placed upon it. We would highlight that the use of number of children (under 18 years of age) does not fully capture the variety of services delivered for SEND up to the age of 25 years.

In these cases much of the support provided through Children's Services will be for children who have certain conditions. These children will often require very high-cost placements or support packages. Their distribution throughout the country may be relatively random, and may not necessarily be correlated with deprivation. More detailed expert analysis is required to ensure a future formula reflects actual/potential numbers of children in receipt of care packages or support.

**Question 12b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting children's services?**

In or response to question 12 a.

**Question 13a):Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?**

Our only concerns would regarding concessionary bus boarding as this relies on there being a bus for people to board. In a time of austerity it is inevitable that reductions in subsidies to bus operators has had a negative impact on the availability of transport. Hence this proposed cost driver would not reflect need. We believe that in this instance a mix of indicators that needs to reflect the inherent demand based on deprivation and measures reflecting eligibility for concessionary travel would be more appropriate.

**Question 13b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?**

Please see response to question 13a.

**Question 14a): Do you have views on what the most suitable cost drivers for local bus support are?**

We believe that this is a mix of indicators that needs to reflect the rural nature of county areas as well as the inherent demand based on deprivation and measures reflecting eligibility for concessionary travel. Counties such as Nottinghamshire have large rural communities that rely on a subsidised bus network although ironically we are not classed as a rural enough to receive any rural services delivery grant. A more detailed analysis is required to obtain data sets at district level that can be aggregated at county level would allow a proper reflection of the diverse nature of county areas.

**Question 14b): Do you have views on what the most suitable data sets are to measure the cost drivers for local bus support?**

Please response to question 14a

**Question 15a): Do you agree that these are the key cost drivers affecting waste collection and disposal services?**

Yes

**Question 15b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting waste collection and disposal services?**

No changes to the current data sets are suggested.

**Question 16a): Do you agree these remain the key drivers affecting the cost of delivering fire and rescue services?**

We have no comment to make on this question.

**Question 16b): Do you have views on which other data sets might be more suitable to measure the cost drivers for fire and rescue services?**

We have no comment to make on this question.

**Question 17a): Do you agree these are the key cost drivers affecting the cost of legacy capital financing?**

We agree with these proposals.

**Question 17b): Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting legacy capital financing?**

No changes to the current data sets are suggested.



**Question 18a): Are there other service areas you think require a more specific funding formula?**

As indicated earlier, if Public Health is to be included in the proposed 75% business rates retention then it is vital this is included in this review as early as possible.

**Question 18b): Do you have views on what the key cost drivers are for these areas, and what the most suitable data sets are to measure these cost drivers?**

Not at this stage.

**Question 19): How do you think the Government should decide on the weights of different funding formulas?**

We believe this is the most difficult area to reach agreement upon. As set out in the consultation paper it is clear that any form of regression analysis based on historic spending patterns is absolutely flawed and should not be considered. Unfortunately, we are not in a position to understand the alternative techniques suggested and would prefer more expert advice before drawing a conclusion on use of alternative techniques.

**Question 20): Do you have views about which statistical techniques the Government should consider when deciding how to weight individual cost drivers?**

Please see response to question 20.

**Question 21): Do you have any comments at this stage on the potential impact of the options outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.**

Local government has a duty to protect the most vulnerable members of society including the elderly, young and vulnerable. These groups of people who attract some of the most costly targeted services local government delivers are simultaneously facing the greatest (and increasing) services demands as quoted earlier in our response. It could therefore be said that the most important role of government and this review of local government funding is to ensure that these services are given sustainable future funding arrangement.