

# Consultation Response

## Fair Funding Review: a review of relative needs and resources

### Consultation response by London Councils

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

#### Summary

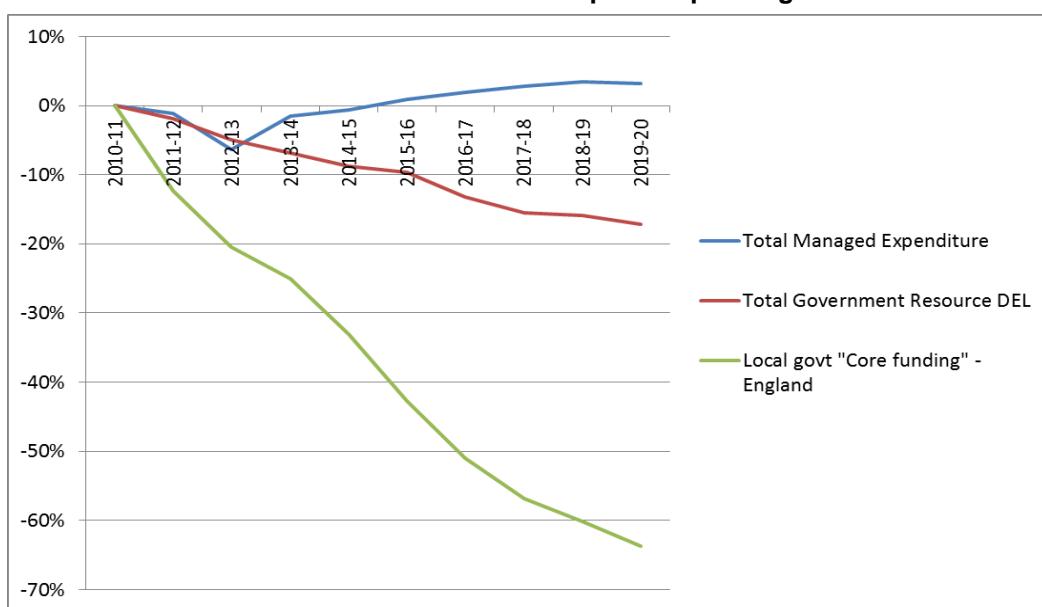
1. London Councils welcomes the opportunity to respond to the Government's technical consultation on relative need as part of the Fair Funding Review.
2. The way local government is funded is overly complex, lacks transparency and is out of date. We welcome this much needed reform, which must be the first step in establishing a more responsive and sustainable local government finance system.
3. We recognise that this consultation focusses purely on the relative needs assessment, but that resource equalisation and how to transition to the new funding baselines are arguably just as important. We look forward to commenting on any further technical papers that the Government plans to publish in the spring.
4. This response firstly outlines general comments regarding the Fair Funding Review, followed by detailed answers to the specific consultation questions in relation to the relative needs assessment.
5. In summary, our general comments:
  - raise concerns regarding the overall quantum of funding which the Review will seek to distribute;
  - outline our views on the key principles of the review;
  - outline what we see as the key priorities in driving needs assessment, namely:
    - Population growth
    - Deprivation
    - Area costs
  - call for the Government to confirm the balance between the foundation formula and service-specific formulae as soon as possible;
  - raise concerns regarding the evidence for, and the potential multiple counting of, rurality;
  - propose that housing services should have a specific formula
  - call for specific formulae to recognise the costs of those with No Recourse to Public Funds and Unaccompanied Asylum Seeking Children; and
  - raise concerns about the resourcing and timing of the implementation of the Review.

## General Comments

### The overall quantum of funding for local government

6. While the Fair Funding Review (FFR) is a welcome opportunity to address the myriad issues with the current mechanism for allocating central resources, there is no escaping the inadequacy of the resources it distributes when compared with the totality of demand.
7. Local government has faced a disproportionate level of austerity compared to other parts of the public sector. The final 2018-19 Local Government Finance Settlement confirmed real terms cuts to Settlement Funding Assessment (SFA) of 12% over the next two years, on top of a cumulative cut to core funding of 57% in real terms between 2010-11 and 2017-18. Over the decade to 2019-20, core funding from central government will have fallen by 63% in real terms. Clearly, local government is shouldering a disproportionate share of funding reductions when compared with total public and departmental spending (see chart 1 below).

**Chart 1 – Cumulative like-for-like reduction in public spending measures 2010-11 to 2019-20**



Source: HMT, Budgets and Autumn Statements since 2011; DCLG, LGF Settlements 2011-12 to 2018-19

Note: Core funding is defined as formula grant until 2012-13 and SFA from 2013-14 onwards. Like-for-like comparison means outturn figures are compared to adjusted prior year figures.

8. In addition to the funding gap, caused by funding cuts and disproportionate population growth, further cost shunts caused by central government policy choices have compounded the situation. For example, the likely financial impact of the latest pay offer, reflecting the impact of the National Living Wage, will increase costs in the next two years. Other more direct cost shunts to the general fund include: the underfunding of homelessness and temporary accommodation (at least £170 million per annum); the hidden additional costs of supporting people with No Recourse to Public Funds and Unaccompanied Asylum Seeking Children (both estimated to be at least £50 million per annum); the estimated £80 million annual cost of implementing the Homelessness Reduction Act in London; and the growing pressure caused by a £100 million funding shortfall in the High Needs block of the Dedicated Schools Grant. We believe these pressures should all be fully funded by central government and accounted for within the new needs assessment.
9. In London alone, funding cuts and rising demand for services mean that around **£2.2 billion of savings will be required between 2017-18 and 2020-21**.

10. The mismatch between demand and resource has been growing for some time on the back of rising service delivery costs and a growing population to deliver them to. The practical effect of this is acute pressure on services provided to some of the most vulnerable people in our society.
11. A better system for distributing not enough money does not meet local government's aspirations for the reformed local government finance system, and it should not meet central government's either. Efficient and effective delivery of public services must be underpinned by a stable and sufficient system for providing the necessary resources. As we have seen with adult social care, failure to provide adequate resource in a timely manner only leads to a more chaotic series of crisis responses later on<sup>1</sup>. This benefits no one.
12. If central government is not prepared to increase the quantum of centrally allocated resources available, then it needs to give local government greater control over its own resources and enhance its range and mixture of revenue raising capabilities. London Councils has set out options for improving local government led revenue generation in a range of consultation responses, and would continue to advocate both the full retention of business rates by London government and the wider recommendations on fiscal devolution contained in the London Finance Commission 2017.

## Principles

13. London Councils broadly agrees with the guiding principles set out in the consultation document that will be used in designing the new relative needs assessment methodology. We have long called for a funding system that provides certainty, is less complex, more transparent and that is sufficiently responsive to changes in demand. We are particularly pleased, therefore, to see the Government's support for the new formulae to be sustainable and, as far as is practicable, anticipate future demand for services and for its commitment to predictable, long-term funding allocations, ideally as part of a multi-year settlement which will provide certainty and stability.

## Key priorities for London

14. London Councils is supportive of the Government's approach to developing a 'foundation formula' for services which are not driven by unique cost drivers and where need to spend can be shown to be most closely correlated to factors used in the foundation formula. Specifically we believe that population, deprivation and area costs are the three drivers that should be used.

### Population growth

15. Population is generally identified as the single most important predictor of the cost that local authorities face. London Councils firmly agrees that population projections should be incorporated into any new needs assessment in order to most closely reflect the changing size and shape of the population over each reset period and to reduce the "cliff edge" volatility caused by using purely outturn population figures, which may change considerably from the start to the end of a reset period.
16. London's population has grown by 13% since 2010: over twice the rate of that of the rest of the country. It is forecast to continue to do so over the next 20 years or so. It is, therefore, vital that the new formulae (both the foundation formula and service-specific formulae) build in future growth through projections and do not rely on static population figures but instead takes account of anticipated annual changes.

<sup>1</sup> The funding crisis in adult social care (ASC) has required three major policy interventions in two years: The Adult Social Care Precept (ASCP) was announced in December 2015; changes to the ASCP and reallocation of £240 million from the New Homes Bonus were announced in December 2016; and £2 billion in additional grant funding in March 2017. That this has only been sufficient to stabilise the system rather than solve the problem attests to the need for a fundamental rethink of how ASC is funded.

17. However, an important caveat to this is that if projections are built into the formula they must be robust and account for “hard to count” areas better. Especially prior to the 2011 Census, population projections proved to be significantly lower in London than the actual population. Even at the 2011 Census, response rates were lower in inner London (88%) and outer London (92%) compared with 94%-96% for all other regions. London has 16 of the 20 authorities with the lowest response rates. This is largely due to London’s more transient population which includes hard-to-count individuals.

18. As such, we believe the methodology used by the ONS for projecting population changes should be considered and scrutinised by the Fair Funding Review technical working group, in order that the sector is comfortable that the methodology is robust.

#### Deprivation

19. London Councils shares the Government’s view that levels of deprivation remain an important cost driver for a wide range of services that must be captured by any new relative needs formula. In very general terms, London has higher levels of relative deprivation than other areas, although this varies from borough to borough and, of course, within each borough. What is less clear is how this should be taken into account.

20. We agree that the implementation of Universal Credit means that many of the existing measures linked to welfare benefits are no longer available so a new approach is required. The indices of deprivation are worth exploring as a readily available dataset, but should not be used solely for this reason as other better datasets may exist. Whichever measures are used must accurately show deprivation in the relevant service areas that the formula will fund. We also have some concerns with the use of the overall Index of Multiple Deprivation, which has subjective judgements built in around the weightings of the 7 subdomains of deprivation.

21. London Councils believes that any measures of income deprivation that are used within the formulae must appropriately take account of the costs of housing which are significantly higher in the capital and other major cities. When the costs of housing are taken into account London has median income lower than the national average (see chart 2 below).

**Chart 2 - Percentage difference between median income in each region and nation of Great Britain and overall median income, 2013-14 to 2015-16**



Source: IFS, 2017: <https://www.ifs.org.uk/publications/9540>

22. We have particular concerns that the higher costs of housing within London are not properly reflected in the current Indices of Deprivation and that this could significantly understate the true levels of poverty within the capital.
23. Whichever measures of income deprivation are used (whether IMD or any other measures), the disproportionately high housing costs must be reflected.
24. The Government must undertake more work to identify key deprivation variables as a matter of priority, as this is such an important driver of demand for many demand led services.

#### Area Cost Adjustment

25. London Councils strongly agrees that the needs assessment should continue to include an area cost adjustment. This is incredibly important for London boroughs and the surrounding South East of England as the costs of delivering services in the capital and surrounding area are higher as a result of its unique property and labour markets.
26. One of the main concerns is that any new ACA should be based on the most up to date data. The existing one uses data from different data sources dating from 1992-93 to 2007-08, which are now extremely out of date. If the ACA is to continue to use the Subjective Analysis Returns to derive service weightings – that dataset needs to be updated and should include all local authorities rather than a sample as at present.
27. London Councils also believes that consideration should be given to whether only private sector wages should be included in deriving the labour cost adjustment as this contradicts other similar ACA's within public sector funding formulae, such as the Market Forces Factor used within CCG and Public Health Grant allocations.
28. We note the Government is planning a separate technical discussion paper on this element of the assessment and look forward to discussing this in more detail within the technical working group over the coming months.

#### **The balance between an overall foundation formula and service-specific formulae**

29. London Councils agrees that the relative needs assessment should become simpler, and welcomes the proposal for the formulae to focus on the most important cost drivers. The current funding baselines consist of too many formulae, some of which contain very similar indicators. In principle, we would support a process that started from simplifying the formulae and only building in complexity where it could be justified. The proposed approach to create a simplified overarching “foundation formula” with specific formulae for the more complex services seems sensible.
30. However, the Government must be clearer about which services it intends to fund from the overarching foundation formula and which will have their own formulae. Only when the services that will be funded by a general formula are finalised, can an accurate and robust foundation formula realistically be constructed.
31. London Councils believes the Government must first decide which services the foundation formula (and therefore the service-specific formulae) would be designed to fund, before any judgement on the mix of cost drivers within it can be decided. We urge the Government to take this decision quickly as it is a “first order decision” which must be taken in order not only to establish the overall structure of the needs assessment, but to frame the next set of key decisions.

## **Evidence base for rurality and potential for double-counting**

32. London Councils is concerned about the potential for rurality to be given too much weight in any new needs assessment if it is included as a separate factor within an overarching foundation formula, as well as within an area cost adjustment and being reflected in any deprivation measures.
33. London Councils believes there must be robust evidence to underpin the inclusion of any cost drivers within the overarching foundation formulae and any service-specific formulae. As such, we have reservations about the evidence referred to in the consultation document to support rurality being included as a key cost driver in the overall foundation formula. The limitations of this research are alluded to in the consultation document (paragraph 3.3.9). It is difficult to understand why, given these limitations, the Government is continuing to use this as its sole evidence to support the inclusion of rurality as a cost driver in the foundation formula.
34. There are clearly additional costs associated with delivering some services in rural areas. Whether these are important enough, and universal enough, to be included within a foundation formula, however, is debateable: it may be that rurality adjustments are more appropriate to be included within service-specific formulae. This makes it all the more important that the government decides on the overall structure of the needs assessment as soon as possible.
35. London Councils would argue that, if rurality is to be considered as a separate factor within the foundation formula, specific factors relating to urban and more densely populated areas should also be considered. In particular, historic funding has failed to reflect fully the pressures on London and other urban areas. Most notably this would include, general undercounting of the population, the failure to properly recognise the impact of daytime (and night time) visitors, the impact of areas with high student populations, and the detrimental costs caused by congestion. Again, consideration of these issues should be based on evidence rather than assumption.

## **The need for a specific formula for Housing services**

36. London Councils believes the key service area missing from the list provided in the consultation is non-HRA housing and, in particular, homelessness. London boroughs are responsible for around 75 per cent of the households in temporary accommodation across England. Almost half (over £200 million) of the £470 million spent by London boroughs on non-HRA housing services goes on dealing with homelessness and temporary accommodation. This is almost half of the total expenditure nationally on homelessness and TA.
37. We believe there should be a specific formula to determine how funding is distributed within the overall needs assessment, as this is not an inconsiderable amount of expenditure, and the drivers of cost are so unique to certain parts of the country that they cannot be picked up in a general foundation formula. London's property market plays a big role in the additional costs and expenditure in this area. We therefore think that any housing service-specific funding formula should have its own ACA.

## **Recognition of unfunded pressures that have a disproportionate impact on London**

38. London Councils believes that the needs assessment should include two particular areas of significant cost that have a disproportionate impact on London boroughs. The costs of supporting people with No Recourse to Public Funds (NRPF) are estimated to be in excess of £50 million per annum.
39. The costs of supporting Unaccompanied Asylum Seeking Children (UASC) in London are similarly significant and disproportionate compared with other areas. London currently accommodates and cares for approximately 45 per cent of the national UASC population. As a consequence, almost 50 per cent of the national expenditure on Asylum Seeking Children occurs in the capital<sup>2</sup>. The Government provides no

<sup>2</sup> RO data for 2016-17 shows spend in London of £67m out of £136m spent nationally

financial support to cover the costs of UASC when they reach the age of 18, yet local authorities retain legal responsibility for these young people as care leavers up to the age of 25. Our estimates suggest that the unfunded cost pressure of UASCs is similar to that of NRPF at around £50 million per annum.

40. We believe that these services should be the responsibility of central government, rather than the current intermediate solution. However, if the status quo continues, then the Government should ensure that local government is funded appropriately to deal with these pressures. The drivers of these pressures are complex and may be better suited to be funded by specific grants than within the main local government funding baselines. However, the important point is that they must be funded properly within the 2019 Spending Review.

### **Concerns regarding the timing and resourcing of the review**

41. The timetable for implementing the new funding baselines is ambitious and requires a lot of detailed work to be done between now and December 2019. London Councils is concerned that, if the final funding baselines are not published until then – just four months before they are implemented - it will leave local authorities with a great deal of uncertainty in setting their medium term financial plans for the years beyond 2020. This uncertainty will continue to grow, the closer we get to 2020.
42. We therefore believe that in moving from the old to the new funding baselines, the first year of the new system should include an element of transition to reduce volatility and aid stability. Unlike the current system whereby damping was a separate block within the funding formula that has been “locked in” to baselines since 2013, this transition to new funding baselines should unwind as soon as possible after that first year in order to reflect the new needs and resources assessments. Any judgements on the thresholds of this transition determined by ministers should be evidence-based and transparent to the sector.
43. It is imperative that this review is not only thorough but involves proper consultation with the sector and the publication of exemplifications that demonstrate the scale of the impact of the proposals on funding allocations. We note that MHCLG has commissioned external consultants to undertake a review of cost drivers within children’s services (that will report in summer 2019) and that the Indices of Deprivation are being updated by the summer of 2019. It is important that any findings and emerging proposals are subjected to collective scrutiny from both MHCLG and the sector more widely so that the final baseline can be accepted as fair by as much of the sector as possible.
44. Finally, it is essential that MHCLG is properly resourced to deliver such an important review and has the analytical capacity to be able to share any interim findings with the sector and respond to feedback in order to build as much consensus over the final baselines as possible.

**London Councils, March 2018**

# Questions

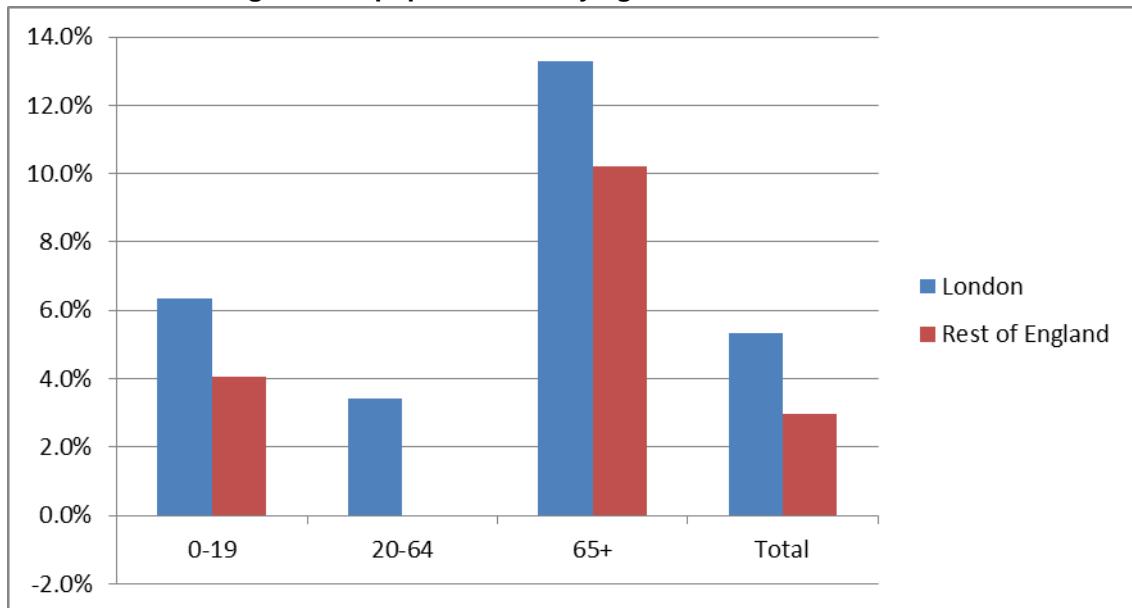
**Question 1): What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?**

45. As stated above (paragraph 13) London Councils agrees that the relative needs assessment should become simpler and welcomes the proposal for the formulae to focus on the most important cost drivers. The proposed approach to create a simplified overarching "foundation formula" with specific formulae for the more complex services seems sensible.
46. However, the Government must be clearer about which services it intends to fund from the overarching foundation formula and which will have their own formulae. Only when the services that will be funded by a general formula are finalised, can an accurate and robust foundation formula be created.
47. While simplification is an important aim, it should not come at the cost of fairness and London Councils would urge a degree of caution around the oversimplification of the formula, which may be to the detriment of overall accuracy.
48. It is unlikely that a national formula would be able to reflect adequately the unique circumstances of the Corporation of the City of London; we therefore believe some version of the existing legislative special arrangements must continue.

**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?**

49. London Councils firmly agrees that population projections should be incorporated into any new needs assessment in order to most closely reflect the changing size and shape of the population over each reset period and to reduce the "cliff edge" volatility caused by using purely outturn population figures, which may change considerably from the start to the end of a reset period.
50. As such, it is positive that the Government has set out the intention that "the new funding formula must, as far as is practicable, anticipate future demand for services".
51. London's population has grown by 13% since 2010: more than double the rate of that of the rest of the country. It is forecast to continue to do so over the next 20 years or so with an increase of 21% (to over 11 million) between now and 2039, compared with just 11% across the rest of England. Whilst this, in part, reflects the success of London's economy – and will help deliver its future growth – it also represents a huge challenge to the financial sustainability of London's public services.
52. These disproportionate increases are forecast across all of the major age cohorts (child population, working age adults and those over 65s). It will be important for the service specific formulae to recognise these differential rates of growth for different age cohorts.
53. Even over the previously proposed five year reset period (from 2020-2025) London's population growth is notably disproportionate compared to elsewhere (see Chart 3 below). It is vital that the new formulae (both the foundation formula and service-specific formulae) build in future growth through projections and do not rely on static population figures. We believe any new needs assessment must be able to respond to such changes, as well as the consequent increase in demand for services, on a sufficiently frequent basis.

**Chart 3 – Forecast growth in population in key age cohorts 2020 to 2025 – London vs rest of England**



Source: ONS, 2014-based Sub-National Population Projections

54. An important caveat to this is that if projections are built into the formula they must be robust and account for “hard to count” areas better. London and other large urban areas have comparatively transient and more mobile populations, with large numbers of visitors and migrants, compared with other less densely populated areas.
55. Particularly prior to the 2011 Census, population projections proved to be consistently lower in London than the actual population, meaning London boroughs were significantly underfunded over a number of years (for example the 2012-13 formula grant was based on population figure for London that was undercounted by around 375,000). Even following the 2011 Census, London’s population was undercounted by at least 70,000, as short-term migrants resident for less than 12 months were not included within population figures used in the 2013-14 funding baselines which have been “locked in” ever since. London’s high levels of migration mean it had 16 of the local authorities with the 20 lowest response rates at the 2011 Census: the starting point for building population projections. On average, response rates were 88% in inner London and 92% in outer London compared with 94%-96% for all other regions.
56. We therefore believe the methodology used by the ONS for projecting population changes should be considered and scrutinised by the Fair Funding Review technical working group, in order that the sector is comfortable that the methodology is robust.

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

57. London Councils believes that the population figures should be updated whenever the funding baselines within the business rates retention scheme are updated. Even if the underlying relative needs assessment *methodology* is not changed at each reset, the latest data should be used to update the relevant formulae with the needs assessment. This should include the latest population projections.

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

**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?**

58. As set out above, London Councils believes the Government must first decide which services the foundation formula (and therefore the service-specific formulae) would be designed to fund, before any judgement on the mix of cost drivers within it can be decided. We urge the Government to take this decision quickly in order to establish the structure of the needs assessment and frame the next set of decisions.
59. Having said this, irrespective of which services the foundation formula is designed to fund, there must be robust evidence to underpin the inclusion of any cost drivers within it.
60. In response to questions 4 and 5, London Councils has reservations about the evidence referred to in the consultation document to support rurality being included as a key cost driver in the overall foundation formula. This, like previous government papers on this subject, again refers to the work carried out by LG Futures, commissioned by DEFRA in 2014. The purpose of this research was to identify additional costs associated with delivering services in rural areas, but it found evidence for lower costs in rural areas in more services (15 compared to 11) and that those services represented a greater proportion of spend 31% compared to 15% for those where costs were higher in rural areas.
61. The consultation document highlights these weaknesses in paragraph 3.3.9. It is difficult to understand why, given these limitations, the Government is continuing to use this as its sole evidence to support the inclusion of rurality as a cost driver in the foundation formula. As such, London Councils disagrees with the claim made in paragraph 3.3.11 of the consultation document that "it is possible that altering the weightings in 2013/14 may have only partially reflected the challenges faced in delivering some services in rural areas". The evidence underpinning such an assertion needs to be much stronger and needs to be presented to and agreed by the sector. Without such evidence, it could be claimed that the current formula might just as likely *overstate* the challenges faced in rural areas.
62. There are clearly additional costs associated with delivering some services in rural areas. Whether these are important enough and universal enough to be included within a foundation formula, however, is debateable: it may be that rurality adjustments are more appropriate to be included within service-specific formulae.
63. We believe that including rurality as a separate indicator within the overarching foundation formula could potentially double- or triple-count the impact of sparse areas which are likely to be reflected in any deprivation measures and, more logically, within an area cost adjustment. By and large, the main additional costs are associated with transportation of goods and services due to larger geographic distances covered, which may be more suitable to be reflected within an area cost adjustment than in any measurement of "need" or demand for the volume or frequency of services.
64. The consultation document also refers to a "lack of private sector providers" as being a specific challenge for rural areas. It is unclear whether the inference from this is a lack of competition makes services more expensive, or that in-house provision is more expensive. Either way, we believe much more robust evidence is required to substantiate the impact that this has on costs. This relates to the underlying economy of the area: not the level of demand for local authority services in that area. As such, we believe that, even if there is evidence to substantiate higher costs as a result of fewer private sector providers, this should be recognised either within an ACA or should potentially be picked up through any deprivation measures that consider access to services (for example, the specific IMD domain that looks at barriers to services).

65. London Councils would argue that, if rurality is to be considered as a separate factor within the foundation formula, specific factors relating to urban and more densely populated areas should also be considered (see response to question 8 below).

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

66. London Councils agrees that deprivation should be included as a key factor within the relative needs assessment. Relative levels of deprivation are a crucial determinant of 'need' for many of the services that local authorities provide. Deprivation is the key driver of need in many demand-led services and a key cost driver in the current local government RNFs and significantly affects the distribution of funding. There are strong, well-established relationships between the degree of deprivation within an authority and the amount an authority spends in order to maintain the same level of services.

67. We also agree that, while Universal Credit is still being rolled out, it is difficult to incorporate welfare measures that may have applied previously and may not be consistent across the country. It is logical that the Government is looking at alternative deprivation measures. However, from 2022 UC data will be available, so the new measures for deprivation – whatever they end up being - should be kept under review and the option for using UC data at the next reset of the needs assessment should be considered.

68. As mentioned above (paragraphs 29-31), exactly how deprivation is measured within the overall foundation formula should depend on the number and type of services it is designed to fund. How and if deprivation measures are used within the service-specific formulae is also very important and it will be important to avoid duplication between how deprivation is measured within these and the foundation formula. London Councils, therefore, believes that, while deprivation is undoubtedly a key driver that should be fundamental to a foundation formula, the exact nature of which deprivation measures to include can only be decided once the number and type of service formulae are agreed.

**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?**

69. The Indices of Deprivation are currently used in adjusting the funding for social care, Children's Services, Environmental services, Fire and Rescue services and the police. This suggests that they may also be of use as a source of data for the foundation formula.

70. However, there are some issues that need to be addressed if this approach is to be taken. Indices of Deprivation rank is not necessarily a good predictor of service demand for all authorities as it is a relative measure of deprivation so can tell you if one area is more deprived than another but not by how much. Also, the three-year pause between releases of the Indices means that other alternatives should be considered at the same time which may be updated more frequently and more readily available.

71. The overall Index of Multiple Deprivation (IMD) is a composite of 7 separate indices or "domains". The weighting for each of the domains within the overall Index is subjective. London Councils believes there should be an evidence-based process in determining the weighting of this, and any other, cost driver, and would strongly urge that any use of the overall Index of Multiple Deprivation be subjected to the appropriate level of scrutiny.

72. London Councils has particular concerns that the higher costs of housing within London and other towns and cities are not properly reflected in the current Indices of Deprivation and that this could significantly underestimate the true levels of poverty within the capital. Specifically, the Income deprivation domain, which measures people on low incomes who are in receipt of benefits and tax credits, does not take into account the impact of high housing costs in accentuating poverty. The income threshold for low income families in

receipt of Working Tax Credits (WTC) or Child Tax Credits (CTC) is taken against the median *before* housing costs. Expenditure on housing is unavoidable and poverty levels tend to be higher based on income measured after housing costs because poorer households tend to spend a higher proportion of their income on housing: around one in six people in the UK are in relative low income before housing costs, rising to more than one in five once we account for housing costs<sup>3</sup>. London Councils believes that deducting these costs would provide a more reflective indicator of a household's disposable income and therefore standard of living. We suggest that consideration is given to using income that is below 60 per cent of the median *after* housing costs as the cut-off point for income-deprived households in receipt of WTC or CTC.

73. Whichever measures of income deprivation are used (whether IMD or any other measures), disproportionately high housing costs must be reflected.

**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?**

74. As set out above in response to question 3, London Councils would argue that, if rurality is to be considered as a separate factor within the foundation formula, specific factors relating to urban and more densely populated areas should also be considered.
75. In particular, historic funding has failed to reflect fully the pressures on London and other urban areas, most notably in terms of its undercounted population and the failure to properly recognise the impact of daytime visitors and areas with high concentrations of students. Again, consideration of these issues should be based on evidence rather than assumption.
76. GLA estimates suggest that London's daytime population is just over 10 million, roughly 18% higher than its usual resident population of just over 8.5 million<sup>4</sup>. This significant level of growth places increased pressure on local authority services and infrastructure. The night time economy and night time population in urban areas is also a driver of demand for services, which range from waste collection to dealing with the effects of anti-social behaviour, including crime reduction and community safety measure such as CCTV.
77. In addition, while geography (particularly road distance) is often cited as a cost driver related to rurality, higher levels of congestion in built up urban areas can significantly extend journey times and therefore costs of delivering goods and services. In London it can take several hours to drive from one end of the city to another. While geographic distance and poorer infrastructure networks are undoubtedly a cause for higher costs in rural areas, the additional costs caused by delays and travel times relating to congestion in densely populated urban areas should also be considered. London Councils would advocate therefore the development of cost driver variables such as those used within the Scottish Index of Multiple Deprivation, within the Geographic Access to Services Domain, which only uses times rather than distance as this better reflects the accessibility issues rather than distance or geography alone<sup>5</sup>.
78. London Councils believes the impact of population churn and inward and outward migration between local authority areas should also be considered as a potential driver of additional costs. London has higher rates of movement and migration between boroughs than other areas because of its mobile and generally more transient population. This can mean that the costs associated with assessments, for example for children or adults with social care needs or in relation to housing, can be duplicated as clients move from borough

<sup>3</sup> House of Commons Library "Poverty in the UK: statistics - BRIEFING PAPER Number 7096," 16 June 2017.

<sup>4</sup> [https://data.london.gov.uk/apps\\_and\\_analysis/daytime-population-of-london-2014/](https://data.london.gov.uk/apps_and_analysis/daytime-population-of-london-2014/)

<sup>5</sup> <http://www.gov.scot/Resource/0050/00504822.pdf#page=52>

to borough. We believe the additional costs associated with migration are worth further consideration and research as part of the Review.

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

79. London Councils believes the Area Cost Adjustment (ACA) is a crucial part of the current funding formula and firmly supports the continuation of such an adjustment within the needs assessment. We believe that there should be an overarching ACA within the foundation formula, but that consideration should be given to whether individual service-specific formulae should also include more specific ACAs.
80. The current ACA importantly takes into account the different costs of delivering services in different parts of the country due to underlying economic and market conditions. It does this via the Labour Cost Adjustment (LCA) and Rates Cost Adjustment (RCA). These are particularly important for London boroughs, as they reflect the characteristics of London's unique labour and property markets.
81. Within the existing ACA, the labour cost adjustment carries a much larger weighting than business rates because employment costs account around 43% of overall spend on local government services<sup>6</sup>, while rates costs only impact on between 1% and 2%. London Councils believes it is vital that both elements of the ACA should be calculated using the most up to date and robust data.
82. The current LCA has an extremely complex methodology for determining weightings for employee costs within each service, which we believe should be updated and simplified. It also uses data from different data sources dating from 1992-93 to 2007-08, which are now extremely out of date. One of the key datasets it uses is the Subjective Analysis Returns: collected from a sample of local authorities who return survey data each year. We believe the importance of the Fair Funding Review justifies a one off collection of SAR data from all local authorities to get the most reliable and accurate data on which to calculate the weightings in the LCA. We also believe that the LCA, as far as is practicable, should take into account future projections, such as building in the impact of the national living wage.
83. London Councils also believes that consideration should be given to whether only private sector wages should be included in deriving the LCA (as is the case in some other public sector funding formulae), as opposed to using both public and private sector wages. For example, the Market Forces Factor (MFF) used by the Department for Health & Social Care in the funding of Clinical Commissioning Groups and the Public Health Grant (PHG) to local authorities<sup>7</sup>, uses only private sector wages within its staff index element of the MFF. The key reasons given for this are that including, in this case, NHS wages within the overall MFF created the possibility of perverse incentives, as it would incentivise trusts to increase indirect staff costs, and that it may reduce incentives to improve efficiency as trusts using staff more efficiently would face lower staff costs which would be reflected in a lower MFF value and therefore a reduced income. The MFF used in the PHG, therefore, uses "external wage comparisons" based on private sector wages. The premise of the approach is that the private sector does not implement national pay scales and as such, wages offered reflect the cost of living and amenities in that area. These factors are the key drivers of relative differences in pay.
84. Notably NHS England's *Guide to the Market Forces Factor (2013)* states that: "The DH and the Department of Communities and Local Government have undertaken a number of reviews of the approach to compensating for unavoidable differences in staff costs. Both departments concluded that this approach

<sup>6</sup> MHCG Revenue Outturns 2016-17 - RSX data

<sup>7</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/300859/A\\_guide\\_to\\_the\\_Market\\_Forces\\_Factor.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/300859/A_guide_to_the_Market_Forces_Factor.pdf)

to the MFF continues to be the best available methodology<sup>8</sup>. London Councils would urge MHCLG to consider using only private sector wages within the LCA too as this is a consistent approach to the Public Health Grant.

85. In addition, we think it makes sense for MHCLG to consider supplementing the ASHE data with other data sources, such as the Labour Force data, in order to sense-check the findings from the ASHE data.
86. The Rates Cost Adjustment is of much smaller significance when compared with the LCA but should nonetheless remain an important factor within any updated ACA in order to reflect the higher costs of land and buildings used by local authorities in different parts of the country.
87. The 2017 Revaluation of business rates again resulted in disproportionate growth in rateable values in London compared with elsewhere. Average values in London rose by 24%, compared with just 4% across the rest of England. Despite having just 16% of the rateable properties in England, London's share of the total value increased from 28% to 32% in 2017. This represents the continuation of a long term trend over the last 4 revaluations, which has seen London's share of the national RV grow from just 24% in 1999-2000. London Councils therefore believes the ACA (like the population data used in the needs assessment) should factor in the likely future changes in rateable values. The Government should consider how to account for changes that will occur in future revaluations that will happen within the reset period. The next one is due in 2022.
88. If the Government is to consider whether the ACA within the foundation formula might reflect some higher costs associated with rural areas it must be consistent in its approach and there must be reliable and robust evidence to show that this has a big enough impact on the services that will be funded by the foundation formula. If there are higher costs associated with service delivery in rural areas they are likely to be linked to larger geography and the associated additional transportation costs. There must be robust evidence to show this has a significant impact on all services to be funded by the foundation formula for it to be included.
89. The Government should also consider whether the costs of residential (non-domestic) property would be relevant to include in an updated ACA. London Councils believes non HRA housing services should have its own formula, possibly with its own ACA (see question 18 below). However, if these services are to be funded by the foundation formula, then we believe the differential cost of housing should be taken into account within the overarching ACA because it drives much of the higher levels of expenditure on temporary accommodation and homelessness in built up urban areas such as London.
90. The technical working group considered a paper in September 2017 on options for the ACA which looked at whether other overheads should be considered for inclusion within an ACA, such as utilities or insurance costs. We do not believe that they should, as there is little evidence for significant variations across the country in these costs.

**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?**

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

91. In response to question 10a) and 10b), London Councils would like to reiterate that the current needs assessment already misses out several locally significant unfunded pressures that local authorities are facing. A significant example for London boroughs is cost pressures for people with No Recourse to Public

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<sup>8</sup> Ibid. p.15

Funds, which we estimate costs London Boroughs in excess of £50 million per annum. This cost pressure must be recognised and funded appropriately by central government.

92. Another example is the disproportionate cost of Unaccompanied Asylum Seeking Children in London. London currently accommodates and cares for approximately 45 per cent of the national UASC population. The Government provides no financial support to cover the costs of UASC when they reach the age of 18, yet local authorities retain legal responsibility for these young people as care leavers up to the age of 25. A significant proportion of London's UASC population is aged between 18 and 25 years old. Not only are the rates for those under 18 insufficient, but the absence of funding to support the cost of over 18s places a significant cost pressure on children's services in London at a time when the Government is asking councils to make unprecedented savings. This has a disproportionate impact on London with almost 50 per cent of the national expenditure on Asylum Seeking Children generally occurring in the capital<sup>9</sup>. Our estimates suggest that the unfunded cost pressure of UASCs is – similar to that of NRPF at around £50 million per annum.
93. The drivers of these pressures are complex and may be better suited to be funded by specific grants than within the main local government funding baselines. However, the important point is that they must be funded properly.

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

94. London Councils believes these variables could help to explain some of the need/demand for adult social care. However, while the overall population figures by different age groups are helpful, they do not show the proportion of adults with social care needs and don't reflect the specific regional and local nuances in providing social care. The number of adults with income and wealth that meet the means test and number of people with higher levels of impairment are perhaps more helpful indicators in this respect.
95. There is also logic in age disaggregation, as a higher proportion of older people require social care than younger people. However, merely disaggregating by age alone, whilst providing a useful proxy, lacks the nuances required in ensuring fair funding of social care for individual local authorities. Purely using the age-related population for working age adults is likely to be less of a useful predictor of social care need than using the general over 65s population, as a higher proportion of those over 65 than under 65 require social care. Therefore, more nuanced measures might be applicable to identify need within working age adults.
96. As mentioned in response to question 2, London Councils believes population projections should be used where possible in the service-specific and foundation formulae. Between 2020 and 2025, London's working age adult population will grow by almost 4% compared with 0% across the rest of England, and in the over 65s by 13% compared with 10% across the rest of England. It is vital that this growth is taken into account in the ASC formula.
97. When it comes to any weighting between over 65s and under 65s within the formula, the Government should consider the split of net current expenditure within ASC that is identifiably age-related. The 2017-18 Revenue Account Budget data shows that, of the expenditure that can be attributed to age groups, 55% is spent on working age adults while 45% is on over 65s. This split is the same across all authority types.
98. Two specific areas of Adult Social Care (Learning disability support for working age adults; and physical support for people over 65) account for over half of all expenditure within ASC - again, this is the case across all authority types. Therefore, the drivers of demand for these two areas should be considered in particular detail and given more weight in any new formula.

<sup>9</sup> RO data for 2016-17 shows spend in London of £67m out of £136m spent nationally

99. As described earlier, with sparsity/rurality potentially being included within the overall foundation formula, there is a risk of double-counting if also included within service-specific formulae. While it is undoubtedly true that social workers in sparse areas have to travel longer distances which reduce the number of visits that can be completed in a day, journey times over comparatively short distances in densely populated areas can be hugely affected by traffic congestion and accessibility issues (for example time taken to access properties within high rise buildings). If included this should be a measure of “time between visits” to acknowledge that transport difficulties go beyond geographic distance and population sparsity. Again, we would advocate a measure similar to the geographic barriers to services domain used in the Scottish IMD.
100. While we wouldn't disagree with including people living alone as a variable for consideration, it would be helpful to see the underlying modelling and evidence that proves this to be the case. It could be suggested that this in fact shows the individual can live independently, so may be of lower cost to the authority.
101. London Councils has concerns about using the number of adults with income and wealth that meet the means test as a variable. Specifically, the definitions of income and wealth must take account of the large regional variations in the property market, particularly given that the means test threshold is set nationally. London's property market means that a substantial section of its population is asset-rich but cash poor. Considering asset value alone does not necessarily reflect wealth and ability to pay for care. London also has lower rates of home ownership than elsewhere and a higher proportion of renters, whose gross incomes may be comparatively higher than other areas, but whose disposable income after housing costs are particularly constrained.
102. As well as the cost drivers set out in the consultation document, London Councils believes that it is worth considering whether the ASC formula requires a specific Area Cost Adjustment. The property costs relating to residential care are likely to be influenced by the underlying property market, and it is not clear to what extent an overarching ACA would pick this up using SAR data to show rates costs within adult and children's social care.

**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?**

103. With regard to population data, London Councils would urge the Government to use the ONS sub-national population estimates and, in doing so, build in the projected change in population over the reset period.
104. We also believe that the PANSI and POPPI projections produced by the Institute for Public Care and Oxford Brooks University should be considered, as they provide a rich level of granular data at local authority level for a wide range of relevant indicators for working age adults and adults over 65, and are widely used within the sector.

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

105. London Councils welcomes the approach to simplifying the children's services formula, however as mentioned above, we believe this should not be to the detriment of accurately reflecting relative need. We agree that the indicators identified are a good starting point as they attempt to reflect population, deprivation and complexity of need. However, they do not cover the full complexity of what drivers need/demand for children's services and there are a number of key cost drivers that are not included in the list.
106. While overall population is a helpful starting point (and again we would advocate using population projections), we believe the actual numbers of children a local authority looks after or supports considerably contributes to the cost of providing children's services. Factors such as the number of looked

after children in residential or community care should at least be considered, although we recognise the potential for this to have perverse incentives by potentially rewarding growing numbers.

107. Furthermore, the cost of service provision is significantly dependant on the complexity of need. The number of children for whom parents receive Disability Living Allowance, may provide a broad proxy for children with more complex and multiple conditions that are likely to require more expensive support; however, considering the complexity of social care support, we believe more detailed and nuanced measures are required to accurately reflect this. We recommend factors such as the number of social care hours provided or specialist support provided should be considered.
108. We agree deprivation is a key cost driver; however as defined in the consultation this is very vague. In order to effectively represent a key cost driver, the deprivation factor for children's services needs to account for elements such as income (appropriately calculated to take account of unavoidable housing costs, as set out earlier), ethnicity, child health and out of work benefits. The previous deprivation formulas for children's services accounted for some of these measures, and we recommend any new deprivation measure should take them into consideration.
109. Whilst we agree transporting pupils to school is a possible cost driver in local authorities central education function duties (specifically relating to home to school transport), we would be cautious about this having to large a weight within the overall formula as it is unclear that this is a significantly large area of spend to warrant this being a factor. Furthermore, while distance travelled is undoubtedly a factor in home to school transport costs, it is not the only element that should be reflected. The time taken to transport children to school similarly impacts the cost of delivering transport services. School transport in metropolitan areas can take as long as in rural areas, considering factors such as congestion and road layout. Although not necessarily covering as much distance as in rural areas, metropolitan authorities must still finance costs associated with increased time taken to transport children to school. Again, we would advocate a measure similar to the geographic barriers to services domain used in the Scottish IMD.
110. Home to school transport is one of the functions provided by local authorities in relation to education. The Government must clarify what Local Education Authority Central Functions the formula will fund – for example, duties relating to improvement. It is uncertain if the formula will still remain within the scope of relative need, or will not form part of relative need considering the Education Services Grant (ESG).
111. A significant grant that was rolled into the SFA in 2013-14 was Early Intervention Grant (totalling £1.7 billion nationally). The Government should consider whether the duties previously covered by the EIG justify specific cost drivers within the children's service formula.

**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?**

112. As with the adult social care formula, London Councils would urge the Government to use the ONS sub-national population estimates and, in doing so, build in the projected change in population over the reset period.
113. With regard to specific datasets that would support complexity and deprivation measures, we would draw attention to the responses by ALDCS and the ADCS nationally, but would urge the Government to avoid duplication with the overarching deprivation measures in the foundation formula.
114. We welcome the Government's attempts to establish an evidence base on the costs of children's services, but it is important that this is done at pace to ensure that results can feed into the formulae as soon as possible. The results of this in-depth research should suggest the list of cost drivers to be used in this formula.

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

115. London Councils broadly agrees with the list of cost drivers. We agree that road length is likely to be a strong driver of spend in this area and that this should consider classification of roads, as the costs of maintaining roads in built up areas are likely to be higher than in less developed areas. We also agree that traffic volume – and the volume of heavy goods vehicles in particular - is an important variable that will impact on the frequency with which roads need maintenance. The existing highways maintenance RNF uses “daytime population per km of road” as a specific cost driver, which we believe is still relevant to consider within the formula. With regard to concessionary fares, we agree that bus boardings are the principal driver.

**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?**

116. We believe the most suitable datasets that relate to road length and type will be those available to government departments (MHCLG and DfT). Within London, TfL has specific and relevant datasets with regard to bus journeys. The GLA also has a measure of daytime population that would be applicable for London.

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

117. London Councils has no comment.

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

118. London Councils has no comment.

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

119. London Councils broadly agrees with the list of proposed cost drivers affecting waste collection and disposal services. The number and type of households are likely to be the most important drivers of demand for waste services, and we agree that journey *times* between households should be taken into account. As stated throughout this response, these should be genuinely related to time rather than road length or geographic distance.

120. We agree that deprivation should be explored as a key cost driver as individuals from more deprived areas tend to make less use of recycling services, and deprived areas tend to suffer from a lower quality local environment which can result in increased costs.

**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?**

121. We believe the most suitable datasets are those that relate to household numbers and type will be those available to government departments (MHCLG and DEFRA).

122. As stated earlier in our response, we believe, where possible and where they are robust, projections should be used. If household projections are available then they should be considered to take account of future change in demand over the reset period.

123. With regard to deprivation, we don't have a view on the best dataset to use but would urge the Government to avoid duplication with the overarching deprivation measures in the foundation formula.

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

124. London Councils has no comment.

**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?**

125. London Councils has no comment.

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

126. In line with the existing relative needs formula, London Councils agrees that debt repayments and interest charges are the two main cost drivers driving legacy capital financing costs.

127. London Councils supports the inclusion of a relative needs formula for legacy capital costs as they were previously funded directly through the local government finance settlement. It is right that the ongoing cost implications of historic borrowing commitments continue to be funded by government. However, as the costs are directly measurable for each individual local authority, it may be worth considering whether this should sit outside of the relative needs calculation and potentially be funded via a separate grant.

**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?**

128. As far as possible, the data sets used should reflect the actual cost of legacy capital financing to local authorities. The approach used in the existing relative needs formula – based on historic debt, credit approval limits and supported capital expenditure – appears to be sensible and captures the two main cost drivers.

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

129. London Councils believes the key service area missing from the list provided in the consultation is non-HRA housing and, in particular, homelessness. London boroughs are responsible for around 75 per cent of the households in temporary accommodation across England. Almost half (over £200 million) of the £470 million spent by London boroughs on non-HRA housing services goes on dealing with homelessness and temporary accommodation. This is almost half of the total expenditure nationally on homelessness and TA.

130. The current funding baselines include three blocks of funding for housing that were previously specific grants: "Supporting People Allocations" and "Housing Strategy for older people" (both rolled in to formula grant in 2011-12), and Homelessness Prevention Grant (rolled in to SFA at the start of the business rates retention scheme in 2013-14). These grants totalled over £1.7 billion nationally, of which £407 million (24%) went to London boroughs. By 2017-18 we estimate that the respective amounts within Settlement Funding Assessment are now £1.1 billion and £260 million, while London boroughs expect to spend almost £470 million on non-HRA housing this year (30% of the national total £1.5 billion).

131. Not only is there, therefore, a funding gap of over £200 million in London (and over £400 million nationally) that must be fully funded in the 2019 Spending Review, but we believe there should be a specific formula to determine how funding is distributed within the overall needs assessment, as this is not

an inconsiderable amount of expenditure, and the drivers of cost are so unique to certain parts of the country that they cannot be picked up in a general foundation formula.

**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?**

132. London Councils believes the key cost drivers should reflect both drivers of demand/need and of higher unit costs. We therefore think that any housing service-specific funding formula should have its own ACA. If not then the overarching ACA in the foundation formula should reflect the huge cost differential caused by London's residential property market.
133. We believe the main demand drivers are: the number of homeless families and, increasingly important due to growing statutory responsibilities, the number of single person homeless households.
134. We also believe it is worth considering deprivation as a cost driver within a housing formula. The "Barriers to Housing and Services" domain of the Indices of Deprivation may be worth exploring if being updated for 2019, as this looks at variables relating to homelessness, household overcrowding and Housing affordability. London boroughs account for 19 of the 26 most deprived authorities on this domain, suggesting a clear link between what the domain is measuring and what is spent on housing services.

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

135. A purely technical assessment in determining weights would aid transparency and accountability, however we recognise a level of judgement will always be needed. We therefore believe weightings should be determined primarily by expenditure based regression, but sense checked against qualitative evidence from the sector. Where judgements are made by ministers, the reasoning behind those judgements and their impact should be made clear to be as transparent as possible.

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

136. London Councils believes the use of expenditure based regression should continue to be one of the options considered in assessing relative needs. However, it is important that consideration of experiences of cuts to SFA since 2013-14 are taken into account to reflect the different experiences across the country between authorities. The credibility of using expenditure as a proxy for need reduces over time the further we get from the original assessment, as expenditure trends naturally follow the funding available. Expenditure should be adjusted to reflect this fact otherwise there is a significant risk that areas that have faced relatively lower cuts will have relative assessed higher funding baselines than otherwise would have been the case had they faced the same proportionate level of cuts.
137. London Councils would urge that statistical techniques that are used are well understood. Clearly, the use of statistical techniques that are not widely understood adds to the complexity of the system and will complicate understanding and explaining the resource allocation outcomes to non-specialists resulting in less transparency. However, this must be weighed against the fact that greater complexity may enable a more accurate and appropriate resource allocation.

**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.**

138. It will not be possible to comment on the impact of the Review on persons who share a protected characteristic until the Government provides further details of proposals and exemplifications.