

# Selby District Council

## REPORT

Reference: E/17/53

Item 8 - Public



**To:** The Executive  
**Date:** 1 March 2018  
**Status:** Non Key Decision  
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**Executive Member:** Councillor Cliff Lunn  
**Lead Officer:** Karen Iveson, Chief Finance Officer

**Title:** Fair Funding Consultation

### Summary:

Following the provisional settlement, the government released a technical consultation on relative need, referred to as the Fair Funding Review. The consultation seeks views on what factors drive local government spending and will be key in how local government funding allocations are determined – particularly through a 100% business rates retention scheme. The Fair Funding Review is a significant development for local government funding. The Council has some specific issues which impact on its current resourcing needs – Internal Drainage Board Levies and the cost of providing services such as refuse collection and recycling in rural areas. The Executive's views on the issues raised in the consultation are sought to inform the consultation response that is currently being drafted and delegated authority to submit a response to the consultation is requested for the Chief Finance Officer in consultation with the Lead Member for Finance and Resources and the Leader.

### Recommendations:

- i) **Subject to the views of the Executive in relation to the issues raised in the consultation the Chief Finance Officer, in consultation with the Lead Member for Finance and Resources and the Leader, be authorised to submit a response on behalf of the Council.**

### Reasons for recommendation

To ensure a response to the consultation is submitted by the due date and allow the views of the Executive to be included in the consultation response.

## **1. Introduction and background**

- 1.1 Following the provisional settlement, the government released a technical consultation on relative need, referred to as the Fair Funding Review. The consultation seeks views on what factors drive local government spending and will be key in how local government funding allocations are determined – particularly through a 100% business rates retention scheme.
- 1.2 The consultation lasts for 12 weeks from 19 December 2017 through to 12 March 2018.

## **2. The Report**

### **TERMS OF REFERENCE**

- 2.1 According to the consultation document, the terms of reference for the Fair Funding Review will:
- set new baseline funding allocations for local authorities;
  - deliver an up-to-date assessment of the relative needs of local authorities (i.e. business rates will continue to be redistributed according to relative need);
  - examine the relative resources of local authorities (including how the government takes into account locally-raised council tax and other potential sources of income that are available to councils);
  - focus on services currently funded through the local government finance settlement.

This consultation focuses on relative funding need of local authorities.

### **CONSULTATION QUESTIONS**

- 2.2 The consultation proposes to develop an approach that begins with a transparent foundation formula to allocate all, or at least a proportion, of the available funding to each type of local authority. However, the consultation also acknowledges that there may be particular service areas where a more specific approach is required. As a result a proportion of the available funding may be allocated based on the particular cost drivers for those services. There are 30 questions in total (including sub-questions).

#### **2.3 Cost Drivers**

- 2.3.1 Common cost drivers identified by previous calls for evidence include:

- Population
- Rurality
- Deprivation

- 2.3.2 The consultation argues that these represent the characteristics of the population that affect the demand for services. The Government's intention is to limit the number of cost drivers included in a simple foundation formula to those that have a significant impact on the cost of providing services.

## 2.4 Area Cost Adjustments

- 2.4.1 The consultation also argues that the characteristics of an *area* may also affect the cost of delivering services. Examples provided include: the costs associated with providing services on an island, or to a widely dispersed population in rural areas.
- 2.4.2 This is an important element for Selby as a rural area with a relatively sparse population. Our response will emphasise the additional cost of delivery for a number of services such as refuse collection and recycling.

## 2.5 Local but significant duties

- 2.5.1 The consultation also refers to some duties which only account for a small proportion of overall expenditure but which can have a significant impact on individual authorities e.g. flood defences and for Selby, Internal Drainage Board Levies.
- 2.5.2 Selby District Council's budget for 2018/19 includes over £1.7m in respect of Internal Drainage Board Levies and these are expected to increase to £1.8m over the next 3 years - representing 15% of our overall net revenue budget by 2020/21. Whilst the Council has representation on these Boards they face their own financial challenges and the current funding system is not transparent – increases in these levies above the Council Tax referendum threshold mean further pressure on district council budgets and services. It is suggested that our preference would be to remove these from the district council's budget requirement calculation and for the IDBs to set their own precepts and council tax levels. However, if these levies are to remain within the cost of our services then adequate funding should be provided through the Local Government Finance Settlement.

## 2.6 Upper Tier Services

- 2.6.1 A number of questions refer to adult social care cost drivers, children's services, highways maintenance and public transport.

## 2.7 Waste Collection and Disposal

- 2.7.1 The following factors have so far been identified as the key cost drivers for providing these services:

- Number of households
- Types of property
- Travel times
- Deprivation

The consultation seeks views on these key cost drivers and how suitable data can be collected in order to appropriately measure these drivers.

- 2.8 The consultation also refers to the funding of Fire and Rescue Services.

## 2.9 Capital Financing

- 2.9.1 Currently capital financing forms a significant part of the funding formula, covering historic supported borrowing approvals – a system that was superseded by the prudential code in 2004. Capital Financing is included as a very specific cost driver and includes:

- Outstanding debt
- Interest rates

Again the consultation seeks views on these cost drivers and how they can be measured.

## 2.10 Other Service Areas

2.10.1 No other services have been specifically identified as requiring separate cost drivers above the foundational formula but the consultation asks if there are other service areas which require a more specific funding formula and if so what the costs drivers would be and how they would be measured.

## 2.11 Weighting of Funding between services

2.11.1 If more than one relative needs formula is developed, it will be necessary to decide the proportion of the overall funding that is to be allocated by each formula. In the past, control totals for the different elements in the relative needs assessment formula have been set by Government as part of the Spending Review process. However, there have been calls for this to be changed in order to reduce the level of judgement involved in funding allocations.

2.11.2 An alternative to the use of judgement in determining the weighting of different formulas would be to base these on the proportion of spending local government as a whole currently commits to different services. This could be supplemented with some trend analysis or time series modelling to set control totals that reflect the pressures that we expect local government will face in the coming years. It would also be possible to use a blend of these two approaches. As this is a relative needs assessment, these control totals would have to be constrained to the level of funding available through the local government finance settlement.

2.11.3 The consultation seeks views on how the Government should decide on the weights of different funding formulas and which statistical techniques the Government should consider when deciding how to weight individual cost drivers.

2.11.4 A number of techniques are being considered but regression analysis appears to be the favoured approach. However here the concern is that past expenditure levels are not a true reflection of future need.

## 2.12 Equalities

Finally the consultation asks for any comments on the potential impact of the options outlined in the consultation document on persons who share a protected characteristic, asking for evidence to support the comments.

## **NEXT STEPS**

2.13 A response is currently being drafted by officers and the Executive's views on any of the issues highlighted are sought. The closing date of submissions is 12 March and consequently delegated authority for the Chief Finance Office to submit a response on behalf of the Council in consultation with the Lead Member for Finance and Resources and the Leader of the Council is requested.

### **3. Legal/Financial Controls and other Policy matters**

#### **Legal Issues**

3.1 There are no direct legal issues as a result of this report.

#### **Financial Issues**

3.2 There are no direct financial issues as a result of this report but the future funding allocated to the Council through the Local Government Finance Settlement will depend on the outcome of this work and as such it is important that the Council submits a response to this consultation.

3.3 The consultation makes no reference to relative resources i.e. Council Tax, Business Rates and other incentivised funding streams such as New Homes Bonus.

#### **Impact Assessment and Other issues**

3.3 There are no direct equalities impacts as a result of this report and the risks to future funding are set out in the Council's Medium Term Financial Strategy.

### **4. Conclusion**

4.1 The Fair Funding Review is a significant development for local government funding. The Council has some specific issues which impact on its current resourcing needs – Internal Drainage Board Levies and the cost of providing service in rural areas.

### **5. Background Documents**

*Consultation document*

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

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