Written evidence submitted by Knowsley Council [FSR 070]

1. **Background**

1.1 Knowsley Council welcomes the opportunity to respond to this Inquiry into Local Government Finance and the 2019 Spending Review, and we have set out below our detailed comments against the four specific topics raised.

1.2 Knowsley is one of six metropolitan districts in the Liverpool City Region, and covers an area of 33 square miles. The 2011 Census estimates the population of Knowsley to be around 146,000 in 61,300 households. Over the previous 10 years the population had fallen by 3% but the rate of decline slowed compared to previous decades, and recent projections show that Knowsley’s population is growing, albeit not at the rate of England.

1.3 Knowsley faces significant challenges to the health, wellbeing and socio-economic circumstances of residents, with very high levels of deprivation compared to regional and national averages.

1.4 Despite being one of the areas of the country which most needs Government support, Knowsley’s funding has been cut by £485 for every person in the Borough compared to the England average of just £188 per person. Overall, the Council’s funding has reduced by over £100m since 2010 – a cut of over 50% in real terms. This has made Knowsley one of the hardest hit Councils in the country. Knowsley has sought to manage these cuts by making big changes to the way it provides services – changing the way it does things, cutting jobs, reducing the frequency and quality of services, and in many cases stopping doing things altogether.

1.5 However we feel this can no longer continue. Knowsley Council’s view is that it is essential for the Government to reassess the quantum of funding available, as well as the method of distribution, to provide essential services and to support those areas which are most in need and are least able to help themselves. We hope the comments and suggestions we have set out in the following paragraphs will be given serious consideration in the weeks and months ahead.

2. **What lessons can be learned from past changes to local government funding in England, the current financial situation of councils, and how this has affected their ability to deliver services?**

**Cuts in proportion to needs have meant the poorest authorities bearing the biggest cuts**

2.1 Since 2010, the Government’s approach to funding cuts has ignored the relationship between funding and need, and has resulted in the most deprived local authorities being hit with the deepest and most severe cuts in funding. The 2015 Index of Multiple Deprivation ranked Knowsley as the 2nd most deprived area in England. Despite this Knowsley’s funding (using the Government’s own figures) has
been cut by **£485 per person** - compared to the England average of just £188 per person.

2.2 This is because the funding provided through the Revenue Support Grant – which that is based on need - is the funding that the Government has cut as part of its national deficit reduction plan. Only the funding allocated according to need is being cut. And those Councils which have the greatest proportion of needs-based funding have therefore suffered the greatest proportion of cuts.

2.3 At the same time as cutting needs-based grant, the funding system since 2010 has placed increased reliance on locally raised taxation, without sufficient equalisation measures. This has failed to place funds in the areas where they are most needed, and has exacerbated the growing divide between poor and wealthy parts of the country.

**Vulnerable residents are most at risk**

2.4 As a result of the cuts being deepest where need is greatest, Local Authorities across the country are now having to prioritise their spending on their most vulnerable service users – such as the elderly, children in need, and those who are vulnerable through physical or mental infirmity.

2.5 Knowsley, like many responsible local authorities across the country, has done all it can to change the way it does things – prioritising our key services, transforming service delivery across the Borough, cutting jobs, reducing the frequency and quality of services, and in many cases stopping doing things altogether. However this simply cannot continue. Knowsley Council’s view is that it is essential for the Government to reassess the quantum of funding available to provide essential services and to support those areas which are most in need and are least able to help themselves. Failure to do so will put the most vulnerable adults and children in society at risk.

**Failure to Fund Adult Social Care**

2.6 Between 2010 and 2016, English councils were forced to reduce real terms spending on adult social care by 5%, despite a 1.7% increase in over 65s as a proportion of the English population over the same period. Yet, according to ONS projections, between 2014 and 2039, the pensionable aged population will have increased at almost 3 times the rate of the working age population.

2.7 According to Department of Health data, residents in the most deprived quintile of areas were 60% more likely to suffer from a long-term condition and suffered, on average, 30% more severe long-term care needs. Deprivation also limits healthy life expectancy. The average life expectancy in Knowsley is shorter and more of it is lived in ill health compared to a national average. The 2016 English Health Survey found that residents in the most deprived areas were around twice as likely to have unmet need for at least one activity of daily living than residents in the least deprived areas.
2.8 There are strong links between the prevalence of learning disabilities and poverty. Recent research by the Joseph Rowntree Foundation has indicated that children from low-income families are more likely than their peers to be born with inherited Special Education Needs and Disabilities (SEND), are more likely to develop some forms of SEND in childhood, and are less likely to move out of SEND categories while at schools.

2.9 Knowsley believes that such imbalances undermine fairness and sustainability. Therefore, the Government must make additional funding available to address this unmet need, ensuring its allocation is strongly correlated to deprivation.

**Failure to Fund Children’s Social Care**

2.10 A particularly severe example of these problems caused by the Government’s cuts is Children’s Social Care – which is facing significant and continued budget pressures in Knowsley and across the country.

2.11 A recent BBC investigation has found that 20 of the 23 councils in the North West of England have had to draw on reserves in 2017/18 to meet increasing demands for children’s services. North West Councils are dealing with more than 13,000 looked after children, 12% up from 2013, and more than any other region outside London.

2.12 In Knowsley the pressures are expected to exceed £3m next year - being driven by a combination of increased demand for high cost placements combined with increases in the average unit costs of placements and increasing scarcity of supply of residential placements. While the Council has been successful in reducing overall placement numbers, within this there has been an increase in the numbers of complex cases - which cost the Council the most.

2.13 The funding provided by the Government has been totally inadequate to keep pace with the rapid and continued growth in placement demand and placement costs.

**Four-year Settlement was a welcome initiative**

2.14 As part of the 2016/17 Funding Settlement, the Government announced an offer of four-year funding through to 2019/20. These figures included Revenue Support Grant, Retained Business Rates and Top-Up Grant, but excluded other grants such as Public Health Grant. By making this offer, the Government sought to encourage local authorities to take a longer-term view of budget setting.

2.15 The four-year Settlement was welcomed by Knowsley - as it provided greater certainty for the Council, and the Revenue Support Grant funding received would not be subject to annual change. The Government also stated that the “new burdens doctrine” will continue to operate outside the Settlement, so the offer did not prevent the Council from also receiving any new burden payments which may be agreed over the course of the four years.

**Use of short-term reactive funding is a barrier to effective financial planning**
2.16 The benefits of the four-year settlement were however diminished by the Government's increased use of one-off funding. These do not provide a permanent solution to the challenges facing local authorities, and therefore do nothing to help the Council plan for ongoing and increasing financial pressures over the medium and long term.

2.17 While the announcements of additional funding for Adult Social Care were welcome – much of it has been one-off. In March 2017, further Better Care Fund resources were announced (£9m for Knowsley) however there has been no confirmation from the Government that this support will continue beyond 2019/20. The absence of clarity from the Government means that the Council cannot plan for the longer term and makes the assumed continuation of this funding a significant risk.

2.18 If the Government does not provide sufficient permanent funding, Knowsley Council, alongside most other top-tier local authorities, will face extremely challenging decisions in addressing the budget gap on a permanent basis from 2020/21.

2.19 Similarly the March 2019 allocation of High Street Community Clean-Up grant, to be used by the end of the financial year, is an example of funding that while very welcome would have been more useful had it been announced earlier in the year, or with a longer deadline for use. In this instance, the fact that Knowsley Council was able to make full use of this grant to supplement existing planned work is more good fortune than good planning.

**Government has added to the burden of cuts in needs-based funding by promoting incentive funding**

2.20 The Government's approach to incentive funding (such as the New Homes Bonus) has rewarded Councils based on their local level of economic growth and prosperity rather than their levels of need.

2.21 Knowsley Council opposes the principle of the New Homes Bonus mechanism because it rewards an increase in the Council Tax base - and so favours more affluent Authorities with higher banded properties, and with more land available for building new homes (e.g. without having to first demolish older properties).

2.22 Knowsley strongly believes that any additional funding should be distributed on a needs basis, and requests that the incentive funding such as the New Homes Bonus is ceased. If incentive funding is to continue, then it should be fully funded outside of the Local Government finance system in order to protect the needs-based allocation of Local Authority funding, with no top-slicing of the Local Government quantum.

**Negative RSG**
2.23 The elimination of Negative RSG announced in the 2019/20 settlement has effectively treated 168 Authorities more favourably than others by providing them with an additional £153m of non-needs related funding.

2.24 Knowsley has had an overwhelming 32% cut in core spending power since the austerity programme began, with no additional transition or RSG refund, yet as an Authority without Negative RSG we do not stand to receive any of these additional proposed funds. This is clearly not fair, and Knowsley’s view is that such arbitrary use of scare resource to satisfy a minority of already well-funded Authorities must cease. We consider it would have been more appropriate to leave the impact of Negative RSG to be resolved by the affected Authorities taking management actions of their own – such as further budget cuts or increased local taxes. Alternatively, the proposed distribution of funding should have been allocated on a fair basis which reflects need. If the same amount had been apportioned relative to the 2019/20 Settlement Funding Assessment (SFA) it would have increased every Authority’s SFA by 1.062%.

3. **The efficiency, fitness for purpose and sustainability of the current system for funding local government (central government funding, council tax, business rates retention and other income); how it could be improved, including options for widening the available sources of funding; and what lessons can be learned from other jurisdictions?**

**Business Rates Retention exposes local authorities to risks that are beyond their control - for example, appeals and Central Government policy changes**

3.1 Since 2013 and the introduction of the Business Rates Retention system, the local government finance settlements have demonstrated a fundamental shift away from allocation of local government funding on the basis of need. The Government’s focus is on local authorities becoming more self-sufficient by providing incentives to grow local economies. This effectively rejects the principle that funding should be sufficient to reflect the different needs of communities.

3.2 While Knowsley Council agreed with the Government’s distribution of £180m of the levy account surplus, we highlighted the risk that the future amount of Levy that the Government will raise will not be sufficient to fund future safety net payments. We remain of the view that the full cost of any safety net mechanism must be fully funded from a levy on excessive business rates growth and should not be top-sliced from Revenue Support Grant.

3.3 The new Business Rate Retention Pilots will add a significant number of tariff authorities with disproportionate growth – which will reduce the potential future amount of levy income. Most of the authorities concerned are also the beneficiaries of proposals around elimination of negative Revenue Support Grant.

**Passing the burden of funding onto Council Tax payers means funding increasingly fails to be matched to needs**
3.4 The funding system currently fails to recognise the varying requirements on Councils in different areas to provide statutory services, or the very different abilities to raise money locally from Council Tax. These were the core principles which underpinned the local government finance system when Council Tax was first introduced in 1993/94. Those principles were aimed at ensuring that any resident anywhere in England would receive a standard level of service to meet their needs with a similar Council Tax charge for a similar property. This is clearly not the case.

3.5 The Council Tax Precept for Adult Social Care signaled a belated but welcome recognition by Government of the pressures facing Adult Social Care services. However the use of Council Tax in this way passes the burden of funding essential services onto local residents. This continues the Government's sustained policy of breaking the relationship between funding and need.

3.6 This is causing an increasing gap between an Authority’s local ability to raise funding, and the pressures in demand that it faces for local services. As a result increased levels of resources have to be generated from the most disadvantaged individuals in the poorest parts of the country. This approach to funding has meant that the impact of the cuts has been greatest within those communities which have the most vulnerable residents.

3.7 Use of the Council Tax in this way is also inherently unfair – as local authorities with a small Council Tax base (such as Knowsley) only benefit financially in a very limited way. Use of the Council Tax rewards Councils based on their local level of economic growth and prosperity rather than their levels of need.

3.8 This is an issue that Knowsley Council would urge the Government to rectify through Fair Funding. The Government must provide sufficient permanent funding, based on a fair funding system that properly reflects local levels of need and deprivation. To achieve a fairer distribution of the funding, and future use of a Relative Need Formula should be in conjunction with a mechanism that recognises the respective sums that authorities can raise from the Council Tax precept.

3.9 In addition, the Government’s treatment of Council Tax support has been of significant concern to Knowsley since the former Council Tax Benefit was rolled into settlement funding in 2013. Since then the grant has undergone annual reductions within successive Local Government Finance Settlements and it is estimated that by 2019-20 the total value of the funding within the settlement will represent only 46% of the 2013 value, whilst the level of income foregone is much larger. This is a significant problem for areas, such as Knowsley, with more benefit dependent pensioners who are statutorily entitled to Council Tax Support. We therefore consider that on the grounds of materiality, transparency and fairness, Local Council Tax Support should be included separately, with a bespoke funding formula.

Council Tax Referendum Principles

3.10 Knowsley Council has always been opposed to the application of council tax referendum principles as they are bureaucratic and undemocratic, and have no reference to underlying inflation or demand for local services. The core principle of up to 3% continues to fail to offset the loss of Government support, especially in high
need service Authorities which rely more heavily on grant. Such Authorities will surely fail to meet their existing needs without a referendum if such restrictions prevail, with any inflationary pressures having to be met in reality by service cuts.

4. **How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level?**

Proposing over-simplification at the expense of fairness

4.1 One of the stated aims of the current “fair funding” review of Local Authorities’ Relative Needs and Resources is to achieve simplicity. However it is vital that simplicity does not over-ride fairness in considering which cost drivers should underpin the new formula.

4.2 Knowsley Council is deeply concerned that many of the proposed changes in the Review appear to prioritise the quest for simplicity over the need to ensure accurate and fair allocations. Fewer variables may make funding allocations simpler to calculate but it is far more important that the right variables are used and that a fair outcome is achieved.

4.3 Funding formulae must produce a fair distribution of resources which accurately reflects both the relative need for services in a particular area, as well as the costs associated with providing those services. They must also consider the ability of authorities to fund these services from local resources.

4.4 Much of the complexity surrounding earlier formula versions related to how the outputs of the formula (i.e. the overall allocations) were disclosed. Knowsley Council’s view is the proposals must include clear and transparent explanations of how allocations will be presented including:

- The financial impact of service weightings.
- The link between individual funding and individual service areas.
- The funding impact of cost drivers at service level.
- The impact of the resource adjustment within baseline funding at an Authority level.

4.5 Although cost drivers of local authority services provision have a significant link to populations or population sub-sets these in themselves are not sufficient measures of the factors driving costs. To be effective, formulae need an element of complexity, such as weightings of baseline populations and households to reflect the proportion of the local population that is driving demand for local services. These proportions are not the same across all authorities.

4.6 While there may be some administrative benefits to simplifying the formula, greater focus on all authorities receiving a basic amount with only a limited number of top-ups cannot possibly accurately recognise areas of high need and hence demand for services. Knowsley would therefore want to retain more complex
formulae with multiple top ups including deprivation and density, in order to ensure a
more fair distribution of funding.

Failure to use an evidence-based approach to inform the review of Local
Authorities’ Relative Needs and Resources

4.7 Knowsley Council considers that in developing the proposed structure of the
relative needs assessment, MHCLG has failed to take into account significant
evidence across the following areas:
- Evidence for including deprivation in the foundation formula
- Evidence regarding sparsity and density
- Evidence regarding population projections
- Evidence regarding public health funding
- Evidence regarding highways maintenance

4.8 Evidence relating to each of these areas was submitted to MHCLG in
February 2019 in Knowsley Council’s response to the consultation on the Review of
Relative Needs and Resources. This evidence was also included in evidence
submitted by all Liverpool City Region local authorities, and other local authorities
across the country. It is essential that this evidence is recognised.

4.9 Key issues from the responses that we feel warrant further consideration are
highlighted below.

Deprivation has been ignored as the key driver of cost and need in deprived
areas

4.10 Knowsley shares the widespread national concern about MHCLG’s view that
deprivation is not a significant driver of either cost or need in local authority funding.
This view underpins the review of Local Authorities’ Relative Needs and Resources -
but it contradicts a wealth of evidence which shows that deprivation is a key cost
driver for poorer authorities which have suffered the greatest cuts to core spending
power.

4.11 There is a serious risk that MHCLG’s incorrect and un-evidenced assumptions
will distort future funding allocations for many years to come.

4.12 Knowsley Council brings to your attention significant evidence to support
these concerns – particularly recent research undertaken by the University of
Liverpool which can also be accessed using the following link:

https://betterhealthforall.org/2019/02/18/local-government-funding-review-how-can-
we-better-help-the-areas-that-need-it-the-most/

4.13 The research shows a pattern of significant regional inequalities which will
arise from the proposed per capita approach as illustrated by the map on the link below:

https://dblalex.carto.com/builder/4beddbf7-bcee-454a-a941-00d3120dc779/embed
4.14 The evidence raises serious concerns about the MHCLG’s decision to exclude socioeconomic deprivation as a measure of need for foundation services in the Review of Local Authorities’ Relative Needs and Resources. MHCLG claims that it only explains 4% of the variation in historical spend on these services. This is based on a flawed analysis – as it uses expenditure-based regression for determining the relative need of local authorities, with past expenditure data used as a proxy for need. In fact, using the correct analysis, socioeconomic deprivation is a very strong determinant of variation in historical per head spend on foundation services.

4.15 The MHCLG approach is fundamentally distorted by the fact that budgets for foundation services have been cut severely during the government’s austerity programme – and these cuts have been far more severe in deprived areas than in more affluent areas. Since 2009 the most deprived 20% of councils have lost an average £160 per head for these foundation services, whilst the most affluent 20% have only lost £50 per head. This massive cut in funding for these services in more deprived areas means that there are now significant unmet needs in the most deprived areas and the pattern of spending no longer reflects patterns of need.

4.16 Knowsley Council therefore believes that it is essential that the Foundation Formula uses a measure of area based deprivation to account for differences in relative need between local authority areas. Using 2016 data, the Index of Multiple Deprivation (IMD) score explains 16% of differences in spending per head on foundation services. However using 2009 data (before the cuts), deprivation explains 40% of the differences in spend per head between councils of these foundation services. Deprivation is therefore 10 times more significant as a driver of need for foundation services than has been estimated in the government’s consultation document.

4.17 After years of failing to fund services where they are needed most, it is essential that the future funding formula gives suitable and sufficient recognition of deprivation. This will ensure that poorer Authorities with higher levels of need, and hence demand for services, are not disadvantaged.

There is no evidence for Rurality and Sparsity Indicators to be included at the expense of Density

4.18 Knowsley Council strongly opposes the use of rurality or sparsity indicators. There is no logic to their inclusion at the expense of density indicators. There is a very weak correlation between rurality and spend on foundation services – and there appears to be no evidence to underpin this proposal other than the representations of the rural services interest group.

4.19 In 2014, an LG Futures report looked into whether rural authorities faced additional costs in delivering services compared to urban authorities. That report contradicts the view that rural areas face higher costs; while there were higher costs in rural areas for 11 services (comprising around 15% of local authority spending), there were actually lower costs in 15 services (comprising around 31% of local authority spending).
4.20 In determining costs, there are more relevant factors to consider than distance. It should not be assumed that population density enables more efficient services – such as waste collection or home visits. Density potentially results in congestion, pollution, crime and increased demand, each of which leads to further cost pressures in their respective areas.

4.21 In its response to the Review of Local Authorities’ Relative Needs and Resources, Knowsley Council urged the Minister to adjust the funding formula to give suitable and sufficient recognition of density. Density must be included as a key cost driver, which should at least match - if not outweigh - sparsity in the proposals.

4.22 If adjustments for sparsity and rurality are to be recognised then they should be excluded from the overall funding formula, and instead there should be separate Section 31 grants or other funding streams made available on an exceptional basis.

**Past population growth or decline is not a good measure of future population changes**

4.23 Knowsley Council disagrees with the use of population projections and would like to see the population basis frozen for as long as the council tax income base is fixed. Where population size and age profile is a key driver of demand we do not support the use of population projections as these are not truly forward looking and are simply based on regression.

4.24 The alternative to projecting population growth would be to use the latest mid-year population estimates and fix the population numbers for the duration of the reset period.

4.25 A more accurate assessment of need for service areas subject to means testing is the relative wealth of that population. Any population data should therefore reflect the proportion of the population currently receiving the service; this data could be requested within future Revenue Account / Revenue Outturn forms.

**Evidence Regarding Public Health Funding**

4.26 Knowsley Council, along with many other local authorities, fundamentally disagrees with proposed approach to allocation of Public Health funding as proposed in the Review of Local Authorities’ Relative Needs and Resources.

4.27 The proposed ACRA formula was subject to consultation in 2015 and many local authorities, including Knowsley Council, raised concerns about the formula at that time. We would urge the Government to review those responses which set out the concerns and potential impact of using the flawed ACRA formula. Exemplifications published in 2015 indicated that the adoption of the ACRA model would result in funding reductions of 37% in Knowsley. Such massive cuts in funding would be unmanageable and would have a seriously detrimental impact on the ability of Local Authorities to deliver preventative services which the Government has acknowledged as a key priority.
4.28 There is no evidence to support the effectiveness of the ACRA formula as a predictor of expenditure, either overall or at a selective authority level. Given this and the fact that the ACRA formula was not implemented from 2016 (presumably as a consequence of negative responses to previous consultations) there is significant concern regarding the adequacy of this formula.

4.29 The significant variations resulting from the new formula would be both positive and negative – which gives the strong impression that there are fundamental flaws in the ACRA formula which make it an unsound basis for future allocations.

4.30 The proposed change would increase health inequalities and lead to increased demand for not only local government funded services, but also health services. This is in direct contradiction to the NHS Long Term Plan commitment to taking action on prevention and health inequalities. The NHS Long Term Plan recognises the important role of local government in funding and commissioning preventative health services and how the provision of funding for and availability of such services directly affects demand for NHS services.

4.31 The Public Health grant was never intended to reflect the spending on the totality of what is required to optimise health and wellbeing and address inequalities across the population. The root causes of ill health and inequalities sit in wider determinants such as housing, education, employment, the environments people live in etc. Whilst public health can influence and work within Local Authorities to optimise the positive impacts of these this is not necessarily under Public Health grant spend.

4.32 When public health responsibilities were transferred to local authorities, the Government made a commitment that funding allocations would not fall below the baseline set using previous NHS expenditure. Public health funding has subsequently been cut and local services have been reduced to manage this.

4.33 Local Authority health professionals must be directly involved in the creation of a new formula and a realistic evaluation of the expectations from, and total cost of, a public health service must be determined.

4.34 If the ACRA formula is to be used then it must be accompanied by a separate pace of change adjustment. This would avoid a cliff edge funding reduction in this service area and allow local authorities to review their contractual commitments. We would expect the pace of change to be slow and spread over at least 10 years.

4.35 Knowsley Council’s preferred approach is for deprivation and relative need to be used as a fairer way of determining future Public Health allocations. Alternatively we suggest that the current allocation basis for Public Health funding should continue.

**Evidence Regarding Highways Maintenance**

4.36 There is no evidence or explanation to support the proposed changes to an equal weighting for all classes of road types or vehicle types. Knowsley Council
believes that the type of road and type of vehicle will directly impact on the cost and demand for routine maintenance, structural maintenance and street lighting. Built-up, urban areas require more street lights, higher quality and more complex pedestrian footways and junctions and more infrastructure beneath roads. They will also experience greater environmental issues due to population density, congestion, pollution and vehicle concentrations. Under the current formula, built up roads carried a weighting twice that of non-built up roads. We believe that this approach should continue.

Lack of information prevents proper evaluation of proposals

4.37 While we acknowledge at this stage the Fair Funding Review is still high level and concerned with the design of the new system, it has nevertheless been difficult to place into full context our views in the absence of any exemplifications showing potential funding allocations. Therefore we await, in due course, such information to enable a more informed opinion of how the new system could work at individual Authority level.

Unwillingness to accept local authority data

4.38 Knowsley considers that weighting between different relative needs formulae should be based on statistical analysis rather than judgement. However, factoring in current or historical spend only risks a failure to integrate specific changes to local authority spending into the future, as determined in response to reductions in funding and prioritisation of specific services (e.g. children’s services and adult social care). This would also fail to take into account investment in innovation to reduce future service demands.

4.39 The Council’s opinion is therefore that a combination of current expenditure and trend analysis or time series modelling would be preferable, but needs to adequately factor in the potential impact of future Government policy decisions over the relevant funding period, and the impact on spending behaviours and service demands. This needs to be realistic and not politically motivated.

Area Cost Adjustment (ACA)

4.40 Knowsley has consistently made a case that the Area Cost Adjustment (ACA) does not represent an effective measure of certain authorities’ need to spend and should be excluded from an up to date needs based formulae. For example the ACA methodology currently includes a lower limit that takes account of the fact that a higher proportion of local government employees are on national pay scales than in the economy as a whole. The lower limit recognises this lower wage flexibility in the public sector. However, there is no upper limit, so the ACA assumes that all local authorities are operating in the same labour market and paying the same rates as highly paid city bankers and FTSE chief executives. Unsurprisingly this results in the City of London being given the highest ACA factor in England at 1.5771. The inclusion of high earners from non-related businesses and industries is skewing the ACA leading to an unfair distribution of resources. Therefore, Knowsley continues to assert that the ACA needs to be scrapped.
5. The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review?

A greater quantum is required

5.1 As Government funding support continues to reduce, Authorities have had to reprioritise their spending towards their most vulnerable service users, chiefly the elderly, children and those who are vulnerable through physical or mental infirmity. Knowsley’s view is therefore that it is essential for the new formula to reflect such characteristics driving the demand for and net cost of delivering services, and recognise this in funding allocations.

5.2 Council services continue to be placed under significant financial strain and this will only be aggravated by continued uncertainty over funding levels from April 2020. Knowsley therefore also considers it vital for the Government to reassess the quantum of funding available to provide essential services and champion the cause of those most in need and least able to help themselves. Failure to do so will put the rights of the most vulnerable in society at risk.

5.3 As we have previously stressed, in our view the funding offer continues to be inadequate to support the continued provision of services at the current levels. We would therefore like to once again draw Government’s attention to the intense pressures currently facing Local Government; in particular social care services which Authorities continue to try and protect. This is a pressure felt most keenly in the poorest Authorities who have already borne the highest cuts to other services. The Government must also acknowledge that regardless of how funding is distributed, the overall quantum remains wholly insufficient to address the financial pressures facing local authorities.

5.4 Local Authorities across the country are now having to prioritise their spending on their most vulnerable service users – such as the elderly, children in need, and those who are vulnerable through physical or mental infirmity. Knowsley Council’s view is that it is essential for the Government to reassess the quantum of funding available to provide essential services and to support those areas which are most in need and are least able to help themselves. Failure to do so will put the most vulnerable adults and children in society at risk.

Funding should be allocated fairly

5.5 Funding allocations should properly reflect deprivation as the key characteristic which drives the demand and cost of delivering services to our most deprived communities. There should NOT be a per capita approach to the new foundation formula. A per capita approach ignores strong evidence of the high overall correlation between deprivation and cost per head, and will continue to underfund the poorest authorities to the benefit of wealthier ones.
5.6 Adjustments should NOT be made to reflect sparsity at the expense of density. Sparsity actually gives rise to lower costs in more service areas than it gives rise to higher costs; if sparsity is included then it should at least be matched, if not outweighed, by recognition of density.

5.7 The ACRA formula should NOT be used for Public Health funding allocations as it is an unsound basis for future allocations and would give rise to extreme changes in funding allocations across the country. Where these changes are cuts this would be unmanageable and would undermine the Government’s assurances to protect Public Health funding given at the time of transfer.

5.8 Local Authority public health professionals should be directly involved in the creation of a new formula which reflects a realistic evaluation of public health need and costs. In the meantime, the current allocation basis for Public Health funding should continue.

**Government policy changes should be fully funded**

5.9 Knowsley Council considers that areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities should be excluded from the overall formula funding, perhaps making separate S31 grants or other funding available on an emergency basis; a relevant example would be flood support for highways reinstatement after extreme weather conditions, support for which could be either one-off or time limited.

**Longer funding horizons**

5.10 Knowsley Council welcomed the opportunity for Authorities to accept the multi-year settlement in 2016/17 – which greatly assisted financial planning over the medium term. We would urge the Government to continue offering a similar degree of certainty beyond 2020 to enable such forward planning to continue.

5.11 The Government must understand that it is impossible for Authorities to operate effectively without knowing what their longer term financial position is. In the absence of this, Local Authorities will face the position where they must set budgets for 2020/21 by March 2020, but will have no certainty regarding their resource position. It is unacceptable that key decisions on the cessation of services and / or closure of facilities can only be made a matter of months before the start of that financial year – rather than planned and introduced over a suitable period to ensure the impact on residents is properly managed and communicated.

_April 2019_