We are grateful for the opportunity to respond to this inquiry in advance of the 2019 spending review, as there are specific aspects of existing funding mechanisms that we have highlighted for consideration. In addition we have attached our response to the most recent fair funding formula consultation in Appendix A.

For context in Lancashire:
- Reliance on tax raising powers is limited by the prevalence of band A/B properties, which is masked by a high band D council tax.
- More than 70% of our budget is absorbed by demand led statutory services; adult and children's social care and waste disposal. A total of £75m has been included in the bottom line for additional demand alone over the next 4 years.
- Our costs are heavily driven by national negotiations in respect of the new pay spine and current pay offer for local government workers, as well as the national living wage. We are forecasting additional salary costs (for county council staff) of c£22m over the next 4 years.
- Price increases, including the national living wage on care providers are forecast to add £87m to our costs over the next 4 years. The national living wage for care providers alone are forecast to cost c£9.5m in 2019/20 equivalent to a c2% increase in council tax.

The graph below shows the budget pressures and forecast financial gap facing the County Council over the next 4 years:

**Executive Summary**
It has been widely reported recently that there is insufficient funding across local government to meet the increasing demand for services and inflationary costs. This needs to be addressed. The fair funding review only seeks to address the funding allocation methodology for Local Government. It does not address the issue of the overall quantum of resources required.

Inadequate funding has and will continue to drive significant cost shunting into other public services such as the NHS and the police as council’s focus on mandated services. The lack of preventative activity is creating a "revolving door" as individuals re-present with ever more complex needs.

Sustainability is in the best interests of the electorate. The outcome of the review should provide a funding system that is adequately resourced to manage current and increasing demand and costs. One off funding streams should be reserved for genuine pilots and time limited programmes.

As greater reliance is placed on local tax raising powers, a regression analysis of need and tax yield should be a key influencer in the final system design.

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?

Like all upper tier councils, Lancashire County Council continues to face significant financial pressures as a result of funding reductions and price and demand pressures across services. Despite taking out around £330m from our budget over the last 5 years, and further savings of over c£100m agreed for future years, further work is required to achieve a financially sustainable position. We are forecasting a financial gap of £47m by 2022/23 which assumes the full delivery of agreed savings.

Over recent years there have been announcements of additional short term funding particularly in respect of adult social care. Whilst we welcome any additional funding, it is disappointing that there were no new long term monies available to meet demand pressures which would allow authorities to focus on long term solutions and reduce the amount of short term decision making. In order to complete long term financial planning we require much more certainty in relation to future funding, as despite the 4 year settlement, the one-off additional monies have created volatility for each council’s funding envelope.

The fair funding review and 75% business rates retention are planned to be introduced for the 2020/21 budget, for which each council the budget setting process starts in October/November prior to the start of the new financial
year. This lead in time is required by councils to draft the budget, undertake appropriate consultation and seek approval of the budget from members to ensure statutory requirements are met. Therefore, the announcement of provisional allocations or any new funding announcements as part of the Autumn Statement are too late in the process for budget setting purposes or this will result in short term adjustments needing to be made. If this is reduced funding for the county council this will mean further utilisation of quickly reducing reserves.

We would ask that allocations for 2020/21 are shared in Summer 2019, or that consideration is given to delaying the new funding formula and spending review for 12 months, as we appreciate there are ongoing commitments in MHCLG to support the Brexit process. This could allow greater certainty and planning time for local authorities.

- Over the past 4 years the government has introduced additional flexibility in relation to council tax, giving councils the ability to raise council tax levels by an increased percentage without the requirement for a referendum, particularly in relation to adult social care. Again, whilst this was welcomed we do not feel that this is an equitable means of additional funding for local authorities as those authorities who are facing the highest demand are those with the lowest tax bases and therefore can raise less from the council tax.

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?

- We feel that there will always be a need to redistribute funding across councils to allocate funding to those areas with the greatest level of need, and welcome that this is something that is being considered as part of the new funding formula.

- As detailed in the earlier question, we would welcome greater long term certainty in relation to funding levels, as this will enable better planning for services, particularly those statutory services that are supporting the most vulnerable residents such as adult and children’s social care.

- In the most recent consultation for the fair funding formula there were references to several additional technical consultations that would be issued for local authorities to provide feedback on, in key areas such as children's social care and public health (which account for a large proportion of our budget), but as yet these consultations have not been issued and we are concerned about timescales. In addition, the adult social care green paper continues to experience delays and this could also greatly impact on future funding of this proposed funding block and the spending review. We would
therefore ask that these consultations are issued as a matter of urgency, or a delay is considered to the new funding formula, with transitional arrangements for 2020/21 outlined.

- When looking at the flexibility that we have as a county council within our budgets to make reductions and/or increase income we are facing significant structural challenges as we deliver a range of largely statutory services and have a reduced ability to increase our income through fees and charges as these are largely the responsibility of district councils.

**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.**

- The methodology that is used to allocate the baseline funding requirement to local authorities is based on historic data, and we feel that this should be more current, and future looking if at all possible. This is something that is being looked at as part of the fair funding formula, but our concern is that data will very quickly become out of date and will not reflect current and future demand levels.

- Across Children’s Social Care we have seen increasing demand and price pressures. In recent years we have had to build into the budget for children’s social care the following additional budget provision:
  - 2017/18 – £23m
  - 2018/19 – £14m
  - 2019/20 - £9m

These pressures are as a result of the increasing levels of children across Lancashire requiring support from the county council. This is as a result of increasing numbers of looked after children. In 2018/19 we have seen an 8% increase in our children looked after figures which has resulted in an overspend position in 2018/19 despite significant additional levels of budget invested into the service.

**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.**

- The 2019 spending review needs to be published as soon as possible, particularly due to the impact that this could have on the new funding baselines and formulae for 2020/21. As detailed above, if this was to be published in late Autumn, as is the usual process, this will not allow enough time for the budget setting process for 2020/21 and there could be volatility across local authorities.
• We would welcome more certainty and information relating to transitional arrangements for when the new funding arrangements are implemented. At the moment local authorities are not aware of the magnitude transitional funding that will be required and made available and the length of time the arrangements will be in place.

• The spending review needs to incorporate that there is currently inadequate funding for local authorities, and it is becoming increasingly difficult to deliver statutory services to vulnerable residents. As has been very publicly spoken about, adult social care is continually under pressure due to the increased needs of an aging population. However, we are also seeing a continually increasing pressure across children's social care which we feel should be better reflected within future funding allocations.

• Demographic trends are an important aspect that should be considered as part of the spending review. Although we agree that there is an aging population, we would also suggest that the mortality rate and life expectancy of local areas is included. If as an example, a higher weighting of funding was included for the population over 85, but life expectancy in the area was lower than this, then funding would not accurately reflect the need, as the cost need of a 75 year old in one area may be the same as the cost need of an 85 year old population in another area due to health levels and resultant life expectancy in a particular area. In Lancashire we have a low life expectancy compared to other county councils, with both male and female being below 85, therefore we feel that the population over 85 does not reflect the level of need for our adult social care services.

• The current system of funding does not offer local authorities flexibility, with the government controlling the level at which council tax can be increased and bandings that can be charged, grant levels and limits the surplus that can be generated across services. More recently the government and CIPFA have encouraged commercialisation across authorities, however in October 2018 CIPFA raised concerns in relation this area and particularly investing disproportionately to resources. They committed to providing additional guidance to authorities and therefore this may reduce anticipated flexibility.

• We would ask that there is greater certainty in relation to other funding streams such as iBCF and new homes bonus. The iBCF allocation for Lancashire is c£50m and within our MTFS we have assumed that this will continue, as demand levels require this additional funding, however this is just our assumption at the moment, with no confirmation received.

• Given the ongoing uncertainty in relation to Brexit we feel that it would be beneficial for additional funding to be set aside to reflect additional costs that could be incurred and economic difficulties that could be faced such as slower house building and businesses having to close. As an example, we have
already seen in 2018/19 additional food costs for our catering services that have placed a pressure on the budget.
21 February 2019

A review of local authorities’ relative needs and resources

Dear Sir/Madam,

We are grateful for the opportunity to respond to this consultation, as there are specific aspects of funding of relative need for Lancashire that have been highlighted for consideration.

Like all councils, Lancashire County Council continues to face significant financial pressures. We are responding pro-actively to improve efficiencies but we are still finding it necessary to make difficult choices which we know will have a negative impact on future costs to public services and society as a whole. Despite taking out around £330m from our budget over the last 5 years, and further savings of over £100m agreed for future years, further work is required to achieve a financially sustainable position.

Our medium term financial strategy indicates that costs of inflation and additional demand far outweigh the amount of additional funding that the council is forecast to receive (2019/20 – £15m). Our structural financial deficit is forecast at £47m by 2022/23 after taking full advantage of all flexibilities offered by the Government in relation to council tax and additional one off grants as well as implementing wide reaching savings and transformation of services. The graph below shows the pressures that are leading to this deficit:
It has been widely reported recently that there is insufficient funding across local government (reports such as those recently released by the National Audit Office) and this needs to be addressed. If additional funding is not provided this will have a detrimental impact of the most vulnerable citizens in our communities as services continue to reduce. In addition, there is likely to be significant cost shunting into other public services such as the NHS and the police, as well as a revolving door into council services as individuals re-present with ever more complex needs.

In respect of the review itself, there are some overarching principals that should be considered as government finalises its position:

- Sustainability is in the best interests of the electorate. The outcome of the review should provide a funding system that is adequately resourced and sufficiently buoyant to manage increasing demand and costs. One off funding streams should be reserved for genuine pilots and time limited programmes.
- As greater reliance is placed on local tax raising powers, a regression analysis of need and tax yield should be a key influencer in the final system design.

In Lancashire,

- Reliance on tax raising powers is limited by the prevalence of band A/B properties, which is masked by a high band D council tax.
- More than 70% of our budget is absorbed by demand lead statutory services; adult and children's social care and waste services. A total of £75m has been included in the bottom line for additional demand alone.
- These costs are heavily driven by national negotiations in respect of the new pay spine and current pay offer for local government workers as well as the national living wage.
- A significant amount of resource has been included within future year budgets for price increases including the estimated impact of the national living wage on care providers. For context, meeting the inflationary price increases of our
social care providers alone will cost c£9.5m in 2019/20 which is equivalent to a c2% increase in council tax.

**Question 1): Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?**

We generally support the use of population as the cost driver to allocate the foundation formula to be used for the majority of universal services. The council would propose the use of official population projections, i.e. every 4-5 years, to provide stability of funding and enable effective financial planning.

However, although there is the area cost adjustment that will be applied to this block, in addition to the population allocation, we feel it is important to highlight our disappointment that deprivation is not given a weighting in the formula. Some areas of Lancashire are heavily deprived, with some being amongst the highest in the country which has a direct impact on the cost of some of the universal services we provide. For example the funding and provision of council services such as leisure, transport and library services are more important in areas with higher deprivation, in order to support and improve the wellbeing of residents, as opposed to wealthier areas where residents have greater ability to choose to access alternatives.

Although we accept that deprivation (or a proxy that is a deprivation indicator) will be included in the specific service blocks that we agree are more impacted by this factor, we still feel that it will have an impact on elements of the foundation formula and should be adjusted accordingly.

We believe that the waste disposal and collection process is difficult to provide feedback on due to this being associated with both upper and lower tier councils (with both influencing the costs and demand across the service), and should be subject to a review across the system in two tier local government areas. We agree that the number of households is the main driver, but feel that the type of property could have a significant influence (i.e. do they have a garden) and the number of occupants within a household can influence the amount of waste produced we therefore welcome that the funding will be distributed through the Foundation Formulas as these will population led.

**Adult Social Care**

The consultation makes reference to a further technical paper that will be published to provide background information in relation to the adult social care formula. We would ask that this is published as soon as possible, in addition to the supporting adult social care green paper. Adult Services is greatest area of spend at the county council and it is vital that the formula is reflective of need and there is adequate time of consult and take on board the feedback in advance of the publishing of indicative allocations. We are happy that the government have listened to previous feedback in
respect of significant funding shortfalls in this service area, with demand and need continuing to grow, and we hope this will be appreciated and reflected in the new formula and green paper with regard to a sustainable funding long-term funding solution for adult social care.

The cost drivers presented within the adult social care formula are reasonable, however Lancashire would suggest some additional factors are considered:

Whilst the adult population should be used as a cost driver within this service block, it is important that life expectancy and mortality rates are also included. If, as an example, a higher weighting of funding was included for the population over 85, but life expectancy in the area was lower than this, then funding would not accurately reflect the need, as the potential cost of supporting a 75 year old in one area may be the same as the potential cost of supporting an 85 year old in another area due to health levels and resultant morbidity.

We would suggest that a higher weighting should be given to the volume and cost of service users with learning disabilities as they are commonly the most expensive packages of care funded and consideration should be given to including their numbers in the formula.

**Children and Young People’s Services**

Due to the complex nature of services contained within this funding block we are pleased with the decision to use a multi-level model approach to predict future demand as accurately as possible, without making the formula overly complicated.

This is an area of increasing demand, with numbers of children looked after continuing to rise year on year. The costs of this service are not solely based on local costs due to the national pressure in relation to finding placements for children and also securing social workers. Therefore we would be concerned by the area cost adjustment in this area, as using the factors that represent local costs will not reflect significant cost elements that are incurred.

We understand that additional analysis work is being undertaken by LG Futures, whilst working with academics, councils and using data sets from the Department for Education. We would appreciate early sight of this work as this is the second highest area of spend for the county council and is facing huge demand and need pressures.

We supported the cost drivers proposed in the December 2017 consultation but also asked for the number of children with special educational needs to be taken into consideration, being a significant driver of costs in Lancashire. This could be measured by:

- Number of children with an Education Health and Care (EHC) Plan
- Number of children on SEND Plus
o Number of children with a learning disability assessment (LDA)
o Number of children registered on SEND Plus
o Number of children registered on SEND Action

We also believe that children in poverty are significantly more likely to need a social worker, therefore we believe that child poverty numbers should be considered as a cost driver.

Public Health

The public health grant will provide £66.6m of funding for Lancashire in 2019/20 and is therefore a significant element of the county council budget. This is a budget area that is under pressure with significant demand and subsequent overspends reported in areas such as sexual health. Although the proposed new formula separates out additional elements such as sexual health and 0-5 service provision, early modelling has shown significant fluctuations across county councils and we would therefore ask that this is reviewed as part of the further technical working paper that is going to be issued in this highly complex area.

Highways Maintenance

Road length and traffic flow are significant drivers of highways maintenance costs, therefore we are pleased that they have been recognised in the highways maintenance service specific formula.

In our response to the December 2017 consultation we highlighted that rainfall is also a significant cost driver in Lancashire which we feel should still be considered within this consultation. Freezing temperatures also add to this problem. We believe that rainfall levels and forecast ice days should be considered in addition to forecast snow days / predicted grit days and are disappointed that weather factors are not being accounted for in the service-specific formula.

Legacy Capital Finance

We agree that the proposed cost drivers are clearly the relevant drivers of cost. There may need to be some clarity on the definition of debt to be used namely the "remaining proportion of debts still outstanding based on the initial value of the relevant debts and assumed capital repayments".

Is this referring to a hypothetical debt figure based on previous RSG calculations or actual debt at a point in time adjusted for repayments? If the former this would be providing resources to authorities who never undertook the debt and if the review is geared towards a fresh analysis of costs this does not seem appropriate. Alternatively, identifying actual debt outstanding and adjusting it may also lead to a distorted position due to subsequent Treasury Management decisions. The charge to revenue for the repayment of debt is the minimum revenue provision (MRP). This is
derived from the balance sheet and, given MHCLG guidance on the calculation of the MRP, it should be possible for authorities to identify and submit data on the level of debt outstanding which previously received revenue support via the RSG. This is the most appropriate indicator of the cost pressures facing local authorities and should be reflected in the final formula.

**Question 2): What are your views on the best approach to a Fire and Rescue Services funding formula and why?**

As we are not responsible for the costs of delivering fire and rescue services we have no comment to make on this question.

**Question 3): What are your views on the best approach to Home to School Transport and Concessionary Travel?**

We are pleased that this consultation asks for further views from respondents in relation to both concessionary travel and home to school transport. We believe that these areas would be better suited to having their own funding block rather than being included as part of the foundation formula. Factors such as deprivation, rurality and those drivers identified in the children and adult social care formula would better represent the demand for these services.

Home to school transport is an area that could be reviewed as part of the additional work being undertaken to support the development of the children's social care formula. There are factors such as nationally earlier diagnosis of autism spectrum disorder, especially at primary age, has increased demand, nationally there is a capacity issue and high levels of exclusion which we would anticipate would be within the data sets available from the department for education.

**Question 4): What are your views on the proposed approach to the Area Cost Adjustment?**

We believe that there is no longer a need for an area cost adjustment across the majority of areas within the funding formula.

In areas such as Adults and Children's Social care, increased costs are being seen across the country, particularly in supporting individuals with more complex needs with Authorities often needing to use placements outside their geographical boundaries, reflecting supply and demand pressures, and all having to pay the level of cost that applies.

We do accept that general wage levels may be higher in some areas and a small adjustment may be required, however we would argue that the greater ability to generate resources such as council tax in those more affluent areas would cover the costs of additional wage levels.
The national living wage is a standard level of pay that authorities must adhere to and therefore the level of differential in wage levels across the country has reduced significantly in recent years. The government should recompense authorities for additional pressures they face due to the national living wage and linked to this, the new pay spine for local government workers.

We also would ask that some consideration is given to market factors, as this is a significant factor when placing children in care placements across the country. Due to supply and demand being an issue nationally, not locally, we place a number of children in other (more expensive) areas of the country and have to pay significant costs due to the market position. We feel it would be unfair to have an area cost adjustment, as this would assume that the costs were greater in areas where rents and labour was more expensive. However, the county council is often not able to place locally due to availability, therefore we would have to pay the costs wherever we place in the country, which does not link to the local costs within Lancashire as per the area cost adjustment.

It is also important to note that children's social care is regularly impacted by legislative changes and it is hoped that the formula and associated funding for authorities will be updated to reflect additional pressures this may put onto authorities with children's social care responsibilities.

**Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?**

A council’s ability to generate council tax income should reflect the level of resources an authority can collect due to its demographic profile.

It is important to reflect the loss of all non-discretionary council tax discounts and exemptions and the income forgone due to the pensioner-age element of council tax support in the measure of the council tax base. This reflects the reality that local authorities have no control over these discounts.

This measure would then be reflective of income collectable and should be based on actual levels of discount provided. The data can be taken from the current CTB1 data collection based on the end of September as this has to be submitted early October and this would also be in line with previous discussions around collecting NNDR data at the end of September.
Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?

Without knowing the assumptions that will be made it is difficult to give a definitive answer on the impact of an assumptions-based approach to measuring the impact of discretionary discounts and exemptions when measuring the council tax base.

However it would seem logical to continue with the current assumptions basis of assuming local authorities do apply discounts as it would provide a level platform for all authorities and reflect an expected level of loss of income due to the discounts, any further discounts or premiums would be a local decision which would reflect as a local gain or loss.

The data can be taken from the current CTB1 data collection based on the end of September as this has to be submitted early October and this would also be in line with previous discussions around collecting NNDR data at the end of September.

Question 7): Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?

To reflect the level of resources an authority can collect due to its demographic profile it is important to reflect income foregone due to local council tax support for working age people. Please see reference to CTB1 in question 6 which is applicable to this question.

Question 8): Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?

Taking a notional approach to council tax levels will move to a more balanced system moving local authorities to a more even position, this will also prevent any gain or loss that would otherwise be determined by historical political decisions by previous administrations and/or under different government priorities.

This is also reflective of our point on area cost adjustment. There has been no clarity provided yet as to the future policy on the adult social care precept and we would not support it being subject to a resource adjustment given the ring-fenced nature of the income.

Question 9): What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?

A council's ability to generate council tax income can be affected by factors including localised deprivation. Lancashire has a number of areas of significant deprivation as
well as more affluent areas and using actual collection rates would reflect this variant between districts and actual collection rates are collected on QRC forms.

We accept that avoidable poor collection rates shouldn't be rewarded but if a uniform collection rate is set this would need to be set at an appropriate level so as not to penalise those areas with below average collection rates but who are striving to improve collection.

**Question 10): Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?**

There are significant variations in tier splits across local government and a move to a more simplified, and consistent, system would be welcomed.

We strongly believe that the split of council tax should more equitably reflect the cost pressures faced by each tier/type of authority. This should be reviewed using the revenue outturn submissions to act as a proxy as the level of funding required at each tier.

**Question 11): Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?**

Yes - this would provide stability and encourage authorities to create tax base growth.

**Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities’ relative resources adjustment?**

Income from sales, fees and charges are a source of income to authorities where they working towards achieving full cost recovery. The council adheres to specific rules in relation to reinvestment of income in areas such as car parking. The methodologies applied and the vehicles used to generate this income can be very diverse with little consistency between authorities, many trading commercially via trading companies to generate an income contribution to their budget. To take into account income from sales, fees and charges when accessing local authorities' relative resources adjustment would dis-incentivise local authorities to diversify and generate income to support their budgets.

In areas where it is deemed there are higher costs and an area cost adjustment is proposed to reflect this, it should also be noted that these areas are likely to have the ability to raise higher levels of income and any formula should also reflect that, if included.
Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?

The ability to generate income from parking is not always feasible and in Lancashire relatively small (and volatile) in value, often influenced by local factors and local decisions not to charge for parking to incentivise growth in towns and the retail sector to subsequently grow business rates. For authorities that do generate surplus parking income, to take this into account when assessing local authorities' relative resources adjustment would dis-incentivise local authorities to diversify and generate income to support their budgets.

Question 14): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?

Any transitional principle needs to give some stability, be time limited and be transparent to aid financial planning.

We would encourage an agreed transitional period and fixed payments, as this will provide stability for financial planning.

Question 15): Do you have views on how the baseline should be constructed for the purposes of transition?

Like all councils, Lancashire County Council is facing significant financial pressures, and whilst good progress has been made to date in addressing the forecast financial shortfall over the strategy period, this has required difficult decisions to be made and further work is continuing to ensure the council can achieve a financially sustainable position and reduce our reliance on reserves to support the revenue budget, which has been significant in recent years.

To propose that the starting baseline for the purposes of transition as a measure of the funding available to each authority in 2019-20 is therefore an insufficient baseline to work from. Similar to the proposed transition principles the baseline calculation will also need to provide stability and be transparent. We would suggest that further modelling is undertaken in this area, to establish how the adjustments proposed in the consultation would be applied and when authorities would be notified.

To include an increase in business rates retention and growth within a proposed baseline removes the ability for authorities to generate local resources and removes the incentive for growth.
Question 16): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

The majority of the county council's expenditure is in relation to providing services for vulnerable people, particularly social care, and the scale of reductions required means that it is extremely unlikely that some will not have a negative impact on persons with a protected characteristic. It is not possible to provide specific evidence on what that will be at this time.

April 2019