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**Response from Croydon Council to the MHCLG Consultation – A Review of Local Authorities’ Relative Needs and Resources.**

Croydon Council welcomes the opportunity to respond to the Government’s technical consultation on relative needs and resources as part of the Fair Funding Review. Our view is that the current way in which local government is funded is out of date, overly complicated and lacks transparency and we would welcome improvements.

Having said that, while the distribution of funding for Local Government is very important to Croydon Council the bigger concern is the level of funding available in total for local government and the way in which it is distributed nationally.

The Local Government Association has detailed in various reports and submissions the scale of shortfall for Local Government. As an example, Croydon has seen a 76% cut in its government funding since 2011/12, whilst seeing its population and needs increasing massively.

Any funding scheme that is implemented needs to have the provision for the appropriate level of review in a timely manner when there are changes to legislation which will impact directly or indirectly on Local Government. We are concerned that the current arrangements to fund new burdens are inadequate and do not include all areas. Two key examples in Croydon being: the knock-on impact of Universal Credit, where Croydon has been a pilot there has been a fundamental effect on demand in a number of areas, including homelessness, Housing Revenue Account, social care,

preventative services and many more. Another recent example would be the extension of care leavers' entitlement to support, where the new burdens funding has only covered a fraction of the costs.

We believe that Croydon Council is unfairly underfunded due to its geographical location as an outer London Borough whilst it has all the characteristics and demands of an inner London Borough. We look forward to the Spending Review addressing these funding concerns both at a national and local level.

As well as our concerns regarding the total amount of funding available for Local Government we are also extremely concerned about the speed and timing of the Spending Review and the difficulty this is placing on our ability to undertake effective financial planning beyond 2019/20. We would welcome an early indication of the impact of any funding changes to enable us to plan ahead effectively.

We also have a number of more specific concerns and have listed these below in more detail ahead of answering the specific questions from the consultation.

We are concerned that the foundation formula does not include deprivation and feel strongly that this should be included and ask that this is reviewed. It is worthy of note that the Executive of the cross-party Local Government Association has unanimously endorsed the position that deprivation should be included. We would add that it should look at concentrations of deprivation as well as local authority averages. For example, in Croydon, our overall deprivation ranking masks that we have wards (and super output areas) that are in the 10% most deprived in the country. Deprivation factors need to be applied to the overall funding and then specifically for areas such as adult social care and children social care – as we have seen from preparing heat maps of where need comes from (e.g. numbers of adults qualifying for domiciliary care and where looked after children and children social care referrals come from) that there is direct linkage between deprivation and take-up of such services. Another example is Council Tax support, where the notional element of the SFA for this now only covers 50% of Croydon's costs, due to the evolution of our population.

We are also concerned that the proposals do not sufficiently reflect the relative costs of homelessness across the country. In Croydon and nationally we are continuing to experience high levels of homelessness and feel that there should be a further review regarding the addition of homelessness as an option in the formula. We do not feel that homelessness should be largely funded on a per capita basis. We feel that there is a specific need for it to be included as service specific formula.

More widely, we are concerned that general salary levels and accommodation costs in London, these costs are not sufficiently factored into the calculations. This includes the reality that the unit costs for an Outer London borough such as ours are now as high as inner London.

We do not agree with the proposal to fund concessionary fares through the upper tier foundation formula which would result in funding being on a largely per capita basis, as we feel that this basis would not accurately reflect the need to spend. We feel that using a formula based on eligible population and likely usage would be a more accurate means of allocating this funding.

We also believe that the inclusion of travel times and remoteness as new adjustments within the area cost adjustment are poorly evidenced and are concerned of the impact including this adjustment will have on London as a whole.

We are also extremely disappointed that the proposals do not make specific recommendations for some more specific areas of costs. We mention two examples of this, one London-wide and one Croydon specific.

The costs associated with children with additional needs are not currently met in full. Like most of London, Croydon's funding from the Dedicated Schools Grant (DSG) for High Needs is insufficient and the service is currently overspending annually. This is resulting in a deficit position for the DSG, as well as putting an extra burden on the General Fund, through costs borne by Children Social Care and SEN transport.

In Croydon due to the Home Office being located in our borough we have a significantly larger population of Unaccompanied Asylum Seeking Children (UASC) and No Recourse to Public Funds (NRPF) cases which are not appropriately funded by the Home Office and we currently fund over £7m of costs per annum from our revenue budgets. Conversations to date with the Home Office have failed to secure the right level of funding and a recent correspondence has referenced referring to the national funding formula consultation. However, it now looks like this will also not be addressing need appropriately. We feel that the costs associated with UASC and NRPF should be fully funded based on activity due to the volatile nature of the costs.

We are pleased to see the proposal to use population projections in the foundation formula, however we are concerned that the data used to calculate projections is accurate given that it is proposed to use census data which was last collated in 2011 and are unsure how the data from the next census in 2021 will be used in calculations. This is particularly concerning for Croydon, as we have had rapid growth in population and are projecting to have even more rapid growth over the next five to ten years.

We do not agree with the proposal to consider including parking income within the measure of local resources, when this income already has its own statutory ring-fenced criteria. We would ask why income from parking is being considered and not other income streams and that is inconsistent with the government's principle of encouraging local authorities to use their own discretion when setting fees and charges.

Although not strictly a part of this, we would urge MHCLG to take this opportunity to reform the Local Housing Allowance levels, to make sure these reflect real housing costs. Croydon has the greatest mismatch between LHA and actual rents and this puts a huge burden on residents and drives demand for council services and results in additional costs for the Council, most obviously the net cost of temporary accommodation and the level of discretionary housing payments.

We do agree that the transition process should promote stability, be transparent, be time limited and flexible. We have two concerns.

Firstly, we believe that transition should be a floor but not a cap, i.e. that authorities such as Croydon where there is a combination of historic underfunding, rapid population growth and substantial demographic change should not have to wait years and years before being properly funded.

Secondly, we are very concerned about the timescale, the implementation is in just over twelve months' time and there is no mention of the length of the reset time period for the new formula. We are keen to see more details on timescales and for this to be aligned to the reset of business rates baselines. We feel strongly that no authority should be financially worse off as a result of this review.

**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 are concerned that the proposal does not include deprivation as one of the cost drivers for the foundation formula. And although the Government has committed to ensuring that deprivation is appropriately accounted for in four of the service specific formulae, it still has not clear how it intends to do this.

#### The Adult Social Care Formula

We agree that Adult Social Care (ASC) requires its own service specific formula and that the proposed approach of separate formulae for 18-64 and 65+ age groups is appropriate. However, it is disappointing that the consultation did not include more detail about the formulae proposed. ASC is one of the biggest areas of expenditure and the determination of this formula will have a big impact on our funding. We urge MHCLG to publish the technical paper referenced in the consultation document as soon as possible.

We feel that learning disability support for working age adults; and physical support for people over 65 should be carefully considered and given more weight in the new formula given the high level of costs and increasing demand for these services.

We have concerns about using the number of adults with income and wealth that meet the means test as a variable. 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. House prices in London are significantly higher than the rest of the country and while salaries in London are higher the difference is not as great as the difference in housing prices. Consideration also need to be given to other cost of living costs. Thought needs to be given to how this will align to the ASC Green Paper that has again been delayed.

#### The Children and Young People's Services Formula.

We agree that Children and Young People's Services require their own service specific formula. It is difficult to make many comments at this stage as there is very little information available. We would welcome some clarity on when the data research will be completed and made available.

As mentioned above one of the big concerns for Croydon is how UASC and NRPF will be funded and the need to ensure parts of the Country are not adversely affected due to their location. We ask that we are fully funded for these costs as it is not fair that Croydon residents are funding these services which the Council has no control over,

#### The Public Health Formula

We broadly support the new approach based on an updated public health formula, but would keen to be sighted on the detail to be able to make any detailed comments. We would also mention that Government has quite rightly promoted the need for more public health services, notably in terms of prevention, reduction of isolation and violence reduction, but has applied year-on-year cuts to this grant, in direct contradiction to the stated aim of a growing public health approach.

We agree with the proposal to include standardised mortality ratios for those under 75. However, 75 as an age cut off is of decreasing relevance as life expectancy is increasing. The social care formula already acknowledges this, adding a weighting for population over the age of 90. Alternatively, rather than 75, life expectancy could be a good proxy. We would also suggest greater consideration of other measures of deprivation. We also welcome the specific sexual health component in the new formula, estimating predicted costs by age-gender based on activity data for sexual health treatments in England and characteristics known to be associated with need.

We are concerned that the proposed sparsity adjustment for health visiting services might lead to double-counting. While we do not disagree with the basic point that some account should be made for the longer journey times for some health visiting services, but this is already being proposed via the area cost adjustment.

### The Highways Maintenance Formula

We do agree that road length and traffic flow are major drivers of spend in highways maintenance, we are disappointed by the decision to rely on them alone. We believe the formula should include the 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 believe the volume of heavy goods vehicles in particular is an important variable that impacts on the frequency with which roads need maintenance. The existing highways maintenance Relative Needs Formula uses “daytime population per km of road” as a specific cost driver, which we believe is still relevant to consider within this formula.

### The Legacy Capital Finance Formula

Croydon Council supports the inclusion of a relative needs formula for legacy capital costs as these costs 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 central government. We also agree that debt repayments and interest charges are the two main cost drivers driving legacy capital financing costs. We would welcome further information on how the assumed debt repayment and assumed interest charge amounts are to be derived. 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.

### The Flood Defence and Coastal Protection Formula

We agree that flooding is an important cost issue and in recent years have experienced significant issues due to flooding in certain parts of our borough. We would seek to see some consideration given to previous events being considered too.

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

We support the GLA’s views on the Fire and Rescue Services formula. We are not convinced of the case for making any fundamental changes to the current fire and rescue relative needs formula. We support updating the existing indicators (including population) to reflect the most recently available data while retaining the existing weightings and supplementary top ups.

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

We do not believe that concessionary fares should sit within the foundation formula. A simple per capita formula would not adequately reflect the need to spend on this service area

We feel that home to school transport would be more suitable as a separate formula, or be combined within the children's services formula. Over the past few years we have seen a significant increase in demand for this service mainly as a result of the increase in the number of children with SEND. Whilst we are putting measures in place to manage demand locally and reduce the need for transport we feel that there will always be the need to transport some children and that a per capital formula will not reflect the demand.

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

We strongly disagree with the inclusion of travel times and a remoteness as new adjustments within the Area Cost Adjustment (ACA). We feel there is a lack of evidence to support their inclusion in the ACA that will be applied to almost every service formula. Such a significant methodological departure from the historic precedents and wider norms, in our view, requires far stronger evidence than has been proposed.

Due to the location and geographic nature of Croydon we feel that we will be adversely affected by this proposal.

Beyond these two new proposed additions to the ACA, we believe it is vital that the weightings for the ACA are calculated using the most up to date and robust data. The current weightings for the Labour and Rates Cost Adjustments used different data sources dating from 1992/93 to 2007/08, which are now extremely out of date. One of the key datasets it used was the Subjective Analysis Returns (SAR) 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.

**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?**

Yes. We agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions and the income forgone due to the pensioner-age element of local council tax support (LCTS), in the measure of the council tax base: to do otherwise would give a misleading impression of actual capacity to raise resources locally, resulting in less efficient allocation of resources through the formula. Furthermore, local authorities have no mechanisms by which to control the resource implications of these measures as they cannot control the size of cohorts, eligibility, or generosity in any meaningful way. It is unreasonable and unrealistic to expect local areas to absorb the local resource implications of decisions taken on such resources at the national level.

We believe that the existing Council Tax Base form is the most appropriate source of data for informing the council tax element of the resources adjustment, and that the actual figures for these non-discretionary discounts and exemptions from the 2019 Council Tax Base form (due in October) should be used.

**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?**

Yes, we believe that an assumptions-based approach is suitable for this element of the formula. Using actual amounts of non-discretionary discounts and exemptions would be contrary to the Government's second principle on resources concerning the intention not to reward or penalise local discretion.

**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?**

Croydon Council agrees that the council tax base should take some account of the mandatory obligation to provide a Local Council Tax Support (LCTS) scheme for working age claimants as we must provide such a scheme. While we have the discretion on design and generosity, we do not have the option not to provide a scheme and, in practice, such provision must be meaningful. While, there could be the introduction of a minimum legal requirement for such a scheme, with anything greater being a local choice we would ask that consideration is given to the value of preventing alternative impacts on other areas of service e.g. Mental health services or homelessness services.

**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?**

Yes. In practice there is no realistic alternative but to using a notional amount, to take account of actual council tax would be contrary to the Government's second principle

on resources concerning the intention not to reward or penalise local discretion, and to disregard council tax altogether would be inappropriate.

As for how this should be determined, it is impossible to come to an informed view as too many variables are unknown. The only way to be able to understand how a notional amount should be determined is to be able to test the options against a reasonable understanding of needs share. The background provided in the consultation document is insufficient to be able to do this now.

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

We do not believe that actual council tax collection rates should be taken into account as this could inadvertently penalise councils that are more effective at collecting council tax.

We would be concerned if an average collection rate assumption was applied across England, as this could penalise those local authorities who have worked hard to increase collection rates. In Croydon we feel that we have good levels of collection and continually strive to improve collection further, we would not want to see this impacted.

**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?**

No.

**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?**

Croydon Council agrees a single fixed measure should be used. If a changing measure were to be used, then the Government would be pre-empting, and thereby potentially influencing future council tax levels. We believe that the setting of council tax levels should be entirely at the discretion of locally elected representatives, we firmly oppose any measures that would increase national influence over this process, either directly or indirectly.

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

We agree. We believe that this is appropriate as sales fees and charges are often heavily constrained by legislation, and the use of any surplus revenue is often tightly controlled by provisions set out in legislation. Where an authority has been able to

make additional resources available through successful commercial activities, it is right that they should be able to benefit from this as they have taken the initiative and borne the risks involved. It would also be unfair to nullify the benefits of commercial success given that it has been central government policy for some years to encourage local authority entrepreneurialism.

**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?**

We fundamentally disagree with taking surplus parking income into account.

It is not clear why one specific service area should be singled out and it is inconsistent with the Government's general view that sales, fees and charges should not be directly taken into account within the local resources assessment.

Parking income is statutorily ring-fenced and can only be spent on highways and transport services. Local authority powers to operate and set parking related charges are defined and constrained by legislation.

We believe that including parking income would be incompatible with the Government's own principle about rewarding or penalising authorities for exercising local discretion, as surplus parking income is the result of locally determined parking policies that consider a wider range of factors than cost recovery of service provision

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

We broadly support the principles set out; however, as mentioned above, we are concerned about the lack of detail regarding the proposals for transition with just over a year to implementation. We would welcome as much detail as quickly as possible to aid financial planning.

Also, as stated earlier, we believe that transition should be a floor but not a cap, i.e. that authorities such as Croydon where there is a combination of historic underfunding, rapid population growth and substantial demographic change should not have to wait years and years before being properly funded.

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

We believe that the Government needs to undertake modelling and analysis of the potential volatility caused by the move to new baselines, share that with us as soon as possible and consider different options for the starting baselines.

In the first instance, we believe it would make sense that the starting baselines include 2019-20 levels of: Settlement Funding Assessment; Public Health Grant; Rural Services Delivery Grant; and Transport for London Grant. It should also take account of the impact of previous damping that has become imbedded long term as a result of subsequent events.

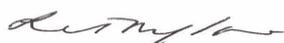
It may also be appropriate to take account of actual council tax resources in 2019-20, as this would provide a reasonable equivalent of the new “final funding position” measure of wider resources. However, it is difficult to see how council tax could be incorporated without the Government effectively setting a target level of council tax in 2020/21 for each authority – which we would strongly oppose. Further consideration and illustrative modelling are required on this issue.

**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.**

At this stage with the information available it is difficult to comment. We would ask that as proposals are developed further that consideration is given to these persons at all stages.

We would, however, mention that the exclusion of deprivation and the inclusion of travel times / remoteness is likely to be disproportionately prejudicial to the BAME population.

Yours sincerely



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