

**Corporate Services  
Carol Culley**

City Treasurer

Local Government Finance Settlement Team  
Ministry of Housing, Communities and Local  
Government  
2nd floor, Fry Building  
2 Marsham Street  
London  
SW1P 4DF  
[NeedsAndResources@communities.gov.uk](mailto:NeedsAndResources@communities.gov.uk)

Telephone: +44 (0)161 234 3590  
[carol.culley@manchester.gov.uk](mailto:carol.culley@manchester.gov.uk)

PO Box 314 Town Hall  
Manchester M60 2JR

21 February 2019

Dear Sir / Madam,

**Manchester City Council response to ‘A review of local authorities’  
relative needs and resources’**

Manchester City Council (MCC) welcomes the opportunity afforded by the Ministry of Housing, Communities and Local Government (MHCLG) to set out the authority’s views in relation to a review of local authorities’ relative needs and resources.

**Manchester Context**

Manchester City Council is one of the ten Greater Manchester authorities and also one of the Core Cities. Along with the other Core Cities we have played a vital role in weathering some steep challenges including delivering high quality public services and displaying outstanding resilience, despite recession and austerity.

Manchester’s population continues to grow rapidly and we have an ambitious house building programme. According to our in-house population forecasting model (MCCFM), the population rose from 560,800 in 2017 to 567,600 in 2018. Growth is expected to continue, with MCCFM predicting that the total population for Manchester will reach 647,200 by 2026. This equates to 17.1% growth between 2016 and 2026 whereas the ONS 2016-based projection for Manchester by 2026 is 585,400, an increase of 8.1% over the ten years compared to 3.4% across the North West and 5.9% nationally.

While there has continued to be progress in growing the Manchester economy, there is still a long way to go to tackle the legacy of deprivation

which remains. We are in the highest quartile of deprivation indices with an average ranking of 5 out of 326 authorities.

### **Key Messages**

Our Key messages in relation to the review are as follows:

- A funding formula cannot be considered in isolation of the quantum of funding available to local government and the mechanism for business rates retention.
- We remain extremely concerned about the short period of time before the outcomes of the Spending Review and the Fairer Funding work and the need for Council's to set budgets for 2020/21 and beyond.
- The future funding arrangements for Adult Social Care remain uncertain with a considerable amount of funding being allocated via the improved Better Care Fund, Winter resilience funding and the new Social Care grant. The work on the funding formula should closely align with the development of the Adult Social Care Green paper and we are disappointed this has been further delayed.
- We strongly disagree with the idea that the same level of funding per head is appropriate, any formula needs to reflect the key drivers of spend - this includes deprivation and ability to pay which needs to be explicitly included in all service blocks.
- Equalisation is a key component of a fair funding system and should take into account the totality of Council Tax resources raised, with adjustments for the impact of high student numbers and the full costs of the Council Tax Support Scheme.
- There should be recognition of the additional costs from operating in an urban conurbation e.g. increased journey times, costs associated with higher visitor numbers, costs linked to increased pollution, homelessness etc as well as ensuring there is capacity for Cities to provide the place leadership role that is so critical for driving economic growth and joining up public services within their regions.
- Whilst it is agreed that simplicity and transparency are important this must not be at the expense of fairness.

These proposals are after eight years of austerity which is seeing acute pressures on all classes of local authority, particularly but not limited to the area of social care.

This is evident in Manchester. Between 2010/11 to 2019/20 we have seen:

- A 29% cut in spending power over the period – 13% worse than the England average of 16%.
- A reduction in Spending Power per Head (2010-11 to 2019-20) of £355.08 (which ranks as the 10<sup>th</sup> largest cut nationally)
- A 40% reduction in the workforce
- If between 2010/11 and 2019/20 Manchester had had the average level of funding reductions it would have £83m more a year to meet priority areas including support for vulnerable people, tackling homelessness,

keeping our neighbourhoods safe and clean, and strengthening the economy.

There are significant concerns with the proposal that deprivation be removed from the foundation formula.

There are three core areas we wish to highlight as follows:

- Quantum of Funding
- Certainty of Funding
- Funding allocated on basis of need and reflects ability to raise resources locally

### **Quantum of Funding**

Whilst the Spending review is outside the remit of this consultation a funding formula cannot be considered in isolation of the quantum of funding available to local government and the mechanism for business rates retention. The LGA is estimating that by 2025 Local Government Services face a funding gap of at least £7.8bn just to stand still, much of this relating to social care. They forecast that by 2025 there will be another 350,000 people needing high levels of social care from councils. This follows almost ten years of austerity with the LGA estimating that between 2010 and 2020, councils will have lost 60p out of every £1 the Government had provided for services.

Clearly there cannot be a sustainable NHS without a sustainable adult social care system. It is disappointing that the publication of the Adult Social Care Green Paper is delayed as a longer term approach to funding Adult Social Care is urgently required. The NHS LTP and the ambitions in the GM *Taking Charge* can only be fully realised if councils are properly funded to deliver Social Care and Public Health services. The continued cuts to Public Health represent a false economy and are contrary to the LTP which aims to ensure that health is “hardwired into social and economic policy” and want action to be taken on the top five risk factors for premature death as part of the renewed NHS prevention programme, (smoking, poor diet, high blood pressure, obesity, and alcohol and drug use).

We agree with the findings of the Public Accounts Committee (PAC) Select committee report on Local Government Spending published 6 February 2019, in particular:

- Over the last eight years, the government has cut the funding it gives to English local authorities by nearly half, while, at the same time, demand for critical council services has risen.
- MHCLG are relying on short-term approach to a long-term problem.
- The government has had to inject large amounts of additional funding to ensure that the local authority sector can keep going in the short-term: Yet disturbingly, there is still no sign that the Department has a clear plan to secure the financial sustainability of local authorities in the long-term.

- Alternative means of supporting local authorities to remain financially sustainable will be needed to prevent them being solely reliant on the outcome of the next Spending Review

The cuts to Local Government have been on a scale not faced by any other service nor by any government department and they have not been evenly distributed. In 2018/19 the National Audit Office said 10% of upper-tier authorities were “vulnerable to financial failure” and suggested one in ten councils could run out of reserves within three years. This inevitably leads to scenarios where crisis work is prioritised and preventative work canceled, for example national trends show local authorities have increased their spending on homelessness while simultaneously reducing spending on preventing it<sup>1</sup>.

The impact of the funding reductions to date is shown in the heat map at Appendix 1. Nine of the ten Greater Manchester Authorities have seen spending cuts at a higher percentage than the national average of 16%, with the majority losing over 20%. All 8 Core Cities saw cuts higher than the national average with seven losing 25% or above.

### **Certainty of Funding**

The immediate financial challenges are compounded by the uncertainties that surround the future of Local Government Funding. The period of time between the outcomes of the Spending Review and the Fairer Funding work and the need for Council’s to set budgets for 2020/21 and beyond is now extremely tight. It is unclear how much funding there will be in 2020/21, how it will be distributed and the means of delivery. Therefore we will have to make assumptions about future funding which could result in unnecessary cutbacks to services if forecasts are too pessimistic or too little time to make significant cuts if the reductions have been underestimated.

There are serious concerns about the practicalities of implementing a new formula for 2020/21. As an example the Children’s Services research has not been concluded and the distributional outcomes from this work will not be known until almost the point at which budgets have to be set for 2020-21. Therefore to enable effective financial and service planning the following is required:

- Exemplification of the funding formula proposals to be provided at an earlier stage.
- Clarity around the future of the core funding streams for adult social care - for Manchester the allocations for 2019/20 for the Improved Better Care Fund, Winter Pressures funding and Social Care Support Grant alone total £35.4m.
- Clarity on the transition arrangements with guaranteed minimum allocations for 2020/21.

If the above cannot be delivered it may be better to continue with the current

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<sup>1</sup> National Audit Office report, Homelessness, September 2017 <https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf>

funding allocations for 2020/21 and start the transition to a new funding formula for 2021/22.

For the approach to transition the principles in the consultation paper are supported. Stability is seen as key with a range of potential changes in 2020/21 including the outcome of the Spending Review, the Fair Funding Review, changes to New Homes Bonus, the Public Health formula review, the longer term funding for social care and changes to business rates retention including the baseline reset. Fair Funding changes cannot be viewed in isolation to the wider changes to the Local Government Finance system or the ability to raise resources locally. Local Authorities experiencing reductions in their funding should receive full transitional support in 2020/21, similar to the Transitional Grant announced in the 2016/17 Local Government Finance Settlement which saw an additional £300m new funding allocated to authorities who faced Settlement reductions.

Finally, it would be disappointing if there was a move back to short term Finance Settlements. The certainty the Four Year Settlement gave was important for effective longer term financial planning, integrated work with partners such as the NHS and being able to invest in growth for a longer term return.

### **Ability to Raise Funds Locally and to Reflect Local Need**

The principle of allocating local government resources to local areas based on an objective assessment of their needs is an important one and has led to more resource going to the areas with higher levels of deprivation and greatest needs. A publication from the institute of Fiscal Studies<sup>2</sup> on 13 December noted *'it has always been the case that councils serving more deprived areas would continue to face slightly larger cuts, on average, than those serving richer areas'* and *'we estimate that the least deprived councils have seen a small 0.3% real-terms increase in funding since 2015–16, compared to a cut of 2.8% for the most deprived councils'*. Research cited by Liverpool University in its response to this Review concluded that the history of objective needs assessment in Local Government Finance has resulted in a narrower gap in health between deprived areas and the rest of the country than would otherwise have been the case<sup>3</sup>.

There is particular concern about the proposed move to a per capita Foundation Formula for upper and lower tier authorities. The current system, through the environmental, protective and cultural services formula, does include an adjustment for deprivation and this reflects the most deprived councils spending 20% more resources per head for these 'foundation' services compared to the least deprived areas. Socioeconomic deprivation is clearly a major driver of need for these services and cannot be ignored. In

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<sup>2</sup> Institute of Fiscal Studies Publication 13 December 2018 <https://www.ifs.org.uk/publications/13771>

<sup>3</sup> Barr B, Bambra C, Whitehead M. The impact of NHS resource allocation policy on health inequalities in England 2001-11: longitudinal ecological study. *BMJ: British Medical Journal* 2014; **348**. DOI:10.1136/bmj.g323

line with the position of the Local Government Association<sup>4</sup> we believe that deprivation should remain as a cost driver in the foundation formula and it would be for the government to work out how this should be weighted. This is covered further in our response to question 1.

Please find below Manchester's formal response. As always we would be happy to discuss the issues raised in our covering letter and response further.

Yours Sincerely.

Carol Culley  
Manchester City Treasurer

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<sup>4</sup> <https://www.lgplus.com/politics/lga-backs-cities-over-deprivation-funding/7027575.article>

## **RELATIVE NEED Q1 to Q4**

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

We are broadly in agreement with the approach of having specific formulas where demand is driven by unique costs drivers and a foundation formula for the remaining services so long as there are specific formulas for all appropriate services and the foundation formula takes account of the impact of deprivation on need to spend in these areas.

The principle of simplicity must not override the key outcome of fairness. A formula covering a wide range of service will always be complex to explain to a non-specialist. Much of the complexity surrounding earlier formula versions is related to how the outputs of the formula, the overall allocations, were disclosed, improved transparency can overcome this.

We agree with the LGA's assertion that to ensure the results of the Review are as credible as possible, it is crucial that the Government is transparent and provides sufficient evidence behind its decisions.

### **Foundation Formula**

#### *Deprivation*

We join SIGOMA, the LGA and Core Cities in calling for the retention of deprivation as a factor in the Foundation Formula. The consultation paper states at 2.2.21 that ...'*in aggregate terms deprivation was not a major cost driver for the services included in the foundation formula*'. It has never been previously presented that only "major" factors would be considered for inclusion, it is more reasonable that a factor must explain significant variances at authority level.

The proposed removal of deprivation is a big change from the previous approach which has not been adequately explained. In response to calls from ourselves and others for the inclusion of density during the last consultation the department claimed this would double count the deprivation weighting. To now remove the deprivation factor and still not take sufficient account of the impact of density is a double blow.

The consultation paper claims that deprivation only explains 4% of the variation in upper tier spend for foundation services. However this is flawed as it looks at differences in authorities' *total expenditure* (which is naturally correlated with population size) rather than differences in expenditure *per head*. This will mask the importance of deprivation in explaining differences in spending.

Using the correct method of expenditure based regression to investigate the association between past expenditure and deprivation shows that deprivation is

an important driver of need for the services covered in the foundation services formula. Using 2016 data – analysis by the University of Liverpool<sup>5</sup> shows that the Index of Multiple Deprivation (IMD) explains 16% of the variation in spending per head, between local authorities, for foundation services. However this ignores the significant and relative impact of austerity of deprived councils, a better proxy for need would be the pattern of spending on foundation services before these cuts were applied. Analysis by the University of Liverpool using data from 2009 shows that the indices of multiple deprivation explains 40% of the differences in spend per head for these services between councils. In other words deprivation is actually a 10 fold greater driver of need for these foundation services than has been estimated in the consultation document.

Liverpool Universities analysis shows that if the proposed per capita foundation formula was applied to the current funding envelope for these “foundation services” the most deprived 20% (quintile) of councils would lose £35 per head – a total of £390 million, whilst the richest 20% of councils would gain £24 per head – a total of £260 million.

Analysis by LG futures showed removing deprivation from the current formula (EPCS services) would decrease unitaries’ assessed needs by an average of 1.9%, all else being equal. The position for Manchester is a negative impact on our assessed needs of 7.4%. Alongside this they found Removing additional population (visitor and commuter) from the current formula would increase unitaries’ assessed needs by an average of 0.1% with the impact on Manchester more significant at 4.7%. This is not equitable, especially in the context of the distribution of the last 9 years of austerity as set out in the covering letter.

When considered against the 6 principles of the review this proposal is simple, stable and contemporary however it is not transparent as it does not ‘create a clearer link between the relative needs assessment and local circumstances’,. it is not sustainable as it does not ‘anticipate future demand for services’, and it is not robust as it does not ‘take into account the best possible objective analysis’.

The IFS research released 5 March 2018 *‘Financial sustainability of local authorities 2018’*<sup>6</sup> found that, excluding London, “*there is a clear pattern of higher levels of deprivation being associated with lower ratios of tax revenue capacity to spending needs*”. In funding terms, this suggests that the FFR has to provide both more funding and greater growth in funding to more deprived authorities because they are less able to generate resources from their taxbase.

The approach to deprivation in this consultation appears contrary to the

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<sup>5</sup> Ben Barr, University of Liverpool. 12/02/2019

<sup>6</sup> IFS research ‘Financial sustainability of local authorities 2018 5 March 2018  
<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

government's stance on other strategies as set out below.

*The Industrial Strategy: building a Britain fit for the future White Paper*<sup>7</sup> states several times that there is a link between deprivation (and/or particular demographic groups that we have above average numbers of) and economic success. As the government recognise inequality and deprivation here, why are they dismissing it in the foundation formula for services that align to the Industrial Strategies aims and objectives? This includes libraries - a key venue for income-deprived residents needing to use a computer, and where our adult education and skills-deprived residents can undertake training in maths, English and digital skills. Below are several extracts from the strategy which reiterate the importance of local services in deprived areas:

- There are a variety of institutions at local level with valuable contributions to make to skills development, as set out in the Places chapter. We need to ensure they work together to deliver the best possible outcomes for their community and for the local economy, as part of Local Industrial Strategies. (p114)
- We need to do even more to widen participation for those from disadvantaged and under-represented groups looking to re-skill and up-skill. (p116)
- To drive up adult learning and retraining, we will introduce an ambitious National Retraining Scheme in England by the end of this Parliament. It will give individuals – particularly those hardest to reach – the skills they need to thrive and support employers to adapt as the economy changes. (p117)
- Increase the proportion of apprenticeships started by people of black and minority ethnic backgrounds or with a learning difficulty and/or disability by 20 per cent by 2020. We also need to do more to address the underrepresentation of other groups in our labour market and support employees to stay in work. Our economy is missing out on the untapped potential this represents for employers. (p 121)

The importance of these services in deprived areas was highlighted in recent research on the *Prevalence of mental illness in primary care and its association with deprivation*<sup>8</sup> which found In England, the largest increases in rates of suicide, self-reported mental health problems and antidepressant prescribing have been observed in the most deprived areas, leading to increasing inequalities in mental health and that the quality of neighbourhood social capital and social cohesion may be particularly important to maintaining mental health independent of socioeconomic deprivation. Libraries, Leisure, Environment, Sport and recreation facilities can be classed as social capital here, which is defined as the resources

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<sup>7</sup> The Industrial Strategy building a Britain fit for the future White Paper  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf)

<sup>8</sup> Prevalence of mental illness in primary care and its association with deprivation <https://www.cambridge.org/core/journals/psychological-medicine/article/prevalence-of-mental-illness-in-primary-care-and-its-association-with-deprivation-and-social-fragmentation-at-the-small-area-level-in-england/69B65F5DF63308292FF3BBE883D30E78/core-reader>

accessed by individuals and groups through social connections.

We strongly believe that deprivation should be included here as a common cost driver as more deprived families are clearly more likely to rely on council services and be less able to contribute towards the costs of providing them. Deprivation impacts on the costs of the specific services to be included in foundation formula as set out below:

#### *Libraries -*

The need to spend in these areas is increased due to the levels of deprivation in Manchester, examples include -

- provision of good quality ICT for people who do not have access at home, whether adults or children doing homework
- provision of printers/scanners - for people who can't afford to run a printer at home - children homework/ adults
- provision of access to wide range of books and other learning/leisure materials that people would not be able to afford
- provision of high quantity of good quality children's stock - families facing deprivation will not prioritise spending money on books
- free activities for children - eg lego/craft clubs on Saturdays, after school homework clubs, filmshows, school holiday activity for families, Storytime sessions
- provision of free training sessions (with partners such as MAES) as people less able to pay for training
- provision of free activities and events in community location for older people, especially those at risk of social isolation who may not be able to travel far due to cost
- less opportunity for charged activities due to the high levels of deprivation in Manchester (so spend will be higher as less able to make income to cover costs)

#### *Leisure, Sports and recreation -*

Research commissioned by the Department for Digital, Culture, Media and Sport (DCMS) has consistently shown that people in more deprived areas on the lowest incomes are significantly less likely to participate in sport and be physically active. *The Sport England Active Lives 2017 survey*<sup>9</sup> highlighted that people in the lowest socio-economic groups (those on the lowest incomes or unemployed) were 17% more likely to be inactive, and in Manchester this rises to 22%. Cost is a significant factor in this, as detailed in various studies, including *a study by the London School of Economics (LSE)*<sup>10</sup> in young people aged 14-25 living in several deprived areas in the country, which put the cost of participation as the top reason why these young people participated less or stopped altogether. Research has also highlighted the higher cost of regular participation

<sup>9</sup> Sports England Active lives survey 2017/18 <https://www.sportengland.org/media/13563/active-lives-adult-may-17-18-report.pdf>

<sup>10</sup> LSE Study, moving the goalposts  
[http://sticerd.lse.ac.uk/dps/case/cr/casereport95\\_Executive\\_Summary.pdf](http://sticerd.lse.ac.uk/dps/case/cr/casereport95_Executive_Summary.pdf)

on 'pay as you go' rates which can work out more expensive than joining on a direct debit or annual subscription.

In Manchester we have recognised this by maintaining initiatives which aim to reduce this drop-off in participation and widen access especially for those on a reduced incomes, with the result that our pricing is the lowest in Greater Manchester for most activities including swimming and hire of sports facilities. Other examples include the MCRactive card, which gives a 30% discount on 'pay as you go' rates plus an extra 10% for concessionary groups including those on benefits, and targeted programmes such as free swimming for people aged 60 and over and under 17 in the school holidays, and the Active Lifestyles and Active Aqua programme which offer significant reductions on the market rate for exercise classes.

Any further funding reductions to LA's where there are high levels of deprivation will result in low cost access to services being diminished or services being withdrawn. The consequences for health services and other partners such as police is likely to be significant and therefore, a cuts programme on this scale is likely to be counter productive resulting in other public service costs rising as a consequence.

*Public Health England research in to Local action on health inequalities:*

*Improving access to green spaces*<sup>11</sup> (September 2014) recognised the physical and mental health benefits of green spaces and states that *“Access to green space is not equal across the population of England. People living in the most deprived areas are less likely to live in the greenest areas, and will therefore have less opportunity to gain the health benefits of green space compared with people living in the least deprived areas.”*

In February 2017 the Communities and Local Government Committee reviewing Public Parks heard that if the quality of the space declines, people feel less secure, women and children are less likely to use it, and ethnic minorities are less likely to go and use that space. MHCLG submitted written evidence to the review<sup>12</sup> which recognised the most affluent 20% of wards in England have five times the amount of green space than the most deprived 10% of wards. This indicates a need to invest more in green spaces in deprived areas rather than adjusting the formula in such a way that less funding will be available, as is proposed.

In Manchester there are significant challenges in the upkeep and maintenance of parks and green spaces in our more deprived communities - there are a number

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<sup>11</sup> Public Health England research in to Local action on health inequalities: Improving access to green spaces Sept 2014

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/355792/Briefing8\\_Green\\_spaces\\_health\\_inequalities.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/355792/Briefing8_Green_spaces_health_inequalities.pdf)

<sup>12</sup> Written evidence submitted by Department for Communities and Local Government [PKS 315]

<http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/communities-and-local-government-committee/public-parks/written/39517.html>

of factors at play, beginning with the heightened incidence of anti social behaviour and vandalism, a possible side effect of lower visitor numbers which in turn lowers the ability for our parks to be self policing. Combine the effects of this behaviour with the resources and intensive management required to maintain a good quality standard with the lack of involvement and ownership from residents and volunteers and the spiral of decline in our most deprived areas becomes more difficult to break.

#### *Environmental and regulatory services -*

For example Trading Standards protect people in deprived communities who are unlikely to have any other forms of redress if they fall victim to rogue traders and doorstep scams. Trading standards working alongside adult safeguarding teams can also help keep vulnerable potential victims of financial abuse schemes out of overburdened local care systems. Shops selling age restricted products to children are often located in deprived areas. This can range from cigarettes and alcohol to solvents and knives. People in deprived communities often do not have the money to buy the designer goods that they aspire to own so fall prey to counterfeit versions that are often unsafe.

People in more deprived areas are unlikely to be able to pay for the type of support offered by trading standards to help set up businesses and ensure they do so safely and legitimately. Without such support there is a danger that the entrepreneurial talent that exists in more deprived communities will not be supported or equally damaging, people will plough ahead with ideas that are unsafe or not legitimate.

Food safety and good health are inextricably linked in general people in deprived areas will have less money to spend on food and less choice on where they buy it from due to things like less money to travel distances to secure cheap fresh food. Research has shown a link between economic deprivation, types of premises, food hygiene scores and rates of gastrointestinal illness in the UK<sup>13</sup>. Data extracted from the UK Food Standards Agency for about 300 000 UK premises which had hygiene scores based on visits from local authority food safety officers. There was a statistically significant relationship between average food hygiene score and deprivation, which was caused by deprived areas having more of the categories of premises with significantly lower hygiene scores. Again this points to deprived areas requiring more resource to fund Environmental Health inspections.

Environmental protection- noise and nuisance is likely to be more of a requirement in more deprived areas which often have a higher density of housing and as such this means that the likelihood of complaints regarding domestic noise nuisance is also higher. The Licensing and Out of Hours Team is able to assist residents in dealing with such nuisance swiftly and resolve these issues which would be less likely to occur in areas with more dispersed housing. Without this service people in more deprived areas may suffer more from noise nuisance.

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<sup>13</sup> Food hygiene, deprivation, types of premises and rates of gastrointestinal illnesses in the UK 2015 <https://www.ncbi.nlm.nih.gov/pubmed/24476984>

Other environmental pollution impacts such as odour and light pollution are also more prevalent in high density areas that are also more likely to have retail, light industry and food takeaway premises in close proximity to domestic dwellings.

Housing Standards - The shortage of social housing means many households have no choice but to rent privately, this is approximately 1 in 3 in Manchester. Whilst much of this is good quality stock many properties carry potential health risks. Poor maintenance is a common problem, leading to accidents, while cold and damp can both cause and worsen circulatory and respiratory conditions leading to preventable, life-long respiratory conditions such as asthma which will prove costly to the NHS over a lifetime. Poor quality landlords resist spending money making the property safe. Often landlords have little or no knowledge or understanding of their legal responsibilities. As funding cuts bite further, more landlords will recognise the chance to get away with doing less than the bare minimum and will wait until a housing inspector tells them to make improvements. With a shortage of options the poorest will not complain to their landlords particularly if there is a reduction in housing officers to help them.

Community Safety - Much of the crime and ASB that is prevalent in the city centre is a direct result of deprivation and without the resources we are putting into addressing this in the city centre it would be a much worse picture than we are currently facing.

### *Homelessness*

It is a concern that Homelessness is being proposed for inclusion in the Foundation formula, particularly when this is such a critical issue nationally with an unprecedented rise in homelessness and rough sleeping, the latter up by 165% since 2010 and a commitment from the Communities secretary to end rough sleeping by 2027. The LGiU/MJ Local Government Finance Survey 2019<sup>14</sup> found that After Children's Services, Housing and Homelessness is tied with Adult Social Care as the second most urgent immediate financial pressure, with 23% of councils naming it their top concern.

Reducing the number of people becoming homeless is one of our key priorities and we are doing everything in our power to achieve this however the majority of the factors driving it are beyond the control of Local Authorities and compounded by reducing resources across all partners. We believe the levels of homelessness are a combination of deprivation, welfare reform, economic and population growth and housing shortage - population alone can not possibly measure the level of need for such a complex issue.

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<sup>14</sup> The LGiU/MJ Local Government Finance Survey 2019 <https://www.lgiu.org.uk/report/lgiu-mj-state-of-local-government-finance-survey-2019/>

A National Audit Office report on Homelessness<sup>15</sup> 13 September 2017 found the risk of homelessness is greatest in areas of high economic activity with people on the margins of being able to pay market rents for their homes and areas where a high proportion of households are receiving housing benefit to help pay their rent. To a lesser extent, variation in levels of homelessness between local authorities is also associated with changes in the affordability of private rented accommodation, particularly for households with the lowest incomes. This means more deprived urban areas likely face greater relative need for homelessness related services.

We refute the reasons given in the consultation paper for including Homelessness in foundation formula as follows:

1. The consultation states that the majority of homelessness funding is currently dealt with outside of the settlement however as no funding stream (other than local taxation) is assured beyond 2019/20 therefore this cannot be used as an excuse to single out homelessness within formula for a per-head allocation and certainly not to avoid a deprivation weighting.
2. The consultation claims homelessness on average represents a relatively small proportion of expenditure for the majority of councils at c£1.4bn gross spend and £340m net and less than 5% on average of net service expenditure. The consultation recognises that for some authorities the proportion of spend is significantly higher than concludes it is *'disproportionate to introduce further complexity into the needs assessment for this service area'*. However there seems to be an opposite justification for including flood defence which spent £36m nationally in 2017/18 (Revenue Outturn 2017/18) accounting for just 0.3% of lower tier total expenditure. The consultation paper concludes *'However, whilst the overall level of expenditure for these service areas is on average low, they do have a significant impact on a small number of lower tier authorities'* and therefore proposes a separate formula with specific drivers for flood defence.

The consultation paper states *'services for which demand is driven by unique costs drivers that are not correlated with the overall size of the population may require a separate formula'*, we feel homelessness clearly meet this definition.

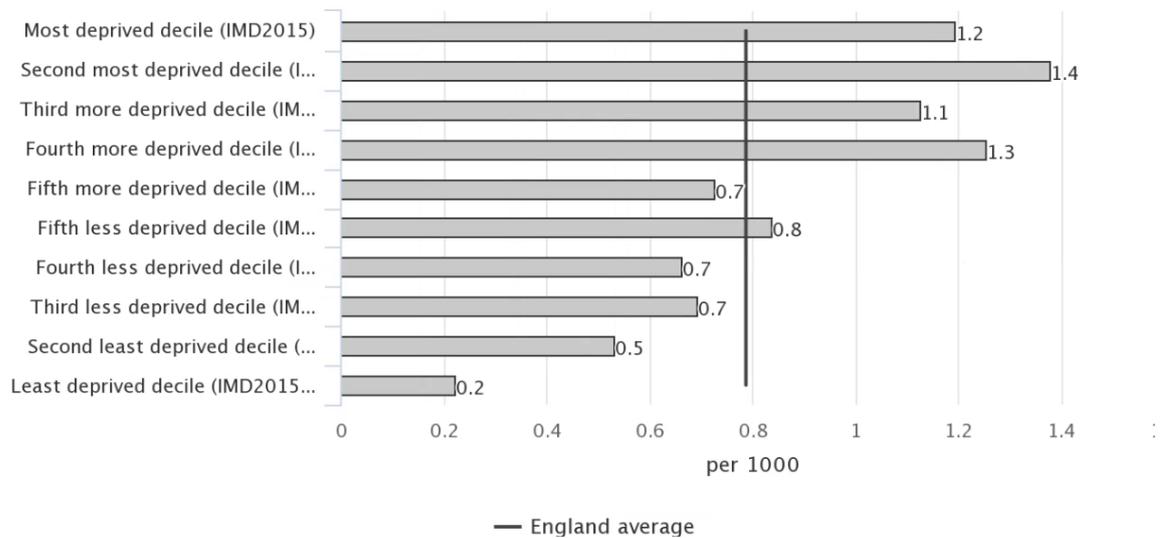
Alongside its own formula within the needs assessment we believe there should also be specific homelessness target grants to reflect the disproportionate impact on city centres.

If Homelessness is to stay within foundation formula this is further justification for a deprivation weighting to be included. As the table below shows theres is a clear link between deprivation and numbers of statutory homeless.

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<sup>15</sup>National Audit Office report, Homelessness, September 2017 <https://www.nao.org.uk/wp-content/uploads/2017/09/Homelessness.pdf>

Statutory homelessness – England, 2017/18 – Data partitioned by County & UA deprivation deciles in England (IMD2015)



### *Unaccompanied Asylum Seeking Children*

The consultation states government are minded not to include a specific Unaccompanied Asylum Seeking Children formula in the needs assessment on the basis that the pattern of spend is unpredictable and that contributions are received from the Home Office.

We disagree on the following basis:

1. The dispersal of asylum seekers is based on a resettlement scheme which is voluntary for councils to opt in to, with areas that have the lowest cost housing tending to receive the highest proportions of asylum seekers. Therefore participation in the resettlement scheme and the availability of low cost housing would appear to be obvious cost drivers.
2. On the second point analysis by the LGA<sup>16</sup> has shown the level of funding received from the Home Office is inadequate. Councils spent more than £152 million on unaccompanied asylum-seeking children in 2017/18 – an increase of 95 per cent on the £77 million spent in 2014/15. Meanwhile councils are also seeing an increase of more than 50 per cent in two years in unaccompanied children leaving care when they turn 18, but remaining the responsibility of the local authority.

If there is not a specific formula there must be separate funding which is sufficient to fund all costs, recognising that many are long term.

<sup>16</sup> LGA analysis on UCAS w<https://www.local.gov.uk/about/news/lga-spend-asylum-seeking-children-doubles-four-years>

## **Comments on the service specific funding formulas**

*Adult Social care formulae* - The use of multi-level modelling to arrive at the most relevant cost drivers and their weightings within the formula is welcome.

*Children's formulae* - It is difficult to form an opinion without the detail being available however the approach using a multi-level model based on children's social care activity data appears reasonable. This must take significant account of deprivation to enable councils to tackle the growing problem of child poverty. The Joseph Rowntree Foundation report UK Poverty 2018<sup>17</sup> found that child poverty has been rising since 2011/12. In the UK 4.1 million children now live in poverty, a rise of 500,000 in the last five years. This is much faster than expected based on population growth: the total number of children has risen by 3%, while the number of children in poverty has risen by 15%.

The time required to develop this formula is a concern the Government must share the results of this project as soon as possible, to allow for a more timely publication of draft funding baselines.

*Public Health formulae* - We note the government is proposing to use ACRA formula from 2015 which was consulted on and widely criticised at the time and not implemented. Analysis must be carried out to provide evidence that the formula is fit for purpose and suitable for implementation. We agree with SIGOMA that the Department of Health must publish and address the issues arising from the 2015 consultation as none of the consultation responses have been published nor any conclusions as a consequence of the responses. 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.

*Highways Maintenance* - We agree with the use of two drivers (road length and traffic flow) and not including winter services given it is relatively small. However we do not agree with equal weighting for all classes of road.

It is necessary to weight the road length for road type because the cost of maintaining a major urban road is not comparable with a minor rural or estate road. Each maintenance scheme is costed based on set-up costs, treatments required etc, in Manchester, latest estimate for a 50mm inlay (plane off & resurface) for a minor road is around £28/m<sup>2</sup>. For a strategic road, this rises up to around £40/m<sup>2</sup> with the additional overall costs of traffic management, discussions with businesses, bus companies etc. and other scheme consultation as well as out-of-hours working times.

Similarly, costs for reactive pothole repairs are much higher if traffic management etc. has to be factored in. The cost for repairing a couple of potholes on a minor

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<sup>17</sup> Joseph Rowntree Foundation report UK Poverty 2018 <https://www.jrf.org.uk/report/uk-poverty-2018>

road is around £100, but if these are on a major junction it could cost over £1,000 to put in place the necessary closures etc.

On a similar theme traffic flow should recognise that heavy goods vehicles and buses are responsible for greatest wear and tear on road surfaces.

The proposed formula is too simplistic and that MLCLG should examine the costs and benefits of road maintenance in different geographies. With an understanding of how these costs and benefits varied across different geographies and road types, it would be possible to adapt the proposed formula to incorporate the factors listed above.

#### *Legacy Capital Funding - Agreed*

*Fixed Costs* - We agree with the government's preference not to retain the fixed costs element of the needs assessment on the basis that it adds unnecessary complexity and because fixed costs, as well as variable costs, are already identified through the wider assessment of relative needs.

#### **Population Projections**

Population (and the make-up of the population) is the single most important predictor of the costs that local authorities face and projections should be used to reflect expected changes throughout the settlement period, updated annually for the actual position.

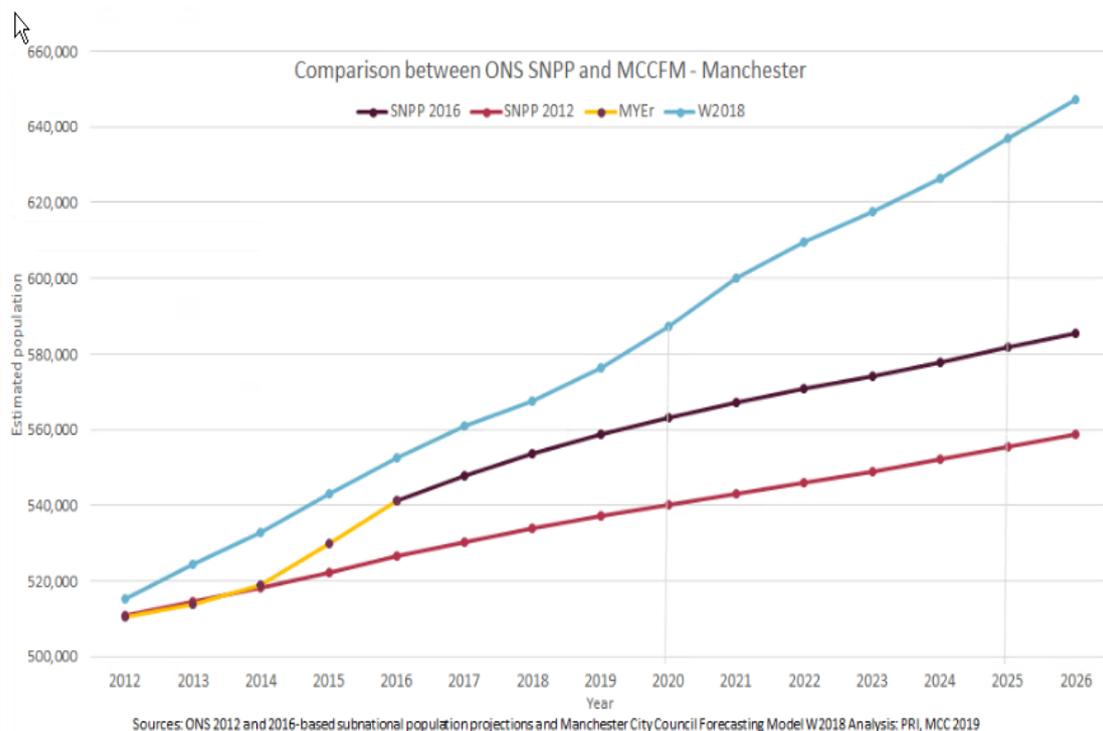
Our population has been one of the fastest growing in the country at 6.75% from the mid-year projection 2013 used in the settlement (510,993) to the mid-year estimate 2017 (545,501).

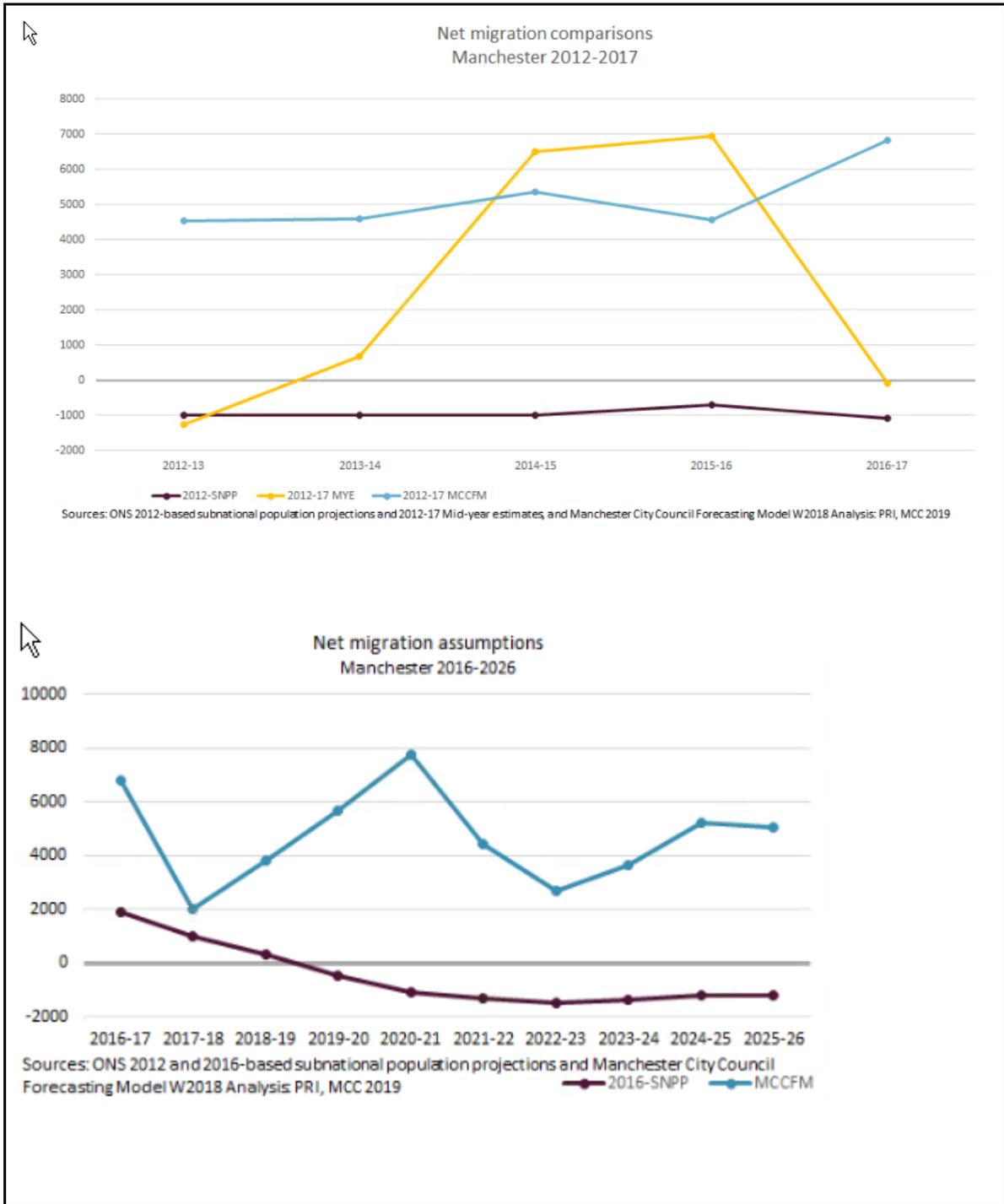
The first graph below shows our in house forecast (MCCFM) against the 2012-based SNPP which was used for 2013/14 finance settlement. The 2013/14 settlement was based on a population projection for Manchester of 510,993. The actual mid-year 2013 population was 514,417 therefore it was understated even before being frozen in the formula for seven years which is why we have some reservations about its use in the formula going forwards. As the graph shows the projections have been revised upwards in the ONS' 2016-SNPP, albeit it still way below what we estimate.

The level of underestimation in the ONS projections largely relates to migration assumptions. As the second chart shows from 2012 to 2016 the ONS net migration assumptions were considerably lower than the MCCFM estimate and their own mid year estimates. The third chart shows the variation in net migration assumptions going forwards which we again believe to be significantly understated. One of the key reasons why our migration assumptions are different is because we build in housing strategy into the forecast whereas SNPPs, being projections only, don't. This is a major issue for us with all the building work that is going on at present and planned for the near future.

To prevent fast growing council's being detrimented again by this going forwards we suggest:

- We welcome the recent Office of National Statistics announcement that they will be doing a high migration variant, for the first time, for the current 2016-based subnational population projections, to be issued April 9th this year. The principal projection has historically underestimated the growth rate for Manchester therefore we expect the variant to be used for the population projections in the new funding formula.
- We would prefer an initial projection to be used in the multi-year settlement with an annual update following the mid year release. We favour this approach as otherwise there is a risk of being penalised due to inaccurate projections. Provided there is transparency around the formula and proposed annual update, this should be easy for the LA to forecast once the relevant data is available, improving predictability.





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

It is evident that a substantial degree of work is needed to produce a viable alternative model for Fire Funding and particularly consideration of the Multi Level Modelling approach.

The consultation paper clearly identifies population, deprivation and

population aged over 65 as key drivers but does not pick up particular issues about COMAH sites, concentration of high rise premises including high rise living accommodation. As there seems to be a problem with updating some of the data, then as an interim measure, the current formula should be rolled forward but data e.g. population, should be updated where this is available.

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

Research by the Local Government Association shows that the English National Concessionary Travel Scheme (ENCTS) is now underfunded by £652 million per year. This significant transfer of the burden of funding a national government policy to local government is a matter of considerable concern, since it requires local authorities to divert funds from other services.

The funding formula needs to rectify this shortfall. It should also distribute funding in a way that adequately reflects the variation in ENCTS travel between different areas. As well as the population eligible for ENCTS travel, the formula should take account of bus journeys per eligible person. The latter is likely to be correlated with deprivation, since this is in turn correlated with low car ownership.

It is essential that there is a separate and transparent Funding Formula or mechanism for Concessionary Travel and that it is not simply included in the foundation formula for Upper Tier services. It is also essential that Concessionary Travel is fully funded, given the huge funding gap that now exists between the costs of what is mainly a national statutory scheme and the estimate funding Government is now providing.

New evidence of the funding gap was provided to Parliament Transport Select Committee in oral and written evidence on 30 January and 4 February 2019 and provided to MHCLG showed there is clearly not a flat pattern of spending per resident. The spending need and cost can be much better be addressed by an updated estimate of Boarding by DfT developed in consultation with the LGA and LTAs as was developed for the current formula.

The current proposal would potentially have very significant adverse impact on Transport Authorities ability to provide Public Transport in areas with high concessionary travel usage. This would have adverse impact on pensioners on low incomes and without access to a car and other users of public transport services. It would damage the achievement of transport objectives and undermine efforts to reduce congestion and air pollution, with potential adverse implications for public health.

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

It is accepted the characteristics of an area may affect the cost of delivering services however this should be backed up by evidence rather than assumptions. Also account should be taken of the fact that as the national minimum wage increases this will, over time, harmonise basic pay values across the country.

We welcome the fact the Area Cost Adjustment will now be reflective of both population sparsity and density. It is logical that issues such as journey times would lead to different unavoidable cost of delivering services. However the weightings for these factors must be developed on robust evidence.

For the Fire Service, rurality may bring additional costs in terms of stations covering a smaller population, but against this, major urban areas require much more expensive 24/7 whole time crewing, so any adjustment for rurality needs careful consideration.

To aid transparency, the Government should publish a full technical note on the analysis it has carried out, and the evidence it has used, to estimate the impact of all factors included in, or excluded from, the ACAs, in particular those related to geographical sparsity, density and remoteness.

**RESOURCES Q5 to Q13**

**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 council tax base? If so, how should we do this?**

Yes

We agree that Government should continue to take all of the above into account in the measure of council tax base as councils should not bare the cost of government policy decisions.

This should be done using the Council Tax Base returns to reflect the total loss in Tax base due to these exemptions leading to a smaller resources adjustment however the return should be adjusted to properly reflect the number students in entire halls as below.

Universities and their student populations are vital to our economy however they make a call on local services which is not adequately funded. Students are exempt from Council Tax and up to 2013/14 the resource equalisation formula included an element to recompense authorities for loss of the

funding arising from this exemption. However, this protection has been eroded with year on year cuts to funding. Student accommodation is expanding throughout the city which is heavily reducing the capacity to raise Council Tax revenue in some areas of the city. We estimate the net impact on Manchester is a loss of c£10m in 2018/19. The revised formula must recognise the high numbers of student council tax exemptions in the mainstream housing market in relation to local taxation, including where entire halls have been classed on council tax as one hereditament and received a single M exemption. This does not adequately represent 50-100+ students when calculating the extent to which the local tax base has been reduced.

Purpose built student accommodation (PBSA) is currently exempt from business rates, at the same time its residents are exempt from council tax. Consequently these operations contribute nothing towards local services, despite generating significant service demands and making a substantial profit. This arrangement is increasingly outdated and out of sync with the revised local government finance regime.

Local authorities should not be left funding student Council Tax exemptions, government should either compensate in full or student should be charged via either Council Tax or Business Rates depending on circumstances. We have done a lot of work on the impact of this for Manchester which we would be happy to share with government to facilitate further discussion and resolution.

**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 agree this remains the most sensible approach to meet the objective of not rewarding or penalising authorities for exercising local discretion. We agree with the LGA suggestion that no discretionary discounts or premiums (with the exception of local council tax support for working age claimants) should be adjusted for, with councils bearing the full cost or receiving the full income from the use of these powers.

**Question 7: Do you agree that the Government should take account of the income forgone due to local council tax levels in the resources adjustment? What are your views on how this should be determined?**

Yes

The government should definitely take account of the income foregone. Whilst we appreciate the unwillingness to use the actual income foregone

and draw an explicit link the design of the scheme, we do not feel the use of a uniform discount rate is reasonable or fair.

There is a high correlation between an authority's LCTS for working-age residents, expressed as a percentage of its council tax base, and its level of income deprivation.

We support an assumption based approach which uses deprivation indicators as a proxy for the relative level of LCTS for working-age people in each local authority. These indicators can not be directly manipulated by local authorities, which would avoid the unwanted incentives.

**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?**

No

We think the approach used in settlements since 2016/17 and the Improved Better Care Funds methodology of actual council tax should be continued. As our council tax is below the average rate we would be penalised by a notional rate which would effectively overestimate the level of council tax we actually charge, it is unfair to reduce our funding requirement on the basis of council tax revenue we do not receive.

If notional tax rates were used in the funding formula, this is grounds for referenda limits to be relaxed to enable authorities with below-average tax levels to increase further if desired to get closer to the assumed rate.

Additionally if a notional rate is pursued we would support a higher rate to enable a corresponding increase in needs based funding.

Of larger concern is the commitment to no redistribution of council tax, as outlined in paragraph 3.2.33 of the consultation. We strongly disagree with this proposal as it is a key aspect of equalisation. If an authorities relative need share is lower then its council tax income the excess should be redistributed to those with high need.

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

As Collection rates show a strong correlation to the average score of the 2015 IMD we suggest an assumptions based approach which uses deprivation indicators as a proxy to determine an expected collection rate, without causing any unwanted incentive effects.

**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?**

In Greater Manchester, there is the slightly wider issue with there being a Mayoral General precept, which includes a significant element for the Fire Service. The allocation of Council Tax between tiers will be critical, as any change in the Fire component (other than for a local decision to increase it) will impact on the practical ability of the Mayor to raise funds for other Mayoral functions (for which he receives no direct funding support)

**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 purpose of a resources adjustment in multi-year settlement funding allocations?**

Yes

We agree that a single measure of council tax resource fixed over the period of time is the best option for multi-year settlement as this build in an incentive to grow the tax base.

Additionally historical trends are not necessarily indicative of future tax base growth. If the recent trends are not sustained, this would lead to an overestimate of an authority's future tax base.

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

Yes.

We do not support the inclusion of funding streams other than Council Tax and Business Rates in the allocation of formula funding. Other income is too volatile, there is no national data set, some income is linked to costs or previous investment by the council, some is ringfenced for statutory requirement (e.g. parking).

**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?**

NA

## **TRANSITION Q14-15**

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

Transition has always been a feature of the system in recognition of the fact there is a maximum pace of change which can be handled. We broadly agree with the four principles set out in the paper, with the comments below:

**Stability** - The range of potential changes in 2020/21 is huge (spending review, Fair Funding Review, baseline reset, changes in NHB, IBCF etc). It is inevitable transition funding will be required and we agree the level of transition must be manageable and sustainable and take account of wider changes to the Local Government Finance system. Specifically it should relate to what authorities are actually spending and take account of the business rates reset, loss of 100% pilot income and council tax raising ability.

**Transparency** - Yes, agree the process must be clear and understandable

**Time Limited** - We agree that the transitional arrangements should unwind, unlike the damping in the old four block funding model which counteracted the intended impact of updating the need level and left a significant number of authorities operating with less resource than needed which was then compounded by the inequitable method of applying funding cuts.

**Flexibility** - Different speeds of implementation across the sector could be beneficial but we would need further detail on how this would work before endorsing. Council Tax revenue raising capacity should certainly be taken into account. We suggest those experiencing reductions should receive assistance with transition funding being received immediately. This should be funded by government and not money from within the system, similar to the Transitional Grant announced in the 2016/17 Local Government Finance Settlement, which saw an additional £300m new funding allocated to authorities who faced Settlement reductions.

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

This should be done at actual Spending Power level taking account of resources available to an authority in supporting the net budget including Business rates, actual Council tax, Improved Better Care Fund, Public Health and New Homes Bonus. It should also consider what authorities have actually been spending including the impact of the business rates reset and loss of 100% pilot income.

## **IMPACT Q16**

**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 proposed move to per capita funding for the Foundation formula would have a disproportionate impact on a number of groups of people who share protected characteristics. The application of the formula would tend to reduce resources going to places where more people experience disabilities and allocate more resources to places where fewer people experience disabilities.

Research by Ben Barr, University of Liverpool University found if applied to the current funding envelope, areas that have a greater than average proportion of the population with a disability would lose out by an average of £2 per head of population, whilst areas with a lower than average proportion of the population with a disability would gain by an average of £2 per head.

The move to per capita funding for the Foundation formula would have a particularly adverse impact on areas with a high proportion of the population from a Black or Minority Ethnic (BME) groups. If the proposed funding formula was applied to the current funding envelope, the 20% of local authority areas with the highest proportion of the population from BME backgrounds, would lose on average £43 per head.

The distributional and inequalities impact for any proposed new funding formulae should be fully assessed by modelling how it would change funding for each local authority and how this differs by level of socioeconomic deprivation.

We believe it is the responsibility of MHCLG to fully assess the impact of proposed changes on persons who share a protected characteristic and residents in general. MHCLG has overall responsibility within central government for local authorities' funding which includes bringing together information about the impact of funding reductions on financial and service sustainability, assessing the funding requirements of local authorities as part of Spending Reviews and supporting the financial sustainability of the sector by changing the overall funding framework if required.

As noted in the PAC report on Local Government Funding released 6 February 2019 *'The Department continues to insist that the sector is sustainable but refuses to provide the evidence that Parliament and the public need to be assured that this is actually the case.'*

Analysis clearly shows that the reductions in local government funding that have been required since 2010 have been distributed at significantly different levels around the country, and that this distribution prior to 2016/17

failed to take into consideration the level of local resource available to individual local authorities. Cumulatively, more of the cuts required since 2010 have come from the most deprived authorities, compounding the impact on protected groups.

We believe that, for the Government to assess the impact of the review on protected groups, it must carry out an analysis of the changes in Spending Power (after adjusting for new burdens) as this will incorporate the changes in other sources of local authority income, and test our assertion that based on the current proposals the most deprived authorities will continue to see the biggest relative funding reductions which will inevitably have an impact on protected groups.

# Appendix 1 - Percentage change in Core Spending Power 2010/11 to 2019/20

