Title:	**Needs & Redistribution Technical Working Group**
Paper:	NR TWG 18-10: Criteria for evaluating Fair Funding Review proposals by the LGA
Date:	18 May 2018
Venue:	MHCLG, 2 Marsham Street, London

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

Introduction

1. Following the Government's commitment, after the General Election, to continue with the Fair Funding Review the LGA's Leadership Board requested a paper on proposals so far on new needs formulae made by the Government and various stakeholders. The paper summarised the various propositions that had been produced by September 2017.

2. As part of the discussion on these proposals, members of the Leadership Board asked officers to develop a way of evaluating proposals that emerge from the Fair Funding Review. The objective of this evaluation would be to provide a relatively objective way to assess the merits of any future and existing proposals. Ultimately it could potentially be used in discussions to assess whether the LGA could consider supporting a particular proposal or element of a proposal.

3. This does not mean that if a proposal meets all, or the majority of, the criteria well, it will automatically be adopted and supported by the LGA – but a positive evaluation will lead to politicians considering the proposal in more detail. Any final decisions would be subject to full political discussion and agreement by LGA Leadership Board and Executive. The intention is for this to be used as a way to filter the propositions. In effect, this would be the first step of a multi-stage process of consideration and consultation.

4. The evaluation template in Appendix A has been developed with, and approved by, the LGA's Task and Finish Group on Business Rates Retention and the Fair

Funding Review[1] and the LGA's Leadership Board. Views of the members of the technical working group on the content of the paper are welcome but it is presented for information. This work is part of the LGA's extended Fair Funding Review work programme, set out in Appendix A.

Key tests and evaluation criteria

5.   The template in Appendix B contains the following criteria:

<u>Simplicity and transparency</u>

6.   The LGA's policy position that has been developed as part of the Fair Funding Review is that any new model should aim to simplify the system of assessing relative needs and resources, but without an undue impact on perceived fairness of the new system. The following tests will be used to assess the relative simplicity and transparency of the proposals:

6.1. The number of formulae used in the relative needs assessment. The pre-April 2013 approach used over 15 distinct formulae and a simpler system would include fewer.

6.2. The number of indicators or cost drivers used in each formula. As a benchmark, the pre-April 2013 approach used over 120 different indicators.

6.3. A reduced number of formulae, elements and indicators does not necessarily mean that it is easy for local authorities to clearly identify the reasons why their allocations are as they are. It should be straightforward to trace the results of the proposal back to how they relate to local authority statistics and other data.

6.4. A 'layman's test' which would provide an assessment of how easy it is to explain the principles of the assessment to the general public.

<u>Completeness</u>

7.   There are three tests under this criteria:

7.1. The proposal/s must be able to account for all relevant local authorities that provide the particular service or services.

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[1] This group consists of 13 councillors from the LGA's relevant policy boards and represents the political balance of the LGA.

7.2. The proposal must either state that it deliberately does not take council tax into account because this is not relevant for this particular proposal, or set out a methodology for how that could be done.

7.3. The proposal should include exemplifications of the implications on relevant local authorities or it must be possible to produce these for all relevant local authorities.

Credibility and future-proofing

8. One of the Government's objectives for the Review is to ensure that the outcome is credible with stakeholders. In practice this means that the Review should deliver a system which is stable and predictable over the longer term, that it is grounded in robust analysis and that it makes every possible attempt to account for potential future pressures, especially those likely to diverge in different local authorities (such as population change).

9. The tests under this criteria are:

9.1. The proposal/s should use the most up-to-date data available. It should be possible to update this data in regular intervals without disproportionate cost.

9.2. It should be clear where the system is using an evidence-based approach, and where subjective judgement is employed.

9.3. The data should not be subject to significant fluctuation over short periods of time as this could lead to unpredictable impacts when the system is reset.

9.4. Finally, priority is given to models which try to build in predicted future changes in demand for services as well as the current position. This would potentially help avoid large changes in individual council allocations when the system is reset in the medium term after implementation.

10. The tests will be graded ranging from 1 (weak) to 5 (strong), with models that score '1' in more than one category, or '2' in more than two categories, or below an average score of '3', potentially being disqualified from further consideration.

Distributional impact

11. Finally, individual local authorities will be extremely interested in how any proposal affects their areas. As part of its extended Fair Funding Review work programme, the LGA is has commissioned some modelling for member

authorities to help them to evaluate future proposals and their impact on their area, as well as build their own models.

12. The main way to consider this is to look at the impact on individual local authority areas, as well as groupings by type and region or some other geographical unit.

13. LGA politicians might in the future wish to specify a percentage change in funding which they would deem is practically impossible for any one local authority to handle over a short transition period.

Appendix A. Outline of the additional LGA Fair Funding Review work programme

Project	Purpose and description
Key criteria for assessing proposed distribution models and methodologies	To give the LGA a structured and consistent way to assess new distribution models.
Formula grant: update the data	Update the data in the current distribution model (where updated data is available) to see the impact of this on individual allocations separate to any methodology changes. In effect this would provide an updated baseline to inform a discussion on how long the formulae remain 'future proof' without any review of weightings. To help the LGA and member authorities form policy on the data used in the formulae and the frequency of distribution resets, or other ways to 'future proof' the mechanism.
Relative needs assessment model: develop a relative needs assessment model	A model to allow local authorities to see the impact of different key cost drivers and differential weightings. To help the LGA and member councils evaluate the impact of various Government and stakeholder proposals on their council and to allow them to put forward their own proposals
Council tax equalisation: develop an equalisation model	A model to identify the impact of adjustments for council tax and council tax support on individual authorities. To inform LGA policy and to help individual member councils evaluate Government proposals.
Transition mechanisms	An analysis of historic damping / transition mechanisms and a model to inform discussions on the guiding principles of transition. To inform LGA and member authorities' policy.

Appendix B. Proposal Evaluation Form

Fair Funding Review Proposal Evaluation Form	
Name of proposal	
Proposed by	
Proposal produced on	
Any useful links	
General description	
To include commentary on how needs and resources are reflected.	
Key strengths	
Key weaknesses	

Simplicity and transparency	
Number of formulae	
Services covered by the formulae	
Number of cost drivers used in total	
Does the model calculate final allocations transparently? (1 – strongly disagree, 5 – strongly agree)	
Is the proposed model easy to explain to a member of the public? (1 – strongly disagree, 5 – strongly agree)	
Comments	

Completeness	
Does the needs assessment account for all relevant types of authority? (y/n)	
Is there a resources adjustment calculation for each authority or a deliberate exclusion of a resources adjustment? (y/n/ not applicable)	
Are there exemplifications available for all local authorities covered by the Fair Funding Review? (y/n)	
Comments	

Credibility and future proofing	
Data used is up-to-date (1 - strongly disagree, 5 - strongly agree)	
Comments	

Data used is easy to update in the future (1 - strongly disagree, 5 - strongly agree)	
Comments	
It is clear if and where judgement has been used and the reasons for doing so (1 - strongly disagree, 5 - strongly agree)	
Comments	
There is little judgement in the system(1 - strongly disagree, 5 - strongly agree)	
Comments	
Data is not subject to historic fluctuations (1 - strongly disagree, 5 – strongly agree)	
Comments	
Model considers ways to future-proof the system (1 - strongly disagree, 5 - strongly agree)	
Comments	
Data used in the model cannot be affected by council policy decisions (1 – strongly disagree, 5 – strongly agree)	
Comments	
Number of positive answers on completeness (out of 3)	
Average score	
Criteria scoring '2'	
Criteria scoring '1'	
Comments on potential incentives that the model will provide (positive and perverse)	
Any further comments	

Distributional impact			
Maximum percentage reduction for any one authority			
Maximum percentage increase for any one authority			
Authority type	Highest percentage change	Lowest percentage change	Average percentage change

	Highest percentage change	Lowest percentage change	Average percentage change
Shire counties Shire districts English unitaries Metropolitan districts London boroughs Fire and rescue authorities Greater London Authority Combined authorities			
Authority region	Highest percentage change	Lowest percentage change	Average percentage change
London South East South West North East North West East Midlands West Midlands Yorkshire and Humberside East of England			

Conclusion		
Final general comments		
Suitable for discussion at Leadership Board and Executive? (Yes/No)		
If no, comments on what could be improved		
Reviewed by		