



Ministry of Housing,
Communities &
Local Government

Title: **Needs & Redistribution Technical Working Group**

Paper: NR TWG 18-18: Discussion paper on Population Projections by the Ministry of Housing, Communities and Local Government

Date: 21 September 2018

Venue: MHCLG, 2 Marsham Street, London

Introduction

1. This paper considers the case for using population projections when determining new funding baselines for local authorities and compares the use of population projections with alternative options.
2. This paper should be read alongside the latest publication from the Office for National Statistics (ONS) – circulated with this paper - which provides detailed background information on ONS population projections.

Background

3. A key consideration for the review of local authorities' relative needs and resources is the balance we wish to strike between future-proofing a new formula and the level of certainty it is possible to offer local authorities over their income for the duration of a funding period.
4. We anticipate that population data will be used in several relative needs formulas. However, the inclusion of the most accurate form of population measurement will have particular significance for the upper and lower tier Foundation Formulas, which will be primarily based on population. We anticipate that a significant majority of lower tier authorities' funding will be distributed through the Foundation Formula, and for upper tier authorities the Foundation Formula will on average be the third largest upper tier service area.
5. The ONS produces a number of products, including population projections indicating the future size and age structure of national and local populations. The projections are based on a set of assumptions around future fertility, mortality and migration.

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Population Projections

6. Using population projections at the start of a funding period would allow relative needs formula to reflect expected future population changes whilst giving authorities certainty over their income for the duration of that funding period. Taking account of expected population changes may reduce the risk of a relative needs assessment becoming quickly out of date.
7. The most important factor in determining whether population projections should be used in a future assessment of local authorities' relative needs is whether the growth in population is likely to be similar across local authorities or whether relative growth will differ between local authorities over time. If the former is the case, a measurement based on relative current populations would suffice; however, if the latter is true this would result in a change in relative needs, which could be accounted for through the use of a forward prediction or more frequent updates of population using population estimates.
8. Analysis of 2016 ONS population projections shows that **there is significant projected variation in the growth of population stock at local authority level to warrant the use of projections**. Over the period 2016 to 2021, the highest projected changes in population are expected to occur in Tower Hamlets (+10.7%) and City of London (-11.9%)¹ (Table 1).

Table 1

Change in population 2016-2021		
% Change bracket	Number of LAs in bracket	% of LAs in bracket
below -5	1	0.3
- 5 to -2.5	1	0.3
- 2.5 to 0	14	4.3
0 to 2.5	132	40.5
2.5 to 5	137	42.0
5+	41	12.6

9. The ONS population projections that could be used in the review would be the most recent version published in advance of the 2020-21 settlement; this would be the 2016 version, published in 2018.

¹ From ONS data on 2016 population projections published in 2018. Data is drawn from 'all ages' and both genders, and represents authorities at district-level. Authorities above district level have not been combined, hence the % changes in population for these authorities could be more or less pronounced than their constituent districts.

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Consultation on relative needs

10. MHCLG's December 2017 consultation on relative needs² asked whether the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities. **90% of those who responded agreed that official population projections should be used.**

11. Respondents expressed less consensus around the frequency with which population projections used in the needs assessment may be refreshed, reflecting the balance of divergence of need, and certainty for planning.

Alternative options

Using ONS population estimates

12. An alternative option to using population projections at the outset of the funding period would be not to use population projections at all. This would provide a sound estimate at a particular point in time and would provide local authorities with certainty if it was not updated over a reset period. However, it would mean allocations are not 'future-proofed' and, given population is a significant driver of spending, means the assessment of relative needs may become quickly out of date.

Using ONS population projections and updating with new projections

13. Another option would be to use ONS population projections but to update these projections when new projections become available. The most recent projections are from May 2018 and these tend to be updated every two years. This would suggest there could be two further sets of projections over a 5 year reset period. This option effectively trades-off some of the certainty provided by not updating for new data with the benefit of greater accuracy during a reset period, thereby helping ensure relative needs assessments are more up-to-date. There is then a separate question as to whether other parts of the relative need assessment could also be updated with more recent data.

Population projections and reset periods

14. Work is being conducted by the Systems Design working group (papers can be found online³) to consider the length of a reset period. There is a question over

² <https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources>

³ <https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention>

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whether population projections should remain fixed until the end of the reset period, giving more certainty, or be more dynamic, allowing for changing patterns of need.

15. In either fixed population measurements presented above (excluding updating population based on estimates within a reset period), at the end of a reset period projected population or a fixed estimated measurement will not match perfectly the estimates for the final year. This will result in the need to reset population under a new needs methodology to the latest population values.

16. The use of population projections over a reset period would correspond with the following guiding principles of the review:

- **Simplicity:** Population is a significant cost driver for many local authority services; using population projections is a straightforward way to reflect anticipated future demand without significantly compromising the level of simplicity in the wider methodology.
- **Transparency:** Using ONS population projections that are in the public domain would enable those affected by the local government finance settlement to understand what local factors (i.e. changes in population) have affected the funding baselines of local authorities.
- **Contemporary:** The future-proofing of data using projections would ensure that the most up-to-date and accurate estimate of population is used, in order to gain best alignment with actual population over time.
- **Stability:** Authorities' forward allocations could be calculated for each year of the reset period using projections from the most recent year available to give stability.
- **Robustness:** The needs methodology would be calculated using robust official ONS population projection data.
- **Sustainability:** Population projections will help to identify the factors which drive costs for local authorities today and in the future, predicting future service demand.

Conclusion

17. ONS population projections represent the best available data source for projected population growth. Given this, and the fact that relative population changes occur relatively quickly, the Government considers that ONS sub-national population projections should be used as a measurement of population within the formulas.

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Using population projections at the outset of a reset period also offers authorities certainty, whilst offering the most up-to-date measurement of their need.

Questions for the group

Question 1): Does the group agree that population projections provide an enhanced method of measuring population, compared to a one-off estimate of population over a reset period?

Question 2): Does the group have any views on the use of ONS population projections?

Question 3): Does the group agree that population projections should be fixed at the outset of a reset period?