

**(NR TWG 29/09/17) Minutes: Meeting of the Fair Funding Review Technical Working Group**

Title: **Fair Funding Review Technical Working Group (13:00-15:00)**

Date: **Friday 29 September 2017**

Venue**: Southwark Council, Tooley Street, London, SE1 2QH**

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| Attendance |
| * 1. A full attendance list is attached as an Annex to this note.
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| Welcome and Introductions |
| * 1. Members agreed that the group would be renamed as the Fair Funding Review Technical Working Group.

**Action 1): DCLG to update and recirculate minutes of last meeting to reflect amendments provided by Geoff Winterbottom (4.12), Paul Woods and Alan Cross (4.13).** |
| 1. **Fair Funding Review update and overview** - DCLG
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| * 1. DCLG presented a programme update:
1. **An overview of on-going work with Ministers to explore the implications of a Fair Funding Review timeline that potentially works towards implementation in 2020/21**
	1. Alan Cross pointed out that 2020/21 was less challenging than 2019/20 and that having access to more up-to-date data would be an advantage. A question posed by this timeline was at what point 2021 Census data could begin to be incorporated. He also commented that some data would be up to ten years old. DCLG responded that the Census did provide an opportunity to incorporate up-to-date population data, and that there was likely to be a balance to be struck between incorporating the most up-to-data possible and completing the Review as soon as practicable.
	2. Chris Tambini commented that it was important for the Review to be done properly and the new timeline presented a greater opportunity to do so. He also made the point that some local authorities may require additional funding before 2020/21.
	3. Adrian Jenkins pointed out that the constraints in the timeline meant final allocations would not be available to authorities until relatively soon before implementation, which could affect their ability to plan for any changes. DCLG responded that there were different ways to exemplify indicative allocations and provide certainty to authorities, which would be considered. DCLG also confirmed that the Government are committed to managing transition in such a way that authorities reach their target allocation over a sustainable period of time.
	4. Geoff Winterbottom agreed that authorities needed to know the outcome of the Review as early as possible and urged DCLG to consider what options exist for sharing indicative allocations ahead of final data sources becoming available.
	5. Alan Cross agreed that it would be preferable to issue heavily caveated indicative allocations using the available data rather than wait for new data sources to become available.
	6. Nicola Morton pointed out that in the past DCLG have published exemplifications during a consultation process, which could also be an option.
	7. Paul Honeyben pointed out that given the level of uncertainty, he felt that transitional arrangements would be more important than under normal circumstances.
	8. Dan Bates asked whether there would be any visibility prior to late 2019 on the outcome of the Review. DCLG responded that it would try to provide increasing clarity over the period.
	9. Paul Woods said that commissioning new research on Children’s Services was sensible, and asked whether the Department for Health’s work on developing a new formula for Adult Social Care would be considered by the Review. DCLG responded that this was an option for a potential service specific approach to this area.
	10. Paul Woods noted that the Review could happen without further business rates retention. DCLG responded if ministers agree we would work towards implementation in 2020/21 and keep this under review as work progresses. Important considerations would include wider progress on business rates retention, adult social care reform, and alignment with any future Spending Review.
2. **A planned technical consultation on relative need**
	1. Dan Bates asked if DCLG would be consulting on the resources block as well. DCLG responded that this consultation would focus primarily on relative needs, and that relative resources would be explored by the group in due course.
3. **The commissioning of a Children’s Services research and data collection project**
	1. Chris Tambini asked whether this aspect of the Fair Funding Review would feed into DSG allocations. DCLG replied that it would not as this research was focussed on social care.
	2. Alan Cross asked whether there was any intention of establishing an LA reference group to inform the work. DCLG responded that the contract would specify that potential providers will need to set out their communication plan to help manage the sector relationship, including with local authorities who had volunteered to help.

**Action 2): DCLG will circulate a summary note to the group once the procurement process commences.**1. **Proposed areas of focus for future technical working group meetings.**
	1. DCLG issued an invitation for members to submit papers relating to future planned agenda items. Dan Bates asked whether the LGA / DCLG would welcome representations from individual local authorities. DCLG said that whilst it was open it was often more effective to go through the LGA or other representation.
	2. DCLG confirmed that they would also welcome separate written responses to any of the questions posed in recent and future discussion papers presented to the group.
	3. Nicola Morton noted the agenda would presumably develop as work proceeded, and DCLG confirmed that the forward plan would be revisited on an ongoing basis.
	4. Paul Woods mentioned that it was helpful to return to issues and consider them in more depth and offered to feed into a future DCLG paper on council tax.

**Action 3): DCLG will put Paul Woods in touch with the lead on the council tax paper for November.** |
| 1. **Funding for higher unit costs associated with sparsity and rurality (NR TWG 17-07) -** RSN

**Discussion paper regarding the approach to Area Cost Adjustment and rurality in the Fair Funding Review (NR TWG 17-04)** - DCLG |
| * 1. The RSN presented a paper on rurality, describing the historical tendency to use sparsity to account for the costs of delivering services in rural areas, pointing out that whilst this is easy to calculate, it has limitations as it does not account for all factors associated with rurality. They asked the question of how peripherality could be incorporated in a rurality adjustment, and the link with the most deprived areas. The RSN’s view was that sparsity was probably still the best measure of rurality however greater consistency was needed and they had reservations over incorporating it into the area cost adjustment (ACA).
	2. DCLG presented a paper on the ACA, asking the question of what should or should not be included in this, and the place of rurality in the overall formula – whether this was within the ACA or outside, and the approach that should be taken to accounting for rurality. DCLG emphasised the need for an evidence based approach.
	3. Paul Honeyben commented that this was a comprehensive approach from DCLG on the ACA, and that further analysis could show how much funding is determined by the ACA.
	4. Geoff Winterbottom pointed out that weighting was important and that it would be useful to see regressions and how these may vary.
	5. Nicola Morton referred to the work done by DH on NHS allocations, on the labour market forces factor (MFF) and rurality, and asked whether DCLG were aware of DH’s work. DCLG confirmed that its officials were part of a cross-Whitehall officials’ group which draws on lessons learned from other departments over funding, and that they had spoken to DH on this.
	6. Geoff Winterbottom mentioned possible wage convergence due to the rise in national minimum wage. Alan Cross stated that on this trajectory up to a third of the pay scale will be overtaken by the minimum wage.
	7. Paul Honeyben mentioned the inconsistency over public and private sector wages, as the MFF took into account only private sector.
	8. Nick Everleigh commented that he agreed the non-labour expenditure should only be included where it made a significant difference to the ACA.
	9. Paul Woods suggested taking a fresh look at the ACA. He mentioned authorities’ new requirement to provide information on wages, and that this could be looked at - as the data is adjusted and updated each year -and asked whether ASHE data should continue to be used. He also pointed out that council tax should be broadly similar across the country if the ACA was working, and suggested looking into the actual effect of the ACA. Paul also asked about the use of income (e.g. from parking) and whether this should be included in the ACA.
	10. DCLG responded that two questions were being asked here – whether new data should be taken into account, and whether relative resources should be taken into account in the ACA. They pointed out that ASHE data is commissioned by the ONS each year at no extra cost to authorities, and that the data reflects different factors. DCLG also pointed out that relative resources such as income were being considered separately to needs as part of the review, and that there should not be duplication. In addition DCLG mentioned that the creation of perverse incentives was to be avoided, and that there were potential risks involved due to authorities’ ability to change pay scales.
	11. There was a discussion over the correct size of geography of the ACA areas to be used. Alan Cross pointed out that if upper tier authorities were being used, care was needed when it came to unitary authorities which may be the same size as a district whilst there were other authorities that were very large. He pointed out that there should be a consistent approach to this.
	12. Paul Woods mentioned that a measure of rurality needed to be evidence-based, and that there was a need to understand how to deal with unmet expenditure.

**Action 4): Group members were asked to provide any further responses to the questions posed in the ACA paper presented at the meeting.** |
| 1. **Discussion paper regarding the approach to Deprivation in the Fair Funding Review (NR TWG 17-05)** – DCLG

**Deprivation in the Needs Allocation Formula (NR TWG 17-06)** - Society of County Treasurers (SCT) |
| * 1. DCLG presented a paper on deprivation, describing the possible methods that could be used to incorporate deprivation into the funding formula. The Indices of Multiple Deprivation (IMD) was proposed as a possible approach to including deprivation. For the greatest analytical robustness, DCLG suggested that this should be on a cost-driver (additive) basis, not within the ACA (multiplicative) because deprivation has more impact on the quantity of services to be delivered rather than the unit cost of service delivery. DCLG stated that the next update of the IMD was expected in summer 2019.
	2. The Society of County Treasurers (SCT) presented a paper on deprivation, which gave an overall literature review of the current impact of deprivation in the formula. The SCT discussed the relationship between deprivation and core spending power (CSP) and what deprivation means for the cost of providing services. SCT mentioned that there was no evidence they could find for weighting deprivation factors, and that weightings could be more important than the measure of deprivation used.
	3. Geoff Winterbottom pointed out the problem with the graph on deprivation and CSP was the presence of other factors in CSP that would throw out any alignment with deprivation. He also commented that the formula should be looked at before damping, and that more correlation of deprivation and CSP would be seen.
	4. There was a discussion on the weighting of deprivation, and some members had concerns on the use of past spend data in regressions. It was pointed out that weighting would be carried out as for other cost drivers, measuring the relationship between them. DCLG pointed out that an analytically robust methodology would be one way of weighting deprivation with other cost drivers, and that an alternative but less attractive approach could be the use of judgement.
	5. DCLG stated that they are interested in engaging with the sector on perceptions of the impact of deprivation, and that this could be done in collaboration with the SCT and LGA. One option was a possible survey of local government practitioners on how to apply deprivation in particular services and the effects of this. The results of this survey could then be used to compare whether there is a consensus between these perceptions and the results of any analysis.
	6. Dan Bates stated that income deprivation doesn’t measure low income and its associated costs and felt there should be a broader definition.
	7. Paul Honeyben stated that the CSP deprivation chart overstated some of the London figures due to the inclusion of the GLA, and proposed the use of SFA (or an equivalent) instead of CSP. He agreed with the reduction of the number of drivers for deprivation and complexity in the formula. However he was part of the working group that produced advice on the IMD and felt uncertain that they should be used as part of a funding formula. He also raised the issue of in-work poverty in London and other urban areas.
	8. Nicola Morton mentioned that the IMD is used in health formulae and asked whether DCLG could influence the IMD if the indicators are being looked into again.
	9. DCLG responded that DCLG is only one of many stakeholders, however the Review team are located with the IMD team, with strong involvement in the design of the usage of new indicators.
	10. Nick Everleigh mentioned that there was an emerging problem with homelessness and housing costs. He stated that this was an emerging cost pressure particularly in districts and should be included.
	11. Geoff Winterbottom commented that within previous IMD some items were considered policy driven at authority level, and asked whether these should be adjusted for. He also asked whether IDACI/IDOPI should be combined to avoid double counting on availability of services for older people and the ability to finance these.
	12. Paul Woods stated that use of the IMD indicators sounded positive. He felt that deprivation drives the cost of services, as well as demand. He also made the link between high value assets and wealth rather than low incomes, and that a measure of deprivation should take account of potential high value assets as well as income; for example in adult social care and stated that the effects are linked to the ACA. Paul mentioned that there tended to be more bus use in deprived areas. He asked whether it was possible to have a look at the result from the updated IMD before they are published. DCLG confirmed that they would explore this possibility.
	13. DCLG responded that it was important to keep clarity on the separation of needs, resources and transition within the Review for the sake of clarity and avoid accusations of double-counting.

**Action 5): Group members were asked to provide any further responses to the questions posed in the deprivation paper presented at the meeting.** |
| 1. **Any other business:** Aiva asked if there was any other business, comments or questions
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| * 1. None
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Annex: Meeting attendees

| **Attendee**  | **Organisation** |
| --- | --- |
| Aivaras Statkevičius (Chair) | LGA |
| Nicola Morton | LGA |
| Stuart Hoggan  | DCLG |
| Trefor Henman | DCLG |
| Henry Ogden | DCLG |
| Emily Gascoigne | DCLG |
| Stephen Smith | DCLG |
| Duncan Cook | DCLG |
| Matthew Mitchell | DCLG |
| Helen Lucas | DCLG |
| Callum Ward | DCLG |
| Josh Phillips | DCLG |
| Nick Everleigh | SDCT |
| Nikki Bishop (Phone) | SMT |
| Chris Tambini | SCT |
| Alan Cross  | SUT |
| Dan Bates | RSN |
| Geoff Winterbottom | SIGOMA |
| Paul Honeyben | London Councils |
| Carla-Maria Heath | IRRV |
| Chris Rae | SCT Analysis Unit |
| David Northey | South West |
| Paul Woods (Phone) | North East CA |
| Adrian Blaylock  | CIPFA |
| Adrian Jenkins | Pixel Financial Management |