

Fair funding review of relative needs and resources

Regional events

February - March 2018

Overview

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Objectives / terms of reference



The Fair Funding Review will...

- Set **new funding baselines** for local authorities in England, aiming for implementation in 2020/21
- **Replace the current methodology** which is considered out-of-date and complex
- Design a new '**relative needs assessment**' methodology by considering factors that drive the costs of service delivery and how to put these together analytically into new funding formulas
- Consider how to make a fair adjustment for '**relative resources**' (e.g. council tax), and how to transition to new allocations quickly
- Focus primarily on services currently funded through the settlement
- Be developed through close collaboration with local government

How we got here

Progress to date..

- Feb 2016: Review announced
- Mar 2016: Joint MHCLG / LGA technical working group begins work
- Jul 2016: Initial call for evidence published
- Sep 2016: Call for evidence closes (over 200 responses)
- Jul 2017: Technical working group continues after General Election
- Nov 2017: Data collection and modelling research project commences in relation to Children's Services
- Dec 2017: Technical consultation on relative needs published

Principles and structure



Principles of the Review

- **Simplicity** - an opportunity to identify the most important factors that drive need to spend
- **Transparency** - for councils and the public to understand local allocations
- **Contemporary** - using the most up-to-date data available
- **Sustainability** - an evidence-based approach to respond to current and future demand
- **Robustness** - taking into account the best possible objective analysis
- **Stability** - including transitional arrangements and alignment with multi-year settlements



Measuring relative need

- A less complex methodology
- Focused on up to date key cost drivers
- That reflects 'future need' as far as possible

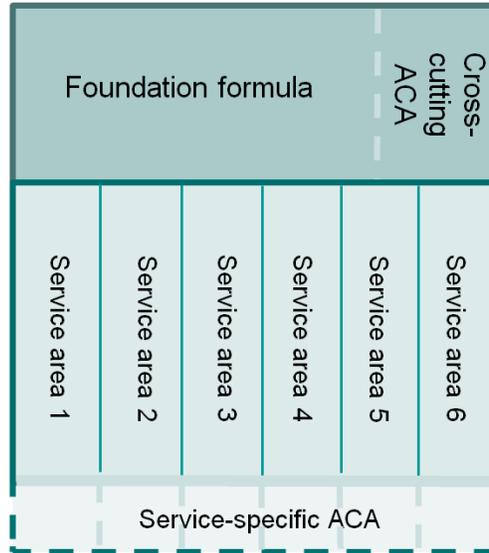
Treatment of resources

- A more transparent approach
- That does not undermine the growth incentive

Approach to transition

- Avoids unmanageable changes in allocations
- Provides a clear path to the target allocations

Taking relative needs into account – two models



This diagram depicts a potential relative needs assessment approach which incorporates a foundation formula approach along with several service specific formulas, and both a service-specific and cross-cutting Area Cost Adjustment (ACA). (The diagram is for illustrative purposes and no inference should be drawn from the size of individual block elements)

The cost of providing the same set of public services varies between local authorities for a number of reasons – including the costs of inputs. Area Cost Adjustments account for this. Additional unit costs in service delivery faced by rural areas (and perhaps coastal areas and islands) could be reflected in the ACA.

Relative levels of deprivation are a crucial determinant of ‘need’ for many services. The Index of Multiple Deprivation (IMD) is a good candidate for assessing local authority deprivation in the FFR.

Key criteria for cost drivers

Relevant

- there should be evidence to demonstrate that the cost driver has a significant impact on the cost of providing services

Objective

- the cost driver should be measurable using robust, up-to-date data that is collected on a consistent basis across England. Local authorities should not be able to directly affect the indicator (i.e. the cost drivers should not create perverse incentives to 'game' the system)

Distinct

- the cost driver should explain significant variation in the 'need to spend' that is not covered by another cost driver

Stable

- the cost driver should not exhibit unpredictable or large changes year-on-year

Future proof

- the cost driver should be expected to drive the on-going costs of providing services (i.e. they should not be one-off events)

Relative resources



The Review will examine how **council tax** should be taken into account when redistributing business rates at local government finance settlements, and will also consider other sources of income.

In particular, it will consider:

- factors which impact a local authority's ability to raise income through council tax, split between council tax base and the Band D level set, including factors it cannot control and those it can affect
- how net expenditure is used, and how to take account of sales, fees and charges (e.g. parking revenue)
- and the equity and incentive effects of the various options.

Next steps



Getting to 2020...

(subject to final decisions and on-going review)

Jan 2018:	Academic engagement begins
Mar 2018:	Consultation on relative needs closes
Spring / summer 2018:	Planned series of technical papers published
Summer 2018:	Finalise overall structure and leading options for needs assessment and resources assessment
Spring 2019:	Finalise options for needs and resources
Summer 2019:	Children's Services research concludes
Summer 2019:	New Index of Multiple Deprivation release
Autumn 2019:	Set baseline funding levels and finalise transitional arrangements

Current consultation on relative needs



- Sets out the Government's approach to the review of relative needs and resources, and seeks wider views on what important factors should be included in a new funding formula.
- The consultation includes the following key areas:
 - An overview of funding formulas, including potential future approaches, and the criteria for considering cost drivers,
 - The 'common cost drivers' for local government that have been identified so far through engagement with the sector,
 - The potential 'service specific cost drivers' for local government that have also been identified, and
 - The statistical methodologies that could be used to 'weight' funding formulas and cost drivers.

Questions and discussion



Discussion 1 – Single ‘foundation’ formula

Discussion 2 – Service-specific formulae and statistical techniques

Wrap-up and any other business

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