

Fair funding review: a review of relative needs and resources

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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- Replace the **current methodology** which is considered **out-of-date** and **complex**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

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 well



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

How we got here

The progress to date..

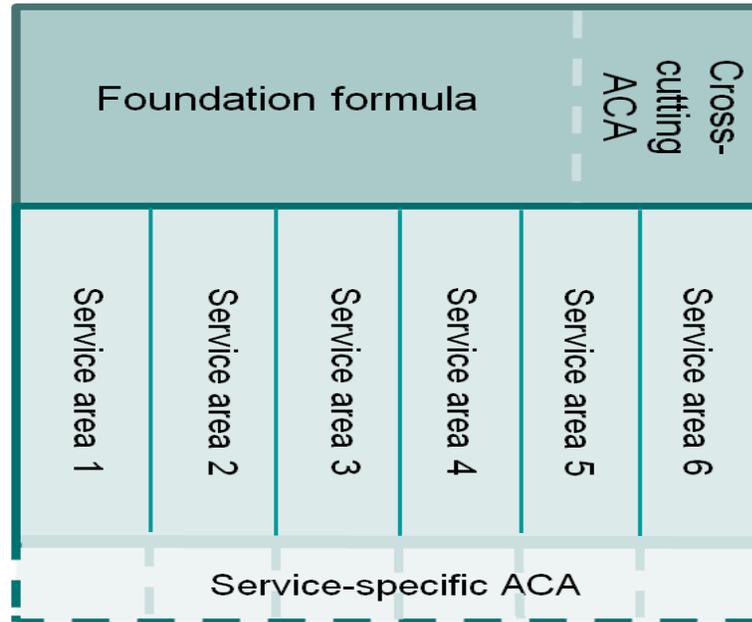
- February 2016 – announcement of the Review
- March 2016 – DCLG/LGA Fair Funding Review technical working group starts work
- July 2016 – initial call for evidence
- September 2016 – call for evidence closes, over 200 responses
- May 2017 – General Election
- July 2017 – working group continues its meetings
- December 2017 – technical consultation on needs

What the LGA is doing

Our work plan..

- Facilitating conversations and supporting the sector to make its own propositions
 - Bespoke modelling tools for members – coming soon
- Regional consultation workshops in late February – watch this space
- Seeking and identifying consensus within the sector
 - Consultation
 - Treatment of resources, transition next

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 number or 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 ongoing costs of providing services (i.e. they should not be one-off events)
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Taking relative resources into account

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:

- the varying levels and capability of local authorities to raise council tax
 - the effects of council tax discounts, from nationally set exemptions (eg students) to those with local discretion (eg LCTS)
 - how net expenditure is used, and how to take account of sales, fees and charges (eg parking revenue)
 - and the equity and incentive effects of the various options.
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Fair Funding Review: next steps

Getting to 2020...

(subject to final decisions and on-going review)

- Consultation on relative needs closes – March 2018
- Academic engagement – begins January 2018
- Planned series of technical papers – spring/summer 2018
- Finalise overall structure and leading options for needs assessment and resources assessment – summer 2018
- Finalise options for needs and resources – spring 2019
- Children's Services research concludes – summer 2019
- New Index of Multiple Deprivation – summer 2019
- Set baseline funding levels and finalise transitional arrangements - autumn 2019

**Questions and
comments
welcome!**
