

Fair Funding Review Update

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

1. The needs and redistribution working group has met twice since the last meeting of the Steering Group. This note provides a brief account of both meetings and concludes with a short update on the Fair Funding Review.

Needs and redistribution working group

2. The discussion in the meeting on 10 January focussed on the potential long list of key cost drivers that the Government was looking at in order to establish the requirement for a potential data collection exercise. Members of the group were asked for their views on the initial draft list, and provided suggestions of other variables that could be looked at.
3. To inform the discussion above, the working group was attended by officers from the Department for the environment, food and rural affairs who presented their view on cost drivers and variables affecting the need for local authority services relevant to the Defra portfolio, such as waste collection.
4. The group also discussed how certain presentational changes from previous formula systems might provide additional transparency and make the system as a whole easier to understand and explain. The particular point of focus was the way that formula grant calculations used to be presented for different types of council, with a one-size-fits-all approach providing irrelevant information for authorities with specific sets of responsibilities, such as shire districts.
5. In its meeting on 15 February, the group discussed the upcoming Government technical consultation on the Fair Funding Review. Particular points were made about the level of understanding of the principles of regression analysis and whether that was a contributing factor to the negative opinion on regression as a statistical technique for estimating relative needs.
6. The group contributed to an exercise of scoping issues and questions connected to measuring relative resource capacity (such as council tax) and the principles of transition from the current funding baselines to the ones resulting from the review. This was a helpful discussion which will contribute to future planning of these elements of the Fair Funding Review. The group agreed to discuss treatment of council tax in more depth in the next meeting.
7. Finally, the working group also continues to receive updates from the subgroup of the Association of Local Authority Treasurers' Societies (ALATS) whose work on a potential sector-led solution, focussing on a small basket of key cost drivers, is ongoing. The ALATS subgroup is exploring a simplified approach and has commissioned resources to help with financial modelling and exemplifications. They will be holding an away-day to discuss

questions related to relative resource adjustments in March. The working group endorsed the work of the ALATS subgroup as an important way of exploring various alternative formula design principles.

Fair Funding Review

8. Alongside the consultation on the approach to the Business Rates Retention reforms in summer 2016, the Government also published a Call for Evidence on the Fair Funding Review. It included 14 questions which were designed to explore respondents' views on the key issues that the Fair Funding Review needs to address including; how to measure relative needs, how resources should be taken into account, the approach to transition and the geographical units the review should be based on.
9. In total 209 responses to the Call for Evidence were received, including 179 from local authorities. A summary of the responses received will be published shortly, alongside a technical consultation paper which represents the next significant milestone for the Fair Funding Review. The technical consultation will seek views on the broad approach and the cost drivers that could form part of a new relative needs formula.
10. Based on the responses received to the Call for Evidence as well as wider engagement with stakeholders, the Government will identify overarching principles that will be used to shape the forthcoming work of the Fair Funding Review. Whilst the principles are yet to be finalised, the parameters set out below are currently being used to support the development of the technical consultation paper alongside forward planning activity in respect of the Review.
 - A simpler and more transparent formula. Improving the link between allocations and local circumstances.
 - A modern formula. It is nearly 10 years since the current formula was last looked at thoroughly and some parts date back even further.
 - A sustainable formula. Incorporating the best estimates of how those factors that affect the cost of services will change over time and redistributing between authorities to ensure different sized tax bases – business rates and council tax – are taken into account while providing incentives for growth and efficiency.
 - A system with transitional arrangements. Transitional arrangements will be unwound as swiftly as possible while ensuring that any funding changes proposed are manageable for councils.