



Title: **Steering Group**

Paper: Summary of the responses to the consultation on relative needs and next steps for the review by the Ministry of Housing, Communities and Local Government

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Venue: Local Government Association, 18 Smith Square, London

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

Introduction

1. In December 2017 the Government published a consultation on relative needs,¹ which sought views on:
 - the structure of the needs assessment (the number and type of formulas needed),
 - the key cost drivers that should be included in those formulas, and
 - the basis on which we should determine the relative importance (or weighting) of the cost drivers.
2. The aim of this paper is to summarise many of the key messages that were received through the consultation, present the outstanding areas of the relative needs assessment that will require further consideration, and seek the group's views on these issues.
3. Detailed analysis of the consultation responses is underway and the specific feedback received regarding cost drivers and data sources will be subject to further examination as our work progresses. The Government's aim is to publish a formal response to the consultation later this year.

Consultation on relative needs

4. The consultation proposed simplification of the relative needs assessment by reducing the number of formulas and focussing on the most important cost drivers. Alongside a Foundation Formula with a reduced set of proposed common

¹ <https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources>

cost drivers (population, deprivation and rurality), the consultation set out six key service areas that may require their own funding formula on the basis that they are driven by unique cost drivers.

- Table 1 sets out the service areas proposed in the consultation by class of authority:

Table 1: Proposed formulas by class of authority

RELATIVE NEED FORMULAS		SHIRE AREAS			METROPOLITAN AREAS	LONDON
		Unitaries	Counties	Districts	Metropolitan Districts	London boroughs
Foundation Formula	Upper tier	★	★		★	★
	Lower tier	★		★	★	★
Adult Social Care		★	★		★	★
Children's Services		★	★		★	★
Highways Maintenance and public transport	Highways maintenance	★	★		★	★
	Concessionary Travel	★	★		★	★
	Local Bus Support	★	★		★	
Waste	Collection	★		★	★	★
	Disposal	★	★		★	★
Fire & Rescue ²		★	★			
Legacy Capital Finance		★	★	★	★	★

- A total of 312 consultation responses were received across a wide range of respondents (see Annex 1).

Structure of the needs assessment

- The consultation asked for views on the proposal to simplify the relative needs assessment, for which there was significant support. Many respondents commented that while important, simplicity and transparency should not be pursued at the expense of the accuracy, even if that required a more sophisticated approach. Similarly, many identified transparency as the most important principle, over and above simplicity.
- The starting assumption for the relative needs assessment is that, excluding the six specific service areas highlighted in the consultation (and any others added after follow-up work on issues set out below), all other service areas will be included in the Foundation Formula in order to achieve an appropriate level of accuracy. However, we will need to consider any trade-offs between this

² Not all Counties and Unitaries are responsible for Fire and Rescue services. Other Fire and Rescue services around the country are provided by stand-alone fire authorities, including metropolitan fire authorities, combined fire authorities and London Fire.

approach and one that introduces further sophistication. The technical working group will be looking at this in more detail on Friday.

9. There was broad support across a range of respondents for having a Foundation Formula and maintaining a small number of service specific formulas. There was also widespread support around having specific formulas for:
 - Adult Social Care (*a bespoke ASC model is currently under development by the Department of Health and Social Care as an option*)
 - Children's Services (*a bespoke CSC is currently under development by independent researchers as an option*)
 - Highways Maintenance
 - Fire and Rescue (*the technical working group will be reviewing a paper reflecting on-going work with relevant experts*), and
 - Legacy Capital Finance.
10. There was also broad support for the principle of having an Area Cost Adjustment (ACA).
11. Based on the six service areas that were consulted on and the responses received, these are the key issues that require further consideration:
 - i. Waste Collection and Disposal services: The current needs assessment does not have a separate formula for waste, which forms part of the Environmental, Protective and Cultural Services (EPCS) service block. There was broad agreement to the cost drivers identified in the consultation. However given that this is a service area for which population is a significant cost driver we will need to determine the correlation between a potential Waste formula and the Foundation Formula.
 - ii. Local Bus Support and Concessionary Travel: The consultation proposed a Highways Maintenance and Transport formula. There was broad support for a Highways Maintenance formula and for the cost drivers identified. There was less agreement regarding the approach to Local Bus Support and Concessionary Travel. Some respondents felt that using a measure of population as a cost driver would be a fairer way to determine need for these services and address concerns regarding any 'unmet need'. Other respondents felt that actual usage or provision was a more suitable approach. Depending on the cost drivers that are identified, we will need to determine whether each service area could be included in the Foundation Formula or if an alternative approach is required.
 - iii. Home to School Transport: The starting assumption is that Home to School Transport will in future be included in a new, broader, Children's Service formula that is being developed. However Home to School Transport is a significant area of national expenditure and its cost drivers may be distinct from 'mainstream' Children's Services. Subject to further analysis we may wish to deploy a specific Home to School Transport funding formula to account for this.

12. The consultation asked whether there are any other service areas outside of the six identified in the consultation, that may potentially require a specific formula. The areas around which there was some consensus were as follows:
- i. Non-HRA Housing and Homelessness: Many respondents felt that both housing and homelessness would be better reflected by a specific formula that reflects the demand for these services. Some respondents felt that the main cost drivers for homelessness were a measure of population and deprivation, and asked whether this could therefore be captured by the Foundation Formula. Other respondents raised housing affordability or supply as drivers of local authority expenditure. We will need to explore the potential for a specific housing formula, any correlation with the Foundation Formula, and consider the most appropriate cost drivers.
 - ii. Public Health: Alongside publication of the consultation the Government announced its intention to devolve Revenue Support Grant, Rural Services Delivery Grant, Public Health Grant and the GLA Transport Grant to local government. Whilst the consultation did not ask a specific question about these grants, a significant number of respondents took the opportunity to make the case for a specific formula to allocate public health funding if agreement to devolve this is reached with the Department of Health and Social Care.
 - iii. Fixed costs: The current needs assessment includes a fixed cost formula as part of the EPCS service block, and some authorities identified the need to retain this in respect of corporate costs and democratic services.
13. The consultation sought views on the treatment of small but locally significant duties which are relatively low in budget at an England level but may be significant for a small number of authorities. Respondents were asked which services were most significant and how to approach these.
14. Some respondents were in agreement that a small number of specific formulas could be used to represent these areas whilst others felt that these areas should be addressed outside of the relative needs assessment.
15. The following areas were highlighted by respondents:
- i. Flood prevention
 - ii. Coastal protection
 - iii. Unaccompanied Asylum Seeking Children
 - iv. People with No Recourse to Public Funds
16. There was broad agreement around the requirement for an Area Cost Adjustment (ACA) and that this should include measures of business rates and labour costs. Some specific comments around the ACA were as follows:
- i. There were mixed views regarding the potential inclusion of rurality in the ACA, with some respondents highlighting the impact that density has on the cost of service provision for some councils

- ii. Some respondents highlighted the need for a specific ACA for each service area as opposed to a single ACA
- iii. There were different views around the measurement of labour costs that should be included.

Question 1): Do the group have any comments on the issues discussed regarding the structure of the needs assessment?

Cost drivers

17. There was broad agreement that the cost drivers set out in the consultation for the Foundation Formula and service specific formulas were correct. Many respondents took the opportunity to highlight additional cost drivers for us to consider, although fewer responses identified specific data sets that could be used.

18. Some key areas of feedback on cost drivers were as follows:

- i. A majority of respondents felt that it was appropriate to use population projections, however there were mixed views regarding the frequency with which those projections should be updated. Some respondents prioritised the financial certainty that less frequent updates may provide, whilst others favoured more frequent updates.
- ii. Other population factors that were frequently raised include the impact of density, daytime population including commuters and visitors, student populations and migration.
- iii. Deprivation was widely recognised as a key cost driver, and there was some support behind the potential use of the Index of Multiple Deprivation (IMD) as a proxy.
- iv. There were mixed views regarding the potential inclusion of rurality as a key cost driver in the Foundation Formula. Some respondents felt that it was important this was only included if a strong evidence base could be identified, and that this was better reflected through an Area Cost Adjustment. Many respondents also commented that, if rurality is to be included, a measure of density should also be reflected as a common cost driver as an indicator of the costs associated with, for example, urban congestion.

Question 2): Do the group have any comments on the issues discussed regarding cost drivers?

Analytical techniques

19. There was significant support behind the use of analytical techniques as a way of robustly weighting cost drivers. While regression models were seen by many to

have merit, there was some scepticism around the sole use of past expenditure as a dependent variable, for example, on account of potential pockets of 'unmet need'. However, few suggestions were offered as a preferred alternative measure.

20. The possibility of adopting multi-level modelling for some services was therefore widely welcomed by respondents in recognition that this was a more robust approach for service areas which represent a significant proportion of expenditure and where future levels of need are more challenging to predict.
21. There was a significant level of support around the idea of 'sense-checking' the results of any analysis with experts in the sector.

Question 3): Do the group have any comments on the issues discussed regarding analytical techniques?

Conclusion and next steps

22. In the first instance, further work will be required to follow up on the new cost drivers that have been suggested and identify relevant data sources. Where data sources do exist, we will test and review these cost drivers through our analytical work and with stakeholders, including the Technical Working Group, other Government Departments and representative groups.
23. Our aim is to work towards a further stage of consultation later this year, which would propose an overall structure for the needs assessment (e.g. the number and type of formulas), set out the leading cost drivers for each formula for consideration, and describe a proposed analytical technique for weighting these cost drivers in each formula. The scope of the next consultation will also include high level options regarding the treatment of relative resources and set out the principles we propose to use when designing future transitional arrangements.

Question 4): Do the group agree with the proposed next steps?

Annex 1 – Summary of consultation respondents

24. The table below provides a breakdown of the 312 responses received by respondent type:

Respondent type	Number of responses received
Shire District	123
Unitary Authority	43
Metropolitan District	30
Shire County	27
London Borough	24
Local Authority Association / Special Interest Group	19
Fire and Rescue Authority	12
Other Local Authority grouping	7
Member of the public	7
Voluntary organisation	6
Other representative group	5
Combined authorities	3
Local Authority officer	3
Parish or Town Council	2
GLA	1