Academic seminar:
Principles, techniques and lessons from elsewhere - summary read-out

Thursday, 18th January 2018, 14:00-17:00
Ministry of Housing, Communities and Local Government
2 Marsham Street, London SW1P 4DF

Background

1) The Government is conducting a review of the relative needs and resources of local authorities in England, with a view to setting fresh baseline funding levels in 2020-21. MHCLG is working closely with local government representatives to consider the drivers of local authorities' costs, the relative resources available to them to fund local services, and how to account for these in a way that draws a more transparent and understandable link between local circumstances and resource allocations.

2) A priority for MHCLG is to also engage with the wider analytical and stakeholder community so that the review is informed by the lessons that emerge from other analysis and research. On 18 January 2018, MHCLG arranged an academic seminar to discuss the work of the review and learn from experts outside of the Department.

3) This note provides an overview of the agenda and speakers that took part in the seminar, and summarises some of the key (unattributed) points that were made by participants at the event.

Speakers/contributors

4) A wide range of participants contributed to the seminar through panel discussions, presentations or taking part in wider debates. A list of key speakers and contributors is set out below:

- **Melanie Dawes,** Permanent Secretary, MHCLG
- **Stephen Aldridge,** Chief Analyst, MHCLG
- **Professor Tony Travers,** Director of the Institute of Public Affairs, LSE and Chair, Independent Commission into LG Finance in Wales.
- **Professor David King,** Emeritus Professor of Economics, University of Stirling
- **Professor Emeritus Tim Holt,** Professor of Social Statistics, University of Southampton
- **Professor Glen Bramley,** Professor of Urban Studies, Heriot-Watt University
- **Alex Skinner,** Director, Local Government Finance, MHCLG
- **Stuart Hoggan,** Deputy Director, Settlement and Fair Funding Review, MHCLG

- **Robin Haynes,** Head of Council Tax and Local Taxation Policy, Division of Local Government, Scottish Government
- **Jennifer Glover,** Lead Researcher, Local Government Finance, Local Government Information Unit
- **Richard Murray,** Director of Policy, King's Fund
- **David Phillips,** Associate Director, Institute for Fiscal Studies
- **Nicola Morton,** Local Government Association
- **Department for Education, Home Office, Department for Health & Social Care, NHS England, Public Health England, Welsh Government.**

Agenda

5) The agenda for the seminar was as follows:

Session 1: Principles and techniques

Key questions to focus on:

(a) What design principles should underpin any new funding system?

(b) How should resources be taken into account?

(c) How should we measure and assess local authority need? What are the key cost drivers that local authorities face?

Session 2:   What can we learn from elsewhere?

(a) What can we learn from other research and analysis into local government finance?

(b) How should we learn from the recent experiences of others, particularly in terms of the transition to a new funding arrangement, and the acceptability of the changes?

Themes '

A number of themes emerged from the day's discussions:

- **Process matters**: engaging technical experts, working with the sector and being transparent helps ensure a more robust outcome and builds consensus with those affected. Careful consideration about the transition to a new formula is required.

- **Complexity is fine** in some circumstances if it is evidence-based and adds value. Undue complexity should be avoided, but a formula that is defensible rather than simple is important. Fairness is complex.
- **Data matters:** The accuracy of the formula rests upon the extent to which robust data is available, at the lowest possible geography.

Key points

Introduction

- Debate about the most appropriate way to distribute local government resource has a very long tradition: the idea is not new, but it is very important. Changes in demand and pressures on resources make it vital that this review is open and learns from the best available evidence and the expertise of others.

Design principles

- There are a number of principles that ought to underpin a system of resource allocation: simple, transparent, comprehensible, stable over time, and based on reliable data. However, there are inevitable tensions between these principles and meeting all of them simultaneously is impossible; the desire for simplicity conflicts with the others. However, complexity and being clear are not mutually exclusive.
- Undue complexity should be avoided, but it is important the formula is defensible, rather than simple but indefensible. The current system is little understood; we need to fully document the reasons different factors are included so that people may understand it. Any data used should be carefully recorded and sourced to ensure the formula is transparent.

Resources

- Taking resources into account is complicated by the incentive to grow the tax base within local areas, which works at odds to approaches to equalise the differences in the tax base. Those areas most able to benefit from retention of business rates are not necessarily those areas most in need of additional resource.

Needs

- MHCLG (and its predecessor departments) is a world-leader in needs assessment; no other country in the world has spent as much time looking at different techniques for redistributing funding.
- Fairness might suggest that any factor with a significant impact on costs ought to be included in the Relative Needs Formula, but this would be complex and likely unachievable. One speaker felt that the ACA perpetuates differences in costs.

- Delivery is difficult when resources are not increasing**.** This is compounded by the need for damping/transition in order to mediate the impact of change. It is difficult to separate discussion of relative and absolute need.
- Need differs from spend, though there is complexity in identifying and measuring need, and compromises are inevitable. On average, areas with higher need tend to spend less and areas with less need tend to spend more, due to changes in allocation. Using aggregate level instead of multi-level modelling has a big impact on the needs assessment.

Cost drivers

- One speaker explained key drivers as number of residents and daytime population but deprivation, sparsity and area costs are also relevant. Whilst plotting needs against population shows that 95% of variation in need can be explained by population, the impacts on outliers can be significant.
- Those systems that seem to work well put aside the costs of service delivery, and focus instead on the population which drives demand for public services. This means identifying some measures of demand that can be linked to demographics and social and economic characteristics, and identify a set of indicators that will explain the fluctuation in demand from one area to another, from which a predictive model can be built as the basis for distribution.

Equalisation

- Equalisation remains important. There are large disparities in council tax and business rates across areas, which needs to be considered when making updates to needs assessment.
- Tariffs and top-ups will be necessary, but these introduce complexity that can be hard to explain (unlike grants).

Data

- Building funding models inevitably involves issues around statistics: sources and their meaning, as well as how any model is constructed.
- Data availability is often quite poor, and requires pragmatic decisions. Discrepancies between data sources are a significant problem across government and require work to ensure consistency.
- There can be a tension between using recent data and using robust data.
- Recalibrations or resets produce tensions in the system. Ensuring the formula is kept up to date each year may avoid ever bigger safety nets being required.

Expert input

- Final models have to be defensible. They may be subject to independent review, referral to the UK Statistics Authority or judicial review. It is important that a process

- encourages buy-in by Ministers, policy officials, analysts, service providers, and other.
- Decisions are rarely black and white: there will be lots of decisions where there is not a technical right answer, but require judgements; the views of disinterested experts can assist in that process.
- External experts have been involved in the process of revising other funding formulae.

Transparency

- Transparency is important. There is a tension between relative and actual need and a sound evidence base is important in navigating this. It is important to seek consensus around the end outcome. We need to avoid undue complexity and obfuscation. It is a 'stepped' process – we need to move through stages and principles before we get to the end outcome.
- The formula needs to be understood and accepted by those whom it affects, and transparency in the process in the way to achieve this.
- There needs to be enough time built into the process to allow consultation and consensus-building, of which seminars like this are an important part.
- Appropriate levels of quality assurance must be included.