



Title: **Needs & Redistribution Technical Working Group**

Paper: **NR TWG 16/22 – Update of work of the ALATS subgroup**

Date: **Thursday 10<sup>th</sup> November 2016 (12:30pm)**

Venue: **DCLG - 2 Marsham Street - Fry Building – 4C**

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## **POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY**

### Introduction

Since the last meeting of the needs and redistribution technical working group (TWG), the ALATS subgroup met to discuss further the shape of their proposals. The previous update has been attached as Annex A for reference and the rest of this paper assumes knowledge of the previous update.

This paper provides a number of questions for discussion to help shape the approach and work programme of the ALATS subgroup over the coming months.

### The purpose of the subgroup

Members of the subgroup felt it is important to restate the purpose of the group and to explain the difference from the wider needs TWG, as it is important to avoid duplication of effort.

The ALATS subgroup has been established to explore a 'sector-led' proposition on the relative needs formulae aspect of the reforms. It is focussing on developing a proposal which could command support from local government chief finance officers in England. The intention is for this proposal to add value to the discussions of the wider needs TWG.

For example, the wider group receives updates from DCLG on its work, as well as papers from individual Government departments which explore a variety of approaches to formulae to see what might be the most appropriate. The ALATS subgroup should be seen in a similar light, working on a specific proposal which is intended to contribute, rather than nullify or replace, the work of the group.

This update focusses on a number of questions that the ALATS subgroup would like to discuss to inform its approach. Feedback of the needs TWG on questions below will shape next steps for the subgroup.

ALATS is considering a commissioning exercise to provide modelling support for some of the propositions being developed, to see what impact they would have in comparison to the current funding landscape.

## Questions for discussion

Following the discussions at the needs and redistribution TWG and the ALATS subgroup, the list of 'primary cost drivers' has been revised to include a measure of poverty/deprivation. The group will be undertaking further work to see what measure could be the most appropriate proxy for this.

### **Q1: What is the most appropriate single indicator to act as a proxy for deprivation at lower super output area or individual local authority area level?**

The approach of the group is based on the recognition that every council has something unique to either benefit from or be critical with regard to funding. For that reason, the discussion was held at a high level around key cost drivers whilst at the same time being mindful of the granularity of funding issues. The group's approach is that formulae should encompass key activities which drive the majority of need.

### **Q2: With recognition of the reality that individual local authorities operate in unique circumstances which might add very specific spending pressures, could the key basket of indicators be used for setting the majority of the baseline, with some of the baseline held back and distributed for very specific pressures on a case-by-case basis?**

It is becoming increasingly clear that different shapes of funding formulae can have an impact on accountability and decision-making procedures at both a local and a national level. For example, retaining service-specific formulae would mean that:

- It would allow for a more nuanced needs assessment, but at a potential cost to simplicity and transparency.
- There would be a stronger notional link to existing Whitehall accountability procedures as individual Government departments could point to the individual service weights (or 'control totals').
- However, to enable this approach there would need to be specific weights attached to service-specific elements, which would be notional given that it would be up for individual authorities to set spending priorities. This might create an incorrect perception that the Government can prescribe spending totals on specific services for individual local authorities.

Reducing the number of formulae would:

- Be more consistent with a 'single basket of cost drivers' approach which aims to remove indicators which do not 'add value' (i.e. do not shift large sums of funding around between authorities);
- But would require a new accountability structure to allow for appropriate Parliamentary scrutiny of local and central government policy decisions.

### **Q3: Can a funding formula work without splitting the funding baselines into specific service blocks, or reducing the number of service blocks? Is that desirable given the need for Government departments to continue to stay accountable for specific services delivered locally (e.g. Department of Health and adult social care)?**

Once individual cost drivers are identified, weighting them against one another is the crucial step which, alongside the weighting of individual services as above, has the most influence over the results of the formulae.

Historically, past expenditure-based regression has been widely (but not uniformly) used for this purpose, trying to weight indicators to provide the best fit to spending patterns. Critics of this approach fear that this can reinforce the current funding landscape. However, the needs TWG has in the past noted that it is important not to disregard this approach completely as it is relatively easy to explain and is known to be feasible.

The ALATS subgroup recognises that there is nervousness about completely disregarding past expenditure-based regression but is keen to explore a different approach in line with the purpose of the group.

One method widely mentioned in previous papers to needs TWG is the 'principal component analysis' approach which looks at relationships between sets of indicators to see if specific patterns can be identified to allow those indicators to be weighted against each other.

This appears to be the main emerging alternative to past expenditure-based regression; however, it works best when a large number of potential indicators is identified with the analysis then used to 'whittle down' which ones are inappropriate or less important.

Using this approach is thus a challenge in terms of the key design principle of the ALATS proposition, which is starting small and 'bottom-up' and only adding complexity where necessary, as opposed to principle component analysis which starts with a larger set of indicators and is more 'top down'. The subgroup continues its discussions on this tension.

**Q4: What is the most appropriate method of weighting key cost drivers against one another given other design principles of the ALATS subgroup? Would a more qualitative approach, looking at 'shapes' of different types of council, help suggest some of this, in particular regarding the changing balance of spending on services?**

The group's working assumption is that at the outset, the new formulae would be used to distribute the quantum not related to grants and responsibilities which will be transferred to local government (with the exception of revenue support grant and other unringfenced grants currently in the local government finance settlement).

Others, such as public health grant, would be 'lifted and shifted' based on existing specific allocations or formulae until the point of the next re-set, where they would be 'rolled in' fully into the single assessment.

**Q5: Does the group agree that this could be a sensible approach to breaking down the task and adding some continuity in the initial years following introduction of the reforms?**

#### Next steps for the subgroup

The subgroup is looking into options for commissioning an external body to provide analytical support on a case-by-case basis, and the views of the wider needs TWG as part of this discussion will help inform the analytical brief.

Future meetings of the group will continue to flesh out the main proposition in terms of relative needs while also starting to look at the relative resources' side of the equation in future months.