



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

Paper: **NR TWG 16/19 – An approach to assessing need using key cost drivers (ALATS)**

Date: **Thursday 13th October 2016 (12:30pm)**

Venue: **DCLG - 2 Marsham Street - Fry Building - 4th Floor - Rooms 4A & 4B**

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

The work of the ALATS subgroup to date

Set out below is a brief summary of the conversations of the initial meetings of the ALATS subgroup. This subgroup is looking into the key cost drivers for local services with a view to proposing a single basket of value-added indicators which could then be weighted to come up with allocations of funding.

It was recognised that it is important to have a simpler, more transparent and easy to understand system which would align with comments passed previously by the National Audit Office.

It is important to note that this is the start of the work and there will need to be detailed modelling of scenarios and thoughts will be sought from various interest groups to see how far this can progress towards a joined-up sector-led view.

Process and sequencing

The group sees the sequence of the discussion around the relative needs aspect of the formulae as follows:

- Agreeing a basket of common cost drivers at a high level;
- Understanding the impact and availability of data;
- Considering how capital financing (residual supported borrowing) could be reflected.

It will be important to look at capacity to raise funding and transition as future steps.

Ultimately, an aspiration is to agree a more detailed programme plan with DCLG and LGA as part of the main meetings and in the style of a task and finish group for ALATS to work up proposals to be discussed between each group meeting.

Relative needs: a basket of key indicators

The starting point of the discussions was 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 formulae should encompass key activities which drive the majority of need.

The group has developed a 'starter list' for key cost drivers that could be used to develop the needs formulae. The following design principles were confirmed as a potential proposition.

- 1) The measurement of relative needs could take shape of a basket of indicators to reflect fairly how need can be assessed that could potentially be considered in place of RNFs incorporating change over the funding period to reflect changes in cost drivers.

The concept can be described as:

Cost Driver A*[x]%+Cost Driver B*[y]%+Cost Driver C*[z]% etc.

- 2) The draft list of indicators below has been established through a top down approach. The group established a basket of a) First Order cost drivers and agreed that complexity (referenced in the discussion as Second Order Cost Drivers) could be introduced where 'value can be added' or a significant change in funding be achieved by doing so.

First Order Cost Driver	Service Area
Population: All ages	Fire Services (if included) Other services classified as EPCS not outlined below
0-18	Children's Social Care Education
18-25	Children's Services
25-65	Adult PD and LD Care
65-85	Older Peoples' Social Care
85+	Older Peoples' Social Care
No. of households	Waste Collection (currently under EPCS) Waste Disposal (currently under EPCS)
Road length	Highways Maintenance Street-scene and other place based services

Key Second Order potential Cost Drivers initially scoped for further work are:

- Deprivation
- Density
- Sparsity
- KM of Road travelled by HGV
- Children/Adults with Disabilities
- Area cost differentials
- Homelessness/Housing

It was agreed that this list could be added to or taken away from, based on future work. The 'value added test' would be whether an additional indicator resulted in a significant change to distribution and if it was not cancelled out by another indicator.

- 3) The group is keen to explore whether those cost drivers could take account of the impact of projected future changes. For example, using dynamic population projections might help set the profile of funding baselines for the period between resets to make sure that there is some predictable adjustment for assumed future changes in relative need.
- 4) To promote more certainty, the groups is also keen to explore whether the basket of indicators and weightings could work with less influence of judgement-based decisions in comparison to the pre-2013 model.
- 5) For new rolled in responsibilities both post 2013/14 and as part of this exercise, the existing distribution methodology could be kept until the next partial or full reset.
- 6) It was recognised that it is important to work fairly quickly to exemplify what such an approach may mean, what the potential challenges to this approach are, and what transition may be needed if consensus can be reached on the design.

Next steps and questions for discussion

The following were agreed as further questions to explore regarding the relative need aspect of the formula review.

It is important to note that the group recognises it is important to consider capacity to raise funding (from all sources) and find a way to reflect capital funding provided prior to ending of supported borrowing. Some thinking about how "self-funded" prudential borrowing fits in the system and is resourced might be needed.

The following questions relate to the cost-side proposition as set out above.

- 1) Are those the right indicators to be used as a starting point for the list? Are there others that should be explored as 'base' indicators before exploring 'second order' indicators?
- 2) 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?
- 3) What is the most appropriate method of weighting key cost drivers against one another? Would looking at 'shapes' of different types of council help suggest some of this, in particular regarding the changing balance of spending on services?
- 4) Can the approach above work without splitting the funding baselines into specific 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)?