Cost Drivers for Local Government Services

Background

1. At the initial meeting of the Technical Working Group on Needs and Redistribution, it was agreed that it was important to understand what the key cost drivers for different local government services were.

2. Members of the group were subsequently provided information on the indicators used in the needs formulae from the 2013-14 local government finance settlement (attached at annex A). They were asked their views on the following questions:

    a. Are the Relative Needs Formulae (RNF) from 2013-14 still the most appropriate ones to have?
    b. If not, what are the most appropriate RNFs?
    c. Taking the RNFs from 2013-14, would it be possible to merge certain formulae together? If so, which ones and why?
    d. What are the key cost drivers for the services that local government delivers (and therefore the RNFs that we should have)?

3. This paper summarises the responses that were received and seeks the group's views on further questions regarding key cost drivers.

Relative Needs Formulae

4. Some respondents felt that the existing RNFs were broadly right and representative of the services that local government delivers. However, others felt that the composition of local government expenditure has changed over time and so the relative importance of each block should be reconsidered.

5. One respondent felt that the RNF headings should be:
    a. Education Services
    b. Adults' social care
    c. Children's social care
    d. Highways
    e. Waste collection/disposal
    f. Fire and rescue

6. Of particular note in the headings above is the reclassification of Environmental, Protective and Cultural Services (EPCS) to waste related services. The reason given for proposing this was waste related services being the main pressure within EPCS.

7. The structure of the EPCS block also came up in other responses. Some felt that the formulae felt like a mixture of RNFs and that there as perhaps the potential for smaller elements of the formulae (i.e. based on single variables or relatively smaller in scale) to

be merged together. It was also noted that some aspects of EPCS were mainly population based.

Question 1: What are the group's views on the RNF headings given in paragraph 5?

Question 2: What are the group's views on restructuring the EPCS block to one that:
- **Focuses on waste related services?**
- **Distributes funding on just population based indicators?**

8. Some respondents also stated that they would be broadly supportive of a simpler model of distributing funding. However, they felt that simplicity should not be achieved at the expense of fairness. In addition, other respondents felt that where the distribution of need for a particular service was highly variable between authorities, this should be recognised in the formulae, even if expenditure on the service was relatively small.

Key Cost Drivers

9. The majority of respondents felt that the indicators currently being used in the RNFs were broadly appropriate. There was also a consensus amongst some respondents that levels of client population and their growth were primary drivers of demand for local government services. One respondent felt that a simpler model of distributing funding might use have population data relating to key client groups at its heart, with top-ups for additional need.

Question 3: What are the group's views on a simplified model as suggested above?

Question 4: For what drivers of need might additional top-ups be used?

10. There was a view from some that it was the weighting given to indicators, rather than the indicators themselves that was important. These weightings should not be calculated using regressions against previous expenditure as this may reflect previous funding decisions by central government, but by some form of judgement.

Question 5: What are the group's views on using previous expenditure to calculate weightings for indicators?

Question 6: What are the group's views on using some form of judgement to calculate weightings? How would this be done in practice?

11. Some respondents felt that there might be 'hidden need' relating to client groups not adequately reflected in official data sources. An example such a client was those with No Recourse to Public Funds.

Question 7: What are the group's views on hidden drivers of need?

Question 8: Are there some that particularly drive expenditure on services? If so, what are they?

Question 9: What existing data sets might be used to capture 'hidden need'?