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## **BUSINESS RATES RETENTION STEERING GROUP: NEEDS**

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### **Introduction**

1. In our last update on the Fair Funding Review we outlined the programme's work plan and progress to date.
2. This paper summarises the themes which have emerged from the Call for Evidence. This paper will also outline how the papers discussed by the Needs and Redistribution Technical Working Group (TWG) will feed into and shape this review's next steps. In particular it will outline the review's progress with the TWG and Other Government Departments (OGDs) in relation to the main cost drivers faced by councils, and provide a short update on the analytical work being undertaken by the Review.

### **Themes from the Call for Evidence**

3. We published a Call for Evidence over the summer which received 209 responses including 179 from local authorities. Various representative bodies and other voluntary organisations with links to the sector also responded.
4. The Call for Evidence included 14 questions which were designed to explore respondents' views on the principle issues the Fair Funding Review will need to resolve such as how to measure need. A wide range of views were expressed but the following themes emerged:

#### Simplicity vs. complexity

5. We found more authorities in favour of simple (50%) than for complex funding formulae (36%).<sup>1</sup>
6. Of those arguing for simplification, most felt this would aid transparency and would represent a clear break from the current methodology. Many responses expressed a desire to move towards a new methodology with fewer formulae and based on key, underlying cost drivers and population statistics. However, most responses favouring simplicity also indicated that this must not come at the expense of fairness.
7. Those in favour of complexity argued that different formulae for different service areas would add nuance and also incorporate local variations more accurately when allocating funding. Many of these responses also acknowledged that transparency was an important priority.
8. There was also clear consensus that the nature of the demand and cost pressures facing adult social care and children's services meant these areas merited a more detailed approach. Over 90% of met districts and unitary authorities which responded to this question, and 100% of county councils, specifically mentioned adult social care.

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<sup>1</sup> Subject to change during assurance process prior to publication of analysis and response.

Views on the current approach and alternatives

9. The majority (70%) of councils were against expenditure based regression. Specifically, it was seen to be heavily influenced by past funding decisions and therefore led to embedded local spending patterns. Many responses therefore expressed concern that the current methodology was not an accurate measure for current need, does not account for unmet need or provide for future need. Many added that by relying on past expenditure the methodology rewards inefficiency. A large number of respondents also felt that it lacked transparency.
10. Those in favour of the current methodology (24%) argued that, if updated and made more transparent, regressions against past expenditure is a useful technique, particularly for establishing proportionate and fair weightings between service blocks by comparing profiles of spend, aided by robust data sets.
11. Fewer authorities responded in detail to the question we asked about other statistical techniques which could be deployed, but there was some support for non-expenditure based regression and multi-level modelling.

Important factors for the new approach

12. Most local authorities responded to these questions with mention of future demand and population growth: it was seen to be very important that the funding formulae are designed to be accurate until the next 'needs reset' and not just on day one.
13. A range of other factors were also frequently mentioned including: rurality or sparsity, levels of deprivation, and area cost adjustments.
14. Other subjects covered by the Call for Evidence included the approach to local taxes, transitional arrangements and distribution to wider geographical areas. Analysis and the government's response will be published in due course.

**TWG papers and cost drivers**

15. The table at **Annex A** sets out the papers discussed to date by the TWG structured according to the main workstreams for the Review. The work plan is attached at **Annex B**.
16. Because data collection is potentially the most time consuming element for the Review, the work of the TWG has focused on 'defining need', which is as per the work plan and will go some way to defining the other areas. The group has therefore received a number of papers relating to this, including 4 papers on methodology, 3 papers on cost drivers and 6 papers on specific service areas. Once the approach to measuring need is well established the focus of the group will shift to other areas within the Review's scope in 2017.
17. Working with the TWG and OGDs the Review team at DCLG have are generating a long list of the potential variables which will end up populating the final needs assessment formulae. As examples for the Steering Group, we have listed the

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cost drivers presented to the TWG by policy experts for Children's Services and Adults Social Care, two of the biggest cost pressures for local government. This should dovetail with the ALATs sub group's paper today, and to illustrate our discussion of our next steps (below).

### Children's Services

18. The TWG discussed a detailed paper, provided the Department for Education, which summarised those factors which DFE believe "are most important to costs and the relative spend on different groups of children".

- **Service Demand:** Increase in demand across all key children's social care services over the last few years, numbers and rates of care applications, numbers of children subject of a child protection plan, care leavers eligible for care leaver support, specialist SEN places.
- **Demographic birth rates:** There have been (2% 2012-15) and will continue to be (5% 2015-20) an increasing number of children aged less than 18 years old. The largest population increases seem to be in London (8% over this spending review period) followed by Metropolitan areas (4%).
- **Demographic vulnerability in population:** There has been an increase in **unaccompanied asylum seeking children (UASC)** which impacts disproportionately on authorities such as Kent. Authorities have corporate responsibility for these children up to 18, and beyond if they have care leaver status. For example in Kent the number of UASC who are looked after has increased by 495 from 370 in 2015 to 865 in 2016.
- **Deprivation** there appears to be correlation between level of deprivation and need.
- **Radicalisation** may mean a relatively small number of children and families require intensive intervention and the number of **children with complex needs** is increasing (severe or profound and multiple learning difficulties more than 10% between 2010 -15).
- **Increased awareness:** The publication of "what to do if..." and the **awareness raising campaign** on child abuse and neglect may generate more demand. As may growing awareness of the risks and nature of **child sexual exploitation** and the **vulnerability of children going missing** which may bring to light **unmet needs**.
- **Media scrutiny:** High profile media focused on tragic cases has in the past increased pressures on children's services nationally and locally and can make councils risk averse.

## Adult Social Care

19. The Department of Health presented a paper discussing different approaches to measuring need for adult social care. Building on this, DH have shared with us the variables they believe are the key cost drivers for adult social care:

- Projected household and supported residents aged 65 and over
- Number of entitled attendance allowance claimants aged 65 and over per person aged 65 and over
- Number of people aged 85 and over with a limiting (significantly) condition per Census person aged 65 and over
- Number of people aged 80 and over claiming pension credit per person aged 65 and over
- Number of couple households aged 65 and over per Census household aged 65 and over
- Number of home owner households (outright ownership only) aged 65 and over per Census household aged 65 and over
- Number of properties in Council Tax bands A, B, C, D and E per all Council Tax banded properties
- Number of properties in Council Tax bands F, G and H per all Council Tax banded properties
- Sparsity adjustment for people aged 65 and over
  - Population sparsity for people aged 65 and over
  - Population super sparsity for people aged 65 and over
- Area cost adjustment for older people's personal social services
- Low income adjustment for older people's personal social services

## **Update on analytical work exploring alternative methodologies**

20. One of the main areas of agreement within the group so far, and in the response to the Call for Evidence, has been that alternatives to the current approach for measuring relative need should be considered.

21. Analysts in DCLG have been exploring alternative methodologies that could be used to measure and assess local authority need. A paper was presented to the TWG in October setting out the strengths and limitations of 6 different approaches.

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22. In recent weeks we have been exploring factor analysis in further detail. Factor analysis is an analytical technique that could potentially be used to reduce a large set of potential cost drivers down to a small set of key cost drivers. This approach would also weight the cost drivers based on the statistical relationships between them.
23. In the past, we have used past local authority expenditure as a proxy for need and have weighted cost drivers according to how well these drivers explain past expenditure patterns using regression analysis.
24. An advantage of factor analysis is that an outcome variable (the measure of need or the dependent variable) is not necessarily required. Factor analysis seeks to explain patterns within a given set of variables and, therefore, if these cost drivers are drivers of local authority need, the analytical approach would effectively identify common patterns within the data and weight the cost drivers accordingly. We have received informal advice from external partners - ONS and Home Office that such an approach could be used in this context. However because the formulas produced in Factor Analysis model don't have an explicit dependent variable the relationship between changes in individual cost drivers may be more difficult to communicate.
25. DCLG have also considered a number of other analytical techniques. One option is to explore the use of past expenditure as an outcome variable in regression analysis but to include total local authority expenditure as an explanatory variable in the regression. Effectively this variable would represent a potential driver of local authority expenditure in the analysis and would therefore help account for differences in spending from changes in budget thereby helping to account for unmet need.
26. Other analytical techniques such as multi-level modelling and small area estimation have a number of desirable features; they both involve carrying out analysis within a local authority area which would help control for LA level spending decisions and the identification of small areas of high need within councils. However, while there are analytical benefits to such approaches, the trade-off is that such techniques would require an extensive data collection exercise; we would need to collect extensive data below the local level. Developing robust data at sub LA level would take a considerable amount of time and would be challenging to achieve for the end of the Parliament.

### **Next steps**

#### Understanding the views of Local Government

27. The review team has commissioned OGDs across Whitehall to provide lists of cost drivers which they believe are the key for the areas of local government service delivery for which they are responsible - i.e. as per those provided by DH and DFE above.

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28. The Fair Funding Review's next step is to understand the sector's views on these and whether or not they think there are any missing. We will begin this process with the TWG before looking to engage the wider sector.
29. We hope the outcome from this engagement process will be an agreed set of variables for the final needs assessment.
30. We also want to use this engagement process to establish the structure of the Needs Assessment, i.e. should a single formula be used to cover all the services local authorities provide or are multiple formulas required. This recognises consistent comments made in the Call for Evidence and discussion among members of the Technical Working Group.
31. We will also look to provide the sector with more information about the different potential statistical techniques that could be used to combine and weight the cost drivers into a comprehensive needs assessment, as response to the Call for Evidence indicated less overall understanding in this area.
32. Developing a clear understanding of how local government want us to measure their relative needs will then allow the Review to focus on the other issues around the treatment of resources and transition arrangements.

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**Annex A – Papers discussed by the Needs and Redistribution TWG**

<b>Defining Need</b>	Cost drivers	<ul style="list-style-type: none"> <li>NR16/04 'Cost Drivers for Local Government Services' – an early discussion on service groupings and cost drivers</li> <li>NR 16/06 'Indicators used in the 2013-14 allocation of the SFA' – a summary of those used in the last needs assessment</li> <li>NR16/17 'ALATs update' – a summary of the work of ALATs on key cost drivers</li> </ul>
	Statistical methodology	<ul style="list-style-type: none"> <li>NR16/05 'Measuring Need' – a summary of the current approach and the expenditure lines used to construct the RNFs in 13-14</li> <li>NR16/08 'Alternative approaches – Outcome measures' from CIPFA on outcomes-based regression analysis</li> <li>NR16/19 'An approach to assessing need using key cost drivers' – from ALATs proposing a single basket of indicators.</li> <li>NR16/20 'Different statistical techniques for assessing need' – the pros and cons of 6 possible methodologies.</li> </ul>
	Particular service areas	<ul style="list-style-type: none"> <li>NR16/14 'Approaches to estimating relative needs for Adult Social Care' –from DH discussing different approaches and underlying drivers for measuring need for ASC</li> <li>NR16/18 'Cost drivers for children's services' – from DfE discussing trends in spend, cost and demand on children's services with an assessment of key drivers</li> <li>NR16/21 'Looked after children and pressures' – from ANEC linking the number of children in care with deprivation indicators</li> <li>NR16/23 'Transport cost drivers' – from DfT on highways maintenance and bus support current and future cost drivers</li> <li>NR 16/24 'Capital financing paper' – summarising how the current CF RNF is derived</li> <li>NR16/11 'EPCS – Assessment of Needs' – by ANEC on statutory services funded by this block, with figures and discussing whether it is an appropriate grouping</li> </ul>
	Other	<ul style="list-style-type: none"> <li>NR16/03 'Local authority comparisons of 2014-15 reported expenditure' – analysis of expenditure per person using 14-15 data broken down by class of authority, service block and region</li> </ul>
<b>Systems</b>	Resets	<ul style="list-style-type: none"> <li>NR16/10 'Needs and Resets' – on arrangements for updating relative needs to coincide with partial resets</li> <li>NR16/16 'Resets update' – an update on the work of the Systems Design Working Group</li> </ul>
	<i>Future topics</i>	<ul style="list-style-type: none"> <li>Transitional arrangements after implementation of the new needs assessment baselines</li> <li>Integration with the wider 100% business rate reforms</li> <li>The approach to future reviews or updates of needs assessments</li> </ul>
<b>Resources</b>	Council Tax	<ul style="list-style-type: none"> <li>NR16/12 'Taking Account of Differences in Ability to Raise Council Tax Income' – a paper by ANEC discussing its place in a needs assessment</li> </ul>
	<i>Future topics</i>	<ul style="list-style-type: none"> <li>Other income streams available to councils, such as parking charges</li> <li>Differences in ability to grow business rates and how these might factor into a needs assessment</li> </ul>

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Annex B: Fair Funding Review Work plan

