Fair Funding Review - Implications for Local Authorities from the Consultation Paper

Adrian Jenkins/ Dan Bates

Leeds – 19 February 2018

London – 22 February 2018

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10.00 – 10.10	Welcome, Introductions and Overview of the Day	Adrian
10.10 – 10.50	Fair Funding Review – An Overview	Adrian
10.50 – 11.25	The Consultation Paper: Reviewing the Questions	Dan
11.25 – 11.50	Refreshments	
11.50 – 12.30	The Current Fair Funding Formula – How it Works, and Updating it for 2020-21	Dan
12.30 - 13.00	Updating the Fair Funding Model	Adrian
13.00 - 13.50	Lunch	
13.50 – 14.35	Implications for individual authorities	Dan
14.35 - 15.15	WORKSHOP 1 – UPPER TIER AUTHORITIES WORKSHOP 2 – DISTRICT COUNCILS	Adrian/ Dan
15.15 – 15.35	Refreshments	
15.35 – 16.00	Plenary Session – Review of the model assumptions, medium term financial planning, and future direction of the CIPFS FAS	Adrian/ Dan

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Fair Funding Review – an Overview

Adrian Jenkins

Fair Funding Review

"Fair funding review: a review of relative needs and resources. Technical consultation on relative need", December 2017, MHCLG

https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources

Responses by 12 March 2018

Deals only with "needs"; future consultation papers will deal with "resources" and "damping"

Implementation of the FFR is expected in 2020-21

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The political dimension

"To meet the challenges of the future we need an updated and more responsive distribution methodology.

We have published a formal [consultation](#) on a review of relative needs and resources and aim to implement its findings in 2020 to 2021.

There have been widespread calls for a thorough, evidence-based review, and we will deliver this.

The review will examine the cost of delivering services across the country, including rural areas, and will consider which factors should be taken into account when considering a local authority's relative resources."

Statement by the Secretary of State for Housing, Communities and Local Government on the final local government finance settlement for 2018 to 2019 (6 February 2018)

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Timetable and process

- Consultation paper was largely written before General Election

- Superseded by work of the Needs and Redistribution Working Group

- More work to do on resource equalisation, further needs analysis and damping

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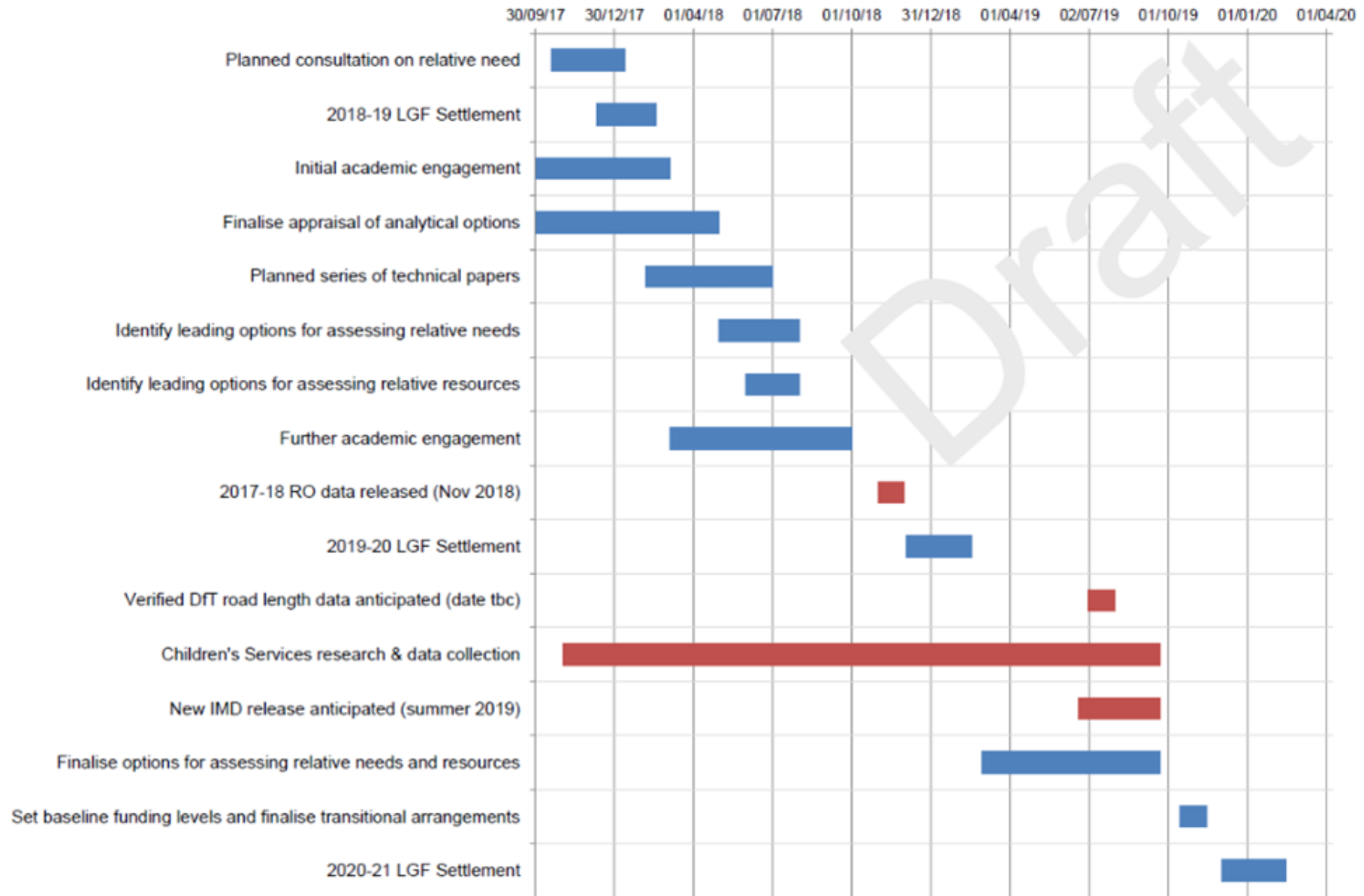
Implementation

- Government is working towards 2020-21 for implementation

- Realistically this is the earliest date and will still be under pressure to deliver

- Two major research projects for the major funding formulae (adults' and children's services)

- The research into Children's Services is not due to complete until Summer 2019

- development of the adult social care formulae – although the research has been completed – has to wait for the announcement of the adult social care Green Paper in Summer 2018

- Another consultation paper on the FFR is expected in late 2018 or early 2019

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Overview of FFR consultation paper

- **Flatter formula** – simpler "foundation formula" based on cost drivers
- **Rurality** (and sparsity) – high-profile and will be one of the primary indicators, with population and deprivation
- **Urban indicators** not mentioned – density, ethnicity, additional population
- Potential for **greater ministerial judgement** – more likely in a simpler formula

Overall approach

- Overall structure of the funding formulae

- Foundation Formula to provide a simplified funding methodology

- Separate funding formulae for specific services where it is necessary to reflect a more complex set of variables

- Three blocks of indicators are proposed for the Foundation Formula. They are population, deprivation and rurality

Foundation Formula

- Single formula

- Based on a number of common or cross-cutting cost drivers

- Possibly includes EPCS (district/ county) plus some other smaller blocks

- Battle will be over:
  - Size of the block
  - Indicators used within it
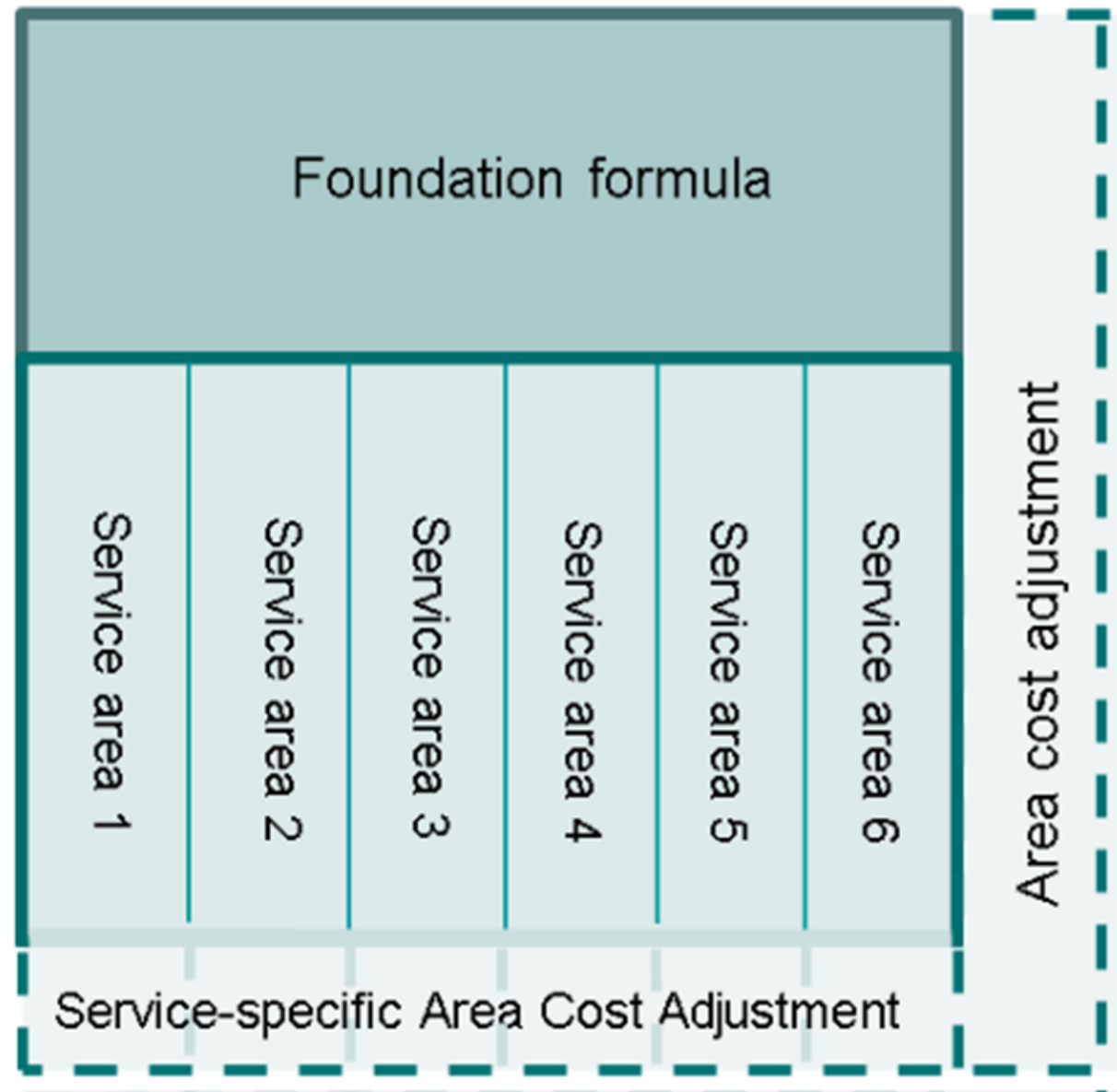
Grouping of services

- Every service? Too many, and too complicated

- Proposed groupings? Similar to current structure but with variations...

- Public health, homelessness, waste collection/ disposal

Flatter distribution

- Indications that this is the direction of travel

- Formulae development could result in similar outcome

- Majority of respondents in the Call for Evidence wanted a "simpler approach" but many argued that "simplification should not be achieved at the expense of accuracy"

Ministerial judgement

- Balance between ministerial judgement, and the role that external data and analysis

- Technical viewpoint: advise minimum ministerial judgement: more credible and more sustainable formula

- Simpler formula will require more judgement, and some authorities might take the view that they will benefit from ministerial judgements

- Foundation Formula not correlated with any external variables (e.g. expenditure, service volumes)

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Proposed list of principles

- Simplicity
- Transparency
- Contemporary

- Sustainability
- Robustness
- Stability

These principles are sensible and reasonable..

Some are mutually exclusive...

And the crux of the FFR will be the trade-off between the principles

Some comments on the principles

"*anticipate future demand*" – important for those authorities with the fastest growing populations

"*relatively small number of forward looking cost drivers with a transparent process for establishing the weightings between them*" – the Government is certainly looking for a simpler formula based on fewer indicators and drivers

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2013 Relative Needs Formulae (RNF)

Overall estimated cash value of each RNF

Value of Basic Amount, Top-ups and Area Cost Adjustment for each RNF
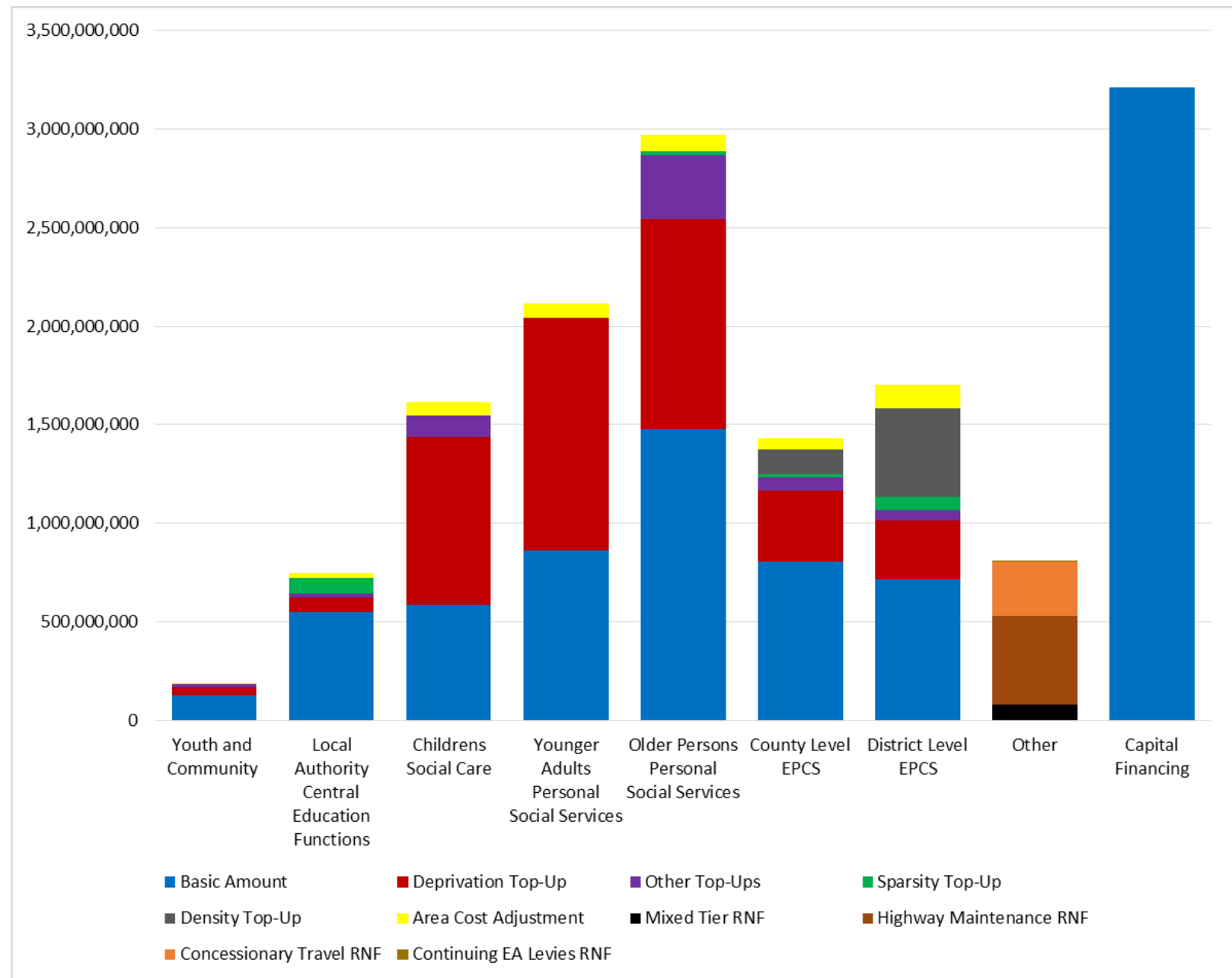
Top-ups and indicators

- **Deprivation** – reduced weight in flatter formula; new indicators required

- **Rurality** – quantum, indicators and methodology; not all CCN authorities benefit; transfer of RSDG

- **Other top-ups** – density, additional population, highways-related, ethnicity, coastline, fixed-cost amount, concessionary travel, flood defence/ coast protection/ EA Levies

- **Area Cost Adjustment** – based on General Labour Market, possibly to include sparsity

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Suggested cost drivers/ indicators by top-up

	Adult Social Care	Children's Services	Highways Maintenance	Waste Collection and Disposal	Fire and Rescue	Capital Financing
Population	Number of adults by age groups	Number of children (under 18 years of age)	Road length	Number of households	Projected population	
Sparsity	Longer travel distances, which reduces the number of visits that can be completed in a day	Distance to schools		Travel times	Population density, population sparsity	
Deprivation	Number of adults with income and wealth that meet the means test	(a) Number of children for whom parents receive Disability Living Allowance (b) proportion of families facing multiple challenges associated with deprivation		No indicators suggested but potential for additional costs is noted		
Other characteristics	(a) Number of people with higher levels of impairment, and (b) Number of people who live alone		(a) Traffic flow (b) Forecast snow days / predicted grit days and (c) Concessionary bus boardings	Types of property	(a) Coastline, (b) Risk index (c) Control of Major Accident Hazards (COMAH) sites, (d) Property and Societal Risk and (e) Community Fire Safety	Outstanding debt and interest rates

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Top-ups and indicators <u>not mentioned</u>

- **Density**
- **Daytime population**
- **Ethnicity**
- *Top-ups for **Usage and Winter Maintenance** (Highways Maintenance only)*
- *Top-ups for **Coastline, Property and Societal Risk, and Community Fire Safety** (Fire only)*
- ***Fixed Cost Amount***
- ***Concessionary Travel***
- ***Flood defence, Coast Protection, Continuing EA Levies***
- **Overnight visitors** – important in some counties (Cumbria, Cornwall, Devon, Norfolk)

Rolled-in grants

- Council tax freeze grant
- Council tax support funding
- Early intervention funding
- GLA general funding
- GLA transport funding
- London Bus Service operators grant
- Homelessness prevention grant
- Lead Local Flood Authorities Funding
- Learning disability and health reform

- **£7.959bn in 2013-14**

Weighting the indicators

- Regression analysis

- Small Area Modelling/ Multi-level Modelling

- Outcome-based Regression Models

- Factor Analysis and Principal Component Analysis

- Unit Cost Functions

Future funding formulae

- **Children's/ Adult Social Care** – likely to be based on multi-level modelling; large-scale data collection; high quality, but very difficult to challenge

- Some form of **regression** is likely in the other service blocks – but CCN authorities will want to ensure does not simply perpetuate past spending patterns

- More scope for **judgement** in EPCS because many service funded from same block

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Outcome checks

- Will ministers use any external checks to determine general direction of travel?

- Council tax Band D

- Usable Reserves

- Funding (SFA?) or Core Spending Power per head

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Usable reserves

Usable Reserves as at 31/3/17 as proportion of 2016/17 Budgeted Net Revenue Expenditure
Colour coded by type of authority
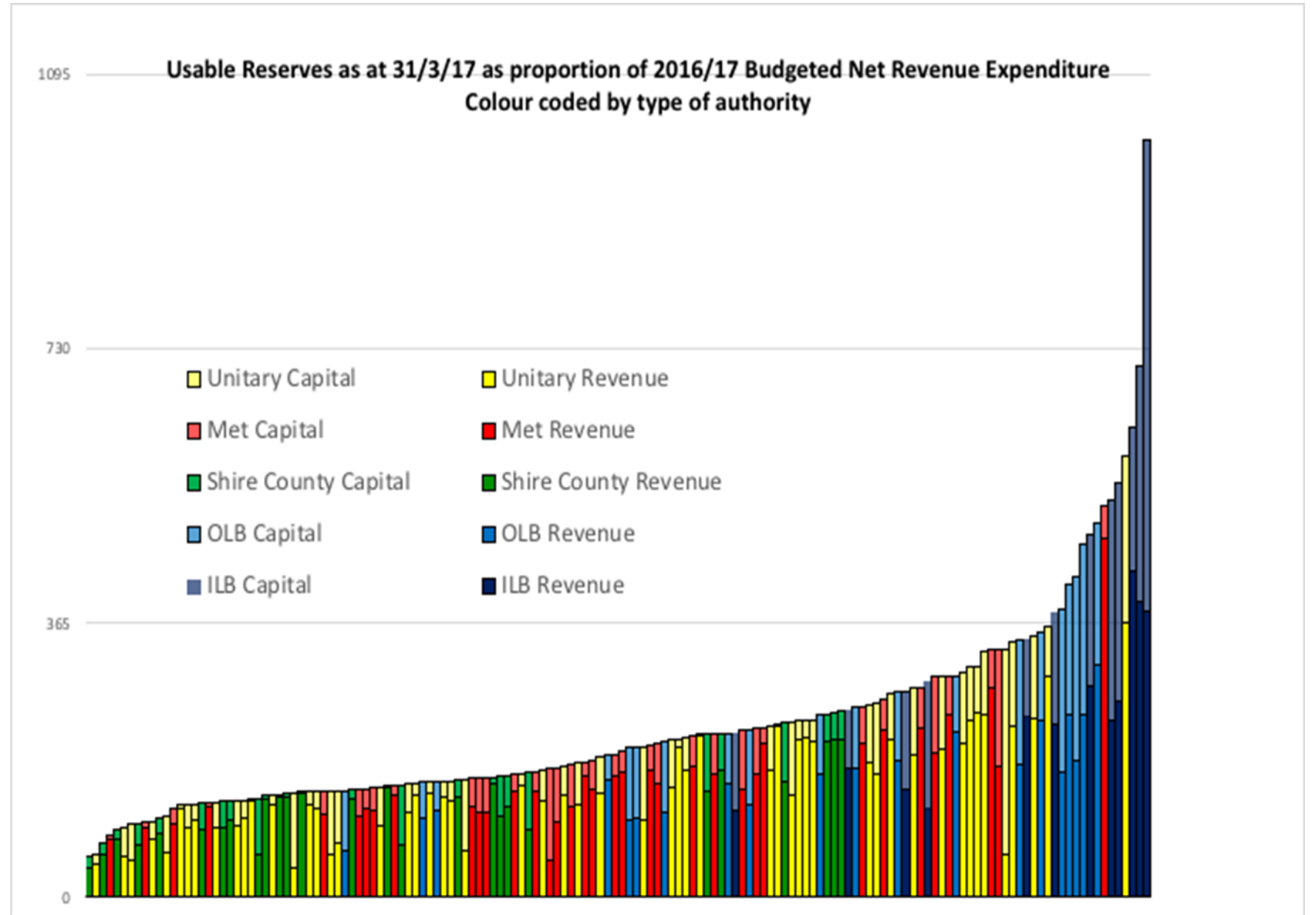
The Consultation Paper: Reviewing the Questions

Dan Bates

Reviewing the Questions

- 5 sections, 21 questions

- Section 2 – Measuring Need – 1 question

- Section 3 – Common Cost Drivers – 9 questions

- Section 4 – Service Specific Cost Drivers – 8 questions

- Section 5 – Weighting Funding Formula and Cost Drivers – 2 questions

- Section 6 – Equality Impact Assessment – 1 question

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Section 2 – Measuring Need

- **What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?**

- Very general question but goes right to the heart of the review

- Your response to this should depend on your response to the other questions which are more specific

- Generally, authorities that do well from top-ups will prefer the existing more complex system whereas authorities that depend more on basic amounts will prefer MHCLG's simplified system.

District Level EPCS Values: RNF per Head: Westminster v Hart
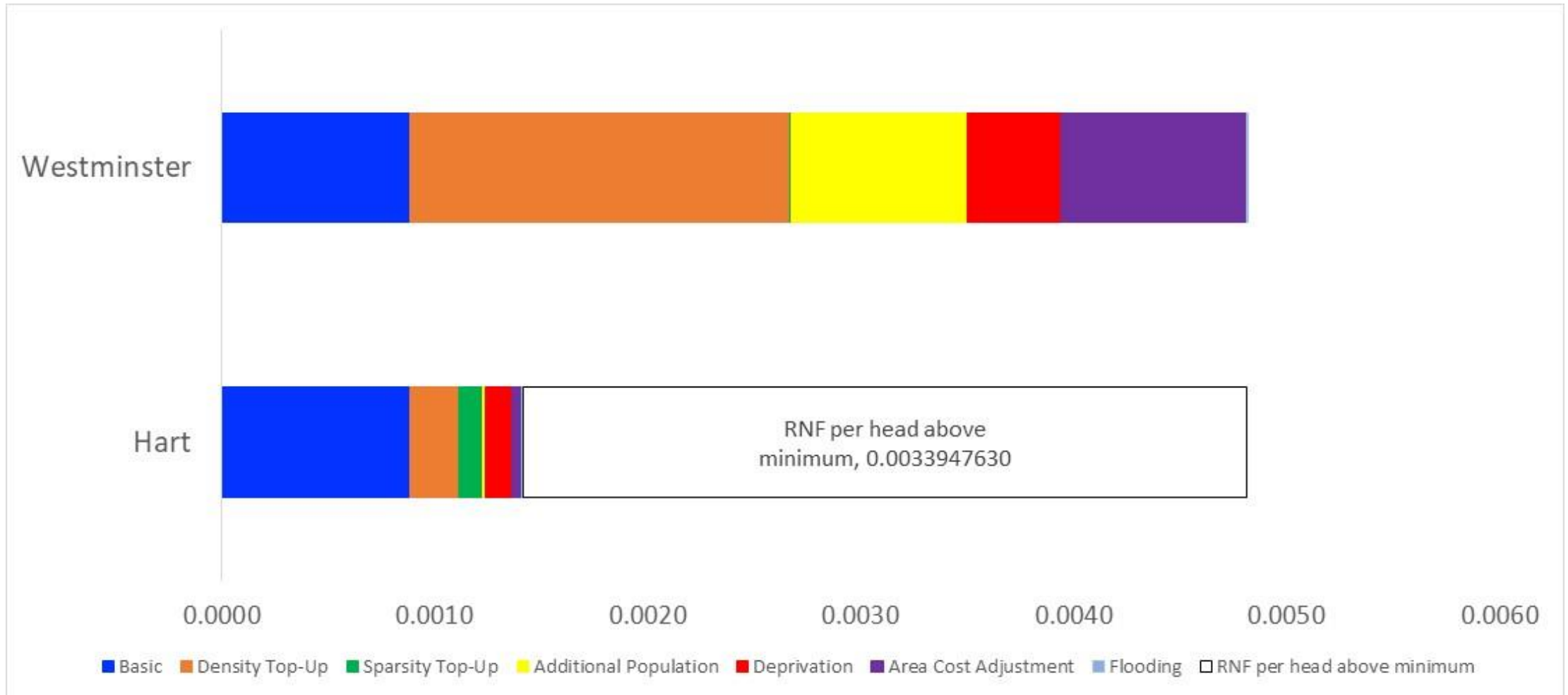
Legend: Basic, Density Top-Up, Sparsity Top-Up, Additional Population, Deprivation, Area Cost Adjustment, Flooding, RNF per head above minimum

Hart: RNF per head above minimum, 0.0033947630

Section 2 – Measuring Need

- **What are your views on the Government's proposals to simplify the relative needs assessment by focusing on the most important cost drivers and reducing the number of formulas involved?**

- Westminster (and authorities like Westminster which tend to have high needs)
  - Benefit significantly from multiple top-ups including density and additional population
  - Would therefore want to retain more complex formulae which recognised multiple top-ups

- Hart (and authorities like Hart which tend to have low needs)
  - Benefit predominantly from basic amounts (fixed the same for everyone) and receive very few top-ups
  - Would therefore want the proposed simpler formula which focusses much more on the basic amount with only limited top-ups

- Questions 4-10 (section 3) consider the simpler formula in more detail

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Section 3 – Common Cost Drivers

- Common cost drivers likely to be part of a 'Foundation Formula' – which incorporates EPCS (District and County) and some of smaller RNFs

- Questions 2 and 3 – Population

- Questions 4 and 5 – Rurality

- Questions 6 and 7 – Deprivation

- Question 8 – Other Cost Drivers - **Density and Additional Population**

- Question 9 – Area Cost Adjustments

- Question 10 – Small but locally significant duties

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Section 3 – Q2/Q3 Population

- Question 2:
  - Do you agree that the Government should use official population projections in order to reflect changing population size and structure in areas when assessing the relative needs of local authorities?

- Question 3:
  - Do you agree that these population projections should not be updated until the relative needs assessment is refreshed?

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Section 3 – Q2/Q3 Population

- Reliability versus Future Proof-edness

- Static versus Dynamic

- Criticism of existing system is that population data out of date and significant demographic shifts (eg. Ageing population) not cpatured in funding

- Alternative is population projections more dynamic but possibly less accurate and incapable of reflecting unpredictable changes.

- Future needs resets likely to be each five years

- Your response should reflect how relatively your population is growing

Section 3 – Q2/Q3 Population

Authority	Change in Population
Manchester	5.92%
Barnsley	2.60%
Sheffield	2.53%
West Lindsey	2.31%
England Average	2.22%
North Yorkshire	2.07%
Lancashire	1.27%
Knowsely	0.86%
Doncaster	0.64%
Bolton	0.58%
Richmondshire	0.51%
Redcar & Cleveland	0.25%
East Riding of Yorkshire	-0.54%
Northumberland	-0.68%
Scarborough	-1.03%

- Table shows population change between 2013 and 2016
- Those with higher than average growth have arguably had greater increase in needs with no financial recognition of those needs
- And so these authorities (ie. Fast growing authorities) would want population figures to be updated more regularly and for projections to be updated frequently
- Vica versa for those with below average population growth

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Section 3 – Q4/Q5 Rurality

- Question 4:
  - Do you agree that rurality should be included in the relative needs assessment as a common cost driver?

- Question 5:
  - How do you think we should measure the impact of rurality on local authorities' 'need to spend'? Should the relative needs assessment continue to use a measure of sparsity or are there alternative approaches that should be considered?

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Section 3 – Q4/Q5 Rurality

- Government indicates that rurality is under represented but that research has shown difficult to measure conclusively

- Concept of 'unmet need' which shows statistical negative relationship between spend and rurality

- One solution to increase weighting of sparsity (judgement call) but looking for other measures for rurality

- Interesting rurality and sparsity has a section in the consultation but density doesn't!

- Logically your response will be determined by the value of sparsity (and density) within your needs funding

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Section 3 – Q4/Q5 Rurality

	Sparsity	Density
Richmondshire	5.6535	1.1019
West Lindsey	5.0513	1.3599
East Riding of Yorkshire	2.7367	2.2053
Northumberland	2.5897	2.2951
Scarborough	2.1387	3.0003
Average England	1.3517	
Doncaster	0.8464	2.9329
Barnsley	0.6527	2.7063
Redcar & Cleveland	0.5230	3.3394
Knowsley	0.2368	3.8808
Sheffield	0.1659	4.3409
Bolton	0.1402	4.0687
Manchester	0.0347	5.8421
Lancashire	not LT	not LT
North Yorkshire	not LT	not LT

- Lower Tier (District Services) Environment, Protective and Cultural Services
- Sparsity / Rurality weighting might increase
- Density might disappear! – not even mentioned in the consultation
- Currently density accounts for significantly more than sparsity (nearly 3 times more)

Section 3 – Q4/Q5 Rurality

	Sparsity	Density
North Yorkshire	0.5279	0.4477
East Riding of Yorkshire	0.3730	0.5092
Northumberland	0.3530	0.5299
Lancashire	0.1334	0.7358
Doncaster	0.1154	0.6772
Average England	0.1026	1.0997
Barnsley	0.0890	0.6248
Redcar & Cleveland	0.0713	0.7710
Knowsley	0.0323	0.8960
Sheffield	0.0226	1.0023
Bolton	0.0191	0.9394
Manchester	0.0047	1.3489
Richmondshire	not UT	not UT
West Lindsey	not UT	not UT
Scarborough	not UT	not UT

- Upper Tier (County Services) Environment, Protective and Cultural Services
- Sparsity / Rurality weighting might increase
- Density might disappear! – not even mentioned in the consultation
- Currently, density accounts for significantly more than sparsity

Section 3 – Q6/Q7 Deprivation

- Question 6:
  - Do you agree that deprivation should be included in the relative needs assessment as a common cost driver?

- Question 7:
  - How do you think we should measure the impact of deprivation on 'need to spend'? Should the relative needs assessment use the Index of Multiple Deprivation or are there alternative measures that should be considered?

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Section 3 – Q6/Q7 Deprivation

- Deprivation is, after the basic amount, the most significant variable that is used in the needs formula

- Unlike the basic amount, however, there are significant variances between deprivation scores for all authorities

- Consultation document points to fairly narrow existing use of deprivation indicators which are focused around income deprivation

- Consideration of wider IMD meaures which include employment, education/skills, health, access to housing/services, environmental

- Your response should reflect your area's relative score when measuring deprivation via existing narrow defintion versus proposed expansive definitions

Section 3 – Q6/Q7 Deprivation

Lower Tier EPCS	
	Deprivation
Knowsley	6.2676
Manchester	5.2199
Redcar & Cleveland	4.6644
Barnsley	4.2467
Bolton	4.1845
Doncaster	4.0634
Sheffield	3.8860
Scarborough	3.8801
Northumberland	3.2016
Average England	3.0246
West Lindsey	2.8242
East Riding of Yorkshire	2.6840
Richmondshire	1.6573
Lancashire	not LT
North Yorkshire	not LT

- Deprivation still important in foundation formula
- But if IMD used, will 'flatten' distribution of scores

Upper Tier EPCS	
	Deprivation
Knowsley	5.1016
Manchester	4.4109
Redcar & Cleveland	3.8949
Barnsley	3.4468
Bolton	3.4184
Doncaster	3.3655
Sheffield	3.2105
Average England	2.9505
Lancashire	2.6264
Northumberland	2.5719
East Riding of Yorkshire	2.1139
North Yorkshire	1.8143
Richmondshire	not UT
West Lindsey	not UT
Scarborough	not UT

Section 3 – Q8 Other Cost Drivers

- Question 8:
    - Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?

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Section 3 – Q8 Other Cost Drivers

- Question 8:
  - Do you have views on other common cost drivers the Government should consider? What are the most suitable data sources to measure these cost drivers?

  - Important question as a lot of indicators aren't included in consultation
    - Density
    - Additional Population
    - Fixed Costs
    - Other smaller RNFs (flooding, environment agencies etc)

Section 3 – Q8 Other Cost Drivers

- Density
  - Significant amount of both district and county EPCS needs are driven by the density indicator – if this was to go there might be reasonably significant redistributional effects
  - There is limited evidence to support existing weight of density in formula

- Additional Population
  - Very significant contributor to Inner London Boroughs – insignificant elsewhere

- Fixed Costs
  - Not significant amount but more important for smaller authorities

- Other smaller RNFs (flooding, environment agencies etc)
  - Not really covered so Q10 might be important if you have significant needs in these areas

EPCS Lower 2013/14
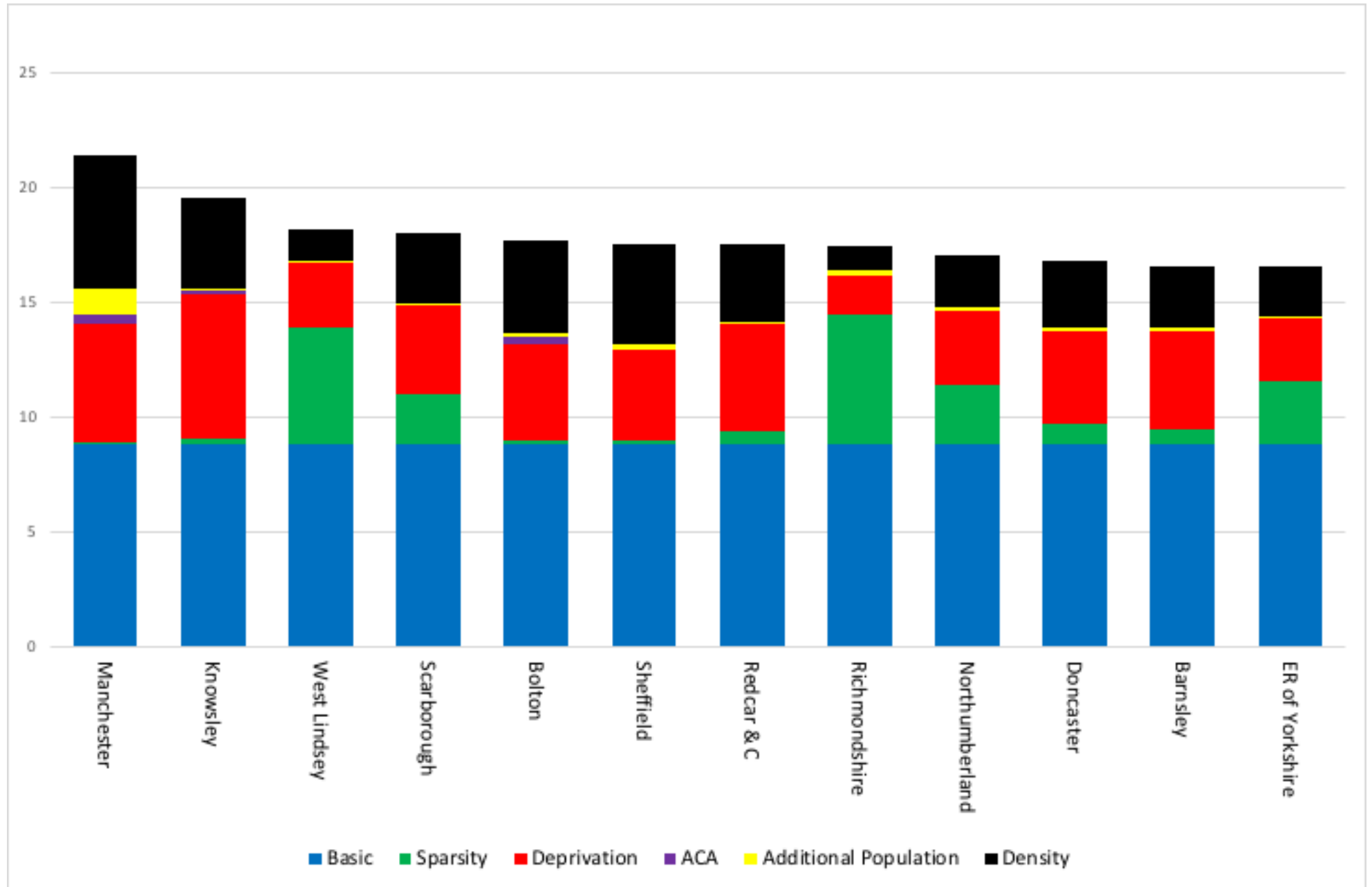
EPCS Lower 2013/14
without density and add. pop.

Legend: ■ Basic ■ Sparsity ■ Deprivation ■ ACA   Additional Population   Density

Categories: Manchester, Knowsley, West Lindsey, Scarborough, Bolton, Sheffield, Redcar & C, Richmondshire, Northumberland, Doncaster, Barnsley, ER of Yorkshire
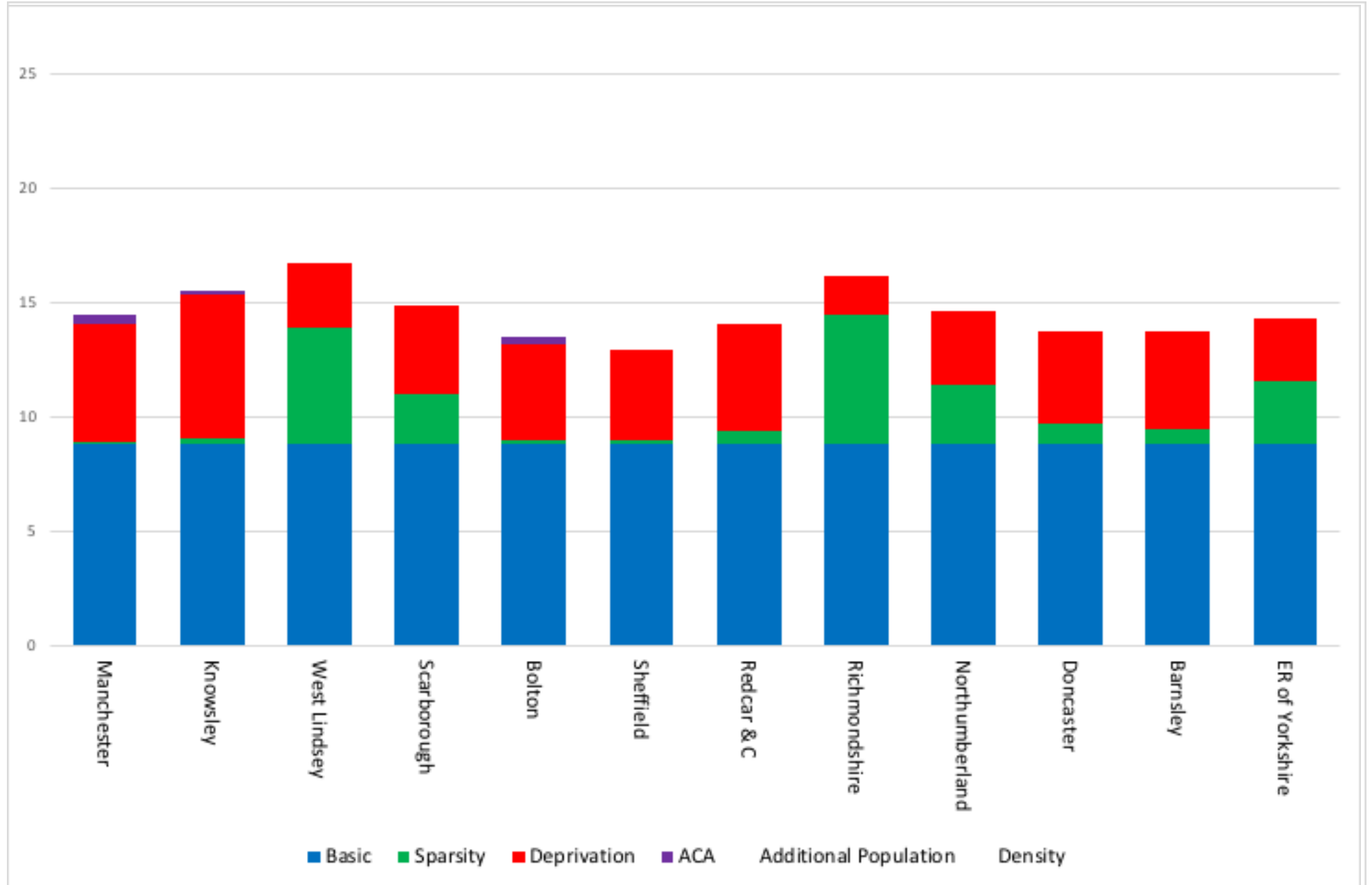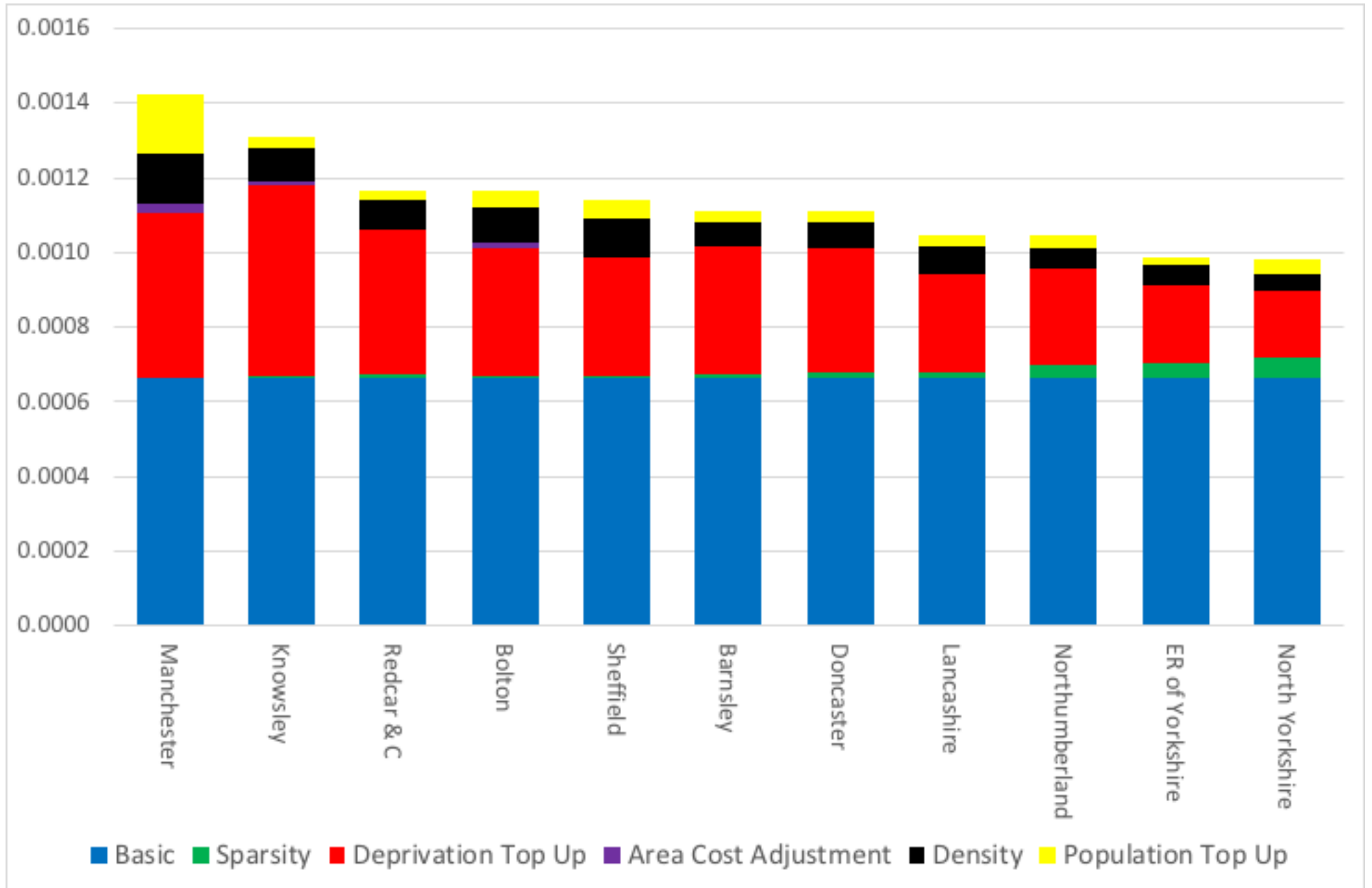
EPCS Upper 2013/14

EPCS Upper 2013/14 without density and add. pop.
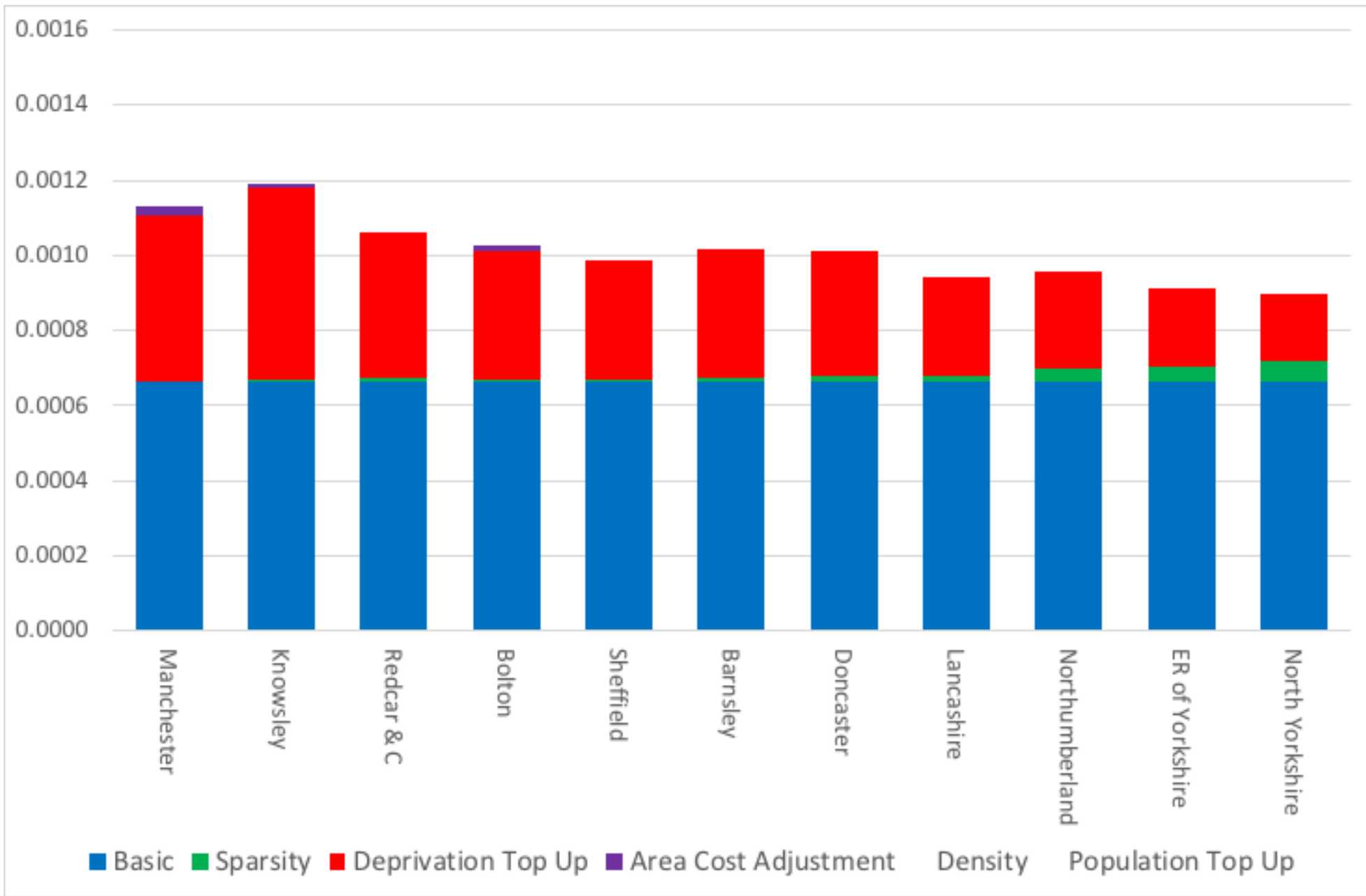
Section 3 – Q9 Area Cost Adjustment

- Question 9:
  - Do you have views on the approach the Government should take to Area Cost Adjustments?

  - Area Cost Adjustment shown in yellow in your handouts
  - It is 'multiplicative' rather than 'additive' in effect
  - Significant variations between authorities – worth significant amount to London Boroughs
  - Possibility that minimum wage and living wage may have an impact

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Section 3 – Q10 Small but Significant Duties

- Question 10a):
  - Do you have views on the approach that the Government should take when considering areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities?

- Question 10b):
  - Which services do you think are most significant here?

- Examples: Internal Drainage Boards, Flooding

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Section 4 – Service Specific Cost Drivers

- 8 more questions
  - Q11 – Adults Social Care
  - Q12 – Children's Social Care
  - Q13/14 – Highways Maintenance and Concessionary Travel
  - Q15 - Waste Collection and Disposal (note currently in EPCS)
  - Q16 – Fire and Rescue
  - Q17 – Legacy Capital Financing
  - Q18 – Any others???

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Section 4 – Service Specific Cost Drivers

	Adult Social Care	Children's Services	Highways Maintenance	Waste Collection and Disposal	Fire and Rescue	Capital Financing
Population	Number of adults by age groups	Number of children (under 18 years of age)	Road length	Number of households	Projected population	
Sparsity	Longer travel distances, which reduces the number of visits that can be completed in a day	Distance to schools		Travel times	Population density, population sparsity	
Deprivation	Number of adults with income and wealth that meet the means test	(a) Number of children for whom parents receive Disability Living Allowance (b) proportion of families facing multiple challenges associated with deprivation		No indicators suggested but potential for additional costs is noted		
Other characteristics	(a) Number of people with higher levels of impairment, and (b) Number of people who live alone		(a) Traffic flow (b) Forecast snow days / predicted grit days and (c) Concessionary bus boardings	Types of property	(a) Coastline, (b) Risk Index (c) Control of Major Accident Hazards (COMAH) sites, (d) Property and Societal Risk and (e) Community Fire Safety	Outstanding debt and interest rates

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Section 5 – Weighting funding formulas and cost drivers

- ## Question 19
  - How do you think the Government should decide on the weights of different funding formulas?

- ## Question 20
  - Do you have views about which statistical techniques the Government should consider when deciding how to weight individual cost drivers?

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Section 5 – Weighting funding formulas and cost drivers

Question 19

- Relative weight of the new formulas – the size of each cake

- Will look at this in next presentations

Question 20

- Past use of regression modelling – not popular and acceptance that not necessarily fair

- MHCLG looking at other statistical techniques but still appear reluctant to move away from regression

Ministry of Housing, Communities & Local Government

Options for analytical techniques

> While this reflects general pros and cons of each technique, should we have more than one RNF different analytical techniques may be more or less appropriate to different service areas – this may mean a mixed approach of analytical techniques may be most appropriate

Regression (against past spending)

- ✓ Analytically robust
- ✓ Forms the basis of most of the current RNFs
- ✓ Data is readily available therefore implementation will be possible by 2019/20
- ✓ Relatively simple and transparent
- ✗ Uses past spending as a dependent variable (thus can be considered to perpetuate previous funding decisions)

Multi-level Modelling / Small Area Modelling

- ✓ Analytically most robust
- ✓ Used for revised DH Adult Social Care formula
- ✓ Controls for past spending as dependent variable
- ✗ Still uses past spending as a dependent variable
- ✗ Can be complex to understand
- ✗ Expensive and time-consuming data collection process means data may not be ready for 2019/20

Principal Component Analysis

- ✓ Does not use past spending as a dependent variable
- ✓ Data is readily available and implementation would be possible by 2019/20
- ✗ Complex to understand
- ✗ Query over analytical robustness (higher level of subjective interpretation involved)
- ✗ Considered by other Departments but rejected due to concerns about whether it is fit-for-purpose

Outcome-based regression

- ✓ Analytically robust
- ✓ Does not use past spending as a dependent variable
- ✓ Relatively simple and transparent
- ✗ Only suited to particular services where outcome variables can be identified and measured
- ✗ May require additional data collection and therefore possibility of delaying implementation beyond 2019/20

20

Section 5

Weighting funding formulas and cost drivers

The Current Fair Funding Formula – How it Works, and Updating it for 2020-21

Dan Bates

Formula Funding - Share for each service

- Children's Services, 17.8%
- Adult's PSS, 36.2%
- Highways Maintenance, 3.3%
- District-Level EPCS, 17.1%
- County-Level EPCS, 10.2%
- Concessionary Travel, 1.9%
- Flood Defence, 0.1%
- Fixed Costs, 0.2%
- Fire, 4.9%
- Capital, 8.2%
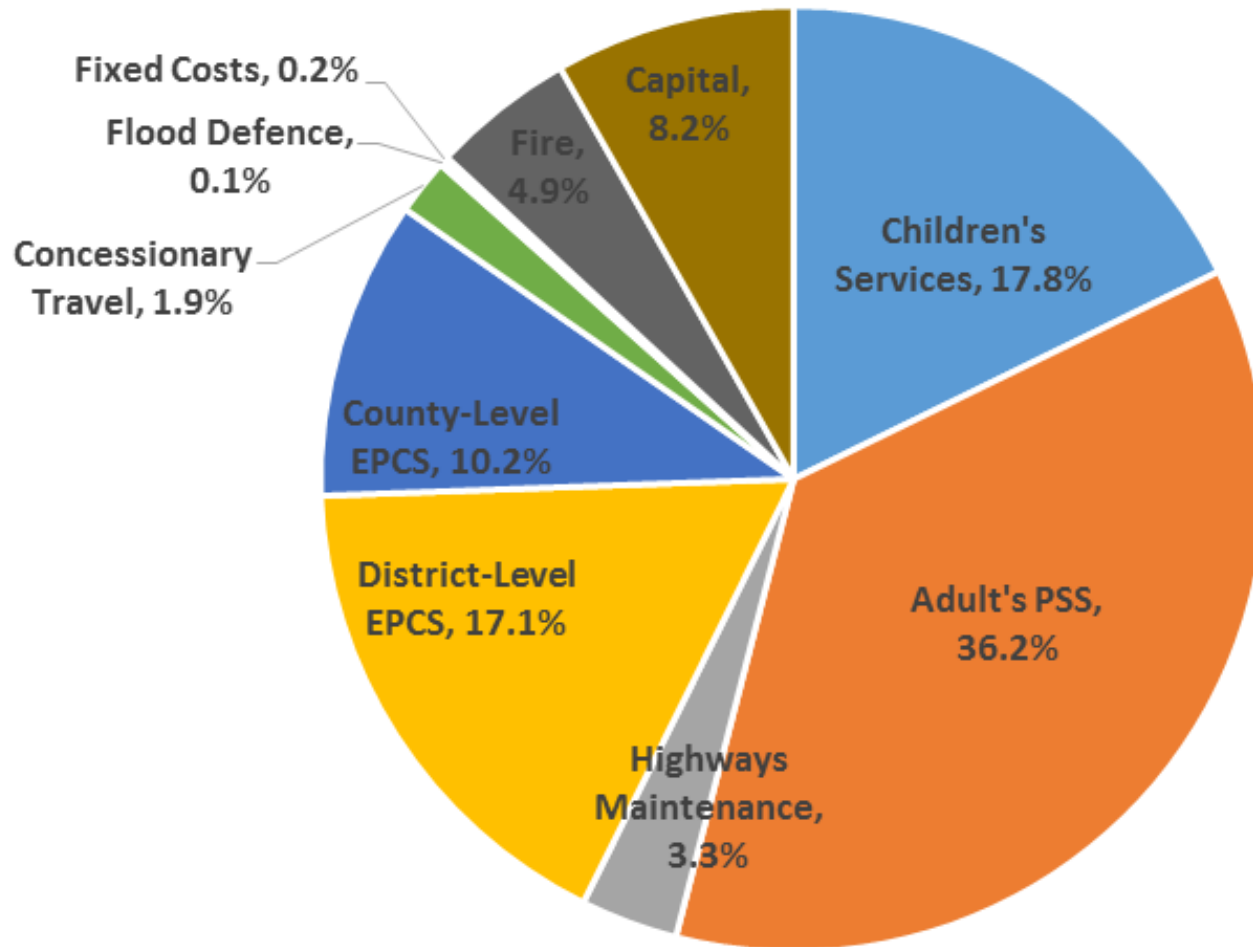
RNF per head analysis: Upper Tier
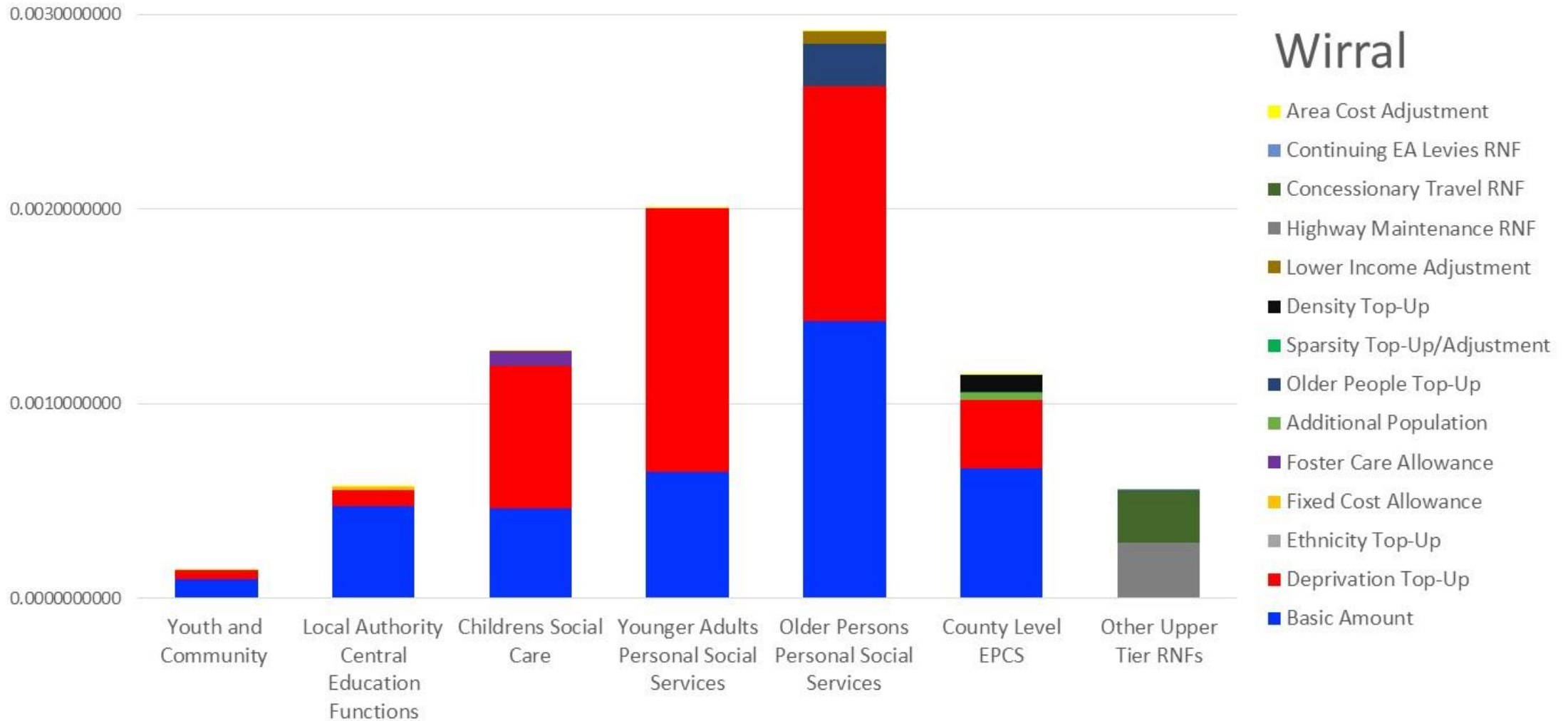
RNF per head analysis: RNF above minimum threshold

Wirral RNF above minimum, 0.0036894173

Legend:
- Older Persons Personal Social Services
- Younger Adults Personal Social Services
- Children's Services
- County Level EPCS
- Other RNFs
- Wirral RNF above minimum
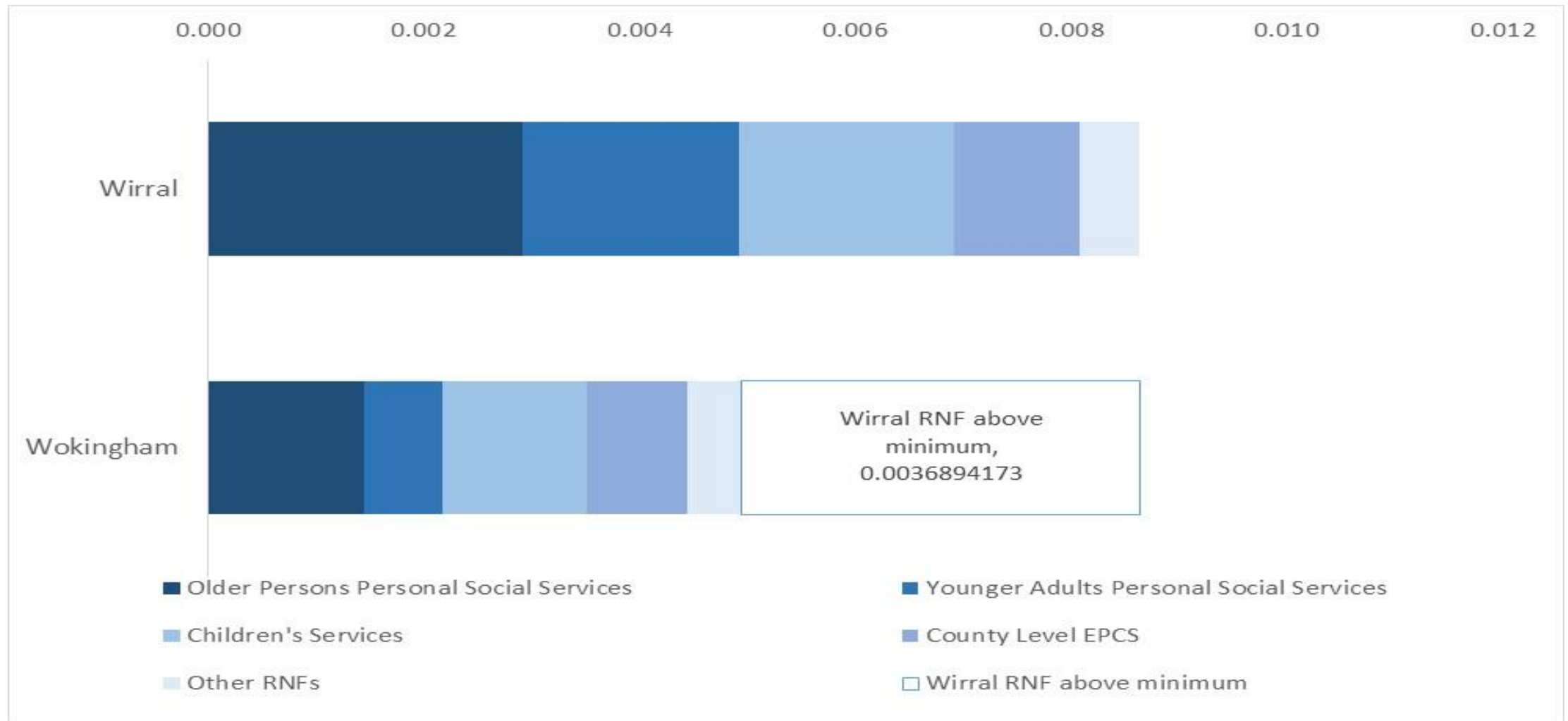
RNF per head analysis: RNF above minimum threshold
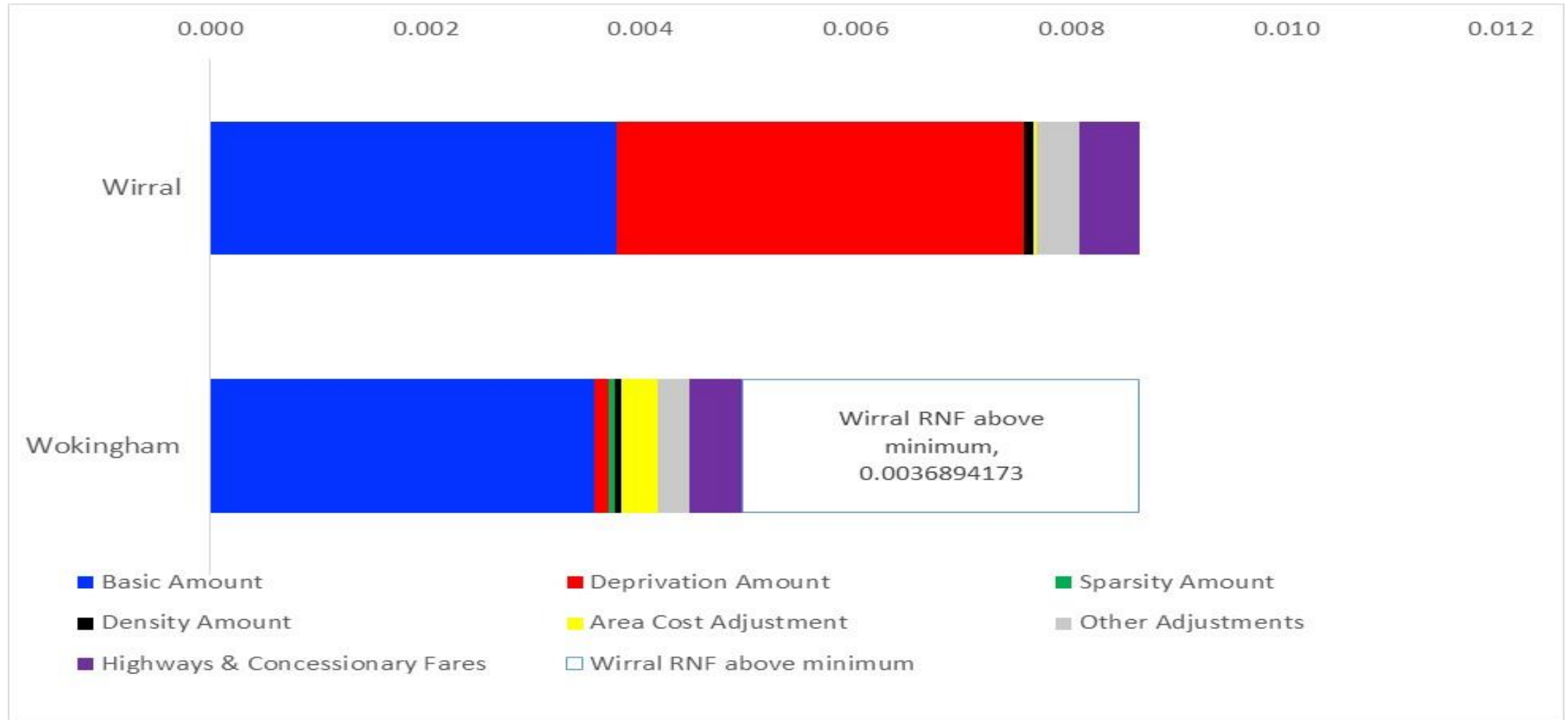
Service Specific Cost Drivers – Adult Social Care

Classification of RNF	RNF (Relative Needs Formulae)	Value in 2013/14	Percentage of Needs
Upper Tier RNF	Older Peoples' RNF	2,970,260,781	17.7%
	Younger Peoples' RNF	2,113,422,197	12.6%
	Children's Services RNF	2,553,304,321	15.2%
	Highway Maintenance RNF	446,529,129	2.7%
	County-Level EPCS RNF	1,432,546,664	8.5%
	Concessionary Travel RNF	277,236,710	1.7%
	Continuing EA Levies RNF	3,035,093	0.0%
Lower Tier RNF	District-Level EPCS RNF	1,687,700,176	10.1%
	Flood Defence RNF	12,591,578	0.1%
Mixed Tier RNF	Coast Protection RNF	81,514,721	0.5%
	Fixed Costs RNF		
Police RNF	Police RNF	1,625,379,259	9.7%
Fire RNF	Fire RNF	364,651,019	2.2%
Capital Financing RNF	Capital RNF	3,211,536,469	19.1%
Total		**16,779,708,117**	**100.0%**

ASC Younger People: RNF per head
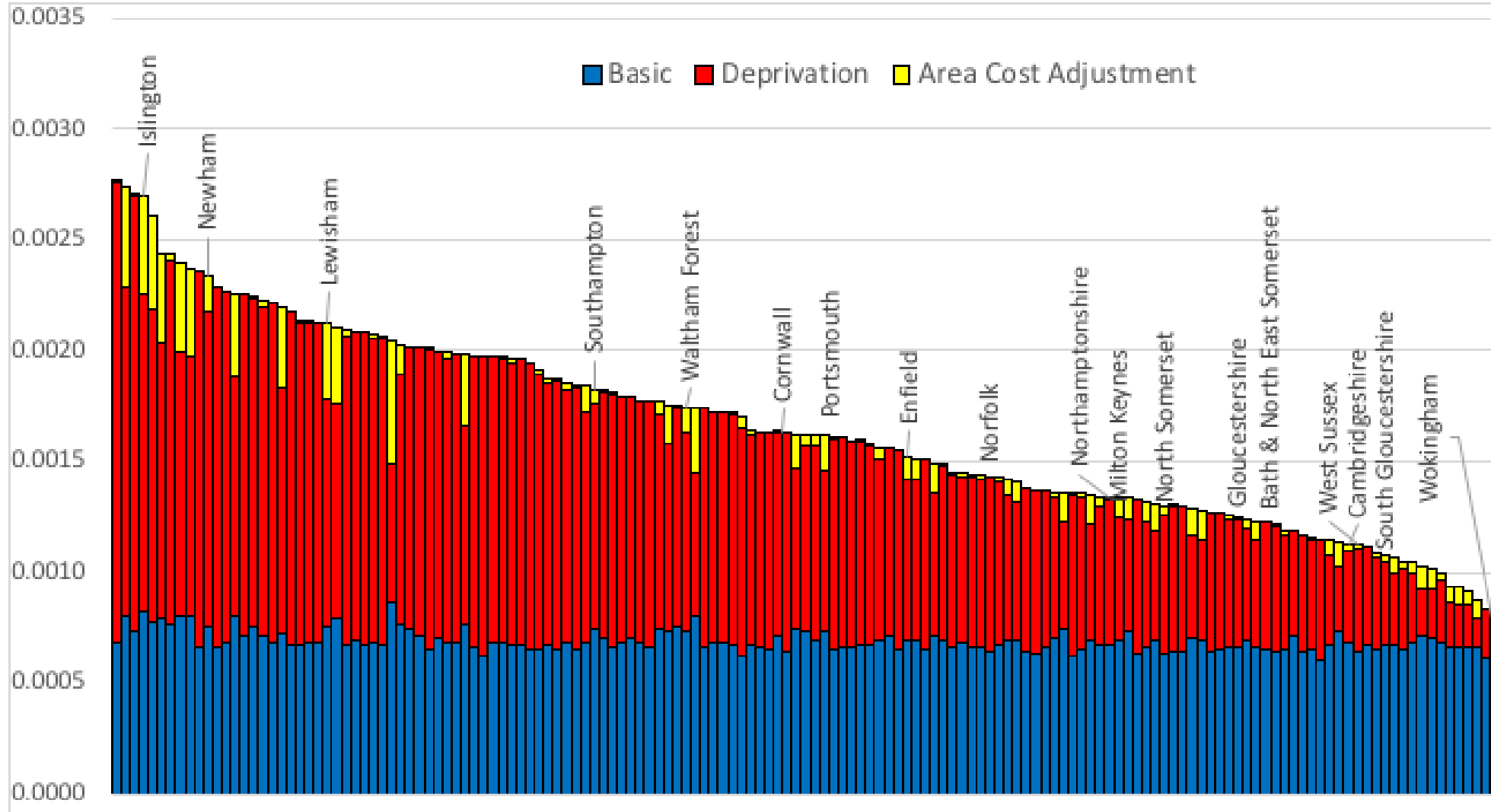
ASC Older Persons: RNF per head
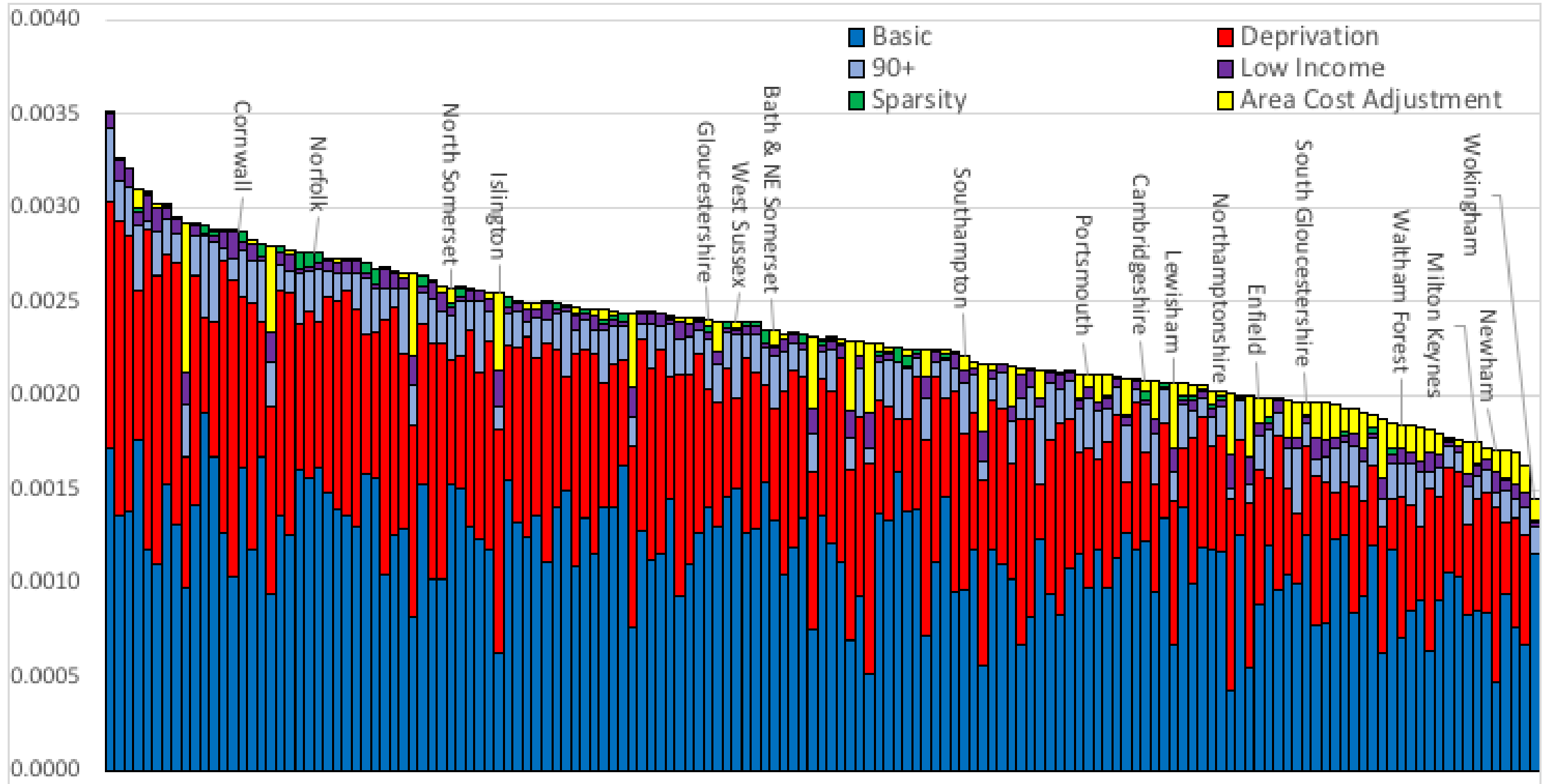
Adults' Services

- Key cost drivers identified in the consultation
  - Number of adults by age groups
  - Number of adults with income and wealth that meets the mean test
  - Number of people with higher levels of impairment
  - Number of people who live alone
  - Sparsity

- In 2013/14
  - Number of adults by age group
  - Deprivation measured by:
    - Out of work benefits – attendance allowance, income support/JSA, pension credits, disability living allowance
    - Lone living – One persons households (older), households with no family (younger)
    - Living in rented accommodation (older)
    - Long term unemployment and routine/semi-routine employment (younger)
  - Low Income Adjustment
  - Sparsity
  - Nothing on higher levels of impairment – do datasets exist?

Adults' Service

- Question 11a
  - Do you agree that the cost drivers set out above are the key cost drivers affecting adult social care services?

- Question 11b
  - Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting adult social care services?

RNF per head in 2013/14: Older People (65+)
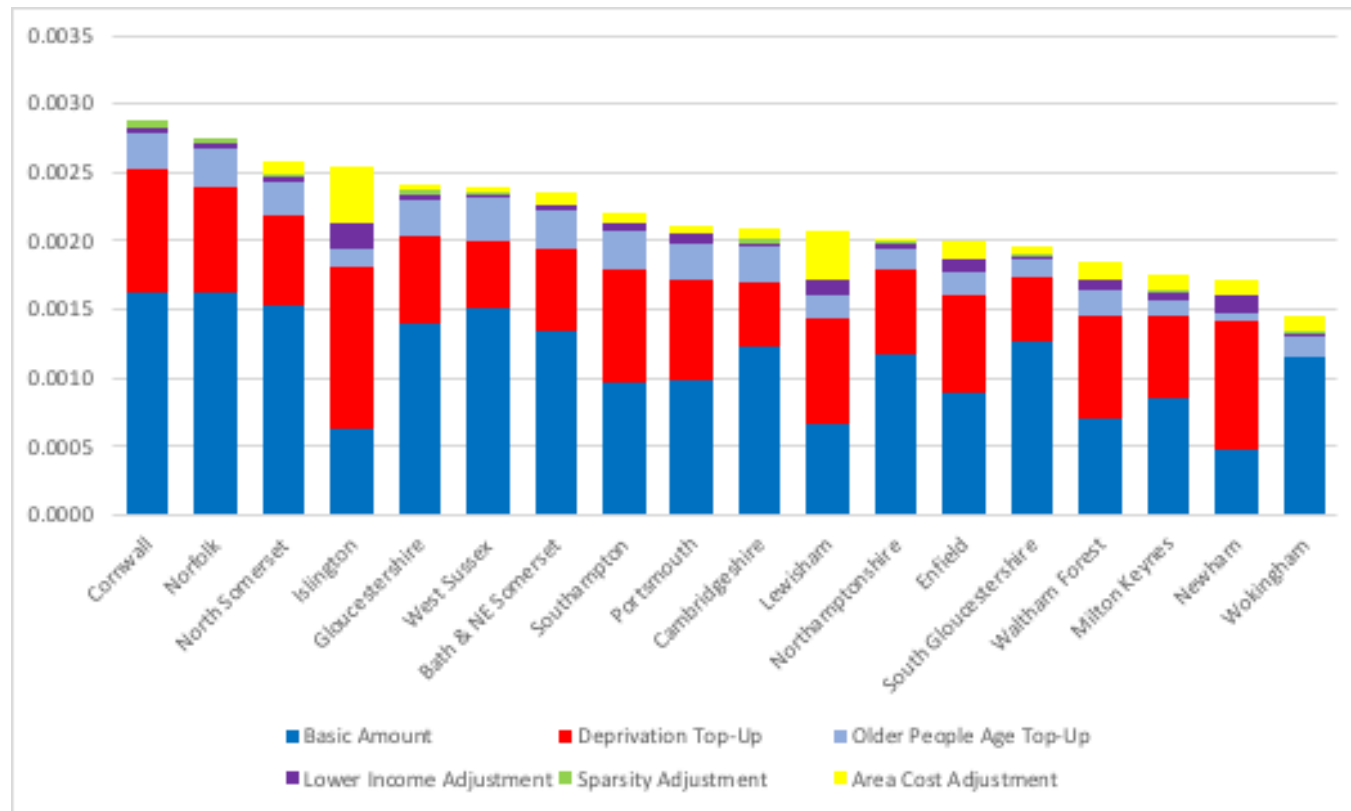
- Relative older population strongest indicator in rural areas with deprivation more significant in urban areas
- Common discussion point – are top ups exaggerated?
- Shire Counties argument - should funding be more flatly distributed based just on numbers (basic blue block)?

RNF per head in 2013/14: Adults 16-64
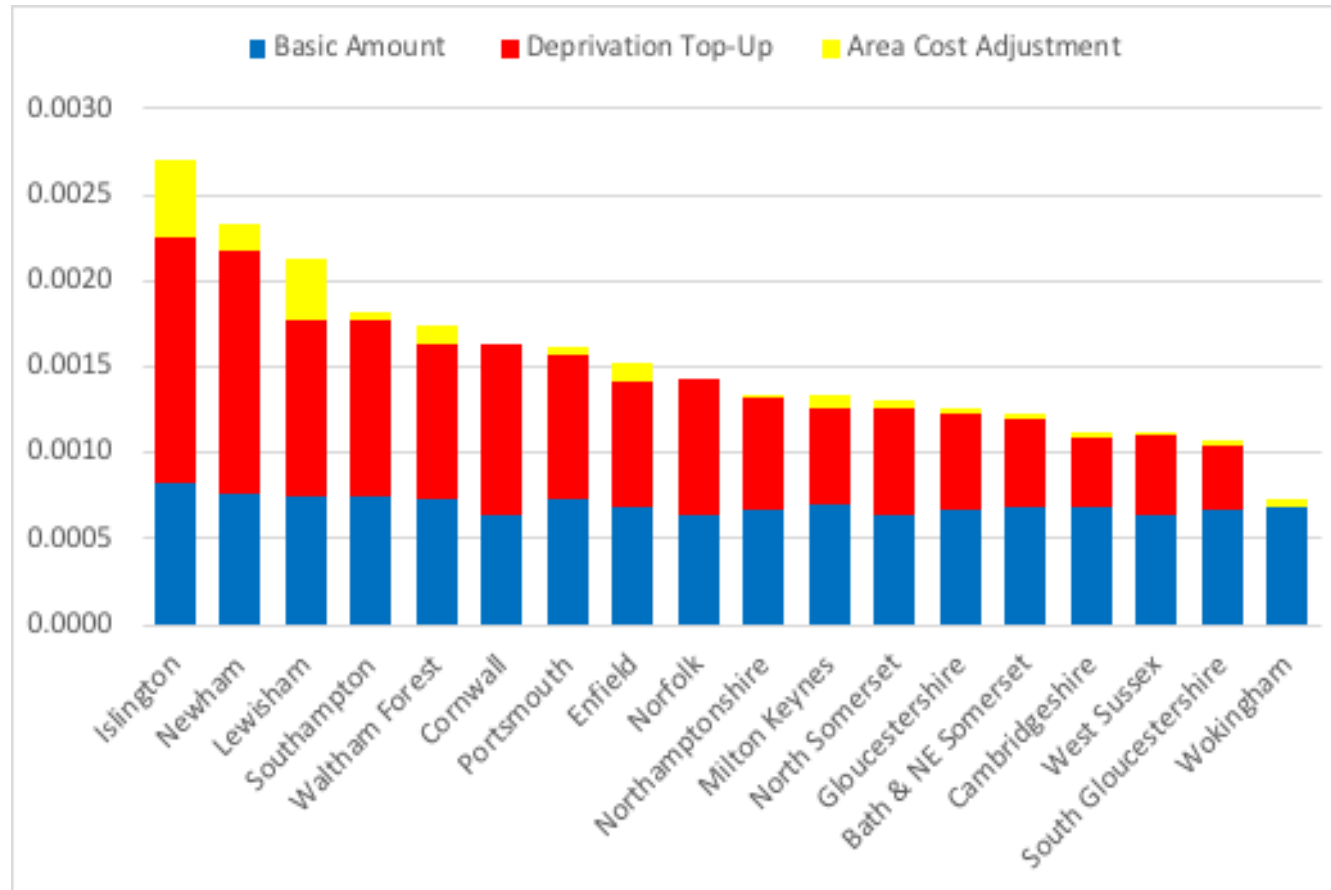
- Shows relative importance of deprivation (red blocks) in formula but also difference between urban and rural authorities
- Will changes in deprivation indices (use of IMD), introduction of higher levels of impairment indicator flatten the distribution of needs?

Service Specific Cost Drivers – Children's Services

Classification of RNF	RNF (Relative Needs Formulae)	Value in 2013/14	Percentage of Needs
Upper Tier RNF	Older Peoples' RNF	2,970,260,781	17.7%
	Younger Peoples' RNF	2,113,422,197	12.6%
	Children's Services RNF	2,553,304,321	15.2%
	Highway Maintenance RNF	446,529,129	2.7%
	County-Level EPCS RNF	1,432,546,664	8.5%
	Concessionary Travel RNF	277,236,710	1.7%
	Continuing EA Levies RNF	3,035,093	0.0%
Lower Tier RNF	District-Level EPCS RNF	1,687,700,176	10.1%
	Flood Defence RNF	12,591,578	0.1%
Mixed Tier RNF	Coast Protection RNF	81,514,721	0.5%
	Fixed Costs RNF		
Police RNF	Police RNF	1,625,379,259	9.7%
Fire RNF	Fire RNF	364,651,019	2.2%
Capital Financing RNF	Capital RNF	3,211,536,469	19.1%
Total		16,779,708,117	100.0%

Children's Services: Total RNF

- **Three separate formulas:** Youth and Community Services, Local Authority Central Education Services, Children's Social Care
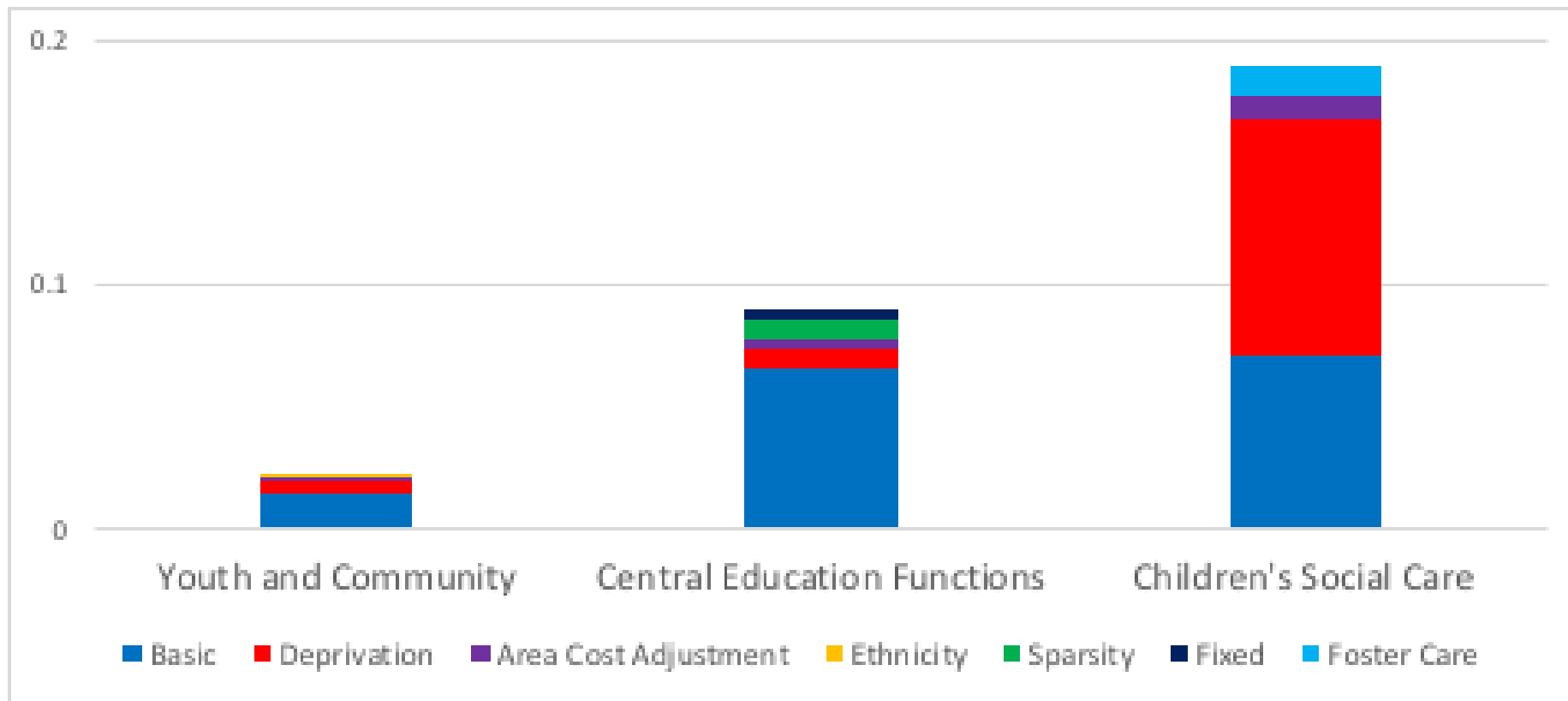
Children's Social Care: RNF per head
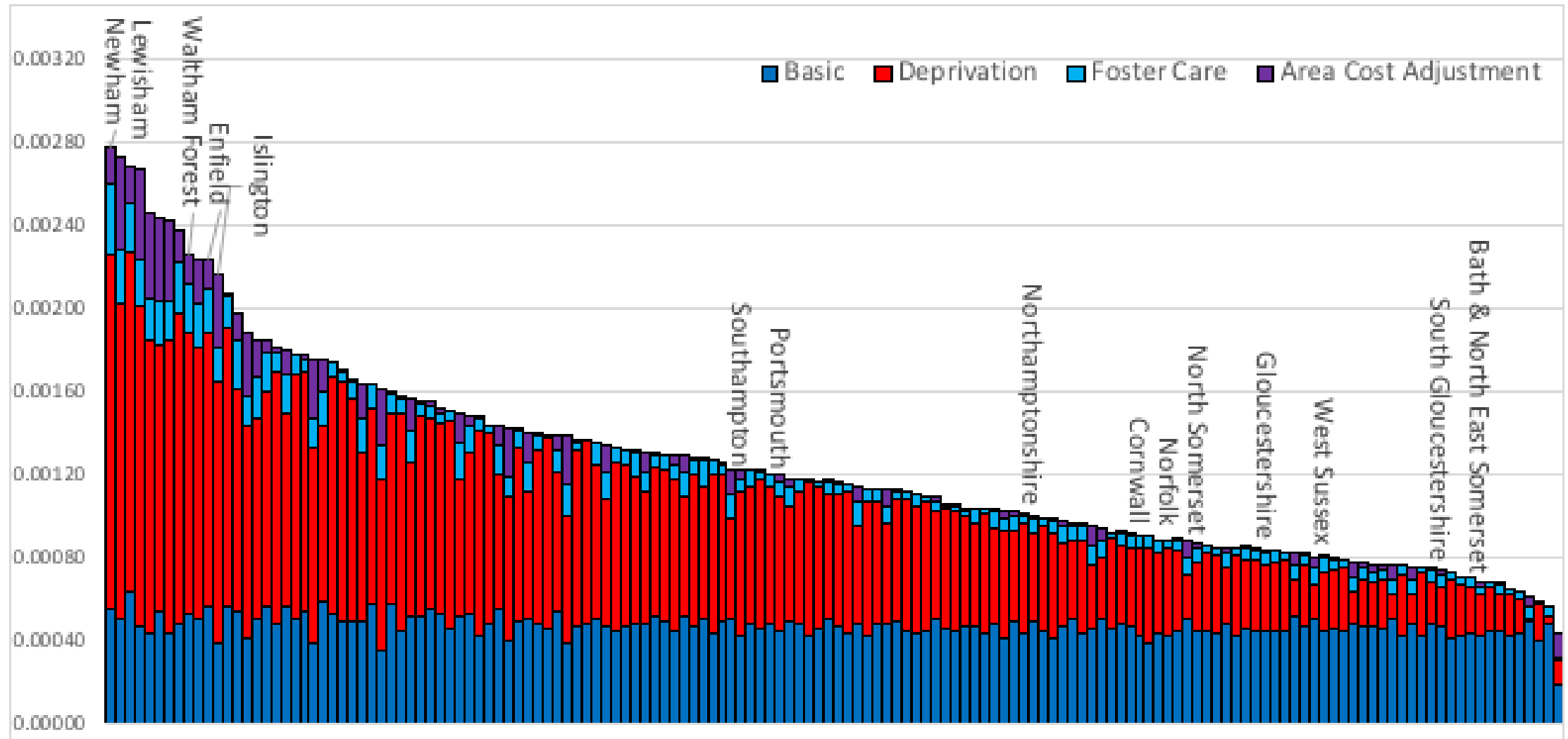
Children's Services

- Key cost drivers identified in the consultation
  - Number of children under 18
  - Number of children for whom parents receive Disability Living Allowance
  - Deprivation
  - Distance to Schools

- In 2013/14
  - Number of children
  - Deprivation measured by:
    - Children in Out of Work Families Receiving Child Tax Credit
    - Income Support/Income Based JSA Claimants
    - Children Without Good Health
    - Children in Black Ethnic Groups
  - Distance to Schools – sparsity but not a key cost driver
  - No DLA included

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Children's Services

- Question 12a
  - Do you agree that these are the key cost drivers affecting children's services?

- Question 12b
  - Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting children's services?

RNF per head in 2013/14 over all 3 areas of Children's Services
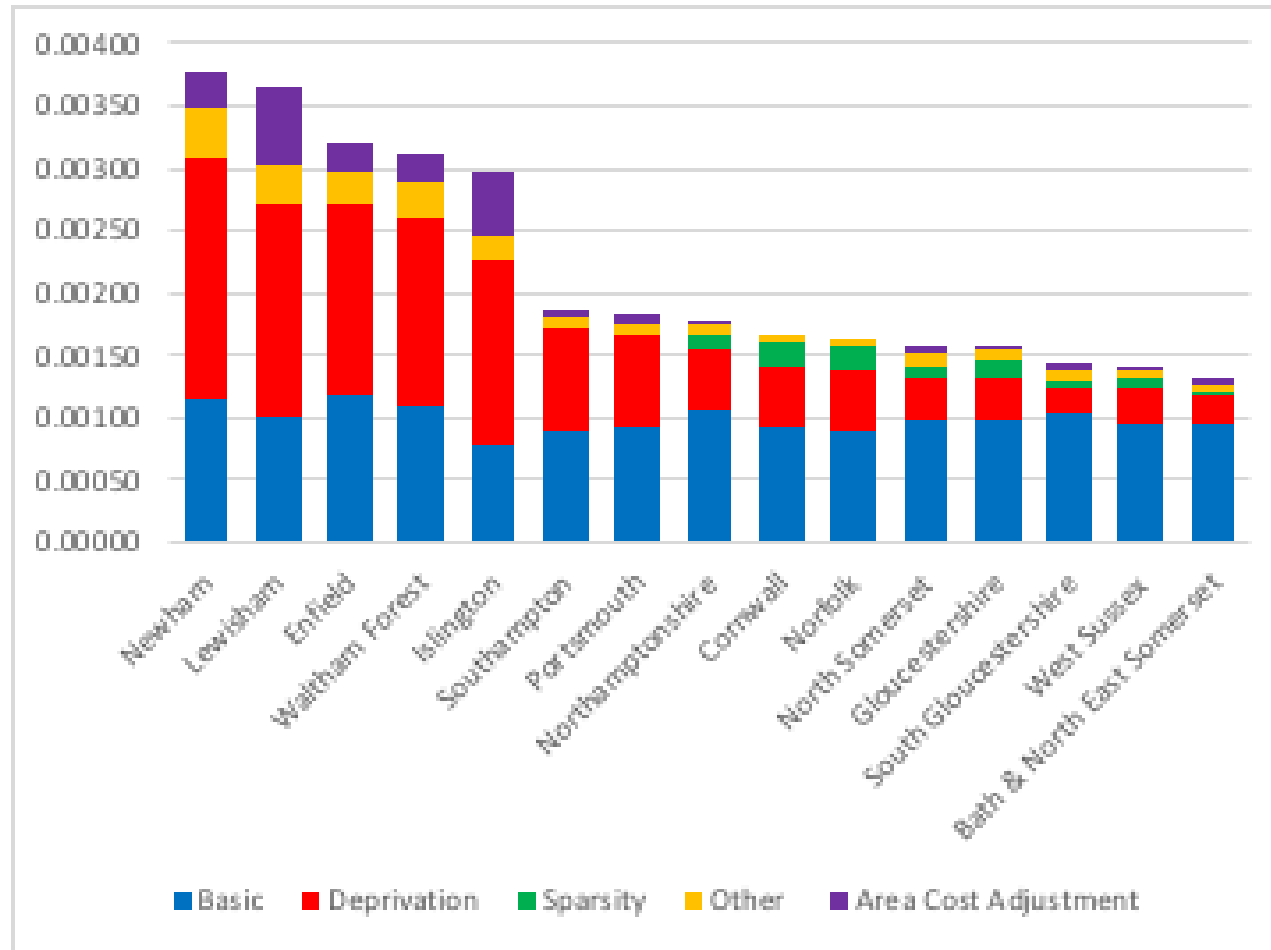
- Shows relative importance of deprivation (red blocks) in formula but also difference between urban and rural authorities
- Common discussion point – are top ups exaggerated?
- Shire Counties argument - should funding be more flatly distributed based just on numbers (basic blue block)?

RNF per head in 2013/14 over all 3 areas of Children's Services
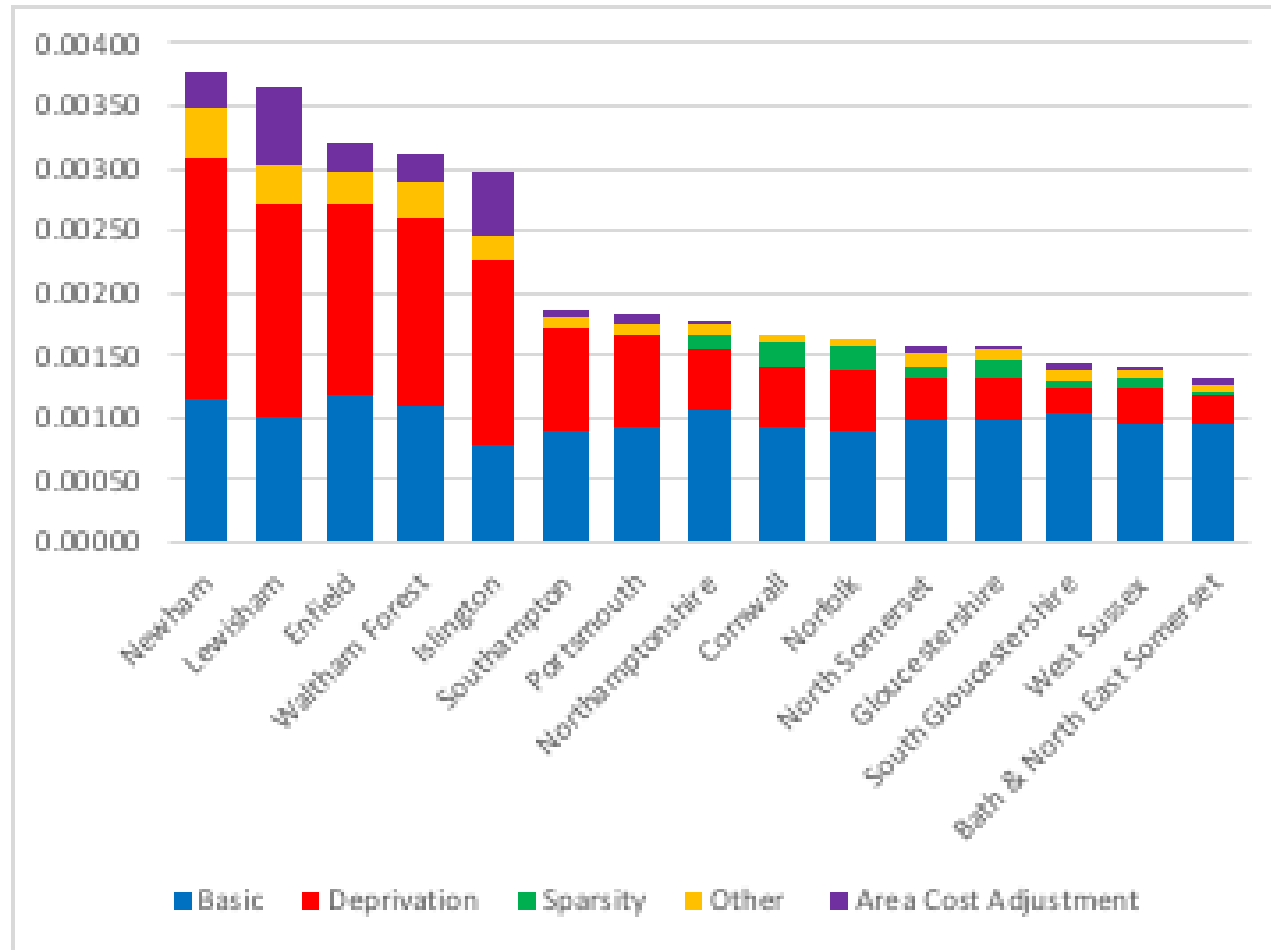
- Will DLA figures be more evenly spread across authorities?
- Should other non-income deprivation factors be accounted for?
- Sparsity important factor for rural areas
- Are there other factors?
- Are there other relevant datasets?

Service Specific Cost Drivers – Highways Maintenance

Classification of RNF	RNF (Relative Needs Formulae)	Value in 2013/14	Percentage of Needs
Upper Tier RNF	Older Peoples' RNF	2,970,260,781	17.7%
	Younger Peoples' RNF	2,113,422,197	12.6%
	Children's Services RNF	2,553,304,321	15.2%
	Highway Maintenance RNF	446,529,129	2.7%
	County-Level EPCS RNF	1,432,546,664	8.5%
	Concessionary Travel RNF	277,236,710	1.7%
	Continuing EA Levies RNF	3,035,093	0.0%
Lower Tier RNF	District-Level EPCS RNF	1,687,700,176	10.1%
	Flood Defence RNF	12,591,578	0.1%
Mixed Tier RNF	Coast Protection RNF	81,514,721	0.5%
	Fixed Costs RNF		
Police RNF	Police RNF	1,625,379,259	9.7%
Fire RNF	Fire RNF	364,651,019	2.2%
Capital Financing RNF	Capital RNF	3,211,536,469	19.1%
Total		**16,779,708,117**	**100.0%**

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Highways RNF per head

Highways

- Key cost drivers identified in the consultation are those that were used in the 2013/14 formula
  - Road Length
  - Traffic Flow
  - Forecast Snow / Gritting Days
  - Area Cost Adjustment

- Question 13a
  - Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?

- Question 13b
  - Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?

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Highways RNF per head
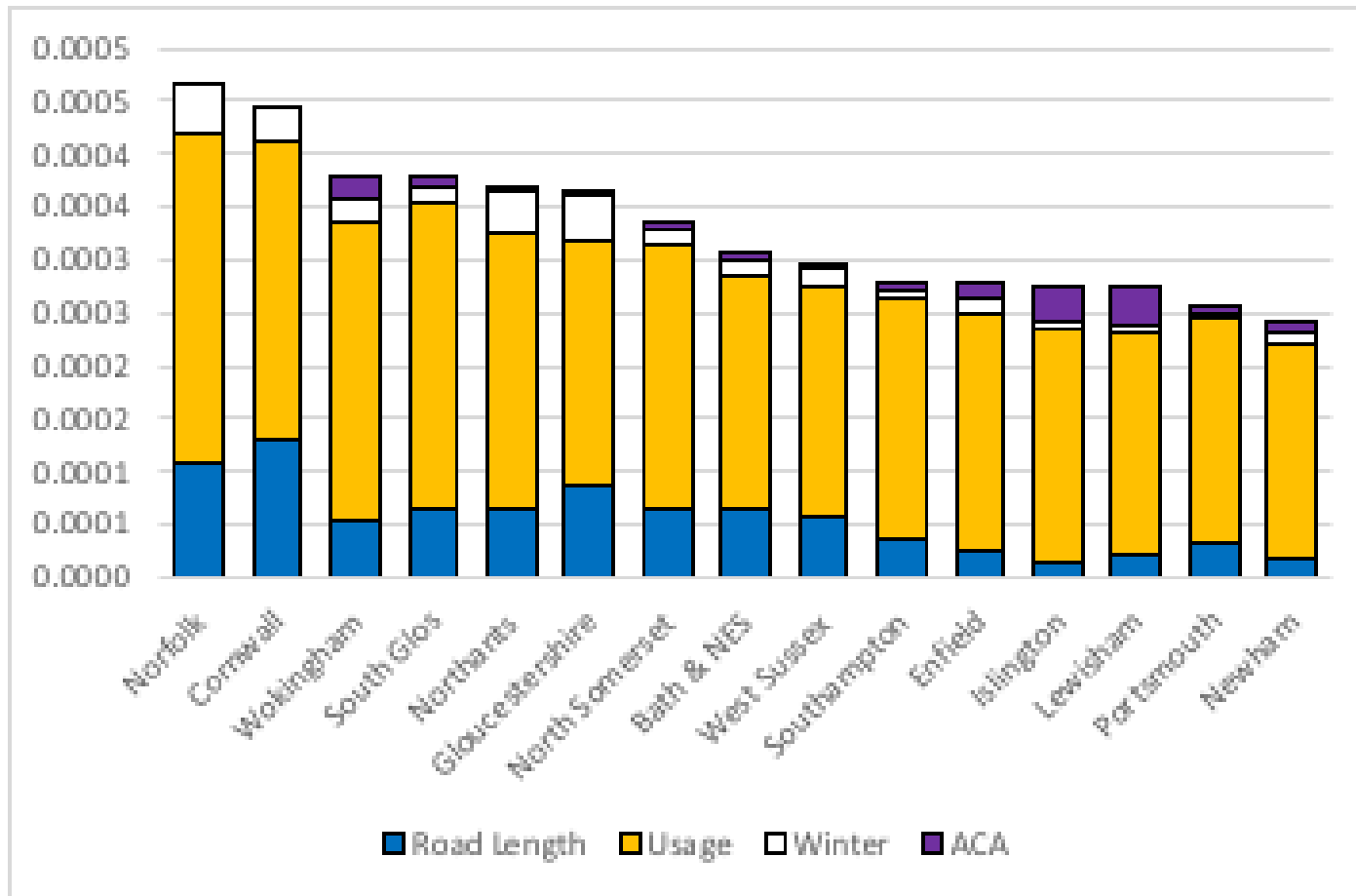
- No significant variances in RNF per head amongst today attendees
- Rural areas (Norfolk and Cornwall) get more for length of roads and winter maintenance
- Urban areas (Inner London) get more for road usage / traffic flow
- Feels fair as cost drivers seem far more reflective of actual needs
- Possible relative weightings argument

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Service Specific Cost Drivers – Concessionary Travel

Classification of RNF	RNF (Relative Needs Formulae)	Value in 2013/14	Percentage of Needs
Upper Tier RNF	Older Peoples' RNF	2,970,260,781	17.7%
	Younger Peoples' RNF	2,113,422,197	12.6%
	Children's Services RNF	2,553,304,321	15.2%
	Highway Maintenance RNF	446,529,129	2.7%
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Fire RNF	Fire RNF	364,651,019	2.2%
Capital Financing RNF	Capital RNF	3,211,536,469	19.1%
Total		16,779,708,117	100.0%

Concessionary Travel RNF per head
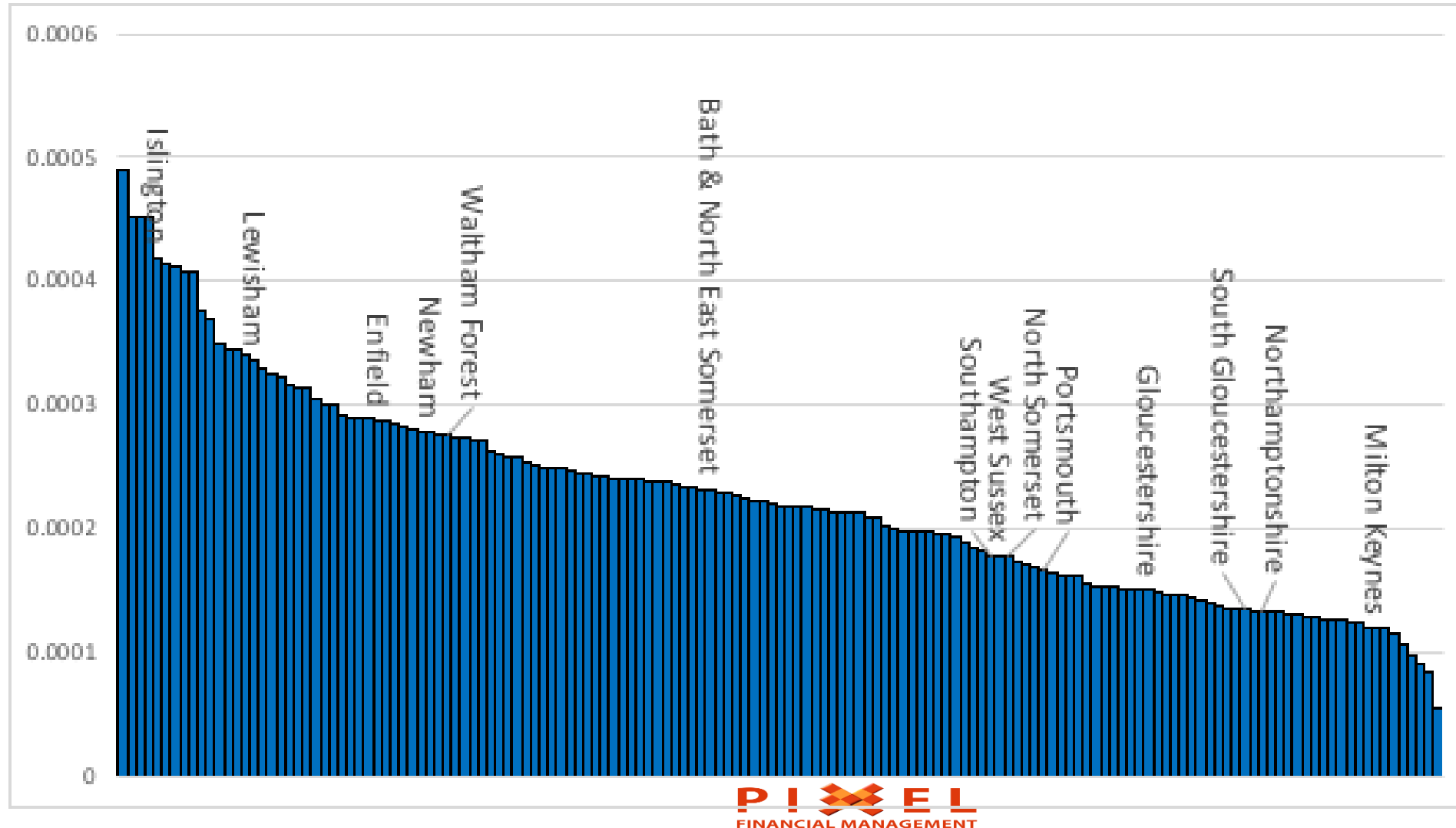
Concessionary Travel

- Question 13a
  - Do you agree that these are the key cost drivers affecting routine highways maintenance and concessionary travel services?

- Question 13b
  - Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting routine highways maintenance or concessionary travel services?

- Possible argument on 'unmet demand' in rural areas – no bus boarding because there are no buses to board!
- Possible argument for other measures – eg. access to services deprivation

Q14 – Local Bus Support

- Question 14a
  - Do you have views on what the most suitable cost drivers for local bus support are?

- Question 14b
  - Do you have views on what the most suitable data sets are to measure the cost drivers for local bus support?

- Currently held within County Level EPCS but will need to consider specific cost drivers

- Same issue as with concessionary travel – 'unmet demand' - those with fewer busses should argue that bus usage proxies are unfair

Waste Collection and Disposal

- Question 15a
  - Do you agree that these are the key cost drivers affecting waste collection and disposal services?

- Question 15b
  - Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting waste collection and disposal services?

- Currently held within both District and County Level EPCS but will need to consider specific cost drivers. Government have proposed:
  - Number of households
  - Types of households
  - Travel Times
  - Deprivation

Waste Collection and Disposal

- Number of Households
  - Seems Fair
- Types of Households
  - Recognition that some types of households have access issues which make waste collection more costly
  - Not sure how this will be easily measured
- Travel Times
  - Sparsity indicator – the greater distance between houses the higher the costs – seems logical
- Deprivation
  - Rationale – more deprived areas recycle less and therefore collect more waste – perverse incentive!
  - Deprived areas have more issues with littering and dog fouling!!
  - Struggling with depreciation as a significant cost driver for waste!

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Service Specific Cost Drivers – Legacy Capital

Classification of RNF	RNF (Relative Needs Formulae)	Value in 2013/14	Percentage of Needs
Upper Tier RNF	Older Peoples' RNF	2,970,260,781	17.7%
	Younger Peoples' RNF	2,113,422,197	12.6%
	Children's Services RNF	2,553,304,321	15.2%
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	Fixed Costs RNF		
Police RNF	Police RNF	1,625,379,259	9.7%
Fire RNF	Fire RNF	364,651,019	2.2%
Capital Financing RNF	Capital RNF	3,211,536,469	19.1%
Total		16,779,708,117	100.0%

Capital Financing

- Question 17a
  - Do you agree these are the key cost drivers affecting the cost of legacy capital financing?

- Question 17b
  - Do you have views on what the most suitable data sets are to measure these or other key cost drivers affecting legacy capital financing?

- Still accounts for significant amount of Needs Assessment

- Existing Cost Drivers (outstanding debt and interest rate) appear to be fairest cost drivers

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Capital Financing RNF per head – Upper Tier

Capital Financing RNF per head
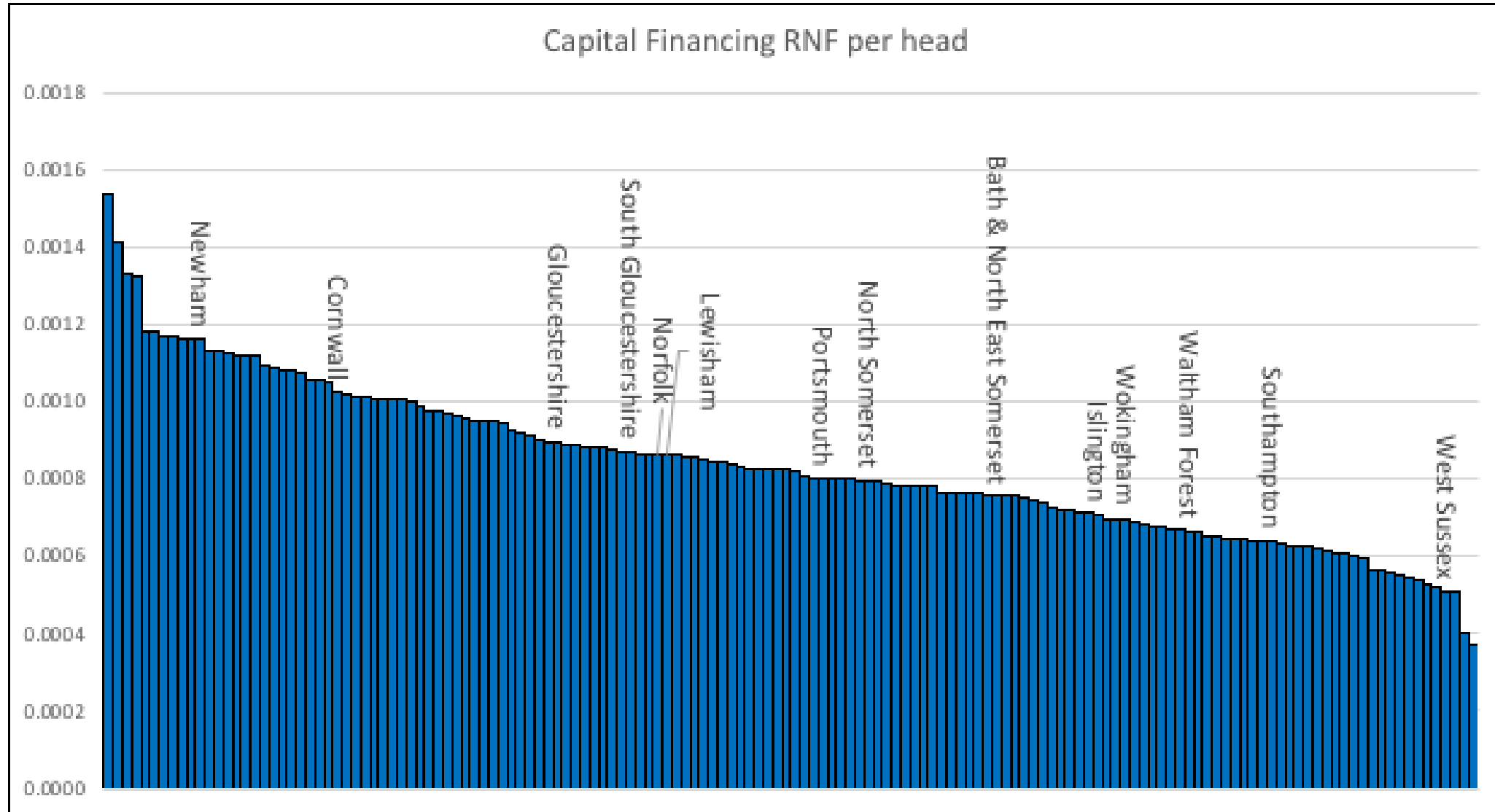
Capital Financing RNF per head – Lower Tier

Capital Finacing RNF per head
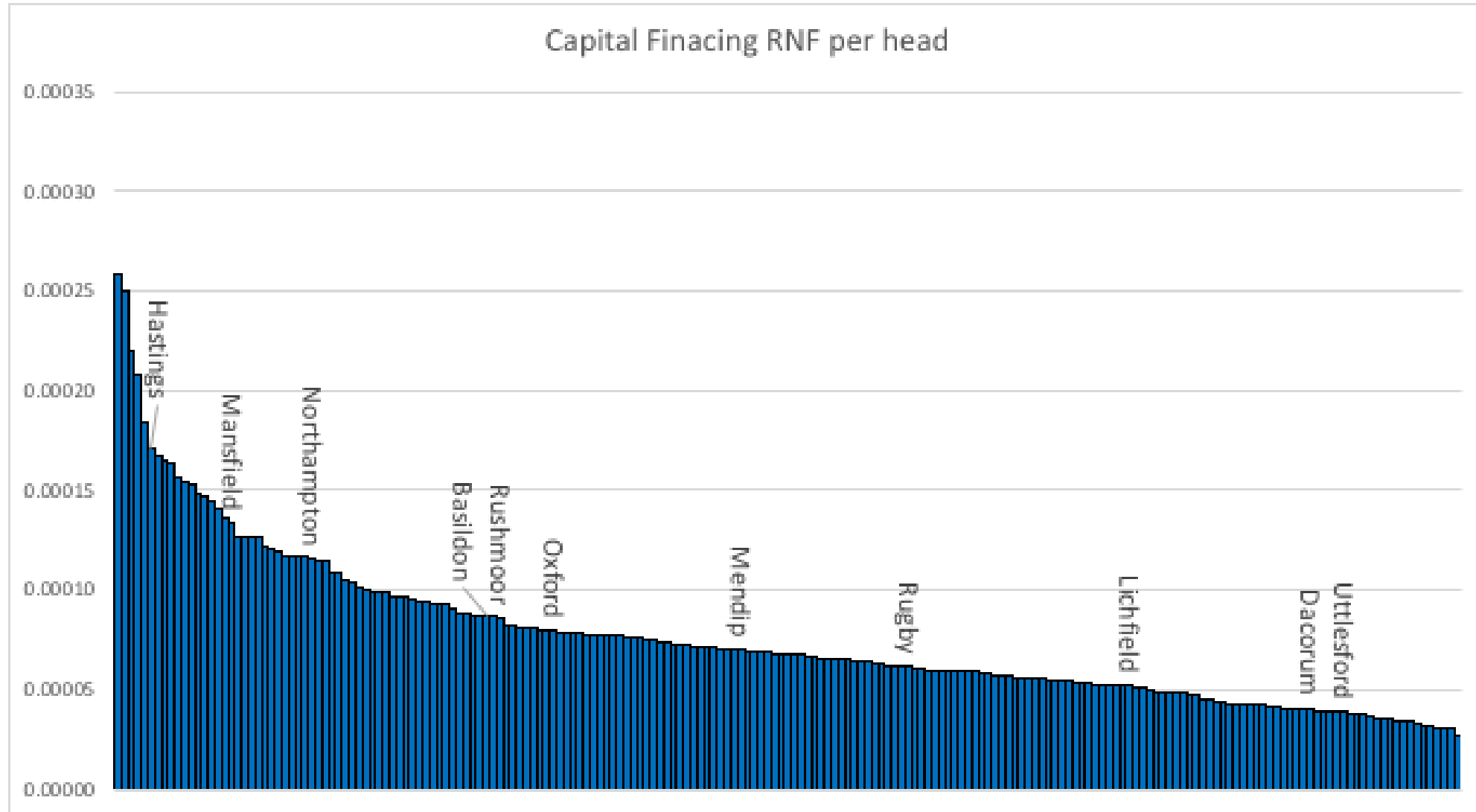
Updating the Fair Funding Model

Adrian Jenkins

Can we estimate the effect of FFR?

- Not really – too many variables from data, distributional decisions, etc

- But some elements we can forecast and model

- Broad structure: an assessment for "needs" and for "resources"

- Can reset current formula for major funding blocks

- Can update population and taxbase within these blocks to revise shares

- Gives a broad direction of travel before distributional decisions

Resetting a future funding model

- Size of service blocks (e.g. older people, EPCS)

- Size of "needs" (e.g. spending) and "resources" (e.g. council tax)

- Available amount of funding

- Notional or actual council tax (to include or exclude ASC precept)

- Taxbase (with or without CTS)

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Funding model parameters

		2013-14 actual	2020-21 forecast
Total Needs	(4)	32,043,200	37,800,000
Total Resources	(2)	-15,680,186	-24,973,000
Central Allocation	(5)		0
Rolled-in Grants	(3)	7,959,499	0
SFA	(1)	24,322,513	12,827,000

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Parameters…

(1) Estimate overall amount to be distributed via new funding formula (we assume flat-cash settlement in 2020-21)

(2) Estimate council tax income (assumed excluding ASC precept, but could include)

(3) Assume funding for rolled-in grants is now within overall SFA allocation

(4) Assume "needs" is balancing figure (SFA – Resources) (close to 17-18 NRE excluding police and fire, c.£34bn)

(5) Assume central allocation does not exist, allocate via Needs and Resources blocks

Share of overall local government expenditure (2017-18)

- Younger Adults Personal Social Services 16%
- Older Persons Personal Social Services 23%
- Children's Services 21%
- Highway Maintenance 3%
- Concessionary Travel 1%
- Continuing EA Levies 0%
- County-Level EPCS 6%
- Lower Tier 7%
- Mixed Tier 0%
- Capital Financing 23%

Change in share of overall local government expenditure (2013-14 to 2017-18)

Growth in upper-tier service areas (children's and ASC)

Reductions in other service areas

More work to refine (e.g. effect of specific grants)

Important to ensure Government gives the correct weighting to these services in future funding formula

How will the Government ensure this is done properly?

Change in national spending patterns

Resetting for council tax

- Overall quantum (set too low in 2013-14, which helped high-taxbase authorities)

- Share between upper and lower tier (easy way to shift resources between the tiers) (continued with 13-14 assumption of 14% lower tier, 76% upper tier)

- Elements included (standard Band D, ASC precept)

- Projections (for quantum and share)

Change in total population (2013 to 2016)
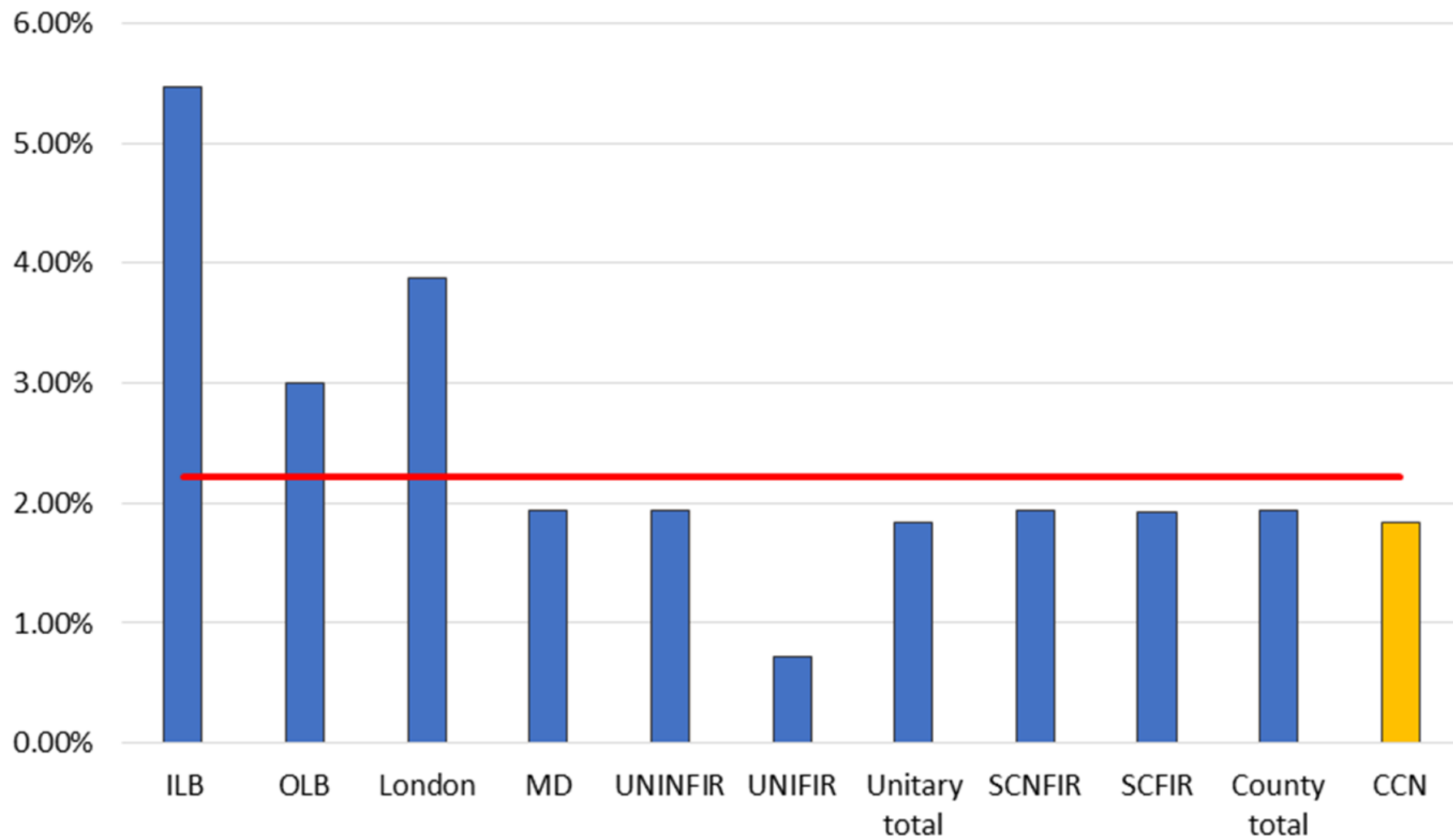
Population Change (2013 to 2019 Projection), Upper Tier Authorities
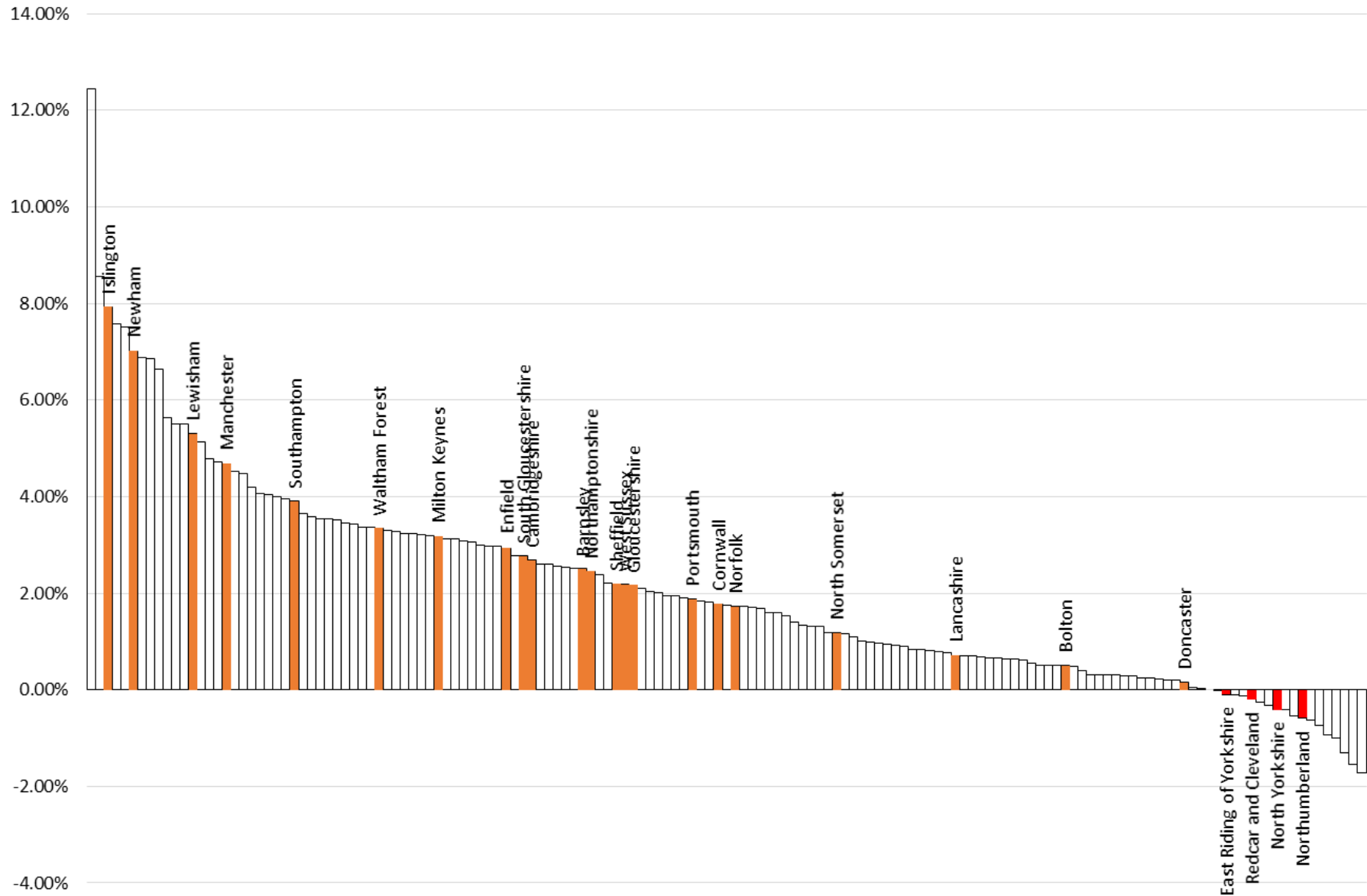
Population Change (2013 to 2019 Projection), Lower Tier Authorities
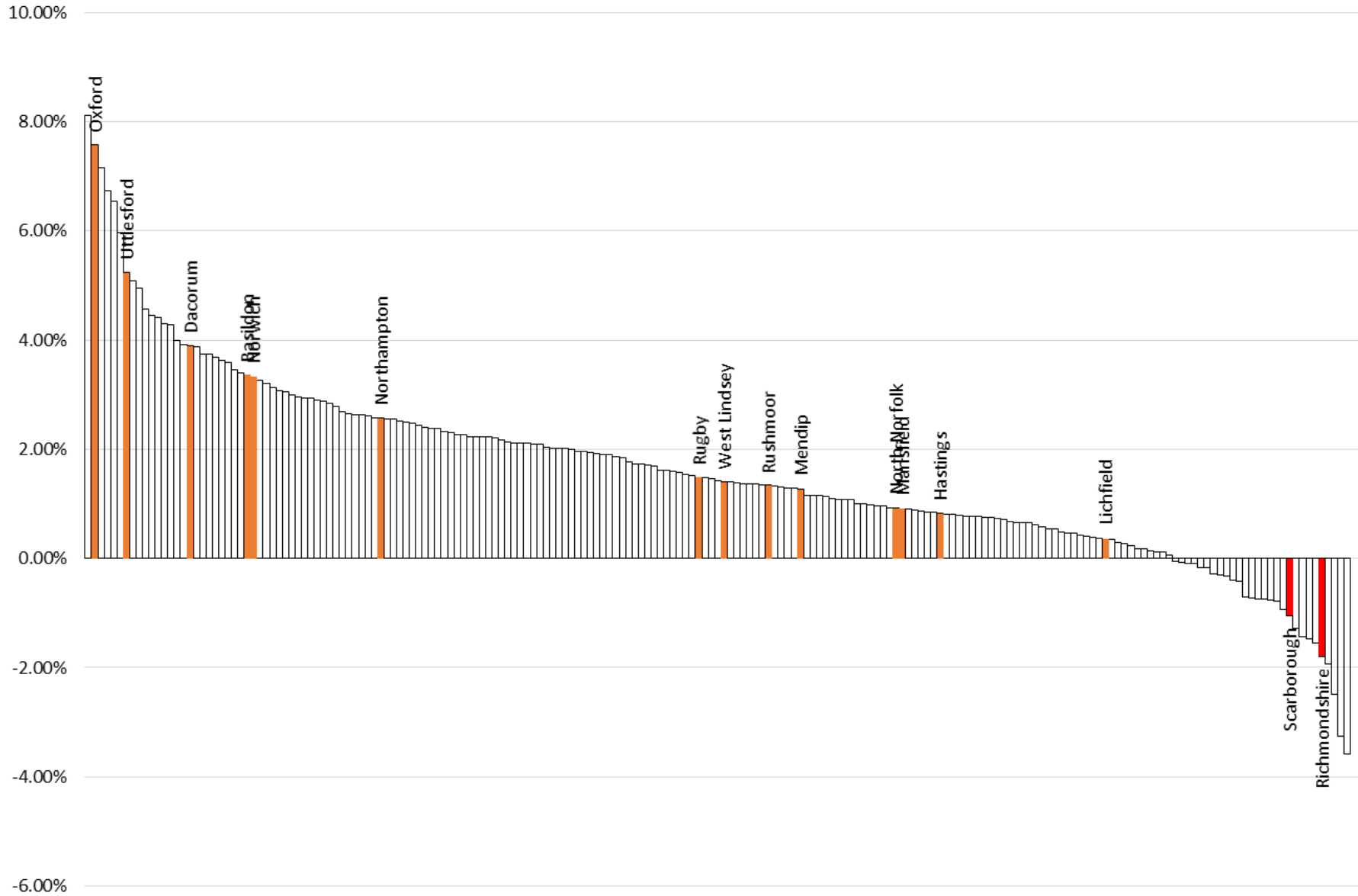
Change in over-65 population (2013 to 2016)
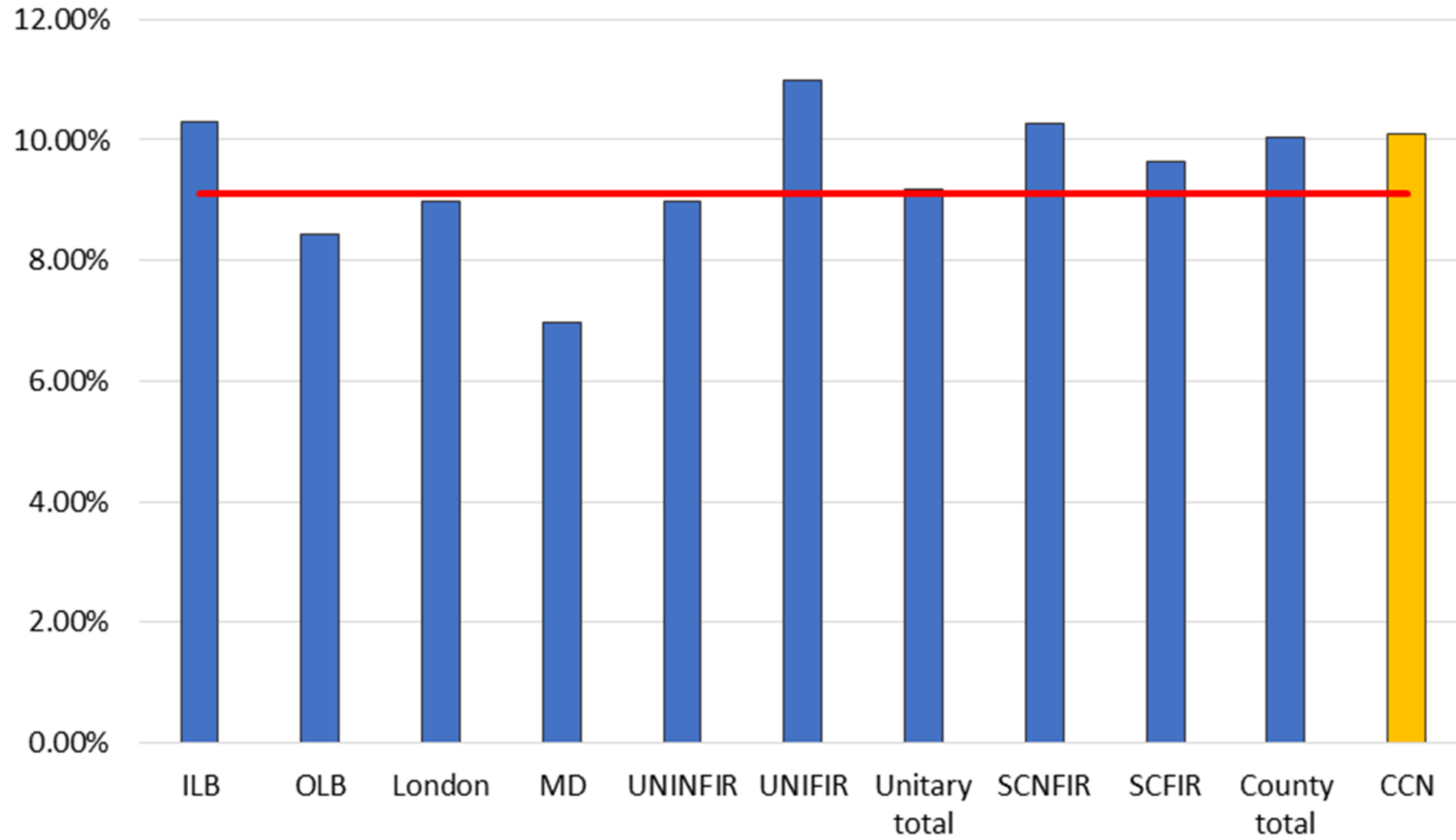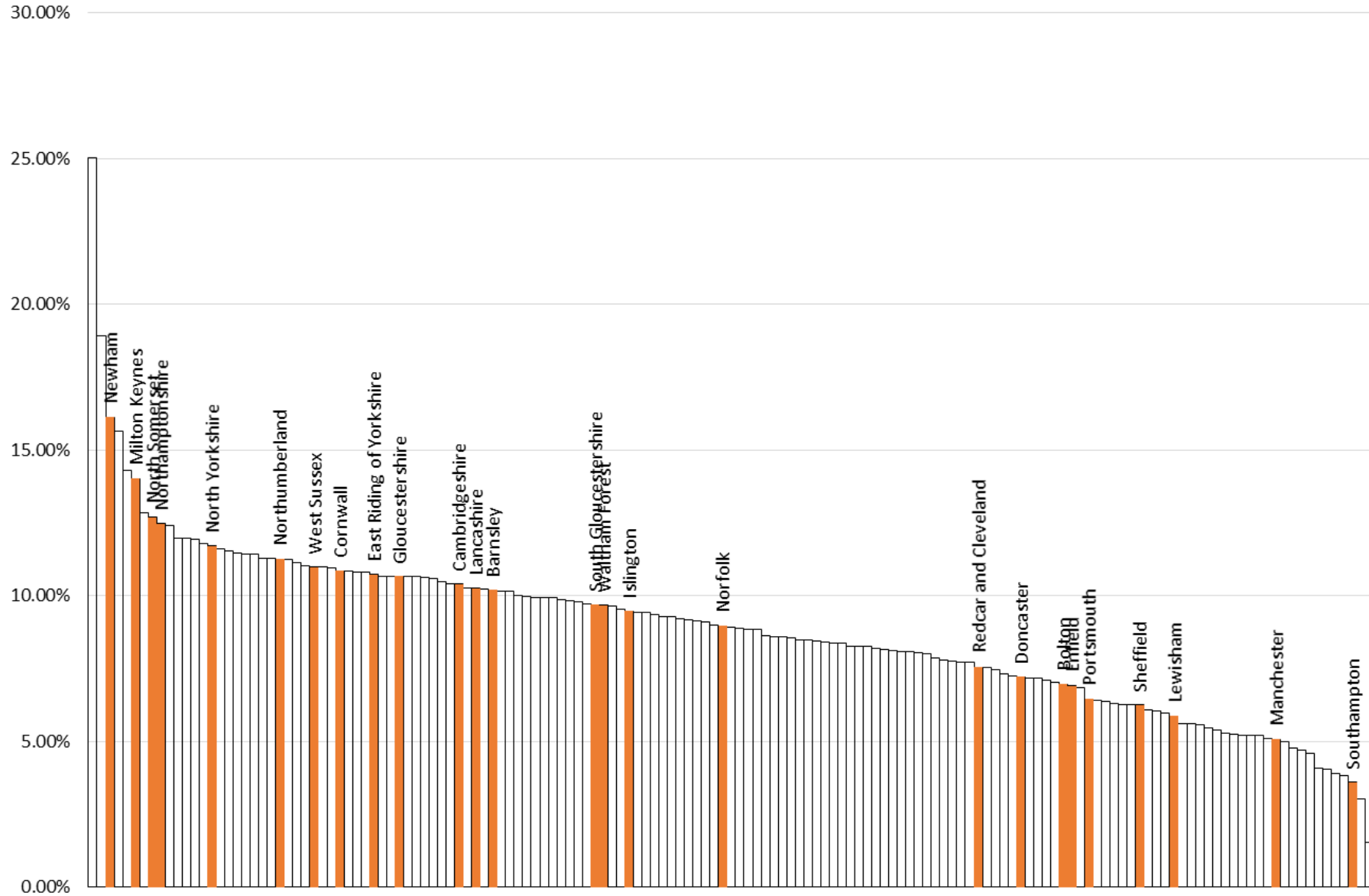
Over-65 Population Change (2013 to 2019 Projection), Upper Tier Authorities

Over-65 Population Change (2013 to 2019 Projection), Upper Tier Authorities

Lancashire
West Sussex
Norfolk
North Yorkshire
Northamptonshire
Cornwall
Gloucestershire
Cambridgeshire
East Riding of Yorkshire
Northumberland
North Somerset
Sheffield
South Gloucestershire
Milton Keynes
Barnsley
Doncaster
Newham
Bolton
Enfield
Waltham Forest
Manchester
Redcar and Cleveland
Portsmouth
Islington
Lewisham
Southampton

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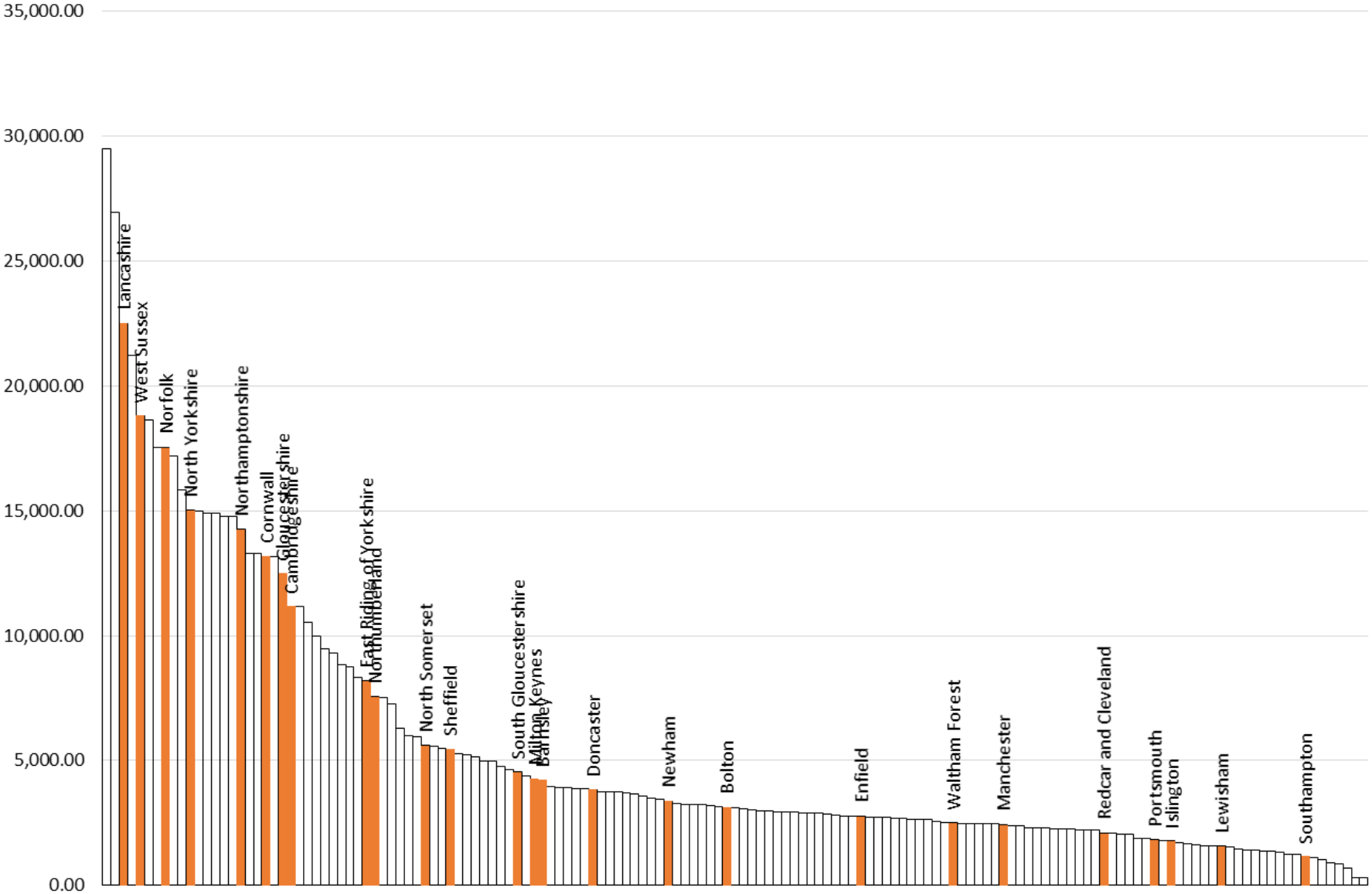
Over-65 Population Change (2013 to 2019 Projection),

Projected Growth in Over-65 Population (2014 = 100)

Change in taxbase (2013 to 2016)
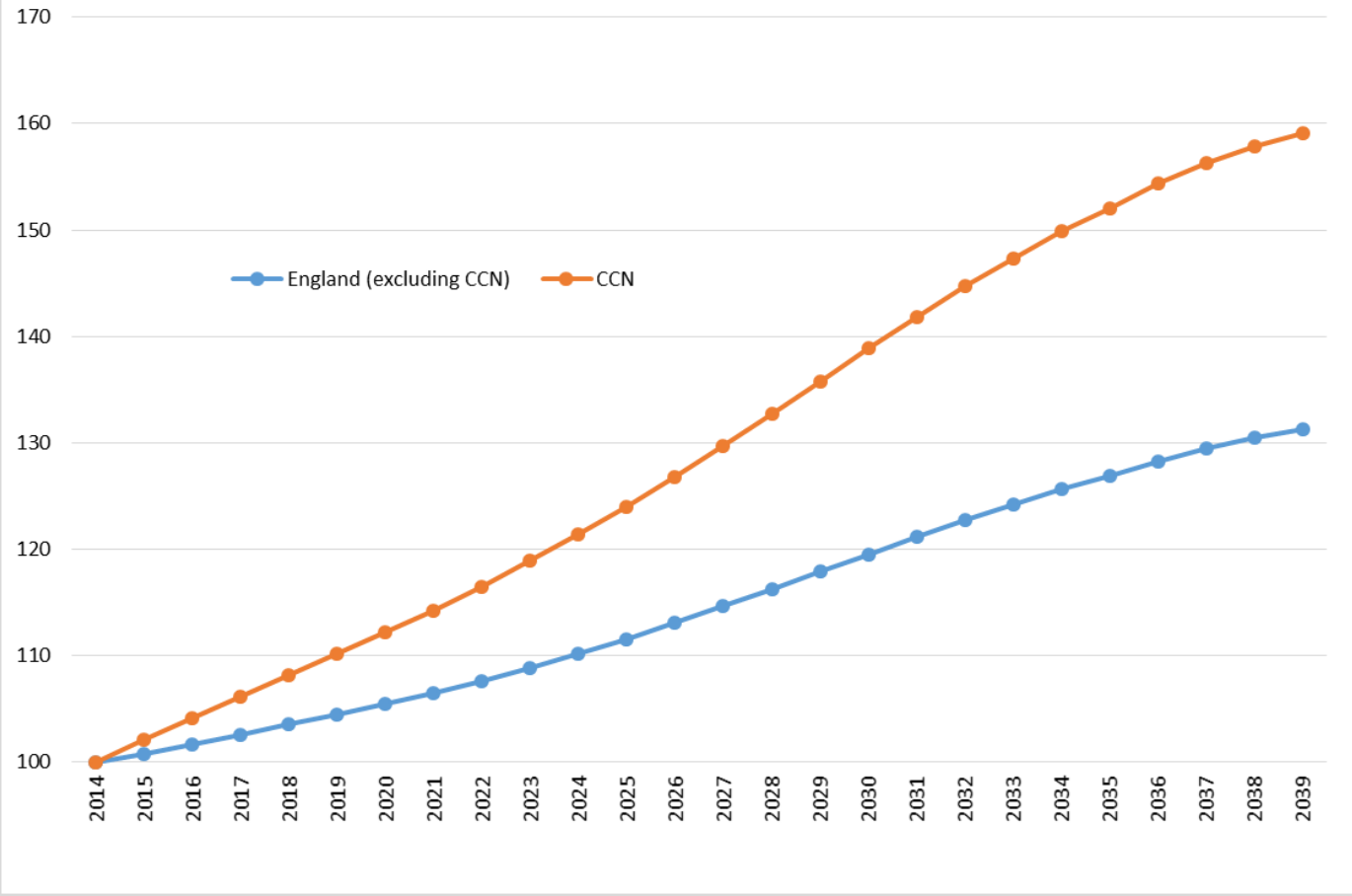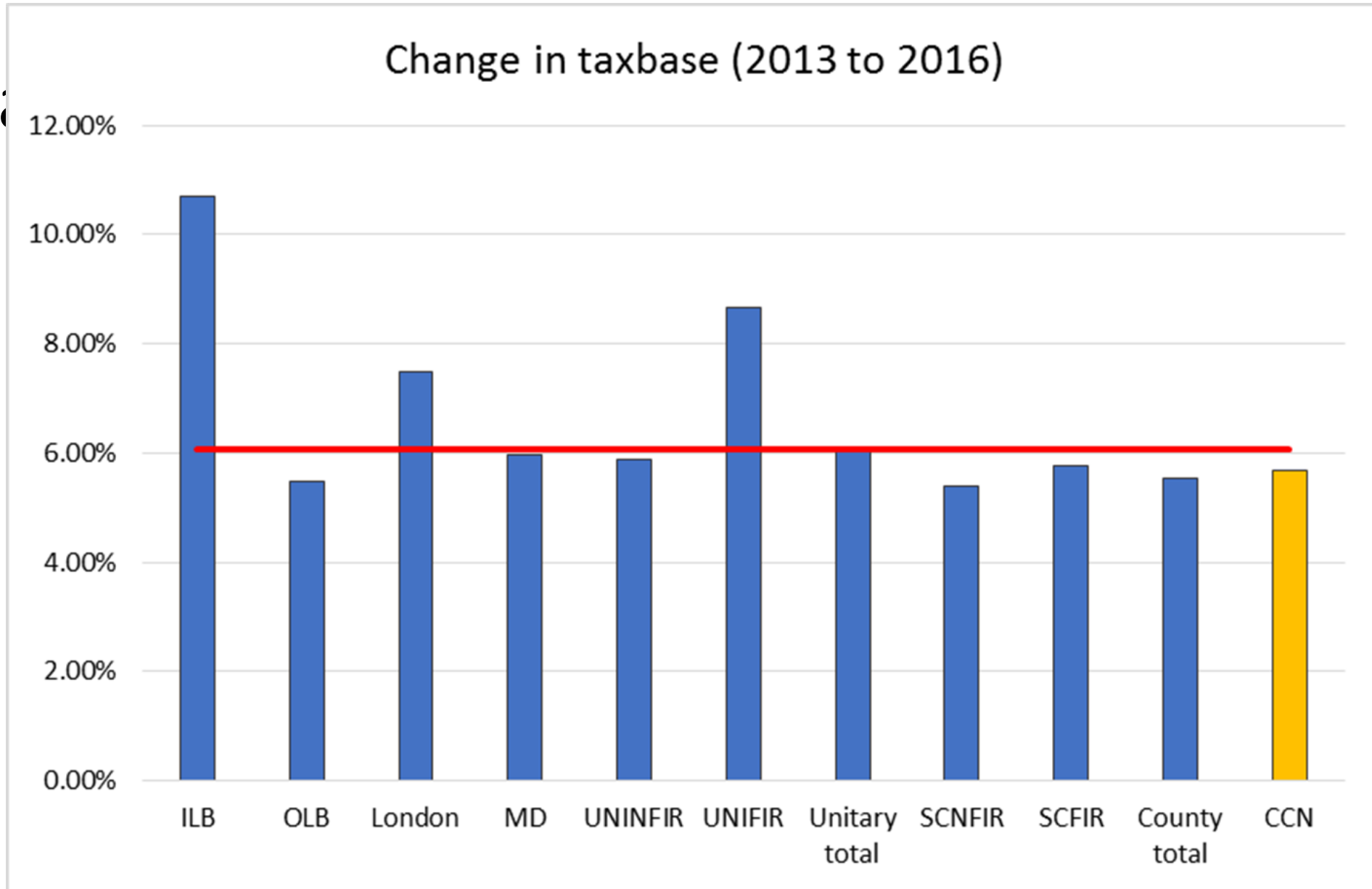
Taxbase Change (2013 to 2016 actuals), Upper Tier Authorities
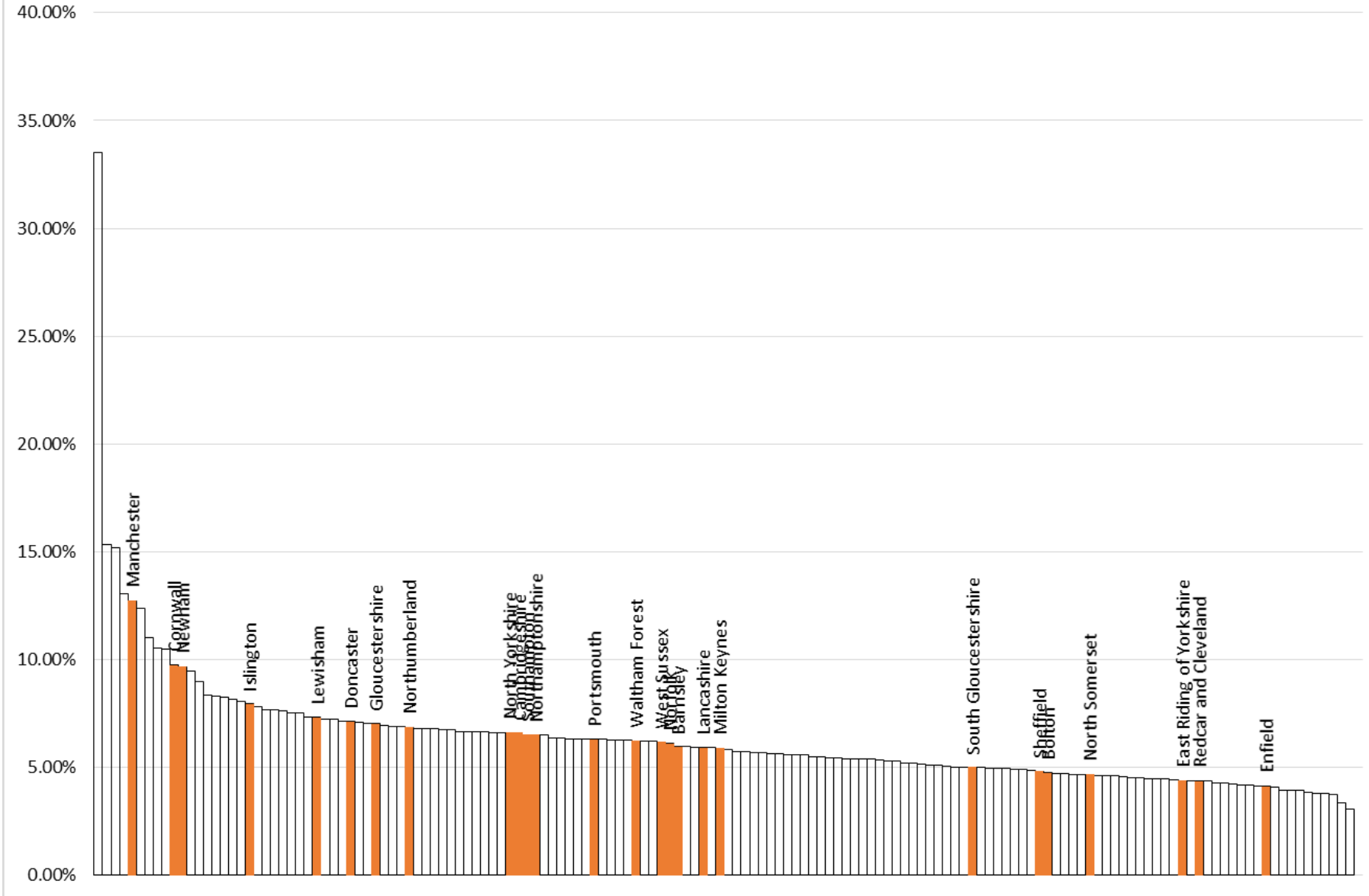
Taxbase Change (2013 to 2019 Projection), Lower Tier Authorities
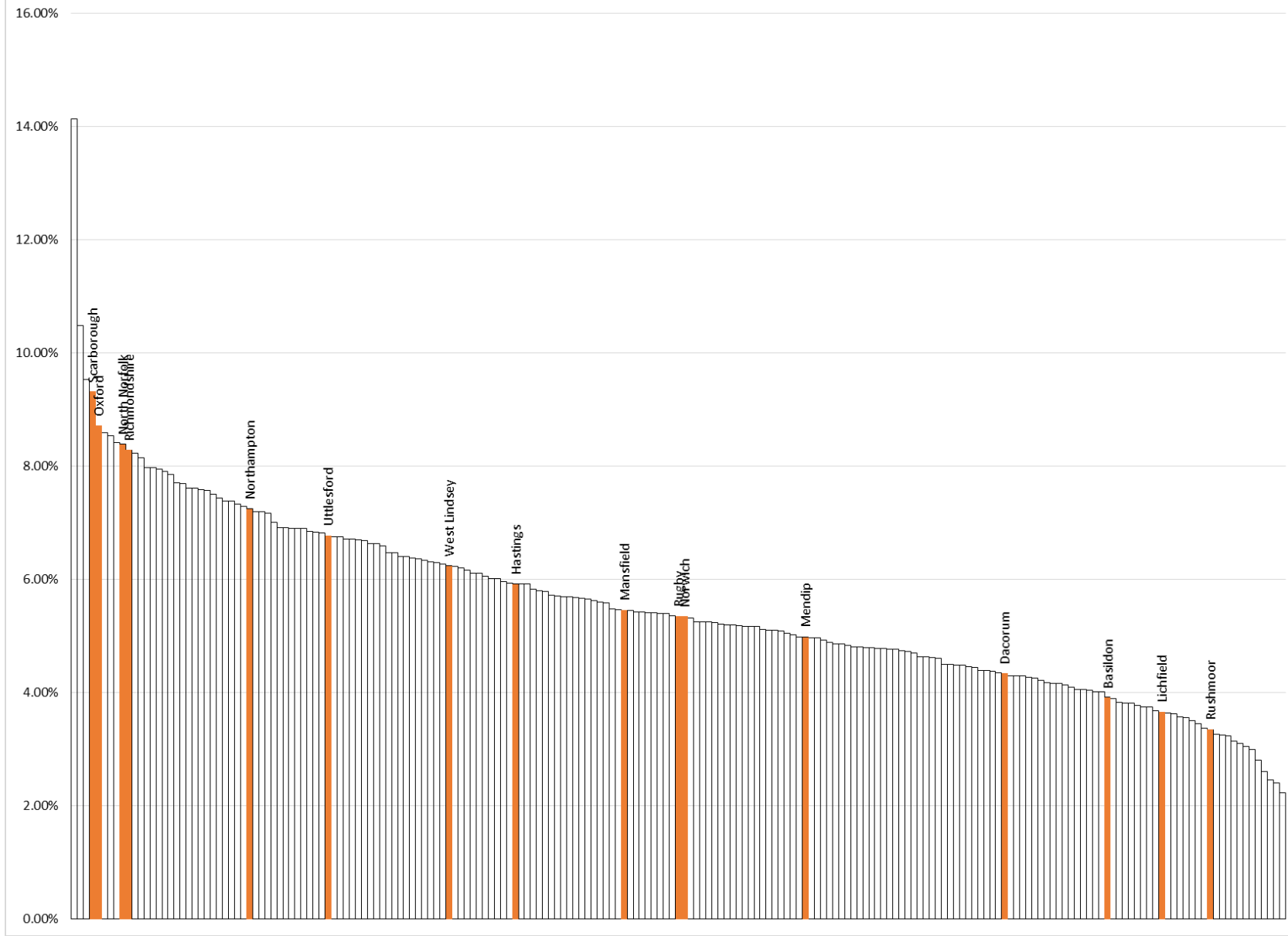
"Flatter" funding formula

Relationship between "needs" block and "resources" block

Those authorities towards right-hand side: prefer flatter formula

[West Sussex: Needs = Resources]

Those towards left-hand side: higher need, and lower resource. Prefer both "needs" and "resource" block to be as high as possible

[Newham: Needs 3x higher than resouces]

Districts almost all prefer flatter formula

Needs Block (+ve) versus Resources Block (-ve)
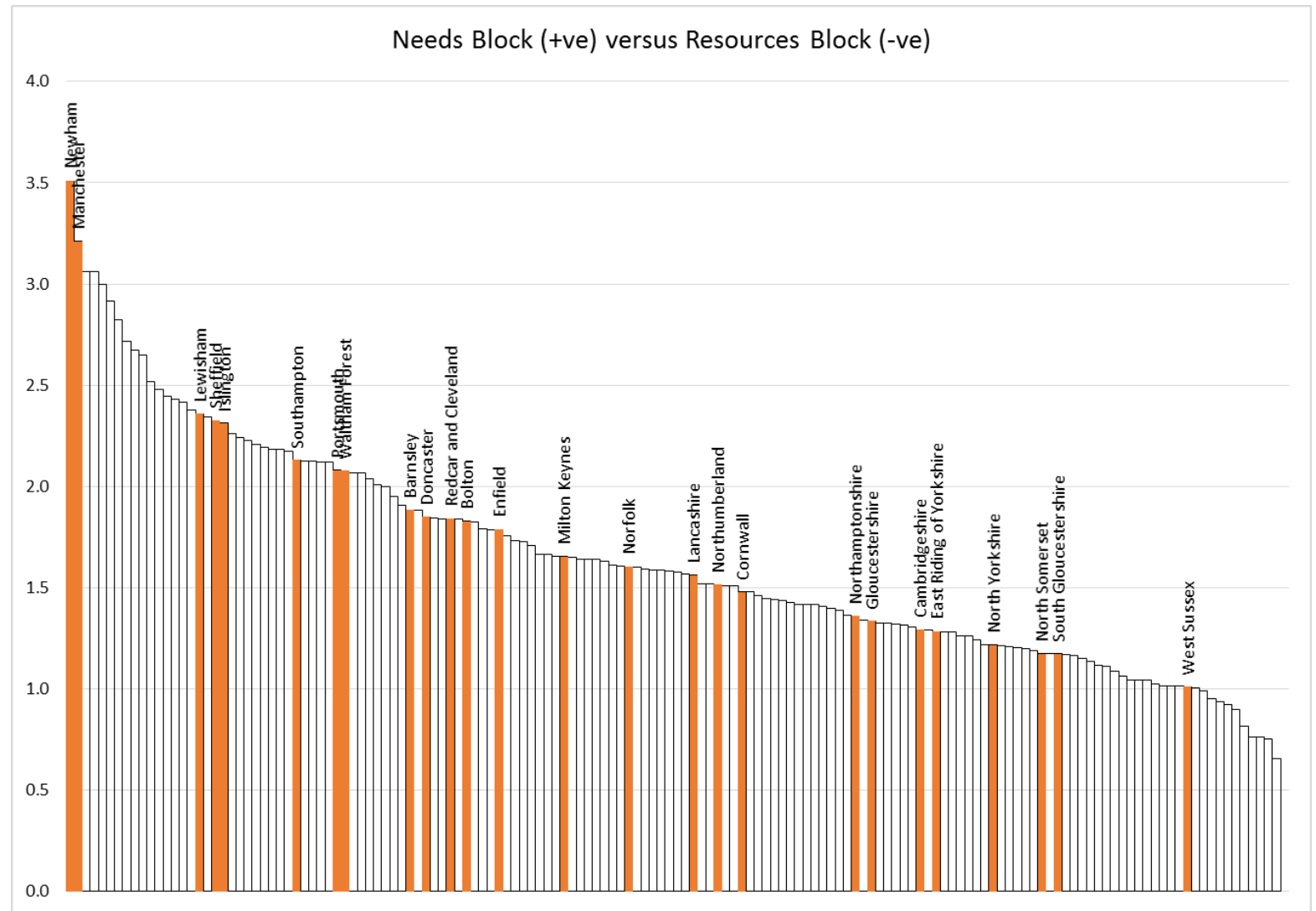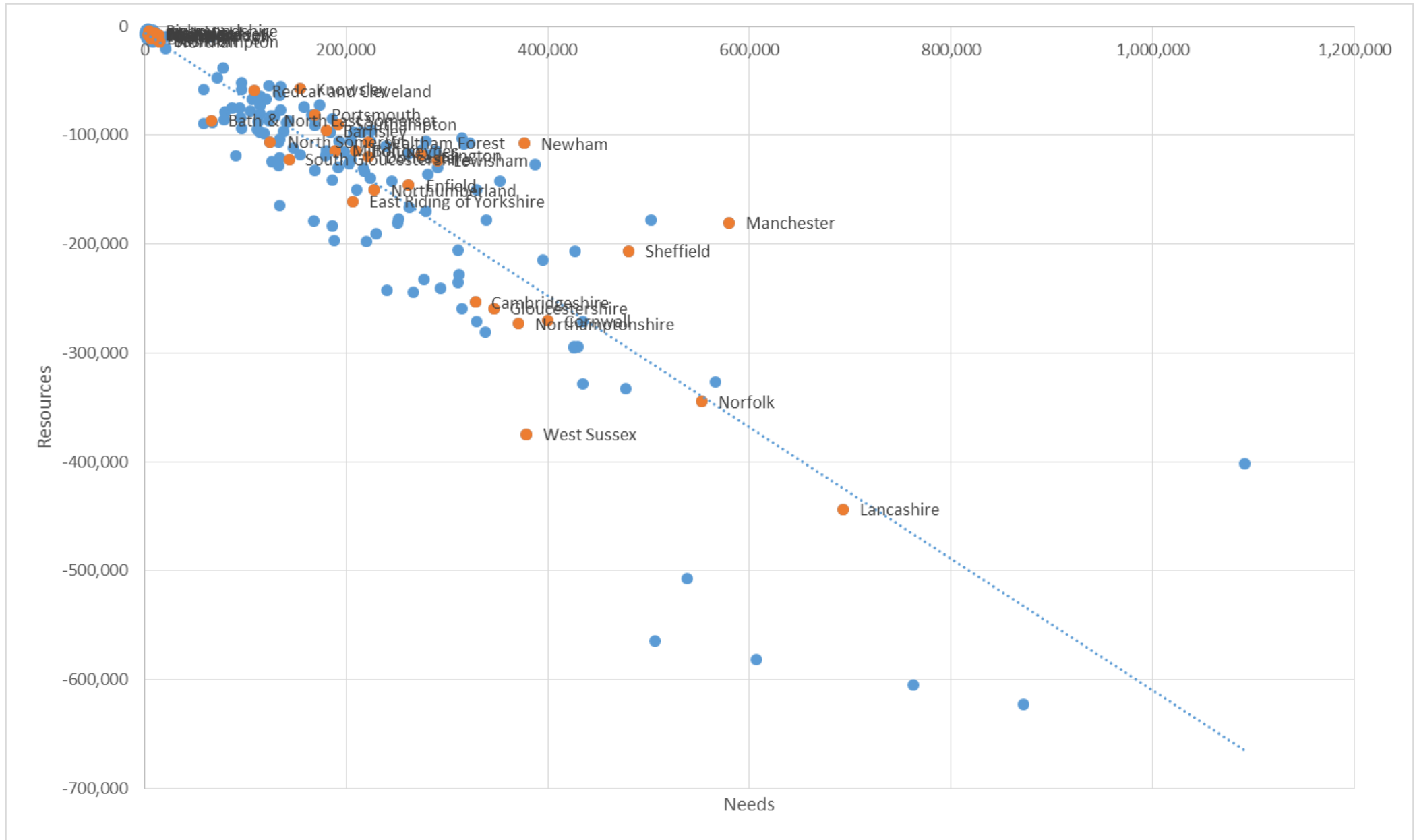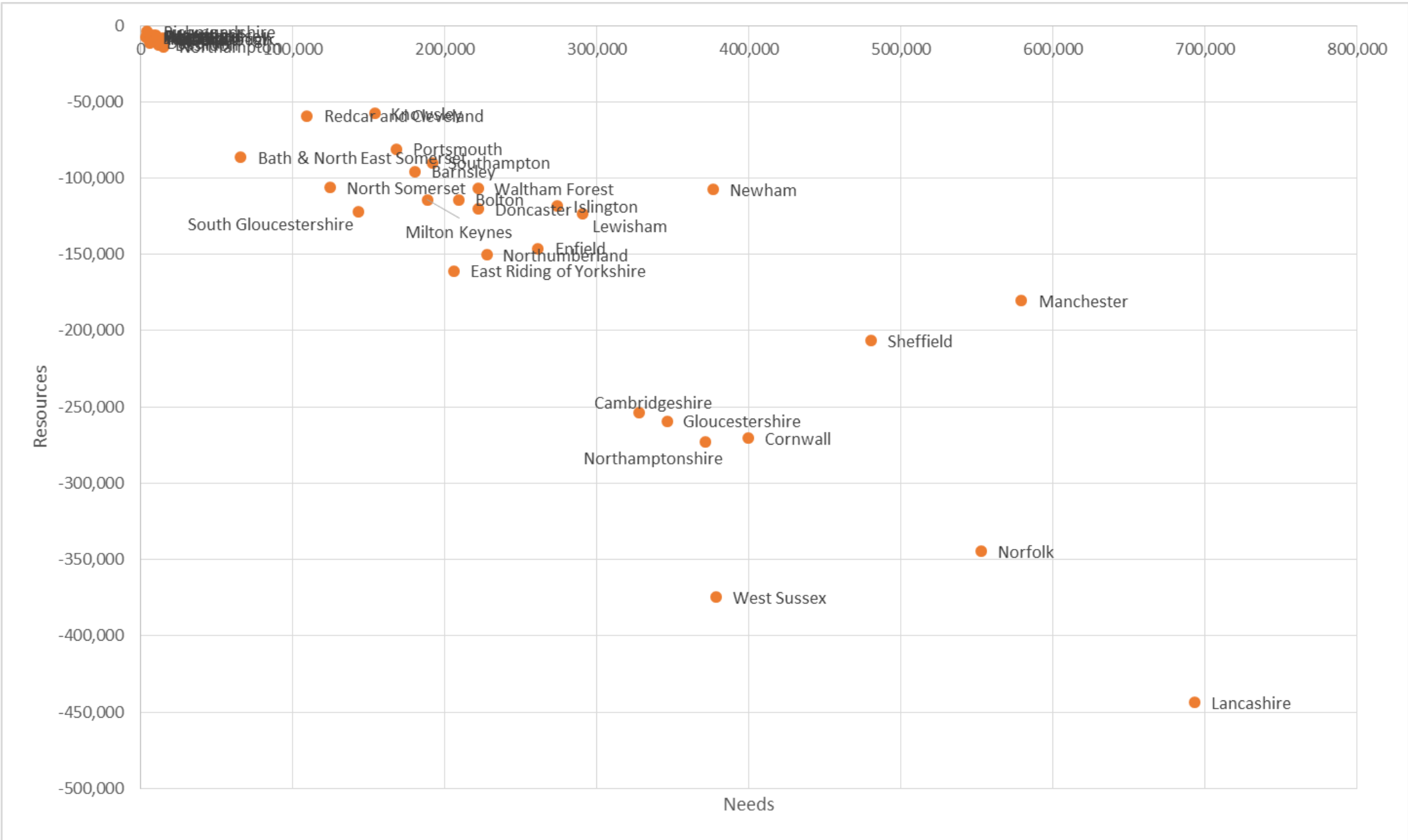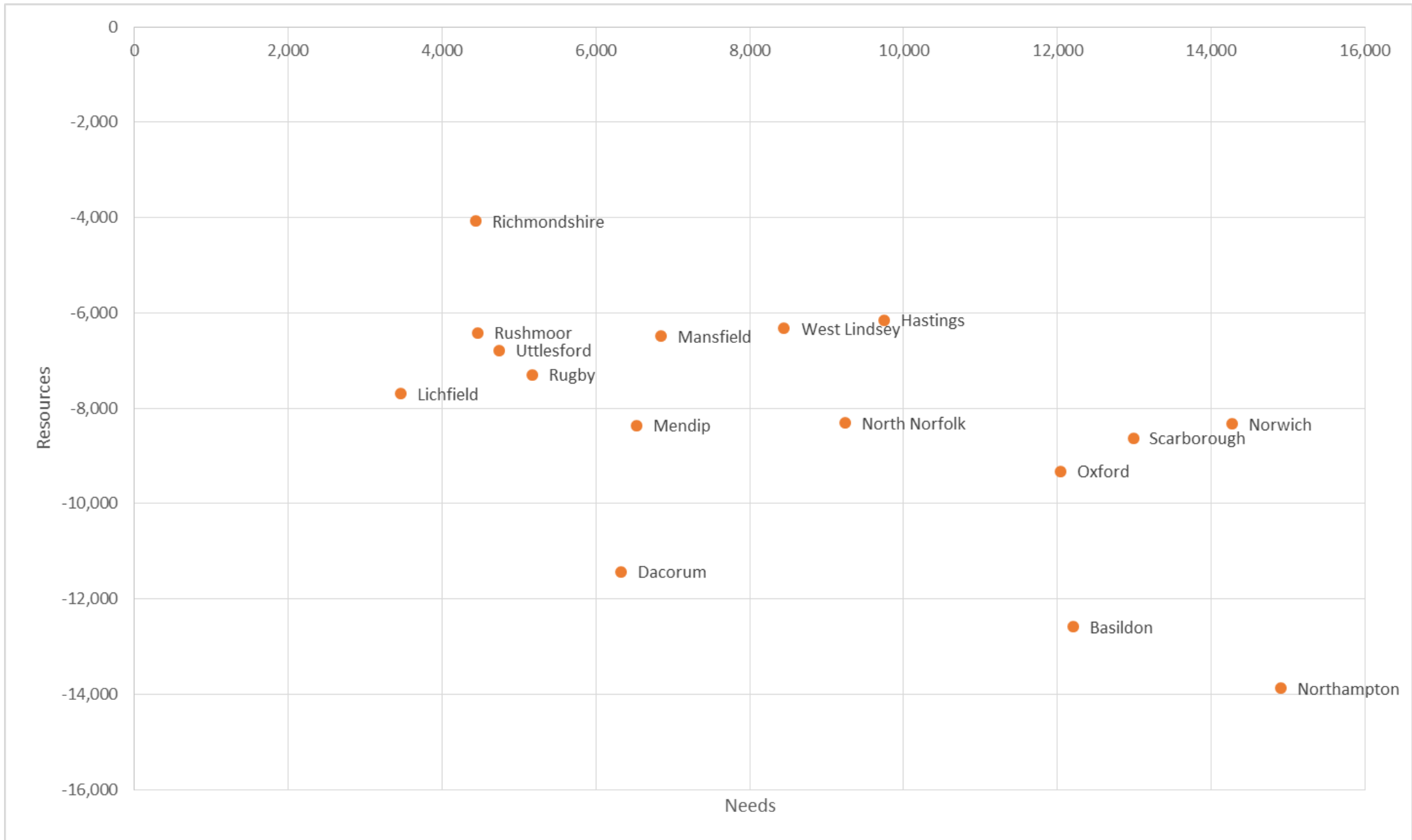
Speculative change SFA changes

Good for:

Inner London (very high population growth)

Mets (very low resource deduction)

Bad for:

Districts (high resource deduction, low share of important service blocks)

Settlement Funding Assessment (SFA) 2013-14 to 2020-21

Legend: SD, OLB, Met, Unitary, ILB, SC, CCN
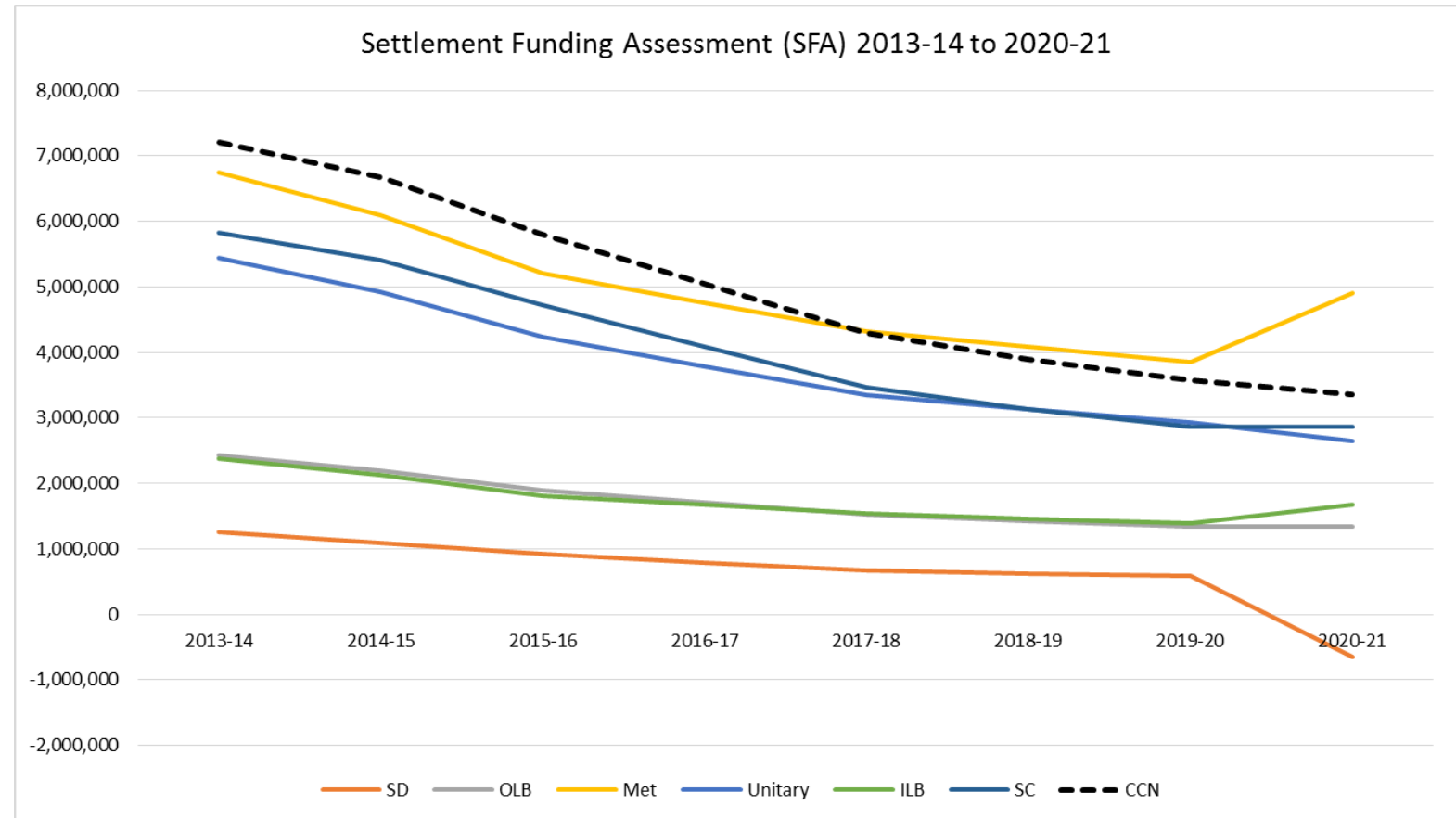
Projected change SFA changes

Increase share for district EPCS...

Good for:

Increases share for Mets and boroughs

Bad for:

Districts and for counties

Small decisions can have a big impact!

Settlement Funding Assessment (SFA) 2013-14 to 2020-21

Legend: SD, OLB, Met, Unitary, ILB, SC, CCN
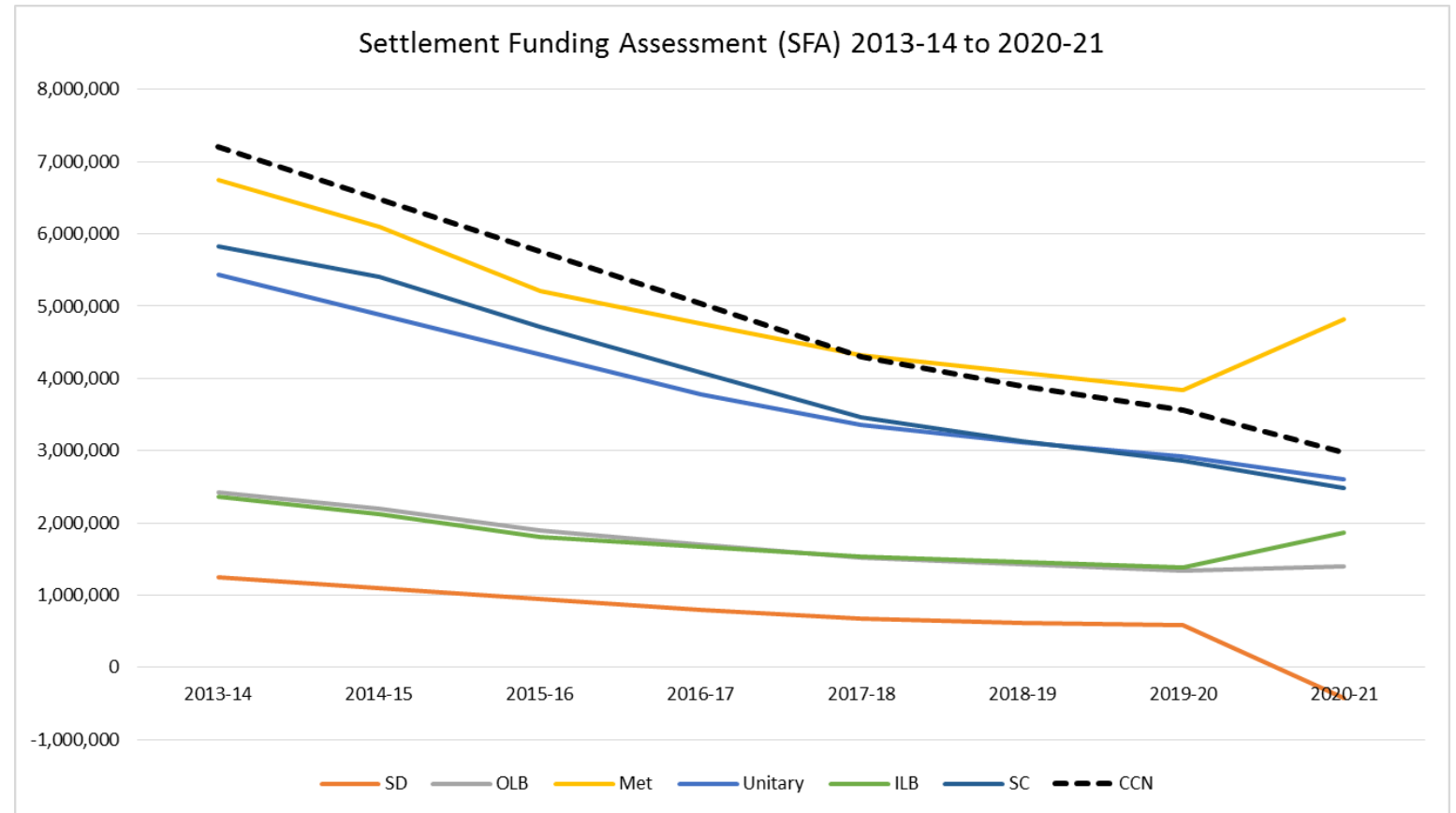
Speculative change in SFA and CSP at local authority level

To follow…

Four slides with charts

These are very speculative and almost certainly over-state the change in SFA – but they do indicate the likely direction of travel
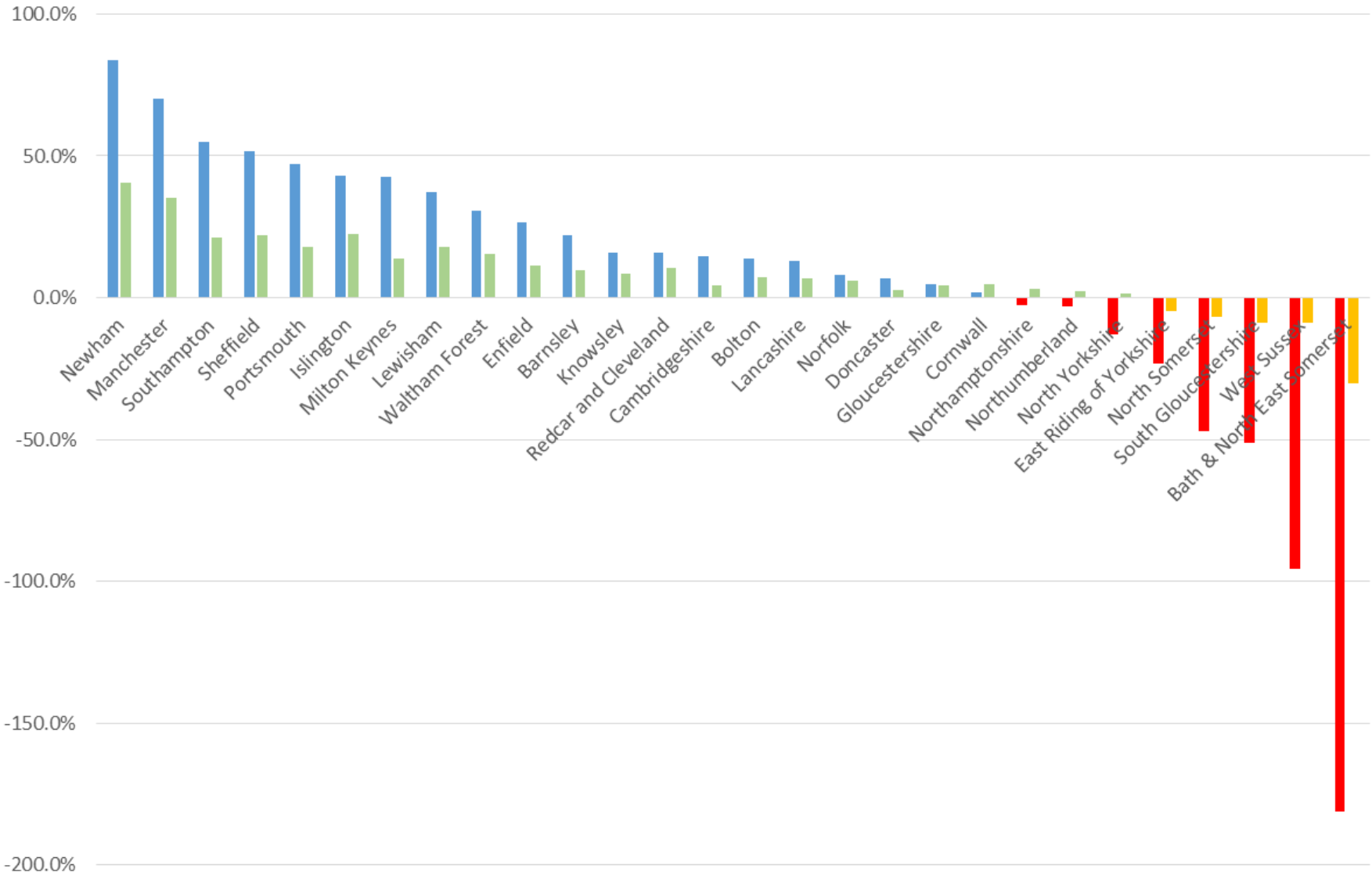
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Speculative change in SFA and CSP in 2020-21

Speculative change in SFA in 2020-21

Speculative change in SFA and CSP in 2020-21

Speculative change in SFA in 2020-21

Legend: Scarborough, Norwich, Hastings, West Lindsey, Oxford, North Norfolk, Richmondshire, Northampton, Mansfield, Basildon, Mendip, Rushmoor, Rugby, Uttlesford, Dacorum, Lichfield
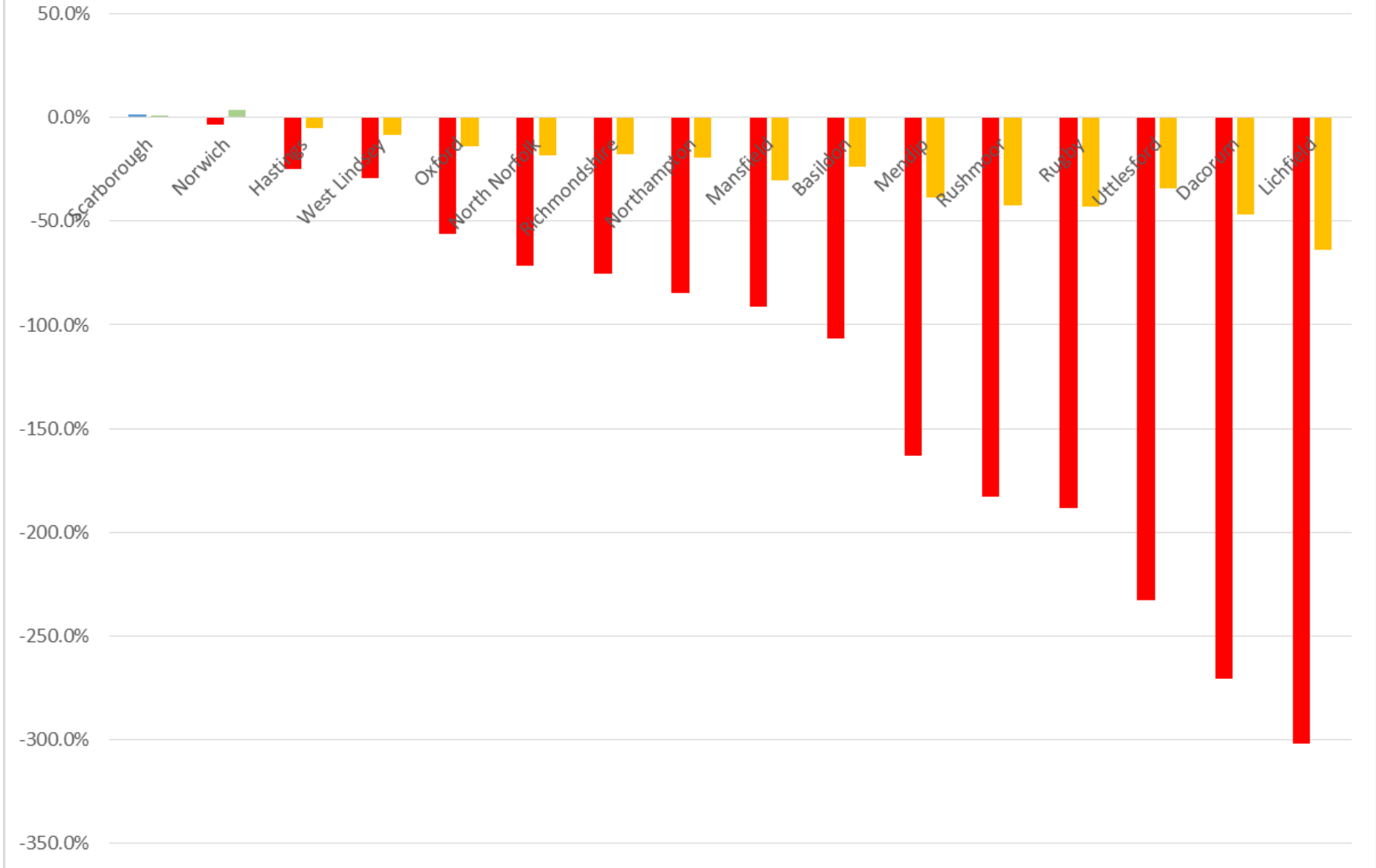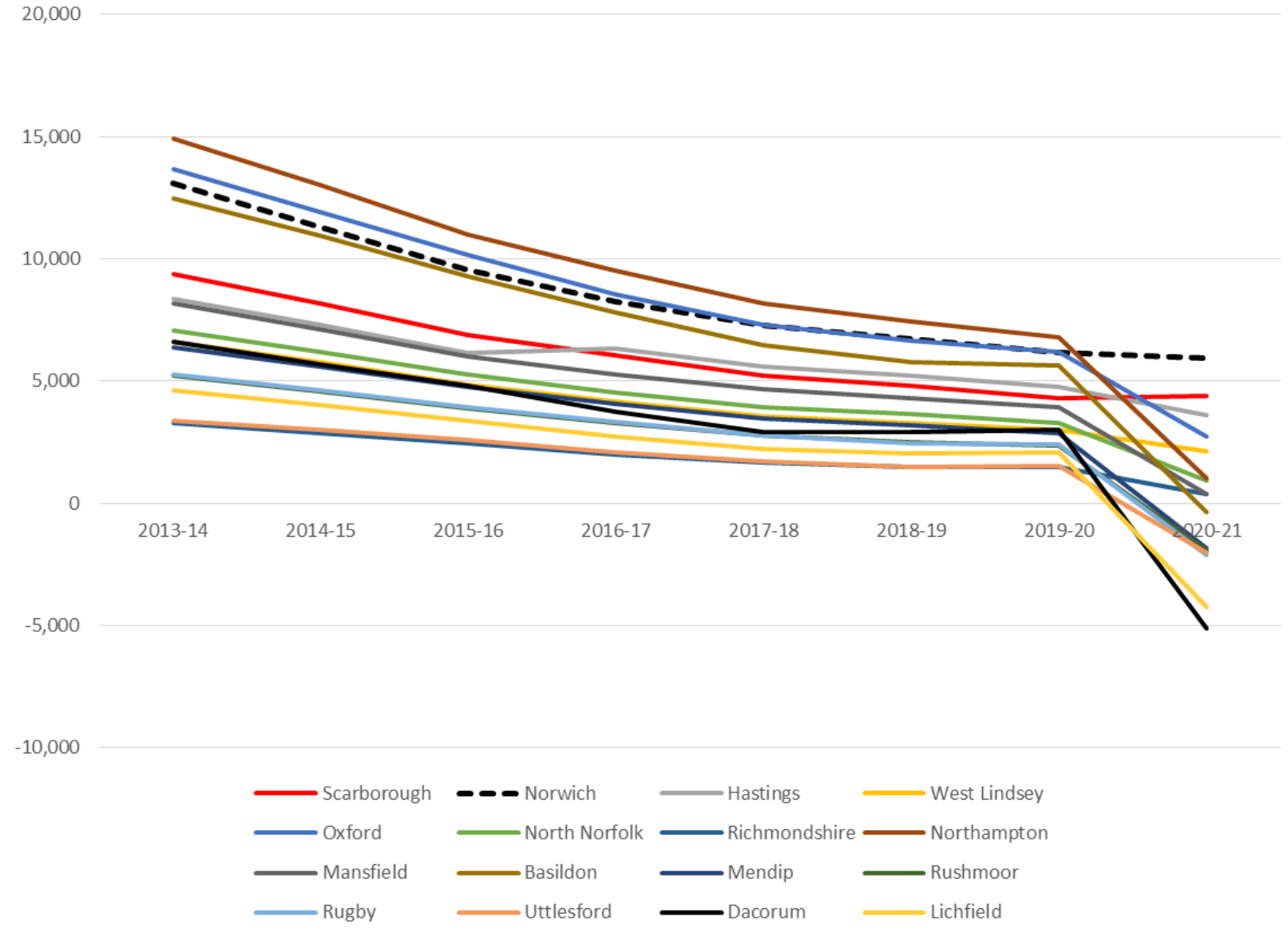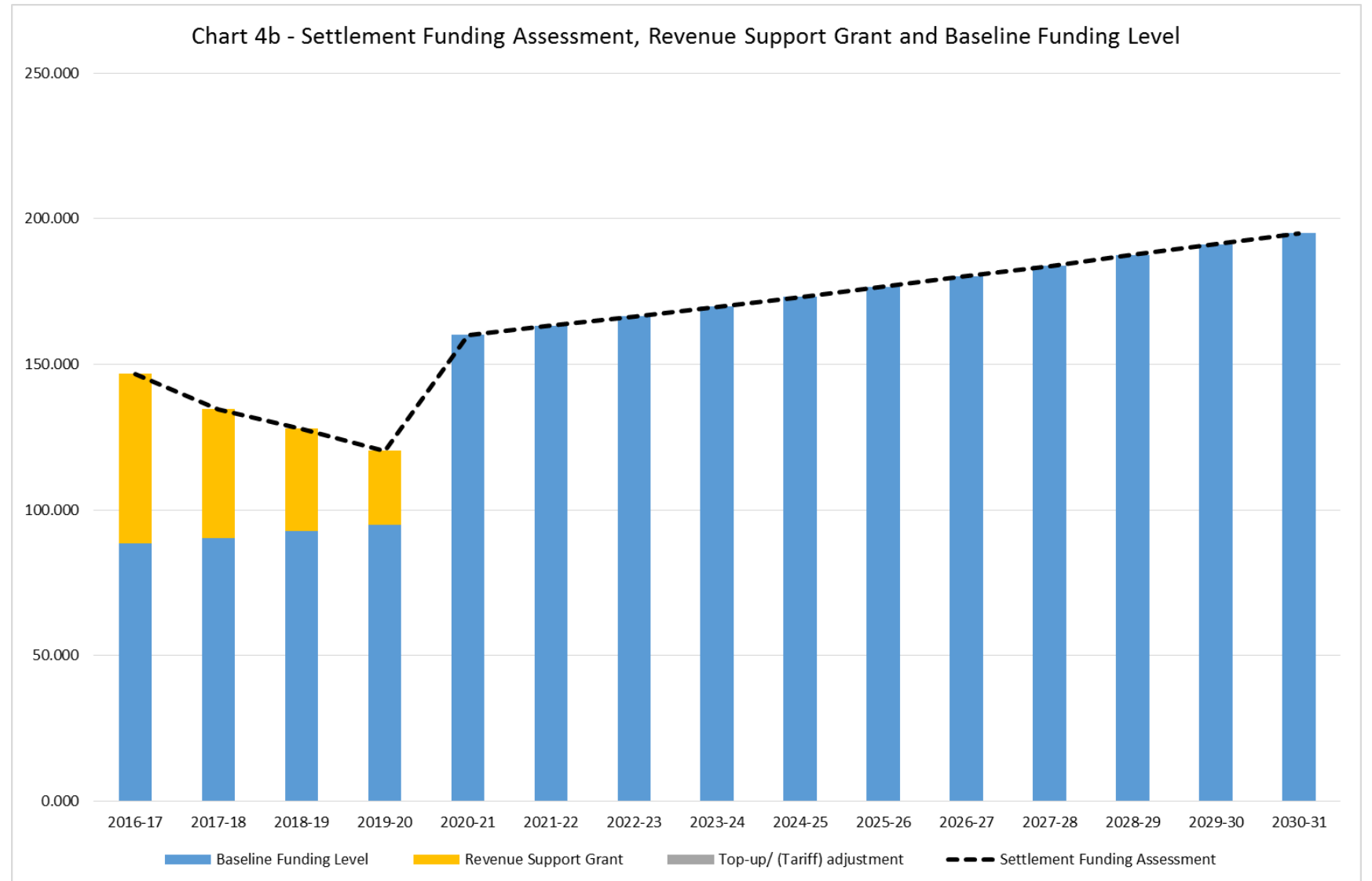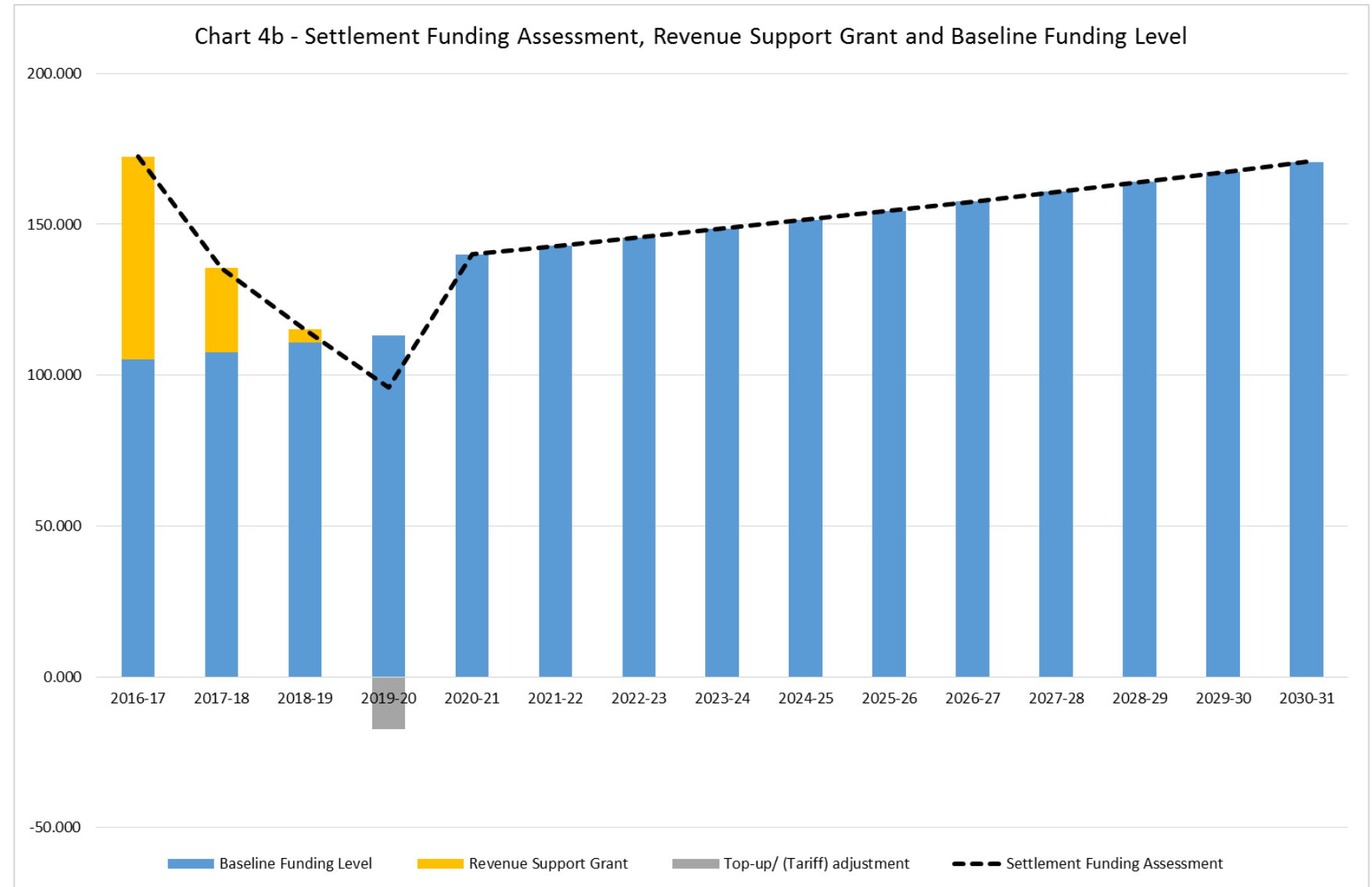
Negative RSG

- FFR effectively wipes-out the effect of "negative RSG"

- Government possibly going to address in 2019-20

- Question about whether it is included in the damping

An authority not receiving "negative RSG"

Chart 4b - Settlement Funding Assessment, Revenue Support Grant and Baseline Funding Level

An authority receiving "negative RSG"

Chart 4b - Settlement Funding Assessment, Revenue Support Grant and Baseline Funding Level

Integrating FFR with MTFP model

- Estimated change in SFA (will change RSG or BFL, and result in changes to top-ups and tariffs)

- Other changes in specific grants and council tax

- Incentive-based funding – BRRS, New Homes Bonus

- Damping

How might damping work?

- Some general principles

- Funding streams to include

- Potential minimum and maximum change

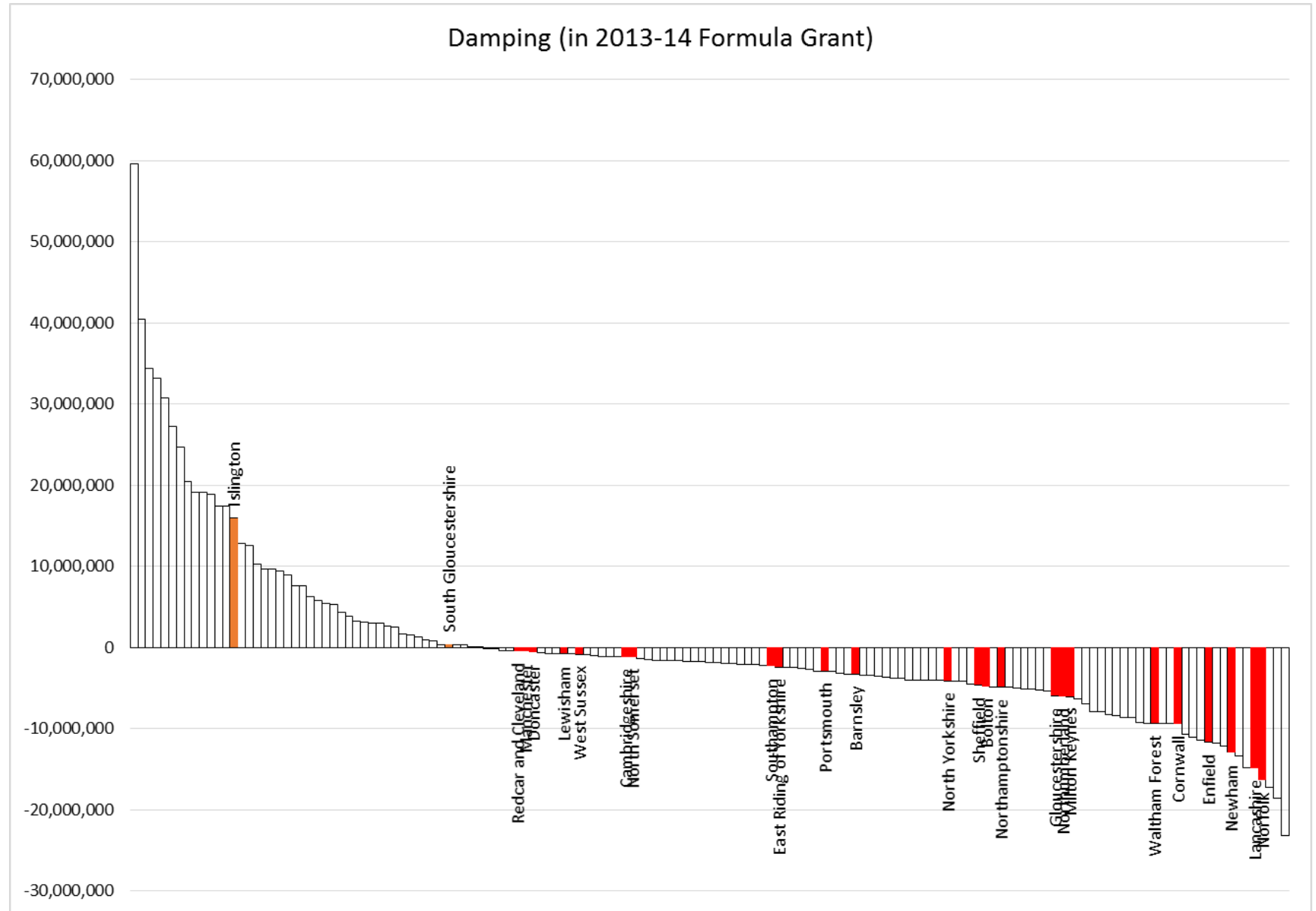- Time period for implementation (4-5 years)

Damping

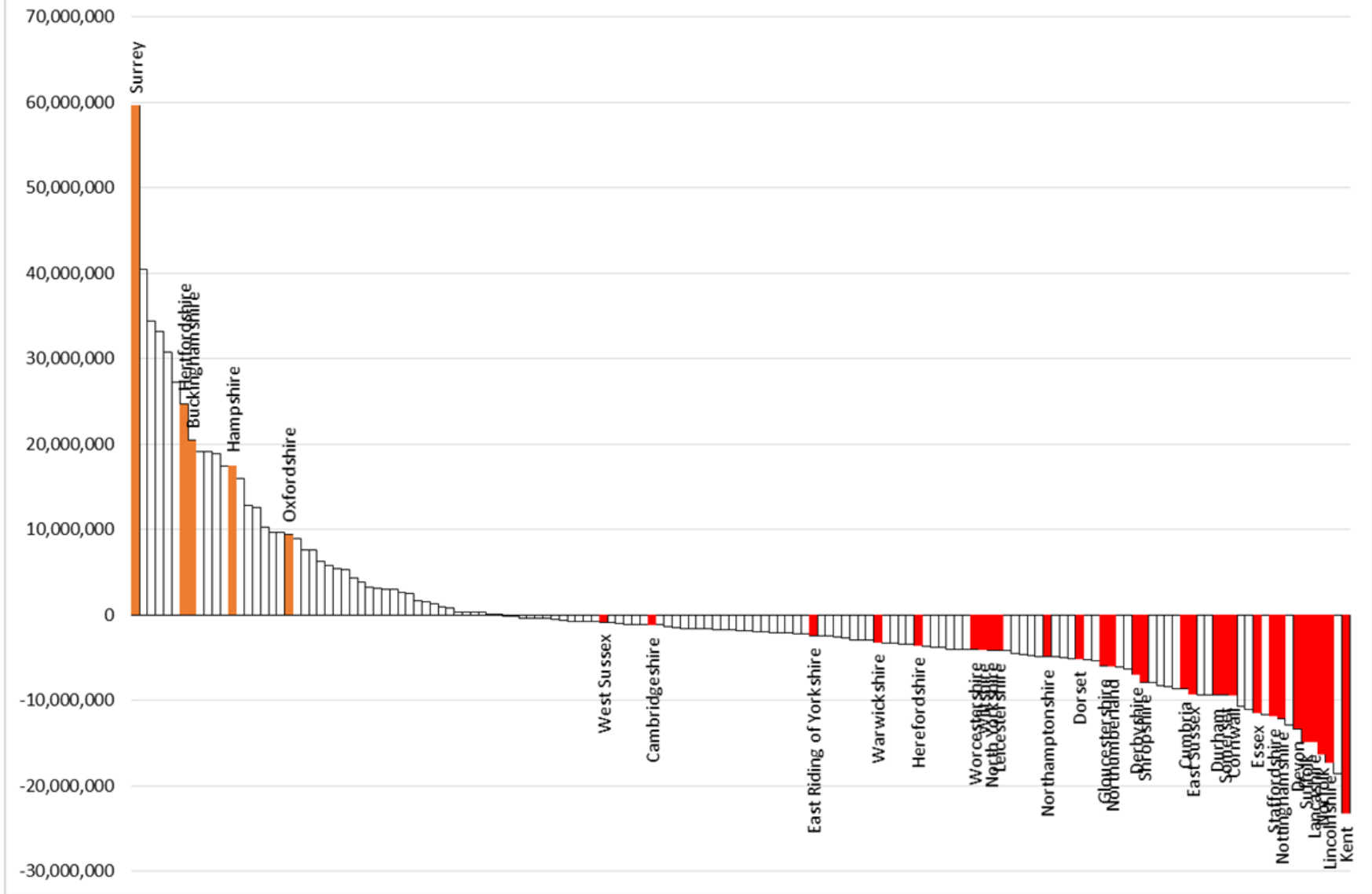Legacy of the 2005 formula changes (and others at various times)

Likely to be phased-out from 2020-21

UPDATE for attendees

Difficult to resist argument for phasing-out existing damping but (a) done over a reasonable timescale and (b) ensuring proper future allocations

Damping (in 2013-14 Formula Grant)

Damping (in 2013-14 Formula Grant)

Funding streams to include…

|		
Baseline Funding Level (i.e. business rates at baseline)	Core funding	Yes
Compensation for under-indexing the multiplier	Core funding	Probably
Business rate growth (pre-baseline reset)	Incentive funding	Possibly
Levy	Incentive funding	Possibly
Safety Net	Incentive funding	Possibly
Council Tax (standard)	Core funding	Yes
Council Tax (adult social care precept)	Specific funding	Probably
Revenue Support Grant	Core funding	Yes
Rural Services Delivery Grant	Core funding	Yes
New Homes Bonus	Incentive funding	Possibly
Top-up/ (Tariff) adjustment	Core funding	Possibly
Public Health Grant	Specific funding	Yes
Improved Better Care Fund (Original Allocation)	Specific funding	Probably
Improved Better Care Fund (Budget 2017)	Specific funding	Probably
Additional Adult Social Care Grant 2017-18	Specific funding	Probably
Additional Adult Social Care Grant 2018-19	Specific funding	Probably

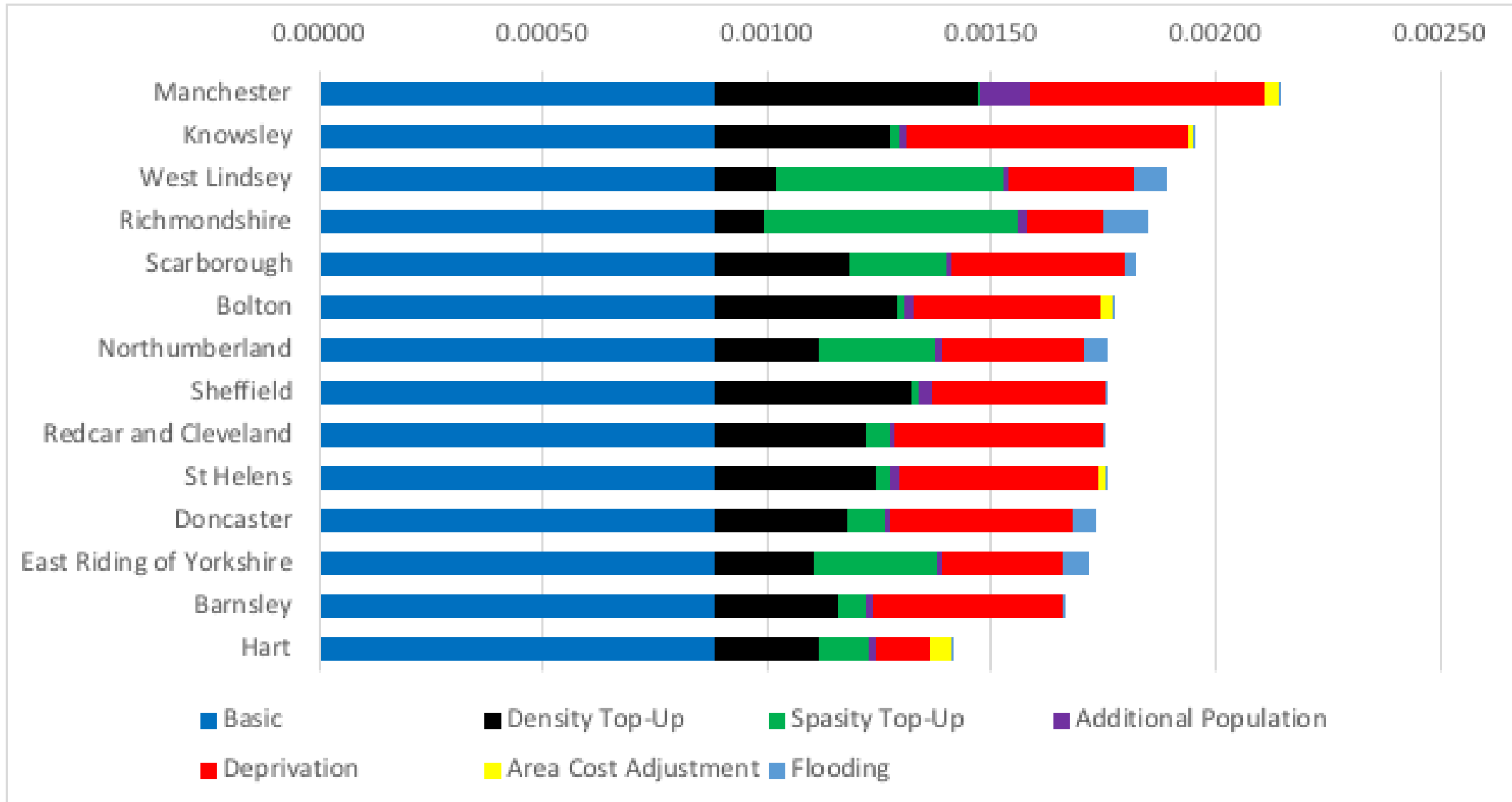# Implications for individual authorities

Dan Bates

Looking Forward

- **Two significant sets of variables in needs formula**
  - Population and population change – a significant proportion of needs is driven by relevant population, both in total and for specific groups, and therefore population changes since 2013 will be a significant determinant of changes to funding.
  - Indicators
    - **Basic Amount**
    - **Deprivation Top-Up**
    - **Sparsity** and **Density**
    - **Area Cost Adjustment**
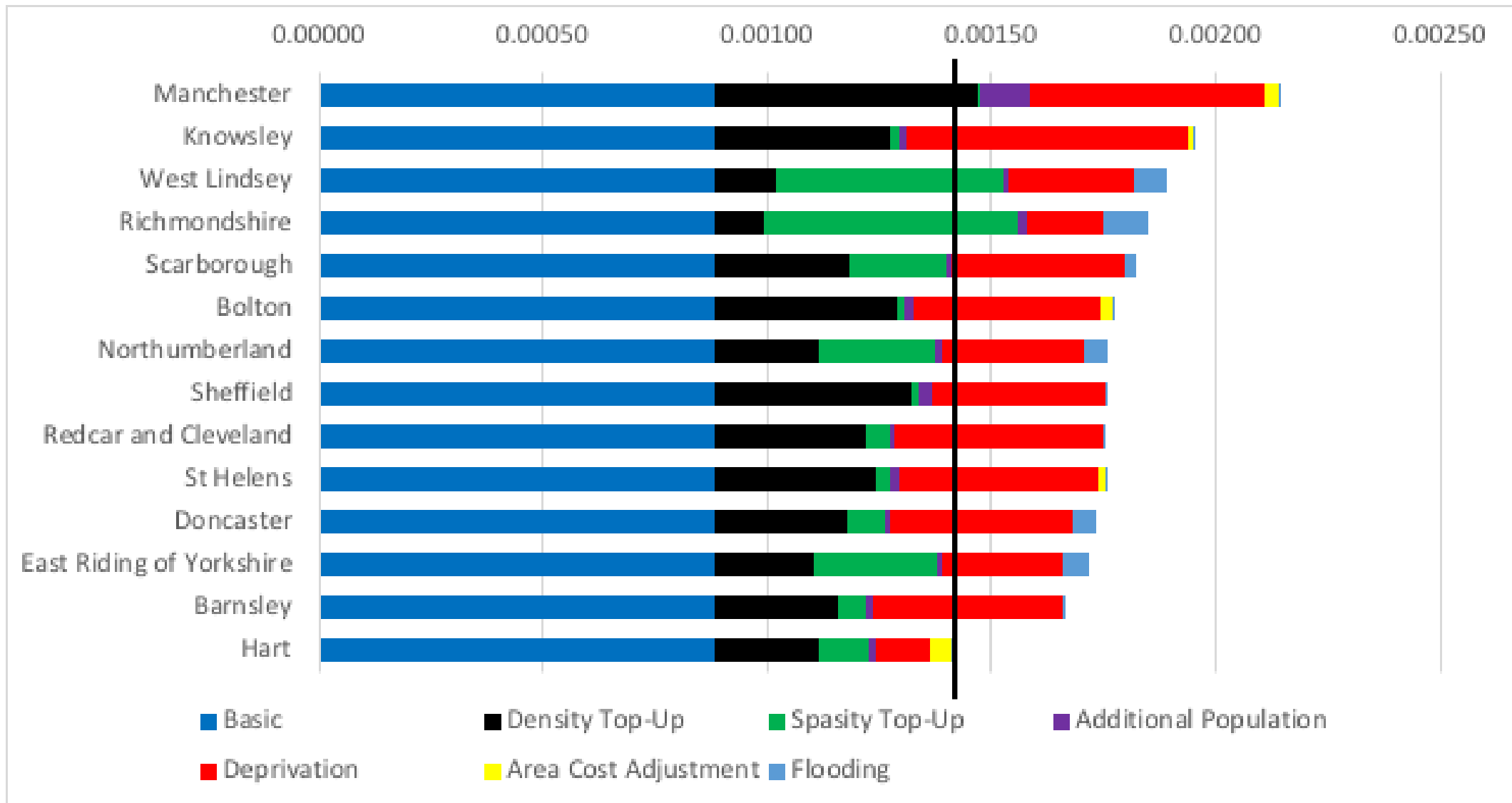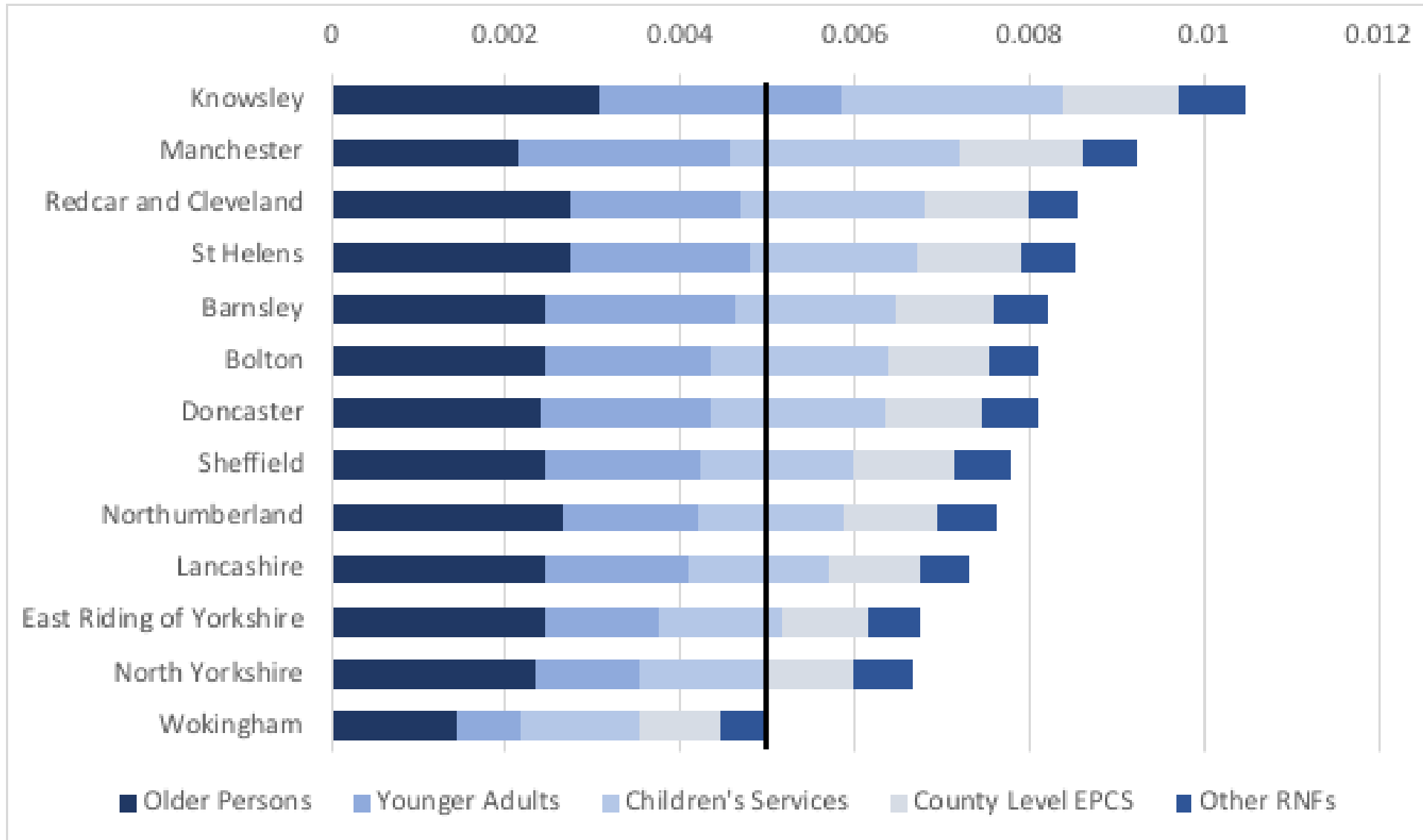   - **Various Others**

Population
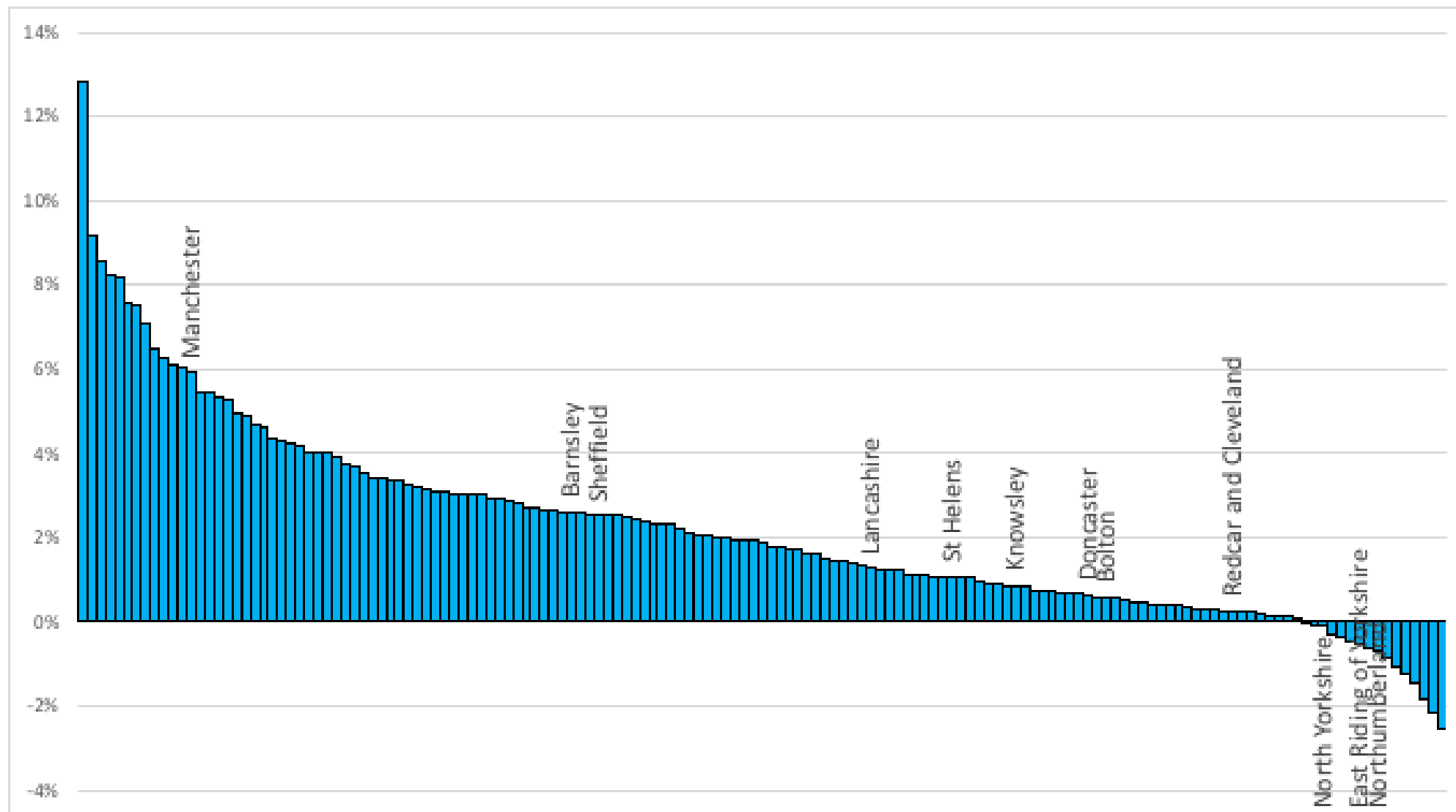
Lower Tier EPCS RNF per head: 2013/14 – likely to be foundation formula

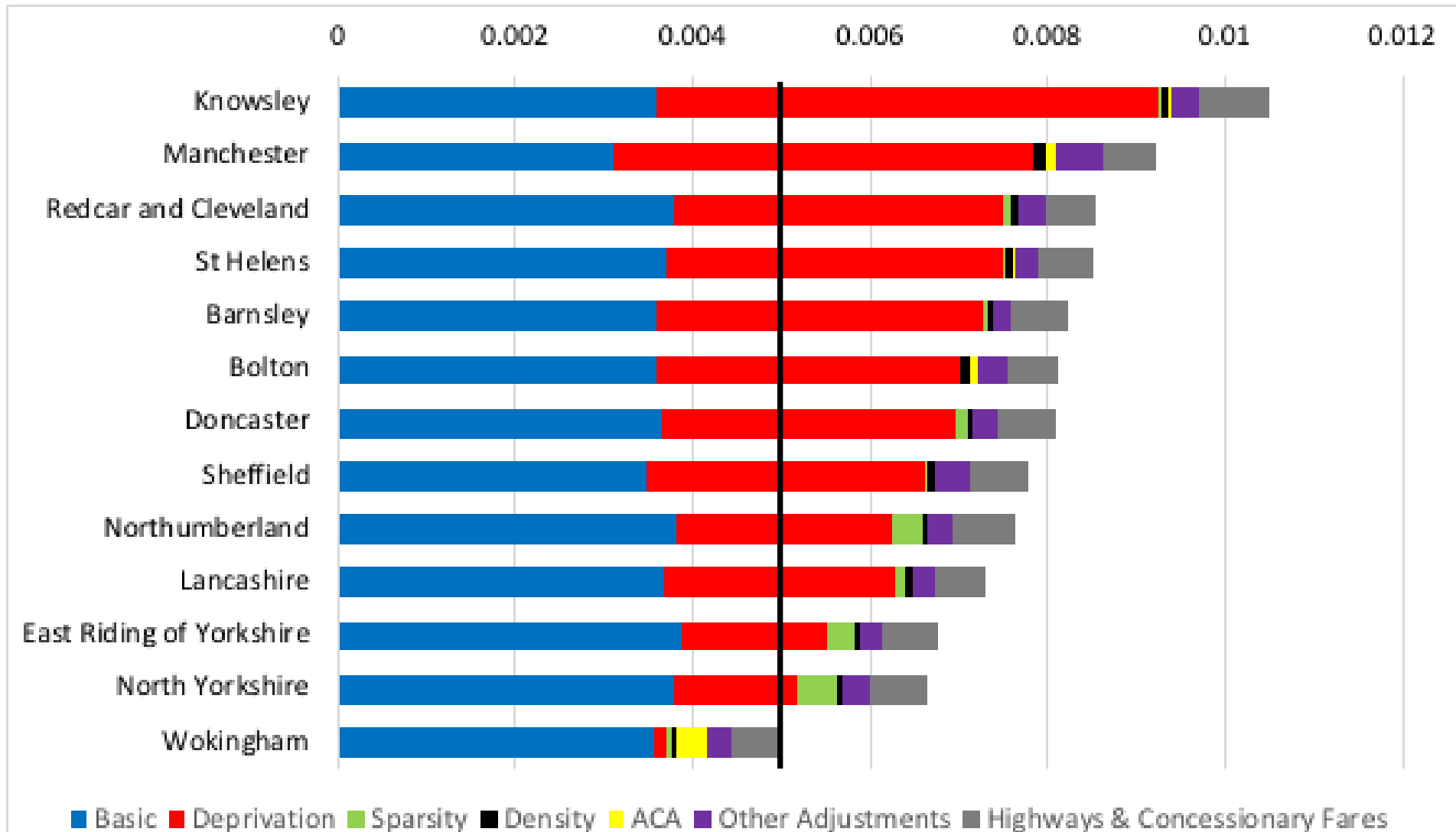Lower Tier EPCS RNF per head: 2013/14 – likely to be foundation formula

Legend:
- Basic
- Density Top-Up
- Spasity Top-Up
- Additional Population
- Deprivation
- Area Cost Adjustment
- Flooding

Upper Tier EPCS RNF per head: 2013/14 – mainly specific formulae

Upper Tier EPCS RNF per head: 2013/14 – mainly specific formulae

WORKSHOP 1 – UPPER TIER AUTHORITIES

WORKSHOP 2 – DISTRICT COUNCILS

Adrian Jenkins/ Dan Bates

Questions to consider in workshops...

- What overall approach would your authority benefit from? Flatter, simpler formula? More complexity? Regression against past expenditure?

- What should be the balance between funding needs and rewarding growth (incentives)?

- Which top-up and indicators are of most benefit to you? Are there any services that you think should be funded via a separate formula?

- What is a reasonable damping regime?

- Make use of the evidence available in the slides

PIXEL
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Plenary Session

Adrian Jenkins and Dan Bates

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