



Department for
Communities and
Local Government

Call for Evidence on needs and redistribution

Summary of responses received and Government response



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Introduction

1. Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.
2. Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures, the Government last year announced a fair funding review to address concerns about the fairness of current funding distributions. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities should be assessed in a world in which they will continue to have greater control over the money that they raise.
3. On 5 July 2016 the Department for Communities and Local Government (DCLG) published a Call for Evidence on needs and redistribution.¹ The Call for Evidence asked 14 questions that were deliberately open; seeking views from local authorities, businesses, the public and other interested parties on a range of issues. The themes covered in the Call for Evidence were:
 - the approach to measuring relative need,
 - the treatment of growth in local taxes,
 - issues around transitioning to a new distribution of funding,
 - the geographical level at which need could be measured, and
 - the potential to implement incentives within the local government finance system.
4. The Call for Evidence closed on 26 September 2016, by which time a total of 209 responses had been received from a wide range of respondents including individual and representative groups of local authorities, health and voluntary sector organisations, other interested parties and members of the public.
5. A breakdown of the responses received is shown below in Table 1.

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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/534956/Discussion_document_-_Needs_and_Redistribution.pdf

Table 1 – Responses received to Call for Evidence

Organisation / Groups	Total number consulted	Responses received	Response rate	Proportion of all responses
GLA	1	1	100%	0%
Shire Counties	27	24	89%	11%
Metropolitan Districts	36	26	72%	12%
Combined Authority	6	4	67%	2%
London Boroughs	33	20	61%	10%
Unitary Authorities	55	30	55%	14%
Shire Districts	201	71	35%	34%
Fire Authorities	29	4	14%	2%
Local Authority Association	-	1	-	0%
Special Interest Group	-	7	-	3%
Other LA Grouping	-	10	-	5%
Health Sector Organisation	-	4	-	2%
Voluntary Organisation	-	2	-	1%
Member of the public	-	2	-	1%
Other	-	3	-	1%

6. The Government is grateful for the views shared during the Call for Evidence, which have been carefully considered in writing the consultation on relative need, published alongside this paper.²

7. This document sets out a summary of the responses received and outlines, where appropriate, the Government response. As a summary, this paper does not attempt to capture every point made during the Call for Evidence process. Unattributed quotes have been included from the responses received for illustrative purposes. All quotes are set out in “quotation marks” and formatted in *italics*.

² <https://www.gov.uk/government/consultations/fair-funding-review-a-review-of-relative-needs-and-resources>

Summary of responses

The approach to measuring relative need

8. The funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of authorities' relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.
9. Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. The Government therefore recognises the importance of addressing concerns about the fairness of current funding distributions.

Question 1.

What is your view on the balance between simple and complex funding formulae?

Question 2.

Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

10. Just over half (51%) of all responses to the first question were categorised as favouring simple funding formulas, whilst around a third (36%) preferred the use of more complex formulas.
11. Of the responses received, approximately two thirds of shire districts, county councils and London boroughs expressed a preference for a simple methodology. Respondents felt it would aid transparency and sustainability if the assessment was based on key underlying cost drivers and population statistics.

"(The) formulae need to be clearly linked to the activity they are being used to fund."

12. However, a majority of the respondents that were in favour of a simple methodology also indicated that they did not want simplicity to be at the expense of an approach which adequately reflected local needs.

"If a distribution can be achieved through a simpler approach that would be welcome but not if this is at the expense of fairness."

"The funding formula needs to be as simple as possible but also accurately reflect needs."

13. Of the respondents that were in favour of simple formulas, 16% specifically mentioned the use of a "flat per-head" funding allocation, to which additional funding could be added according to local needs and/or characteristics. A number of these respondents also highlighted the importance of any additional allocation being evidence-based.

"The starting point for the development of funding formulae should be that there is a standard amount of funding available per head across the country. Any additions to this flat per-head funding would have to be justified on the basis of evidence. The uplift in funding for any of these reasons would therefore be clear and transparent."

14. Two-thirds of metropolitan districts and a majority of unitary authorities, as well as the few combined authorities which responded, preferred a more complex approach. It was argued that a complex approach could add nuance and reflect varied local differences more accurately.

"Simplicity can often reduce bureaucracy. It can also fail to recognise the complexities that are inherent at a local level. We support that a funding formula must try to recognise these diverse local conditions and therefore support the level of complexity that is required to do so."

"A simple formula cannot accommodate the necessary detail to achieve fairness."

15. Many of these responses stated that transparency was a fundamental issue; with particular reference to the current approach which was perceived as being complex, yet unclear.

"Should be presented in a clear and transparent way, but simplicity should not be at the expense of accuracy"

16. In response to the second question, regarding which services require a more detailed approach, adult social care and children's services were specifically mentioned by 117 and 97 respectively out of a total of 173 respondents. Over 90% of metropolitan districts and unitary authorities specifically mentioned adult social care; as did 100% of the county councils which responded.

17. Unitary authorities specifically mentioned highways maintenance, public transport, concessionary fares, waste collection and waste disposal. Many shire

districts also made general reference to those services which they felt were more expensive to deliver in rural areas.

"There needs to be an assessment that takes into account the additional costs of delivering services in rural areas."

"For all services, the assessment should reflect the relative costs of providing services in different geographic areas"

Government response

18. The overall number of formulas used within the current methodology, along with the layers of complexity contained within them, means that they are little understood and may no longer hold the same relevance as when they were introduced. The review is an opportunity to identify the most important factors that drive the 'need to spend' on local services, and will aim to produce a relative needs assessment that is as simple as practicable.

19. It should be straight-forward for those affected by the relative needs assessment to understand what factors have influenced the levels of funding received by a local authority so that they can hold their local representatives to account for the decisions that they make. To support this we will make the links between local circumstances and funding allocations more visible.

Question 3.

Should expenditure based regression continue to be used to assess councils' funding needs?

Question 5.

What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

20. The current relative needs assessment methodology uses expenditure-based regression analysis to determine funding allocations. This statistical technique uses past expenditure data as a base proxy for local authority 'need', before analysing a large number of explanatory variables. We asked whether this technique should continue to be used and what other techniques we should consider using.

21. Of the responses to question three, 23% were categorised as being in favour of the continued use of expenditure-based regression.

22. A large majority of shire districts and counties, approximately two thirds of unitary authorities and half of London boroughs argued against this methodology on the basis that it preserves earlier funding decisions and local spending patterns, and therefore does not fully account for variances in future levels of need.

"Previous patterns in spending may not necessarily be representative of the actual need to spend of local authorities, and may well be dependent on whether such services were adequately funded or not in the past."

23. Several respondents felt that expenditure-based regression rewards inefficiency or lacks a suitable level of transparency and understanding.

"By basing future allocation on past spend the line between past and future funding is cemented and old funding inequalities are "locked in" to the system. Past spending is not an accurate measure of need."

24. Some respondents expressed concern that past expenditure may not necessarily determine the level of need which is potentially unidentified or unmet within the current system.

"This basis of assessing funding does not necessarily recognise unmet need rather it is based on expenditure patterns".

25. Two-thirds of metropolitan districts, approximately one-third of unitary authorities and half of London boroughs argued that regression could continue to be used on the basis that it remains the most robust option if the underlying indicators and data are appropriately refreshed.

"To some extent there are no robust alternatives. Any regression based approach should be overlaid with population and demand growths."

26. Those respondents in favour of regression argued that it was useful for establishing proportionate weightings between service blocks by comparing profiles of spend, aided by robust data sets, in a way that other techniques might not be able to do.

27. Fewer authorities responded in detail to question five, which asked about other potential statistical techniques. We categorised the 114 responses to this question as follows;

- 29% mentioned non-expenditure-based regression;

"In supporting a cost driver approach we wish to make it clear that we do not have an issue with the regression technique, per se. However, until there is a reliable measure of need (the dependent variable) that is not based on historic spending or activity we cannot support its use."

- 28% mentioned multi-level modelling;
- 18% mentioned factor / principle component analysis;

"Incidents of strong correlation between different factors should be incorporated."

- 14% mentioned some form of forecasting.

Government response

28. The relative needs of local authorities, even for quite specific services, can depend on a number of different cost drivers or indicators. For example, the cost of maintaining roads depends on the length of road being maintained, the type of road, the amount and type of traffic that use the roads and forecast weather conditions.

29. Statistical techniques offer an evidence based approach for determining which cost drivers have a significant impact on a local authority's 'need to spend' and which, therefore, should be included in a funding formula. These techniques also enable the relative importance of a cost driver in determining the 'need to spend' to be quantified. Without these techniques, judgement would necessarily play a far larger role in determining funding allocations, which was a specific concern raised by several respondents to the Call for Evidence.

30. Regression models work best when they are measuring the relationship with a well-defined dependent variable. Ideally the dependent variable for a local government relative needs assessment would be the need of local authorities. However there is no data set that measures this concept. Historically expenditure has been used as a proxy for need but there are limitations with this approach. If historic expenditure is not a good proxy for the relative needs of local authorities to spend money in the future, then the outcomes of the model will also not be good predictors of future need. The Government believes that a regression model can be implemented in a way that promotes efficiency.

31. To address problems relating to the influence that historic levels of funding have on levels of spending, more advanced analytical techniques may be helpful. These techniques broadly work by looking at the relationships between spending and cost drivers within an individual local authority, which means that any relationships will be unaffected by the level of funding that council received at the time. A full discussion of the merits of different statistical techniques can be found in Chapter 5 of the consultation on relative need, published alongside this paper.

Question 4.

What other measures besides councils' spending on services should we consider as a measure of their need to spend?

Question 6.

What other considerations should we keep in mind when measuring the relative need of authorities?

32. We asked what other measures, and separately what other considerations, are important when assessing need.

33. Just over half of all respondents identified future demand and population growth; it was important for many respondents that the funding formulas are developed to be accurate for their lifetime and take into account likely future need. This was particularly the case for county councils, shire districts, London boroughs and unitary authorities.

"Population and demographic data compared over time could be used to adjust the funding level and predict future trends."

34. These arguments were often linked to a new, simplified approach based on population statistics and key cost drivers, particularly by shire districts and counties.

"Any additional methods used would need to be objective and measurable. They could include population and specific sets of population, geographical location, etc."

35. A range of other factors were also frequently mentioned. These included the increased cost of delivering services in rural areas, levels of deprivation and varying costs of staff wages and service delivery in different parts of the country.

36. Other considerations or measures suggested included:

- Migration levels

"ONS-mid year provisions should be used rather than population projections based on 2011 census."

- Varying potential for efficiency savings

"Reflect the lack of economies of scale available to shire districts when compared to unitary authorities, metropolitan districts and London boroughs."

- The effect of the Care Act on adult social care

"Must be future proofed e.g. the Care Act will change the pattern of adult social care pressures."

- The importance of mapping pockets of deprivation within authority boundaries

"Deprivation and rurality are key factors that should be considered as part of relative needs; this should reflect demand within smaller areas than local authority areas as a whole, since deprivation is often highly localised within particular wards."

- The resources available to local government
- The availability of temporary housing provision
- Comparative performance analysis
- The importance of finding robust data on poverty generally.

Government response

37. Local government is the frontline of our democracy and accounts for almost a quarter of public spending. It delivers a wide range of important services used by residents on a daily basis, and provides essential support for the most vulnerable people in our society. The local government funding system must therefore offer appropriate levels of stability and assurance to councils to support financial planning, along with greater control over the money they raise and strong incentives to deliver services efficiently and in a way that promotes local economic growth. We will therefore seek to ensure funding is allocated in a way that supports these objectives whilst providing councils with the flexibility to meet their own local priorities.

38. No two local authorities are the same. Changes in demography and the cost of service delivery will affect areas differently across the range of services, while the challenge of growing a local economy varies. The review will address concerns

about the fairness of current distribution of funding to local authorities, ensuring that funding allocations reflect the relative 'need to spend', and taking into account the capacity of authorities to fund local services through local income.

The treatment of growth in local taxes

39. The Call for Evidence considered how an assessment of local authorities' funding needs could take into account some measure of their available resources. Since the introduction of the 50% business rates retention scheme in 2013/14, local authorities across the country have seen growth in their council tax and business rates bases. There is therefore a question of whether this growth in local resource should be taken into account as part of the resource available to councils, or alternatively treated as being 'outside' of the overall assessment.

Question 7.

What is your view on how we should take into account the growth in local taxes since 2013/14?

40. The 187 responses to this question expressed a range of views on how different income streams available to councils could be taken into account in a relative needs and resource assessment. Of the responses received, the majority were made in relation to council tax, which highlighted regional variances in yields and growth.

"Consideration should be given to the differing abilities to raise and generate local income. Councils with a low tax base i.e. more properties in lower bands e.g. A to C, have less opportunity to raise income through council tax charges so council tax represents a lower proportion of a council's overall total income."

"There are clear disparities across the country on the ability of local authorities' tax bases and how these might grow."

"It is important that authorities' ability to raise their own resources through council tax is taken into account, both in setting the initial baseline and as part of periodic partial resets."

Government response

41. The Government is reconsidering how the relative needs and resources of local authorities should be assessed in a world in which they continue to have greater control over the money that they raise. We will take a fresh look at how council tax income should be taken into account when redistributing business rates at local government finance settlements, and will also consider other potential sources of income available to councils.

42. The consultation published alongside this paper is specifically concerned with the measurement of relative needs. However the Government plans to follow this with a series of technical papers that will set out options being considered for the wider aspects of the review. One of the topics on which we intend to focus is the assessment of the relative resources of local authorities, including how income from council tax will be taken into account.

Transitioning to a new distribution of funding

43. The Call for Evidence considered that local authorities require time to adjust to any change in their level of funding. Previous Governments have tended to limit the degree of change in local authorities' income through the use of damping mechanisms.

Question 8.

Should we allow step-changes in local authorities' funding following the new needs assessment?

Question 9.

If not, what are your views on how we should transition to the new distribution of funding?

44. A minority of respondents to question 8 felt that there should not be any transitional arrangements at all.

".. the old system of damping meant that this Council never received the correct levels of funding and damping produced perverse outcomes with less money actually being received by areas for which the adjustment was intended."

"Damping can lead to authorities with highest needs not receiving the level of funding that they are entitled to."

45. However the majority of respondents (61%) across all local authority types felt that there should not be step-changes in funding. Many respondents discussed the importance of transitional arrangements upon implementation of the new distribution methodology to avoid significant step-changes, shocks or disruption to stable financial planning and service delivery.

"Local Authorities should be protected from substantial inter-year funding changes, to facilitate robust financial planning."

"Transitional arrangements are important, if any new needs assessment results in a significantly different distribution, this allows local authorities the time to financially plan for them."

46. Amongst the responses received there was a clear preference for transitional arrangements to be time limited for a period of between three to five years, or

sometimes less. This was in order for the new needs baseline to be realised as quickly as possible.

“The new distribution should be implemented as quickly as possible but with time for authorities to plan and adjust.”

“Any phasing should be fully unwound after three years and before the next reset.”

47. In response to question 9, some alternative approaches were suggested in how a step-change in local authority funding levels could be managed.

“Greater powers in Council Tax and fee setting could help disadvantaged councils.”

“Councils should set up a grant volatility reserve to manage the transition themselves until they grow their economy and population to then benefit from government incentives.”

Government response

48. The Government recognises that introducing a new funding formula could result in significant changes to the funding baselines of some local authorities. We therefore intend to introduce transitional arrangements that are fair, transparent and easily understood so that budgetary impacts can be assessed by local authorities suitably ahead of the introduction of new allocations. We anticipate that any transitional arrangements will unwind over time.

49. The consultation published alongside this paper is specifically concerned with the measurement of relative needs. However the Government plans to follow this with a series of technical papers that will set out options the Government is considering for the wider aspects of the review. One of the topics on which we intend to focus is the transition to new funding distributions.

The geographical level at which need is measured

50. The current local government finance system assesses authorities' funding needs at the individual local authority level. However, due to the large variations in relative need between authorities, this will often mean that neighbouring councils will receive very different levels of funding. The Call for Evidence considered an alternative approach by distributing funding to larger geographical areas.

Question 10.

What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

Question 11.

How should we decide the composition of these areas if we were to introduce such a system?

Question 12.

What other considerations would we need to keep in mind if we were to introduce such a system?

51. The majority of respondents (72%) were not in favour of distributing funding to a wider geographical area unless agreed upon collectively by all of the local authorities concerned.

52. If it were the case that consensus could be reached across a geographical area, many county councils and shire districts in particular argued that such an arrangement might aid bespoke solutions to local problems.

“There should be flexibility for areas to opt in to receive funding for the whole area, in a single fund to be distributed within the area, when this is agreed by the relevant local authorities and where there is no impact on neighbouring areas.”

“We believe that individual local authorities are best placed to receive and utilise funding for their local community. However if a group of authorities wish to join together into a larger area because they believe it will result in better outcomes for their area they should be given the flexibility to do this. This should not however impact on the resources made available to other authorities wishing to deal with funding as a single entity.’

53. Of the London boroughs that responded 57% were in favour of a funding distribution mechanism at a larger geographical area, whilst 43% were not. The point was made that such an arrangement could be managed in collaboration with the Greater London Authority (GLA).

“Rather than a national system of ‘top-ups’ and ‘tariffs’ as per present, (this) Council supports the proposition for London as a city wide region to have control in determining its own internal equalisation measure between the 33 local authorities and the Mayor of London (as put forward in the London Councils /GLA response to the consultation).”

54. Some local authorities suggested specific guiding principles in how they would wish to see an alternate funding distribution methodology work in practice.

“Our conditions would be:

- a) consistent funding formulae used across the entire county*
- b) There should be a clear add-on that adequately reflects the cost incurred in rural areas*
- c) In combined authorities /areas that included rural areas, the same level of additional funding should be available for residents in those rural areas.”*

55. However overall, many councils outside of London did not see the benefit of this approach and argued that fairness and accountability would be stronger where distribution to individual local authority levels was maintained, or that it could add complexity and could cause operational and local political difficulties.

“Within geographical areas, there are significant variations in need and would result in an additional layer of complexity in allocating resources.”

“We believe that imposing a layer of further changes to the current local authority geography system would add unnecessary further complexity to the system.”

56. It was felt by 65% of respondents that the implementation of this type of system should not be mandatory.

Government response

57. The Government recognises that the basis of a new relative needs and resources formula will be an assessment for each individual local authority. We will continue

to discuss with all local authorities how best to support collaboration and integration of governance and services.

Incentives within the local government finance system

58. Since the introduction of the 50% business rates retention system in 2013/14, the incentive for councils to grow their council tax and business rates tax bases has been a key feature of the local government finance system. The Call for Evidence considered whether the review of needs and redistribution provides an opportunity to consider the possibility of introducing additional incentives into the system.

Question 13.

What behaviours should the reformed local government finance system incentivise?

Question 14.

How can we build these incentives in to the assessment of councils' funding needs?

59. Of the respondents to question 13, 37% were categorised as not being in favour of behaviours being incentivised through a reformed local government finance system.

"We would caution against the use of the finance system, as a fairly blunt instrument, in order to incentivise particular behaviours."

"The tight financial envelope in which local government operates provides sufficient incentive for modernisation and efficiency. A system of further incentives will bring unnecessary complexity and potentially reduce local freedom and accountability."

60. However among other respondents there was some consensus that the new methodology could incentivise certain behaviours, such as;

- Service integration and efficiency (25%)

"Encourage collaboration by using policy incentives and fund transformation and change."

- The growth of new businesses (17%)

"System should incentivise growth and entrepreneurialism, local efficiency, transparency and payment and collection of taxes."

- And housing growth (13%).

"The current incentives based around growing local housing stocks and the business tax rates could be broadened to incentivise economic growth more generally."

61. Of the respondents to question 14, 36% were not in favour of building any incentives in to the assessment of the funding needs of local authorities. Other respondents identified: measurement of need (11%), partial resets (5%), treatment of resources (4%) and systems design / gearing / tier splits (4%) as potential methods of building incentives into the assessment of funding needs.

"Local government is always looking for more efficient and joined up ways to deliver services. Various procedural and bureaucratic obstacles to collaboration and integration across public sector boundaries are the biggest disincentive."

"This should be finalised in consultation with local government before any new system is implemented."

Government response

62. The local government funding system must offer appropriate levels of stability and assurance to councils to support financial planning, along with greater control over the money they raise and strong incentives to deliver services efficiently and in a way that promotes local economic growth. We will therefore seek to ensure funding is allocated in a way that supports these objectives whilst providing councils with the flexibility to meet their own local priorities.

63. A key objective of the review is to work in conjunction with wider reforms to local government finance and help provide a strong incentive for councils to grow their local economies and to use their resources as efficiently as possible.