



Ministry of Housing,
Communities &
Local Government

Fair Funding Review: a review of relative needs and resources - Technical consultation on relative need - December 2017

Summary of responses received and Government response



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Introduction

1. The use of formulas to distribute financial resources to local authorities can be traced as far back as the 19th century, and the basis on which distribution takes place has been subject to periodic review. The current funding baselines for local authorities in England, as determined by the annual local government finance settlement, are based on an assessment of their relative needs and resources. The methodology behind this assessment was first introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013-14.
2. Whilst this approach has ensured that councils which have grown their business rates since this time have benefited from the additional income generated, it also means that councils' underlying levels of 'need' have not been updated since the 2013-14 settlement. In addition, a desire to fully capture every aspect of local authorities' needs has led to increasingly large numbers of variables being included in the formulas, many of which had a relatively minimal impact on the overall distribution of funding. The House of Commons Communities and Local Government Committee highlighted this with their independent research which concluded that a simplified needs assessment formula, based on a smaller number of indicators, could achieve outcomes that were a good approximation of those of a more complex system.¹
3. In order to address concerns that the current formula is unfair, out of date and overly complex, the Government is carrying out a review of local authorities' relative needs and resources (the 'review') to develop a more robust and up-to-date approach to distributing funding across all councils. The review will enable the Government to reconsider the drivers of local authorities' costs, the resources available to them to fund local services, and how to account for these in a way that draws a more transparent and understandable link between local circumstances and resource allocations.
4. On 19 December 2017, the Department for Communities and Local Government (now the Ministry of Housing, Communities and Local Government) published a technical consultation on relative need.² This consultation reflected views from the sector which were received in response to a Call for Evidence³ in 2016 and topics discussed in external stakeholder engagement.

¹ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/reforming-local-authority-needs-assessment-17-19/>

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

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/534956/Discussion_document_-_Needs_and_Redistribution.pdf

5. The aim of this consultation was to seek further views from the sector on:
- the structure of the needs assessment (the number and type of formulas needed),
 - the key cost drivers that should be included in those formulas, and
 - the basis on which we should determine the relative importance (or weighting) of the cost drivers.
6. The consultation also set out the Government’s approach to the review. It set out six principles which represent the framework which the Government will use in designing a new relative needs assessment methodology. They are:
- Simplicity,
 - Transparency,
 - Contemporary,
 - Sustainability,
 - Robustness, and
 - Stability.
7. The consultation closed on 12 March 2018, by which time a total of 312 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.
8. A breakdown of the responses received is shown in Table 1.

Table 1 – Responses received to the consultation on relative need

Organisation / Groups	Total number consulted	Responses received	Response rate	Proportion of all responses
Shire Districts	201	123	61%	39.4%
Unitary Authorities	56	43	77%	13.8%
Metropolitan District	36	30	83%	9.6%
London Borough	33	24	73%	7.7%
Fire and Rescue Authority	29	12	41%	3.8%
Shire Counties	27	27	100%	8.7%
Combined Authority	9	4	44%	1.3%
Greater London Authority	1	1	100%	0.3%
Local Authority Officer	-	3	-	1.0%
Local Authority Association / Special Interest Group	-	19	-	6.1%
Member of the public	-	7	-	2.2%
Other Local Authority Grouping	-	6	-	1.9%
Parish or Town Council	-	2	-	0.6%
Voluntary organisation	-	6	-	1.9%
Other representative group	-	5	-	1.6%

9. The Government is very grateful for the views shared during the technical consultation on relative need. The Ministry of Housing, Communities and Local Government has worked closely with local authorities and their representatives on the review, including through a joint Local Government Association and Ministry of Housing, Communities and Local Government-chaired steering group and technical working group.
10. The Government has continued to work collaboratively with the technical working group and other sector representatives since the publication of the December 2017 consultation and has conducted further work and analysis on various options presented therein. Papers from these meetings can be found on the Local Government Association's website under Business Rates Retention.⁴ All of this work has been carefully considered, along with the responses to the December 2017 consultation, in progressing the Government's work on the measurement of local authorities' relative needs and in the development of the proposals detailed in the concurrent consultation on relative needs, relative resources and transitional arrangements.⁵ The Government's proposals detailed in the response herein are set out in more detail in the accompanying consultation.
11. This document sets out a summary of the responses received to the December 2017 consultation and outlines the Government's response. As a summary, this paper does not attempt to capture every point made during the consultation 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*.

⁴ <https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention>

⁵ <https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources>

Measuring relative need

Overview

12. The relative needs of local authorities are determined by the use of funding formulas, which incorporate relevant local demographic or other data, thought to predict the relative demand councils face when delivering different services. In order to reflect the fact that some 'cost drivers' are more significant than others in determining authorities' 'need to spend', each cost driver is 'weighted' in the formula to reflect its relative importance. The formula can then be adjusted for other factors which affect the relative costs of service delivery – such as salary or property costs.
13. At present, 15 different relative needs formulas and several tailored distributions for services previously supported by specific grants are used to determine annual funding allocations through the settlement. These formulas involve over 120 cost drivers and were last updated in 2013-14 (although the underlying statistical modelling which determined the cost drivers and weightings given to them can be traced back even further).
14. Having considered the responses to the 2016 Call for Evidence on the balance between simplicity and complexity, the Government proposed to adopt an approach that is as simple and transparent as possible but not at the expense of accuracy and fairness. This would be centred around the use of a simplified formula for the majority of services which are universal and based around a similar set of characteristics, with the introduction of a more tailored approach where required.

Shape of the needs assessment

Question 1.

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?

15. The Government proposed a methodological approach beginning with a transparent Foundation Formula to allocate all, or at least a proportion, of the available funding to each type of local authority based on a set of 'common cost drivers.' This would provide a simple and transparent way of reflecting many of the universal services provided by councils for which population is a key cost driver. Where particular service areas require a more specific approach, the Government proposed it would consider the case for allocating a proportion of the available funding based on the particular cost drivers for those services.
16. A significant majority (83%) of those that responded indicated that they supported the Government's approach to measuring relative need.
17. As in the responses to the 2016 Call for Evidence, there were different views on simplicity vs complexity of the system. Few respondents advocated simplification above all (5%) or did not support simplification, preferring a more accurate/complex approach (12%). The greatest support was expressed for a simple approach, however not at the expense of accuracy (41%).
18. Many respondents also mentioned the need for increased transparency, and 20% of respondents believed that this was more important than simplification.

'Any complexity that is introduced into the new needs assessment in the name of "accuracy" must be well evidenced. We would expect the Government to set a very high bar for any additional complexity and for the default setting to be to favour simplicity.'

'Our members do not believe that a system of funding should be simple at the cost of fairness; instead we see transparency as being paramount.'

Government response

19. The Government remains committed to introducing a simpler and more transparent needs assessment, but recognises that these objectives should not be pursued at the expense of accuracy. Therefore, whilst our starting assumption has been that all council services are included in the Foundation Formula, we have also considered on a

case-by-case basis whether a standalone funding formula is merited for particular service areas.

20. Having considered the trade-off between the objectives of the review, the consultation sets out that the Government is minded to deploy a per capita Foundation Formula for upper and lower tier authorities, alongside seven service-specific funding formulas: Adult Social Care, Children and Young People's Services, Public Health, Highways Maintenance, Fire & Rescue Services, Legacy Capital Finance and Flood Defence and Coastal Protection.
21. We recognise it is important that authorities understand the connection between their allocations and local circumstances.

Common Cost Drivers

Overview

22. The Government's engagement with the sector led to the identification 'common cost drivers' which could have a significant effect on the cost of providing multiple services.

23. These common cost drivers could be the starting point for developing the Foundation Formula:

- Population
- Rurality
- Deprivation

24. The Government also asked an open question on any further cost drivers that may be included within a Foundation Formula. A response on all these issues is set out from paragraph 38.

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?

25. The Government set out a proposal to use population as a common cost driver in the Foundation Formula. It proposed using Office for National Statistics population projections indicating the future size and age structure of national and local populations. This would allow the formula to reflect expected future population changes while giving authorities certainty over their income for the duration of a funding period.

26. The vast majority of respondents to this question (90%) agreed with the use of population projections, with only 6% in disagreement. There was less consensus on updating population projections within a funding period, however 43% of respondents agreed that population projections should not be updated until the relative needs assessment is refreshed, compared with 30% who disagreed. Almost a quarter of respondents thought the system could be more dynamic, however 22% of respondents said that certainty was important for planning. 13% of respondents advocated the use of new data when available (e.g. Census data).

'We support [the use of population projections]. Using projections to reflect the potential future changing pattern of relative needs could minimise the degree to which the relative needs and funding baselines diverge from one another over the years between system resets.'

27. Some respondents mentioned the need to account for specific population groups or effects, for example tourism and day trippers (12%).

'[We] would also propose that these projections would need to take account of transient population such as students, commuters and those on holiday, as large numbers of transient population can have a major impact on an authority's service demand and reduces tax raising ability'.

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?

28. The Government set out a proposal to include rurality as a common cost driver within the Foundation Formula. The Government also asked whether sparsity should continue to be used as a proxy for rurality within the needs assessment or whether alternative data sources are available that measure or 'proxy' the relative cost of providing services in rural areas, which could be drawn on in a new needs assessment.

29. Of the respondents to this question, 63% agreed that rurality should be included in the relative needs assessment as a common cost driver, and 24% disagreed. Agreement ranged from 25 out of 27 Shire Counties to 7% for Metropolitan Districts. In contrast, 20% of respondents advocated for the inclusion of density within the formula.

30. 40% of all local authorities that responded felt that there was not enough evidence or more evidence was needed, for the use of rurality as a common cost driver within the needs assessment.

'Yes, we agree that rurality should be included in the relative needs assessment as a common cost driver...Where services involve a significant degree of travel time there is a general tendency for more rural authorities to have greater costs associated with travel and greater staff travel downtime.'

'[We] would argue that, if rurality is to be considered as a separate factor within the foundation formula, specific factors relating to urban and more densely populated areas should also be considered.'

31. Some respondents advocated the continuation of sparsity as a measure for rurality; this was suggested by 60% of Shire Districts and 10 out of 25 Shire Counties, but only 2 out of 18 London Boroughs. 13% of respondents felt that a rurality adjustment should reflect greater costs associated with journey times, and respondents advocated the use of journey times (24%) or distance (6%) to measure rurality. Some respondents suggested that rurality should be included within the Area Cost Adjustment (5%).

'[Rurality] can, however, have significant impact to the cost of any service which involves travel time.'

'The council do not agree that rurality should be included as a common cost driver, but should fall within the scope of an updated and more comprehensive area cost adjustment calculation or continue to be separately funded through specific grant.'

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?

32. The Government set out a proposal to include deprivation as a common cost driver within the Foundation Formula to reflect the fact that deprived individuals, and particularly income deprived individuals, are more likely to access certain services than more prosperous individuals, leading to higher costs. It asked for the sector's views on the measure of deprivation that could be used, setting out continuation of the use of income deprivation as a possibility. An alternative measure using the Indices of Multiple Deprivation that captures factors beyond income and employment was suggested, along with more tailored approaches based on the service area.

33. There was broad consensus among respondents of the need to take deprivation into account; 86% were in agreement, with only 9% against. 19% of respondents thought that deprivation should only be included in some service areas, and 16% of respondents thought that deprivation should not be overstated in the Foundation Formula. 9% of respondents believed that deprivation should only be included in the Foundation Formula if Housing or Homelessness services were incorporated.

'Deprivation should be included in the relative needs assessment as a common cost driver. However in terms of foundation formula, only some of the services such as housing and homelessness (intended for inclusion in the foundation formula) correlate to deprivation. We do not feel that many foundation formula services correlate to deprivation and therefore care must be taken not to overstate deprivation in the foundation formula calculations.'

34. A third of local authorities thought that a wider definition of deprivation was required, and there was broad consensus on the use of the Indices of Multiple Deprivation in the review. 82% of local authorities agreed with the use of the Indices of Multiple Deprivation in some form, with most Shire Counties and Shire Districts supporting use of the Indices of Multiple Deprivation compared to just over half London Boroughs. Some respondents advocated the use of specific constituent Indices of Multiple Deprivation components only, such as the Income Deprivation Affecting Children Index.

'We support the use of the Index of Multiple Deprivation (IMD) as a standard, objective and improved measure of deprivation over the more narrow measure of income deprivation.'

'There are many types of deprivation but those included in the [Indices of Multiple Deprivation] may not always be relevant, and should only be included where it can be demonstrated to impact on the demand for services or, in relation to the area cost adjustment, the cost of service.'

Other common 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?

35. The Government set out its proposed approach to measuring need using common cost drivers as the starting point for developing a simpler Foundation Formula and identified the common cost drivers as population, rurality and deprivation. The Government also asked whether there were any other common cost drivers that should be included.

36. Of those that had views, urban cost drivers (e.g. density) were the most frequently mentioned (28%), followed by non-Housing Revenue Account housing (25%).

'The Council is firmly of the opinion that the costs of service provision are impacted by population density and that the review should ensure that this is adequately reflected in all relevant aspects of the formulae.'

'[We are] faced with high housing costs for staff and residents, and a rising level of homelessness. This has led to increased expenditure in particular on meeting our homelessness obligations. The core measures of population, rurality and deprivation do not address this directly and could perhaps be complemented by an indicator of housing costs.'

37. Areas that may be significant to a small number of local authorities were also mentioned, such as Coastal Protection (11%) and Flood Defence (5%).

Government response to the Foundation Formula approach ('Common cost drivers')

38. The balance between simplicity, transparency and precision has been a key consideration for the Government in determining a new relative needs assessment methodology. On the basis that several specific funding formulas are proposed for some of the largest and most complex service areas provided by councils, the Government believes that there is a strong case for introducing a Foundation Formula which distributes funding for the remaining services on the most simple and transparent basis possible.

39. The number of people in each local authority area is an important predictor of the costs that councils face for services included in the Foundation Formula. To understand

whether including additional cost drivers significantly improves the precision of the Foundation Formula, the Government compared the amount of variation in past expenditure that was explained by different combinations of cost drivers, to the total amount of variation in expenditure (see section 2.2 of the accompanying consultation on relative needs, relative resources and transitional arrangements for further information).

40. The impact of including additional cost drivers *sequentially* in the Foundation Formulas demonstrated that population alone explained 88.1% of all variation in past expenditure at upper tier level. Adding deprivation as an additional cost driver increased the proportion of all variation explained by 4.0 percentage points. At each stage of the process, the cost driver which had the next largest incremental impact on the percentage of variation explained in a per population regression was added to the cost drivers already selected. Tourist visits and the number of students as a share of the total local authority population explained no additional variation at the aggregate upper tier level.
41. Population alone explained 84.0% of variation in past expenditure included in the lower tier Foundation Formula. Adding deprivation as an additional cost driver increased the proportion of all variation explained by 0.4 percentage points, and fixed costs explained an additional 1.4 percentage points. Other cost drivers such as students and net commuters per person added little or no additional explanation of variation in expenditure at aggregate lower tier level.
42. The Government's analysis demonstrates that overall, population is by far the most important cost driver for the Foundation Formula. On this basis, the Formula includes population size (based on Office for National Statistics population projections) as the only cost driver, which means these services will be funded on a simple 'per capita' basis (except for London Boroughs, who will have an adjustment to account for some services being provided by the Greater London Authority) with an Area Cost Adjustment applied.
43. Whilst in aggregate terms, deprivation was not shown to be a major cost driver for the services included in the Foundation Formula, the Government takes the view that relative levels of deprivation do remain an important cost driver for some specific service areas. To ensure that deprivation is appropriately accounted for in the relative needs assessment, deprivation, or a suitable proxy for deprivation, is taken into account in four of the service-specific formulas.
44. The Government is minded not to include further complexity into the Foundation Formula. However, there may be a case for services which are small but significant for some authorities to be included within the needs assessment. Flood Defence and Coastal Protection are service areas which are small overall but are significant for

some authorities. Further information on this is provided in the 'locally significant duties' section below.

45. Almost two thirds of consultation respondents agreed with the potential inclusion of rurality as a cost driver in the Foundation Formula. Specific reasons included the impact that increased journey times have on staff productivity, the absence of economies of scale that can be achieved in rural settings, and the increased costs of service provision due to a separation from major markets.
46. The Government acknowledges these arguments. Our intended approach draws a clear distinction between factors which affect the demand for services (e.g. cost drivers) and factors which affect the cost of delivering a particular service (e.g. the need to provide multiple service hubs across sparsely populated locations or travel between different locations). The responses that we received highlighted that sparsity and remoteness can have a significant effect on the cost of providing some services, rather than being factors which drive additional demand.
47. On that basis, a specific rural cost driver is not included in the Foundation Formula; instead we propose to consistently capture variations in the cost of delivering services, including those caused by rurality, by introducing a new Area Cost Adjustment methodology. The new Area Cost Adjustment will be applied to the Foundation Formula, so that together they will determine allocations.

Area Cost Adjustment

Question 9.

Do you have views on the approach the Government should take to Area Cost Adjustments?

48. The cost of delivering the same services may vary between local authorities for a number of reasons - for example, the costs of employing staff or renting non-domestic properties can vary considerably between different places. Some local authorities also face unique pressures related to their geography; such as the costs associated with conducting business from isolated or peripheral communities (including islands), or providing services to widely dispersed or densely concentrated populations. These are referred to as 'multiplicative' factors, and mean that even authorities with broadly similar characteristics (e.g. population size) could experience different costs in service provision as a result of factors that are outside of their control.

49. The Government set out the methodology of the current Area Cost Adjustment in the consultation and asked whether there are any additional factors which should shape the Area Cost Adjustment. The current approach takes into account four main factors for each distinct block of services:

- the local cost of labour,
- the share of total costs for the block of services which is spent on employees,
- the local level of business rates, and
- the estimated share of total costs for the block of services which is spent on business rates.

50. Of those who had views on the Government's approach to the Area Cost Adjustment, 28% thought that rurality should be included within the Area Cost Adjustment, and only 6% thought it should not be included within the Area Cost Adjustment. Some respondents advocated a service specific approach to the Area Cost Adjustment should be taken.

'We agree that a measure of rurality should be included in Area Cost Adjustments to reflect the higher costs of delivering services such as waste and social care in rural areas'

51. A concern highlighted by 17% of respondents was the possibility of 'double counting' factors, for example the inclusion of rurality in both the Area Cost Adjustment and in the Foundation Formula or service specific formulas. Respondents detailed that such factors should be either 'additive' (cost driver) or 'multiplicative' (Area Cost Adjustment).

'It is important that there should be no duplication between any Area Cost Adjustment factors and those used as cost-drivers.'

Government response

52. The Government has considered the Area Cost Adjustment from first principles and is minded to include in the Area Cost Adjustment a rates cost adjustment (including rents), a labour cost adjustment (incorporating a new measure of accessibility) and a remoteness adjustment.
53. The Government acknowledges that local authority employees see relatively longer periods of 'down time' when they spend more time travelling (e.g. in more rural or built-up environments). This can either be as a result of longer distances, poorer transport links or connectivity, or traffic congestion. The Government has identified two robust and evidence-led measures to account for the additional costs associated with accessibility, based on the methodology used by the Department for Transport to produce statistics on journey times to key services.⁶ The Government is minded to apply these measures within the labour cost adjustment on the basis that areas with greater journey times incur higher labour costs.
54. Separation from major markets will in some cases increase the cost of service provision for local authorities. The Government is therefore minded to make a separate remoteness adjustment using a proxy measure of journey times from small groups of households to major towns and cities. This could also be based on statistics published by the Department for Transport
55. Whilst a consistent approach to Area Costs will be adopted across the relative needs assessment, the Government intends to tailor the Adjustment for the Foundation Formula and each service area it is applied to, in order to reflect the different impact that these costs have.

⁶ Further technical information on these statistics is published online:
<https://www.gov.uk/government/collections/journey-time-statistics>

Treatment of small but locally 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?

56. The current needs assessment reflects a number of local authority duties, many of which will share common cost drivers. However, some duties, which only account for a small proportion of the overall expenditure of local government, can have a significant impact on individual authorities. The Government asked how these services should be treated under the review, and which services this might cover.

57. Of those that had views, 41% suggested that funding for areas which represent a small amount of expenditure overall for local government, but which are significant for a small number of authorities should be funded by direct payment to local authorities. This was particularly supported by London Boroughs, Metropolitan Districts and Unitary Authorities, however less so by Shire Counties and Shire Districts.

'Where costs relate to a relatively small number of authorities it is more practical for these areas to receive a separate grant not included in the formula.'

58. Areas suggested as significant for some local authorities included Flood Prevention (45%) and Coastal Defence (29%). Some respondents (5%) felt that Internal Drainage Board levies should not be included in the needs assessment, but rather within a resources adjustment. Internal Drainage Board levies were mentioned as significant by 31% of respondents.

'Flood defences and coastal management, as mentioned in the consultation document are likely to be significant'

'We would also like to take the opportunity to again suggest that Internal Drainage Board (IDB) levies are subject to a separate precept on the Council Tax bill rather than being included in an authority's base budget. This would provide more local transparency and flexibility for an important area of funding.'

59. Few other areas were mentioned by many respondents, the exceptions being Unaccompanied Asylum Seeking Children (17%), and people with no recourse to public funds (14%).

Government response

60. Spending patterns suggest separate flood defence and coastal protection relative needs formulas could be introduced for lower tier authorities. After initial analysis, the Government has identified the cost drivers it believes are the most significant cost drivers for flood defence and for coastal protection in its accompanying consultation. The Government will use local authority-level expenditure-based regression as the basis for further analytical work to determine whether these are the most appropriate cost drivers, before taking a view on the best approach.

61. However, the Government is minded to incorporate upper tier flood defence and coastal protection within the upper tier Foundation Formula, on the basis of overall scale of expenditure and the distribution of relative needs.

62. The Government is minded not to include a specific Unaccompanied Asylum Seeking Children formula in the needs assessment on the basis that this is a service area for which the pattern of demand may be subject to unpredictable changes between authorities. It would not be possible to reflect these sudden shifts through a relative needs formula; particularly in a way that adequately fulfils our guiding principle of stability which aims to support predictable, long-term funding allocations.

63. In addition, outside of the local government finance settlement, the Home Office provides separate funding contributions to local authorities' costs for supporting Unaccompanied Asylum Seeking Children and Unaccompanied Asylum Seeking Children care leavers (who were unaccompanied asylum seeking children and who are now "former relevant children" within the meaning of section 23C(1) of the Children Act 1989).

64. With regard to children's social care, the new Children and Young People's Services formula will allow the prediction of demand at an individual, client-level, including those children that share similar characteristics to Unaccompanied Asylum Seeking Children. We therefore expect those authorities that already have a relatively high need to spend on social care services for this client group to be identified within the new formula. However, we will test this assumption through further engagement with local authorities as our research progresses.

65. The Government also proposes not to include a specific relative need formula for persons with 'no recourse to public funds' on the basis that this is a broad term used to

summarise a diverse set of individuals and households whose circumstances vary significantly from case to case. Identifying suitable cost drivers which meet the criteria set out in the consultation would therefore be challenging.

66. In addition, the pattern of demand for 'no recourse' individuals may be subject to unpredictable change over time. As a result, it would not be possible to reflect these shifts through a relative needs formula; particularly in a way that adequately fulfils our guiding principle of stability which aims to support predictable, long-term funding allocations.

Service Specific Cost Drivers

67. The Government proposed a new approach based on simplicity and transparency in the consultation. It proposed to base the needs assessment around a central 'Foundation Formula' which would account for the majority of universal, population-based services provided by local authorities, taking a specific approach only where service areas account for a significant proportion of local government expenditure, or have a unique set of factors which drive costs for many authorities.

68. The Government set out six service areas - informed by the 2016 Call for Evidence, and engagement with local government and the technical working group - which may require a specific approach. These were:

- Adult Social Care,
- Children's Services,
- Highways Maintenance and Public Transport,
- Waste Collection and Disposal,
- Fire and Rescue Services, and
- Legacy Capital Financing.

The Government also set out the key cost drivers it had identified for these service areas.

Adult Social Care

Question 11a.

Do you agree 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?

69. Respondents to the Call for Evidence indicated that they believed adult social care justified a more specific approach. Adult social care currently sits within the Adults Personal Social Services service block of the current relative needs assessment, and there are currently two formulas to reflect the difference in the cost of providing social care to distinct age groups: older people over the age of 65 and younger adults aged between 18 and 64. Adult social care is means tested, carer-sighted and subject to a national eligibility framework.

70. The Government proposed the cost drivers for adult social care to be:

- i) Number of adults by age groups,
- ii) Number of adults with income and wealth that meet the means test,
- iii) Number of people with higher levels of impairment,
- iv) Number of people who live alone, and
- v) Sparsity.

71. 71% of respondents agreed or broadly agreed that the cost drivers proposed by the Government are the key cost drivers affecting Adult Social Care services; only 3% disagreed. 17% of respondents suggested that further age categories are required above a threshold of 65+ for older people's care. Many respondents (22%) also mentioned that a wider measure of deprivation or more emphasis on deprivation should be deployed.

'Yes, the drivers chosen are reasonable and are reflective of the cost drivers for adult social care services. Need to ensure that the "Numbers of Adults by Age Group" driver reflects the different average costs of care from the age of 65.'

'We feel that the existing proxies for deprivation are too narrowly focussed around income deprivation, particularly benefits rates.'

72. Of those that responded, 56% suggested an extra cost driver. A total of 22 cost drivers were proposed, some by individual respondents only, and some with more consensus.

The strongest consensus was around the inclusion of young people with a learning disability (40%).

'[We] would also like to see the number of learning disability clients reflected in this list as these clients generally have the most expensive packages over a sustained period of time.'

73. 14% of respondents felt that rurality should not be included within the adult social care formula, and 10% believed that density should be included.

'In terms of sparsity, or rurality, [we] does not agree with its use as a cost driver. In determining costs, there are more relevant factors to consider than distance between (in this case) clients, such as congestion, parking, distance from vehicle to client.'

74. Over 30 data sources were suggested by respondents to the consultation. There was most consensus around the use of Office for National Statistics sub-national population estimates (23%), Projecting Adult Needs and Service Information and Projecting Older People Population Information projections produced by the Institute for Public Care and Oxford Brooks University (12%), and actual client data on those with a learning disability (12%).

'We would urge the Government to use the [Office for National Statistics] sub-national population estimates and, in doing so, build in the projected change in population over the reset period.'

Government response

75. As a targeted service with strict eligibility criteria, adult social care is a complex area that accounts for the largest proportion of expenditure for upper tier authorities. The Government believes that the best available option for adult social care is to deploy an up-to-date, service specific formula which offers appropriate levels of analytical robustness.

76. The Government's leading option is to base an adult social care relative needs formula on work by LG Futures (a specialist consultancy firm), together with the Personal Social Services Research Unit at the University of Kent and the London School of Economics and Political Science, using data collected in 2012-13. The research underpinning this formula has been peer reviewed and is available online.⁷

⁷ <https://www.pssru.ac.uk/project-pages/adult-social-care-rnf-review/>

77. This new adult social care formula contains working age (18-64) and older person's (65+) components, which contain a measure of need gathered at small-area level in order to capture need for adult social care within, as well as beyond, local authority boundaries.

Children and Young People'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?

78. Respondents to the Call for Evidence indicated that they believe children and young people's services justified a more specific approach. Currently children and young people's services uses three distinct relative need formulas that reflect the different types of services local authorities provide for children: children's social care, youth and community services, and local authority central education functions. These formulas share a number of variables.

79. The Government proposed the cost drivers for children and young people's services to be:

- i) Number of children (under 18 years of age),
- ii) Number of children for whom parents receive Disability Living Allowance,
- iii) Deprivation, and
- iv) Distance to schools.

80. 66% of respondents agreed or broadly agreed that these were the correct cost drivers for children and young people's services. This was higher amongst local authorities with responsibility for children and young people's services - for example 18 of 21 responding London Boroughs, and 21 of 27 responding Shire Counties.

'The cost drivers for children's services seem reasonable; population by age group is the most significant cost driver.'

81. Many respondents felt that there were additional drivers to those proposed which could be included within a children's and young people's services formula, and 51% of respondents proposed one or more additional cost drivers. In total, 20 additional cost drivers were proposed, however 13 of these were suggested by 5% or less of respondents.

82. There was most consensus around the addition of a measure of rural isolation or sparsity (39%), care leavers (36%), the number of looked after children (26%), parents out of work (16%), and number of social care hours or level of specialist support (15%).

'Members would support the examination of how sparsity drives need in Children's Services'

'Looked After Children is a key driver of cost within children services and in particular the complexity of care. This factor therefore needs to be included as a key cost driver'

83. 32% of respondents supported the use of a wider measure of deprivation than the use of disability living allowance alone.

'the deprivation factor for children's services needs to account for elements such as income ... ethnicity, child health and out of work benefits'

84. Of those that had views on which data sets are suitable for the measurement of key cost drivers affecting children's services, few listed datasets. 17 respondents listed data sets for deprivation, 9 for rural isolation/sparsity and 5 for children not in good health. 10% of those with views supported the use of the Indices of Multiple Deprivation.

'In respect of the Deprivation indicator, the National Funding Formula uses a combination of free school meals, Ever 6 free school meals and the Income Deprivation Affecting Children Index'

'To measure rural isolation, we would suggest measuring the number of families who live outside of main transport routes and the number of families who live in communities of less than 1,500 people'

Government response

85. Children and Young People's services is a complex service area with unique cost drivers. A significant proportion of expenditure is on services for the most vulnerable children, which are relatively low incidence, but high cost. Children and young people's services represents the second largest area of expenditure for upper tier authorities and the Government believes that the best available option is to develop a new service-specific formula which offers appropriate levels of analytical robustness.

86. To do this, the Ministry of Housing, Communities and Local Government and the Department for Education jointly commissioned a children's services data research project. LG Futures were appointed to lead this research and are working alongside academics from the Universities of Huddersfield and Plymouth. The research will lead to a new funding formula utilising a multi-level model approach, using individual-level data from the Department for Education's data sets (e.g. the school census and

children's social care activity data) supplemented with data collected from local authorities.

Highways maintenance and public transport

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?

87. Highways maintenance, public transport and concessionary fares were mentioned by respondents to the Call for Evidence as areas which might require a bespoke approach. The revenue costs involved in Highways Maintenance and Concessionary Travel are reflected in the current local authority relative needs assessment, however these focus on specific cost drivers which differ to those used in other formulas.

88. The Government proposed the drivers for highways maintenance and public transport to be:

- i) Road length,
- ii) Traffic flow,
- iii) Forecast snow days / predicted grit days, and
- iv) Concessionary bus boardings.

89. 78% of respondents agreed or broadly agreed that these were the correct cost drivers for highways maintenance and public transport, only 2% disagreed. However, many respondents felt that there were additional factors which should be added to a highways maintenance and public transport formula. In total, 26 additional cost drivers were suggested for highways maintenance or concessionary travel, of which 12 were mentioned by more than 5% of respondents.

90. For highways maintenance, there was some consensus around the use of road class (20%), other weather factors such as flooding (14%), highway assets (14%) and all traffic flow (11%).

'the classification of roads is also important – classified roads, which only account for around 20% of roads by length, are likely to have more traffic flow but may also have historically attracted more funding through grants.'

91. For concessionary travel, three-quarters of Shire Counties and most Shire Districts felt that there should be a measure of rurality, or that there may be unmet need associated

with concessionary travel, and hence many disagreed with the use of bus boardings as a cost driver. This view was supported by 51% of all respondents, but not by Metropolitan Districts, or all but one London Boroughs.

'Regarding concessionary travel, there needs to be a new approach to assessing this for rural areas. Services have declined significantly over recent years that any assessment of need will not reflect actual need because it will be starting from a very low base.'

92. Resident population and demographics was also mentioned by 15% of respondents as a cost driver, with length of journeys or cost of fares in rural areas, and availability of other public transport both mentioned by 11% of respondents.

93. Of those who had views on data sets, respondents highlighted 20 data sources which sit behind suggested cost drivers. There was most consensus around use of the Access to Services index from the Indices of Multiple Deprivation (27%) for concessionary travel and road length/class data from the Department for Transport (22%) for highways maintenance. 13% of respondents suggested the use of Department for Transport bus boardings data, despite the aforementioned concerns from Shire Counties and Shire Districts.

'We would propose that the Access to Services index from the Indices of Multiple Deprivation be used to measure need for concessionary travel and for bus support.'

Government response

94. The Government agrees with the broad consensus behind Road Length and Traffic Flow as the main cost drivers for Highways Maintenance and therefore intends to implement a straightforward formula for this service area that incorporates these two cost drivers. Other cost drivers that were tested did not significantly improve the precision of the formula.

95. In the first instance, the Government is minded to include Concessionary Travel within the upper tier Foundation Formula on the basis that this would introduce further simplicity and transparency into the relative needs assessment. The Government will, however, carry out further analysis on potential alternative approaches in order to determine whether this approach adequately reflects local authorities' relative needs.

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?

96. Nationally, local authority expenditure on Local Bus Support was approximately £250m in 2017-18 (excluding spending by the Greater London Authority), and accounted for more than 1% of total net current expenditure in just nine authorities; six of which were combined authorities. Outside of the local government finance settlement, the Department of Transport's Bus Service Operators' Grant provides additional funding to local authorities and bus operators; the main components of which include £42m paid directly to authorities specifically in relation to non-commercial services they support under tender agreement, and a £197m operator reimbursement grant for some of the fuel duty paid.

97. Historically Local Bus Support has been included in the 'county-level' Environmental, Protective and Cultural Services formula. There are currently no specific cost drivers used to calculate local bus support, hence the government asked for views in the consultation on what the most suitable cost drivers would be.

98. Of those who had views, 9% of respondents felt that local bus support did not require a specific formula. However, this was higher amongst Metropolitan Districts (8 out of 19 respondents).

'It is suggested this service is not significant enough in the context of overall local government funding to warrant a separate funding stream and that allocation through the foundation formula (largely population and deprivation driven) would be reasonable.'

99. Respondents suggested 20 cost drivers for a possible local bus support formula, with the most consensus around the incorporation of a measure of rurality via sparsity or journey times (27%) or use of the Accessibility to Services index from the Indices of Multiple Deprivation (20%). Other cost drivers suggested included deprivation, a measurement of residents' income or the living wage, population, number of older people and car ownership levels.

'We consider that the need for bus services increases based on the proportion of the population who do not have access to a car. Costs will also be driven by how far buses have to travel to population centres and therefore sparsity will be a factor.'

100. Of those who had views on which data sets could be used to measure cost drivers for local bus support, a total of ten cost drivers were suggested. There included the Access to Services index, the level of car ownership as provided by the Census, and the wider Indices of Multiple Deprivation. Annual bus journey data from the Department for Transport was also suggested.

'[Our] view is that annual mileage details submitted to the Department for Transport would perhaps be the best records to use here, both for simplicity and consistency nationwide.'

Government response

101. Given the overall scale and distribution of expenditure for this service area, the Government does not believe that it is proportionate to introduce a specific funding formula for this service area. However, including this in the upper tier Foundation Formula so that it is broadly distributed on a 'per capita' basis, with a new 'Area Cost Adjustment', means that the funding for this service area will be distributed according to the characteristics of local authority areas and not directly linked to historical decisions about funding levels.

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?

102. Waste collection and disposal were mentioned by respondents to the Call for Evidence as areas which might require a bespoke approach. In two-tier areas the responsibility for household waste collection lies with Shire Districts and disposal with Shire Counties. Historically these elements of need were part of the Environmental, Protective and Cultural Services formulas and there are currently no specific cost drivers used to calculate waste collection and disposal.

103. The Government proposed the drivers for waste collection and disposal to be:

- i) Number of households,
- ii) Types of property,
- iii) Travel times, and
- iv) Deprivation.

104. 65% of respondents agreed or broadly agreed that these are the correct cost drivers for waste collection and disposal, however almost a quarter of respondents disagreed. Over a third of respondents disagreed with the incorporation of deprivation within the formula, or felt that its incorporation required more evidence.

'Deprivation is not considered to be relevant as a cost driver for this service. Instead it should be based on a basic amount per resident.'

105. A total of 17 cost drivers were suggested, however few gained much consensus. These included location of disposal facilities (35%), density (23%), household type (23%), rurality (21%) and population (16%).

'The location and number of tipping/transfer locations ... affects travel time, costs are influenced not just getting around the houses but also the time spent when travelling to tipping points.'

106. Those who had views identified seven data sets, including Waste Dataflow, Department for Transport journey times and Office for National Statistics population data.

“Waste dataflow” (a national database which should be looked at for data mining) can be interrogated for supportive information such as waste per household.’

Government response

107. In the existing relative needs assessment, there is no separate funding formula for household waste or street cleansing services. The December 2017 consultation asked whether separate waste formulas should be introduced, and there was some agreement to do so given the visibility of this service area to the general public and the scale of expenditure at upper and lower tier. However, there was broad agreement that the number of households affects the demand for waste services, and our analysis suggests that population is the most significant cost driver.

108. The Government is therefore minded to distribute funding relating to waste services through the upper and lower tier Foundation Formulas rather than introduce separate funding formulas for these services.

Fire and Rescue Services

Question 16a.

Do you agree these remain the key drivers affecting the cost of delivering Fire and Rescue Services?

Question 16b.

Do you have views on which other data sets might be more suitable to measure the cost drivers for Fire and Rescue Services?

109. Fire and Rescue Services was identified by respondents to the Call for Evidence as an area which might require a bespoke approach. There is a strong rationale for retaining a separate funding formula for Fire and Rescue Services in the needs assessment on the basis that these services are carried out by stand-alone fire authorities in some instances. In addition, this service area is distinct as it takes account of risk as well as demand factors, which justifies taking a more specific approach.
110. The current Fire and Rescue Services formula is based on population and subject to a series of adjustments to allocate funding by both risk of incidents and the costs associated with providing fire service cover.
111. The Government asked whether the current cost drivers remain the correct drivers for Fire and Rescue Services:
- i) Projected population,
 - ii) Adjustments:
 - Coastline,
 - Population Density,
 - Population Sparsity,
 - Risk index,
 - Control of Major Accident Hazards sites,
 - Property and Societal Risk,
 - Community Fire Safety, and
 - iii) Area Cost Adjustment for Fire and Rescue.
112. 42% of respondents agreed or broadly agreed that these are these remain the correct cost drivers for Fire and Rescue Services, including 7 of 11 standalone Fire and Rescue Authorities, 10 of 16 Shire Counties, 8 of 25 Unitary Authorities, and the Greater London Authority.
113. Extra cost drivers were suggested by 42% of authorities with Fire and Rescue Services responsibilities. Almost half of these mentioned elderly population and a third

mentioned road traffic accidents as additional cost drivers. However, many respondents pointed to the work being conducted by the National Fire Chief's Council which meant that they could not at that point provide a more detailed response.

'These are a sensible range of cost drivers. With specific reference to the 'Risk Index' 'adjustment' ... it is suggested a new factor of the 'proportion of the population over a certain age' be added.'

'Assessments of key cost drivers should be undertaken on the basis of a principled approach, that seeks to establish whether they usefully contribute to the accurate estimation of need. Since Fire and Rescue Services attend serious road traffic incidents, consideration should be given to including suitable measures that might relate to that area of activity as a cost driver.'

114. A few data sets were given for measurement of the cost drivers suggested. These included Mosaic classification of UK households, number of high-rise buildings, journey time data, persons not in education, employment or training, Indices of multiple deprivation and the gross number of people living in rural or urban areas.

Government response

115. The Government believes it is important to build consensus behind the approach we adopt to the fire and rescue services formula and has therefore identified three potential approaches in order to seek views on the best way forward. The options are to develop a formula through an expenditure-based regression based on cost drivers with the greatest explanatory power for Fire and Rescue Services spending; to update the existing Fire funding formula as far as possible; or to develop a multi-level model using fire incident data as a proxy for relative risk.

116. The Government will continue to sense-check the results of our analysis with experts in the sector, including the National Fire Chief's Council, as work progresses. Subject to the outcome of the accompanying consultation and additional analytical work the Government will form a view on the best approach.

Legacy Capital Financing

Question 17a.

Do you agree that 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?

117. Legacy Capital Financing was identified by respondents to the Call for Evidence as an area which might require a bespoke approach. The Capital Financing relative needs formula recognises historic costs for local authorities with borrowing commitments that were agreed to be funded through the local government finance settlement. This remains a pressure on some authorities and has very specific cost drivers.

118. The Government proposed the following cost drivers:

- i) Outstanding debt, and
- ii) Interest rates.

119. Three-quarters of respondents to this question agreed or broadly agreed that these are the key cost drivers for legacy capital financing. Of those that disagreed (11%), many specified that actual capital debt should be used, rather than assumed debt figures.

120. Respondents suggested six additional cost drivers, however there was little consensus. A fifth of those who suggested an extra cost driver mentioned factoring in of minimum revenue provision, however that comprised just 4% of respondents to this question. 3% of respondents mentioned that there should be some recognition of authorities who have managed down their debt.

'We would consider that the actual levels of outstanding debt and the actual rate of interest charged on this debt would be the key cost drivers, rather than assumed figures.'

'Councils should have been making prudent [minimum revenue provision] for this debt, therefore this block should, at the very least, be reduced on a 4% reducing balance basis in line with this.'

121. There was also little consensus around suggested data sets, with few mentioned, including borrowing and lending returns (6%) and published balance sheets (6%).

However, there was more consensus was around continuation of the same data sources currently used (17%).

'We would suggest that the current and existing measure is retained.'

Government response

122. A separate Legacy Capital Financing relative needs formula is required to ensure that local authorities with borrowing commitments that were agreed to be funded through the local government finance settlement, prior to the introduction of the Prudential Capital Finance System, have that cost recognised in their relative needs assessment.
123. Legacy Capital Financing remains a pressure on authorities and the Government believes that the unringfenced funding distributed by the settlement provides local authorities with the greatest flexibility to service this historical debt.

Other service areas

Question 18a.

Are there other service areas you think require a more specific funding formula?

Question 18b.

Do you have views on what the key cost drivers are for these areas, and what the most suitable data sets are to measure these cost drivers?

124. The Government recognised that the aforementioned service areas are those for which a service specific formula will be considered. These were raised in the Call for Evidence and account for a significant proportion of local government expenditure, or have a unique set of factors which drive costs for many authorities. The Government then asked whether there were any further service areas which might require a more specific funding formula.

125. 83% of those that responded to this question felt that there were other services that required a more specific funding formula, 11% felt that the Foundation Formula and service specific formulas proposed captured the correct formulas. Some respondents thought that other service specific formulas should only be included if there wasn't a significant overlap with the Foundation Formula.

126. Of those services mentioned, there was most consensus around a 'Fixed Costs Sum' formula, however this was mainly advocated by Shire Districts (85%) and Shire Counties (52%), and few other local authority classes.

'Previously the 'corporate and democratic core' functions were recognised in the four block formula. Similar consideration should be provided in the revised funding formula as these costs will remain'

127. There was also some support for a specific formula for non-Housing Revenue Account housing and homelessness (41%), and on a service specific formula for Public Health (33%), if this were to be devolved under further business rates retention and funded through the settlement. Twelve other suggestions were made, however there was very little consensus on these.

'Non-[Housing Revenue Account] housing support such as homelessness, housing welfare and temporary accommodation should be considered as this is a key area of pressure for a number of local authorities.'

'If, as indicated funding for Public Health is to move from specific grant funding to formula funding then there should also be a service specific formula for this service.'

128. Of those respondents who thought that non-Housing Revenue Account housing and homelessness required a service specific approach, the most frequently mentioned cost drivers were housing affordability (42%), housing demand and supply (18%), numbers of homeless families or statutory homeless (17%) and deprivation (16%), for which the indices of multiple deprivation was suggested. Few respondents proposed Public Health cost drivers or data sets however some suggested using existing Public Health data sets.

'Suitable data should be extracted from existing Public Health Data and in particular focus on the levels of obesity/ participation in activities etc re obesity; physical inactivity; death; rates /drug and alcohol misuse; levels of pollution etc.'

Government response

129. A number of other potential service areas were suggested by consultation respondents as requiring a separate funding formula. Given the considerations regarding complexity, overall scale, distribution of need and similarity, the Government is minded not to introduce separate formulas for these areas and instead include them in the Foundation Formula, with the exception of Public Health.

130. In December 2017, the Government announced its aim to increase business rates retention to 75% by devolving grants of equivalent value, including the Public Health Grant. The Government is continuing to engage stakeholders on the implementation of this aim. This includes consideration of what more needs to be done to build a full range of assurance arrangements for delivering public health services and outcomes. The Government will take a final decision on these matters in 2019.

131. Given the complexity and size of this service area, the Government believes a service-specific approach would be required for public health if the decision to incorporate this into retained business rates is made. On this basis, the leading option would be based on a new public health formula that was developed by the Advisory Committee on Resource Allocation. This formula was the subject of formal consultation in 2015.⁸

132. The overall level of consensus around most other suggestions made was low; however, there was more consensus around the inclusion of non-Housing Revenue Account housing/Homelessness. Analysis conducted on the 'net' costs of homelessness (expenditure funded through the settlement, after accounting for non-settlement funding for homelessness) showed that homelessness represents a

⁸ <https://www.gov.uk/government/consultations/public-health-formula-for-local-authorities-from-april-2016>

relatively small proportion of net expenditure for the majority of councils. In conjunction with the fact that there is no separate funding formula for homelessness in the current methodology, the Government believes that it would be disproportionate to introduce further complexity into the needs assessment for this service area. As a result, the Government is minded to account for homelessness within the Foundation Formula, subject to the outcome of the 2019 Spending Review.

133. Whilst many consultation respondents expressed support for retaining a fixed costs element within the needs assessment, the Government is minded not to retain this element of the needs assessment on the basis that it adds unnecessary complexity and because fixed costs, as well as variable costs, are already identified through the wider assessment of relative needs.

Weighting funding formulas and cost drivers

134. In addition to the consideration of which cost drivers should be included in the assessment of local authorities' relative needs, it is also necessary to combine and weight these cost drivers within a relative needs formula.
135. The consultation also set out the potential approaches to weighting specific service areas that may be included in the formula, and outlined the important role that statistical techniques play in weighting the common cost drivers and potential specific cost drivers for service areas, and described the main analytical techniques available for quantifying the weightings of cost drivers.

Question 19.

How do you think the Government should decide on the weights of different funding formulas?

136. If more than one relative needs formula is developed, it will be necessary to decide the proportion of the overall funding that is to be allocated by each formula. In the past, control totals for the different elements in the relative needs assessment formula have been set by Government as part of the Spending Review process.
137. An alternative to the use of judgement in determining the weighting of different formulas would be to base these on the proportion of spending local government as a whole currently commits to different services. The Government indicated that this could be supplemented with some trend analysis or time series modelling to set control totals that reflect the pressures that we expect local government will face in the coming years. It would also be possible to use a blend of these two approaches.
138. The Government asked for views on how the weights of different funding formulas should be decided.
139. Of those that responded, 8% favoured the use of unadulterated outturn expenditure and 27% felt that the use of current expenditure data would be inadequate due to changes in spending patterns since 2013-14. However, 32% of respondents favoured the use of adjusted outturn expenditure (if trend analysis and future demand are considered).

'The approach should not be unduly influenced by levels of historic spending, as that may reinforce historical disparities that are not reflective of real assessments of need.'

‘[We] believe it makes sense to weight different services based on actual national expenditure along with an assessment of future pressures on services.’

140. 20% of those who responded disagreed with the use of judgement, and 19% agreed with the use of analytical techniques to weight formulas.

‘We agree that it would be better to remove the level of judgement involved in weighting, as this will promote a more stable and sustainable system.’

Government response

141. The Government intends to introduce several funding formulas, which means that it will be necessary to decide the proportion of overall funding that is allocated by each one. It intends to further explore the approach to determining control totals, and will ensure that any assessment of the future pressures local authorities may face is aligned with the wider 2019 Spending Review, which will determine the overall level of funding available for redistribution at the 2020-21 settlement.

Question 20.

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

142. Statistical techniques offer an evidence-based way to determine funding allocations by minimising the use of judgement in constructing funding formulas. The use of statistical techniques enables us to determine which cost drivers have the most significant impact on an authority’s need to spend, and the relative importance (or weighting) of one cost driver against another within a formula. Many different statistical techniques have been used across Government to help construct funding formulas.

143. The Government set out possible approaches to the weighting of cost drivers within funding formulas for the review as:

- i) Local Authority Level Expenditure-Based Regression,
- ii) Small Area Modelling,
- iii) Multi-level Modelling,
- iv) Outcome-based regression models,
- v) Factor Analysis,
- vi) Principal Component Analysis, and
- vii) Unit Cost Functions.

144. There was broad consensus around the use of regression models (34%). Many respondents argued that statistical techniques should be accompanied by expert judgement (30%), to 'sense-check' the result, less than 3% of respondents supported a judgement-only based approach.

145. There was support for the use of multi-level modelling (18%), particularly amongst Shire Counties (46%). There were few advocates for other statistical techniques (below 5%), principal component analysis, outcome-based regression, or unit costs.

'We support the use of more sophisticated statistical techniques, where these can be shown to eliminate the effect of past spending allocations between authorities.'

'Alternative techniques of outcome-based regression, factor/component analysis and unit cost functions seem to rely on either judgement, significant assumptions or the kind of detailed information which is not readily available.'

Government response

146. On the basis that some statistical techniques may be more suitable for particular service areas in the needs assessment than others, the Government has considered the merits of a range of techniques that could be used. Alongside the principles of the review, a number of other considerations were taken into account, including the analytical robustness offered by a technique, the level of sophistication employed by a technique (and the trade-off between complexity, robustness and transparency), and practicalities, including the availability of appropriate data sources. The two leading statistical techniques identified for the review are 'multi-level' modelling and expenditure-based regression.

147. Some criticisms have been raised against use of expenditure-based regression; however, after careful consideration the Government believes it is still the best statistical approach in certain circumstances as it does not allocate more funding to councils that have spent more in the past and it does not penalise efficiency. The Government proposes the use of multi-level modelling for two service areas, Adult Social Care and Children and Young People's Services.

148. The Government also agrees with the proposal to 'sense-check' the results of the formulas as an important way of building further consensus behind the review, and will engage with bodies such as the Association of Directors of Adults Social Services, the Association of Directors of Children's Services and the Association of Directors of Environment, Economy, Planning and Transport as the work of the review progresses.

Equalities Impacts

149. The Public Sector Equality Duty requires Ministers to have due regard to the need to eliminate discrimination and other conduct prohibited under the Equality Act 2010, advance equality of opportunity and foster good relations between persons who share protected characteristics and those who do not.

Question 21.

Do you have any comments at this stage on the potential impact of the options outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

150. The Government asked whether respondents had any comments at this stage about the potential impact the policy options outlined in the consultation may have on persons who share a protected characteristic.

151. At this stage of the consultation, the majority of respondents did not feel that they could comment on the potential impacts that the outlined options may have on persons who share a protected characteristic, but required further information on the shape of the policy.

152. Of those respondents who had comments, some indicated that the options outlined may have an impact on persons with the following protected characteristics:

- Age (41%),
- Disability (17%),
- Race (7%), and
- Sex (3%).

'There are certain persons with protected characteristics, who are more likely to require care or have higher costs associated with the provision of care. [the options are] most likely to impact on these population segments (e.g. older people, people with disabilities).'

Government response

153. The Government accepts that there may be an impact on certain members of the public with protected characteristics. However, it believes that at this stage it is not possible to qualify these characteristics due to the open nature of the December 2017 consultation. The further consultation on local authorities' relative needs, relative resources and transitional arrangements includes a section on the Public Sector

Equality Duty, and the Government will likewise consider representations made in response in further policy development.