Needs and Redistribution Working Group Update

1. The Needs and Redistribution working group has met twice thus far. At its first meeting, the group discussed and agreed **Terms of Reference** for the group. The group also agreed that that the Working Group's purpose was to first establish the *principles* for doing a new needs assessment, which would set the baseline of funding for authorities under 100% business rates retention. This should be done for the services that local government currently delivers first, with those that may be devolved as part of the move to 100% retention being considered later.

2. The group has had initial discussions on the **key questions** for the Fair Funding Review. In addition to those initially put forward by DCLG/LGA, the group agreed that how the transition to a new distribution of funding is done should also be considered by the group. The final set of questions that the group will consider are:
    a. What do we mean by 'need'?
    b. What are the key factors that need to be considered?
    c. What should the approach be for doing needs assessment for different services?
    d. At what geographical level should we do a needs assessment?
    e. How should 'resets' of the needs assessment be done?
    f. How, and what, local government behaviours should be incentived through the assessment of councils' need?
    g. How should we transition to a new distribution of funding?

3. At its second meeting, the group discussed the pattern of **2014/15 local government expenditure** on a number of services and how this varied between authorities, regions and classes. The group concluded from the per capita analysis that there are significant variations in expenditure which cannot be explained by population alone.

4. The group agreed that the pattern of spending will have been affected by authorities' available funding, prioritisation of statutory services over discretionary and local political decisions regarding the type and quality of service. Due to the complex range of factors affecting spending, there was a need for a more sophisticated approach to measuring need than by solely looking at population.

5. The link between authorities' available funding led the group to question the suitability of past expenditure for correlation/regression exercises to establish local authorities' needs. An outcome based measure of need could be an alternative to the past expenditure-based approach for creating new needs formulae. As a result, at the next meeting, CIPFA will be presenting to the group on '**CFO insights**', a tool they produce which provides insights on outcomes for local government services. The group will look to understand what these outcome measures are for various services, how they are measured by CFO insights and what the relationship is between these measures and 'key cost drivers' for services.

6. The group also discussed whether the variation in spending can be further explained the indicators used in the existing relative needs formulae. The group thought that many of

the indicators that have been used in the past would still be important drivers of the cost pressures local government face today, but that there may be new cost drivers that are not captured by the current formulae. As a result, it was agreed that DCLG/LGA would present at the next meeting what the current indicators used in the needs assessment are. This would allow the group to do a 'stock-take' of these indicators and identify which are still relevant, as well those cost drivers that are not currently reflected.

7. In relation to the above, the group also discussed what local government services potential cost drivers should be analysed for. It was agreed that **capital financing** should be included in the analysis as this was a significant source of expenditure for some authorities.

8. In addition, the group discussed the make-up of the current 'environment, protection and cultural services' (EPCS) category of services. It had previously been suggested that focussing on waste collection/management would be a reasonable alternative to considering all of the services within EPCS, as this was the main source of expenditure within EPCS. However, on the whole, the group disagreed with this approach. Some members suggested that there were also other services currently within EPCS for which expenditure was relatively high. For the next meeting, the group agreed to provide details of other statutory services within EPCS besides waste collection/management which contribute significantly to expenditure.