

Review of relative needs and resources: update

Stuart Hoggan

Deputy Director, Ministry of Housing, Communities and Local Government

Aivaras Statkevičius

Senior Adviser (Finance), Local Government Association

Principles of the Review:

Simplicity

Transparency

Contemporary

Sustainability

Robustness

Stability

Terms of Reference for the Review:

- **set new baseline funding allocations** for councils
- deliver an up-to-date assessment of **relative needs**
- examine the **relative resources** of local authorities
- consider appropriate **transitional arrangements**
- be developed through **close collaboration with local government**
- focus initially on **services currently funded through the local government finance settlement**, with a subsequent case-by-case consideration of additional responsibilities

Overall approach

Final funding position for a local authority:

Relative needs share

LESS

Relative resources adjustment

LESS/PLUS

Possible transitional arrangements

PLUS

Actual resources income

Scope of
review

Overall structure

Foundation Formula	County-level and District-level	Area Cost Adjustment
Adult Social Care		Area Cost Adjustment
Children and Young People's		Area Cost Adjustment
Public Health		Area Cost Adjustment
Highways Maintenance		Area Cost Adjustment
Fire & Rescue		Area Cost Adjustment
Legacy Capital Finance		No Area Cost Adjustment
Flood Defence & Coastal Protection (District-level)		Area Cost Adjustment
Total needs assessment	For each authority, result of each formula multiplied by distributable funding for that line, added together	
Less: council tax adjustment	(taxbase x notional council tax level per authority type)	
New funding baseline	Needs assessment less council tax adjustment	
Transition to be applied, may take into account other income		

LGA objectives

The review should be conducted transparently and local authorities should be informed of progress to allow planning. This includes producing LGA modelling tools to help.

The review should be accompanied by additional resources to make the outcome sustainable – there is a funding gap, and some councils might face very significant changes

All parts of local government should have an opportunity to put forward their case.

Where there is a political consensus on details and the design of the review, it should be promoted as LGA policy (eg deprivation in the foundation formula)

General LGA policy positions

It is right to have a review. The current system of distributing funding is opaque and out of date – no local authority is able to tell why its funding allocation is what it is. The results of the review must be evidence-based.

The Government must publish a timetable for the coming year setting out expected dates for further consultations and timings of when the key decisions will be made on the reforms.

The results of the review should be introduced with additional funding and appropriate transition mechanisms, so that no local authority sees its funding reduce.

Individual council-level exemplifications are required as soon as possible; otherwise, councils will be facing another financial planning cliff-edge soon.

Individual formulas are only one element

Foundation Formula	County-level and District-level	Area Cost Adjustment
Adult Social Care		Area Cost Adjustment
Children and Young People’s Services		Area Cost Adjustment
Public Health		Area Cost Adjustment
Highways Maintenance		Area Cost Adjustment
Fire & Rescue		Area Cost Adjustment
Legacy Capital Finance		No Area Cost Adjustment
Flood Defence & Coastal Protection (District-level)		Area Cost Adjustment
Total needs assessment	For each authority, result of each formula multiplied by distributable funding for that line, added together	
Less: council tax adjustment	(taxbase x notional council tax level per authority type)	
New funding baseline	Needs assessment less council tax adjustment	

Transition to be applied, may take into account other income

Other elements with a major impact

The relative size of the 'control amount' for each of the service formulas

- (the relative sizes allocated for the two different formulas will shift funding between different authorities and authority types, eg between districts, counties and FRAs)

The notional council tax level in the council tax adjustment

- The higher the level, the bigger the deduction for authorities whose share of the total national taxbase is larger than the share of the total national need.
- The split of notional council tax into county, district and fire shares will also shift funding between different authority types.

The way the transition mechanism works

- Big difference between (for example) measuring a change only in the settlement core funding and measuring the change in a broader measure of spending power.

Question time