

Review of Relative Needs and Resources

A Submission by:

**The Chartered Institute of Public
Finance and Accountancy**

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Executive Summary

- 1.1 In this submission, CIPFA has made comments and recommendations across two areas.
- Developing a fair formula
 - Data
- 1.2 CIPFA has commented on this consultation within the context of the current legal framework and the current quantum. However, CIPFA does not believe that the current funding levels are sufficient for local authorities to meet growing demand and are concerned with the sustainability of a small number of local authorities¹
- 1.3 CIPFA supports the principles within this consultation and appreciates the challenges faced by the Department in attempting to provide greater transparency. We would agree that the previous formula with its 120 indicators was not helpful. However, as the consultation shows the Local Government Finance system is highly complex and the principle of simplicity is difficult to maintain.
- 1.4 Data and data collection is central to the accuracy and success of any formula and reflecting on the consultation CIPFA notes that data is not always timely or accurate. Accepting the importance of data within funding allocation formula the Department should work with the sector to improve this.
- 1.5 CIPFA would advocate that all needs and resources developments are informed by the use of independent technical statistical expertise that can provide robust challenge as the detailed work progresses. This last point also reflects learning from other formula review work elsewhere in Whitehall.²
- 1.6 Risks are always experienced during a period of transition. It is necessary to develop early exemplar and modelling to support financial planning and protect continuity of service. CIPFA would recommend that this includes independent expertise and learning from previous funding changes it should also include the impact from wider local government finance policies.

¹ Measured Resilience in English Authorities CIPFA 2018

² House of Commons June 2017 School funding in England. Current system and proposals for 'fairer school funding'

2. Developing a fair formula

- 2.1 CIPFA supports the reduction in the 120 indicators and considers that a simplified system improves transparency. The approach taken to have a foundation formula supported by service specific formulae that address relative needs is one that CIPFA thinks supports the principles of this consultation. We would encourage the government to ensure that it continues this direction of travel and only increases complexity in the future where it is unavoidable.
- 2.2 CIPFA considers that practitioners are best placed to discuss the details regarding cost drivers and the factors that influence need. However, the decision to remove deprivation from the foundation formula even though it is retained in some of the service specific calculations requires additional consideration.
- 2.3 While the presentation of the data regarding deprivation supports the consultations conclusions, it would be helpful to see further exemplars to ensure that those authorities most affected by the removal of deprivation will not be disadvantaged. The consultation in December 2017 discussed the use of deprivation in the formula and so this is a departure from that original discussion.
- 2.4 CIPFA appreciates that the seven specific service areas have been selected because they are driven by unique cost driver. However, there are others that may require further consideration. CIPFA does not intend to comment on the inclusion or exclusion of additional areas but does feel that where comprehensive data can be produced to support a compelling argument then further discussion should take place.
- 2.5 Examples of areas where this type of discussion may take place include concessionary travel and temporary accommodation both of which were the subject of debate within the technical working party. While it is up to individual local authorities to provide the evidence for such an argument CIPFA would want assurance that any such response was subject to rigorous and independent analysis.
- 2.6 The importance of evidence to support any claim regarding the cost of service delivery should also be carefully considered by Government before any final decision on funding is made.

3. Data

- 3.1 Within the consultation there are a number of examples where the data that is being used is not particularly timely. For example 2.2.32 identifies data from 2011. While recognising the difficulties with data collection it is perhaps important to consider the important role that correct and up to date data plays in funding
- 3.2 CIPFA welcomes the departments acknowledgement of the importance of contemporary data particularly in the discussion around Adult Social Care (para 2.2.31)
- 3.3 Paragraph 1.3.1 covers the principle of robustness and states that the new funding formulas should take into account the best possible objective analysis. While it is arguably too late for this consultation, a lesson should be learnt regarding the availability of data and that the sector and department may find it beneficial to review data collection in the light of new technology and explore how better and more timely collection would improve the output of the formula.
- 3.4 CIPFA would advocate that the process is informed by the use of independent technical statistical expertise that can provide robust challenge as the detailed work progresses. This last point also reflects learning from recent formula review work elsewhere in Whitehall.³
- 3.5 CIPFA would also argue that the ability to make decisions based on robust evidence and independent analysis reduced the opportunity for political judgement. CIPFA considers that ministerial judgement should be minimised in this area.

³ House of Commons June 2017 School funding in England. Current system and proposals for 'fairer school funding'

4. Observations

- 4.1 New Homes bonus is outside the scope of the consultation but it is important to recognise that it should not be seen in isolation. The department may wish to consider the interplay of this funding stream when looking at consultation responses to ensure fairness.
- 4.2 Although small in number combined authorities' play an important part in the economic regeneration. It would be helpful for the department to confirm that there had been due consideration given to these authorities
- 4.3 CIPFA would agree with the used of notional council tax an approach which remains consistent with the current system. However more confidence could be provided if there were additional information such as details around adjustments and weightings.
- 4.4 In March 2018 CIPFA responded to the fair funding review and raised the question around the definition of fairness. We would still like government to define fairness more clearly in order to ensure that any measure of success can be easily identified. While the principles are understandable there is an issue that without clarifying exactly what "fair" means it may be difficult to measure the success of this review. CIPFA's response to the earlier review suggested three concepts of fairness as a starting point for the discussion.

5 Financial Sustainability

- 5.1 While it is not within the scope of this consultation CIPFA would like to make clear that it does not believe that the current funding levels are sufficient for Local Authorities to meet growing demand and are concerned with the sustainability of a small number of Local Authorities⁴
- 5.2 Research carried out by CIPFA has identified issues including use of reserves and optimism around savings. We seek assurances that any changes as a result of this review will not make authorities more vulnerable.

⁴ Measured Resilience in English Authorities CIPFA 2018