
LOCAL GOVERNMENT FUNDING FORMULA

Purpose

1. This paper suggests options for reviewing the funding formula following the presentation that was made at the May Executive Board.

Background

2. At the last meeting, Leaders were given a presentation on the funding formula as part of a two-stage process to:
 - engage Leaders in the finance formula and bring them up to a common understanding; and,
 - suggest ways forward in relation to a possible review.
3. Among the actions arising from the last Executive Board was to bring a paper reflecting discussions to this meeting. During discussion at the last meeting several concerns were raised about the formula.
 - The annual range is controversial – creating winners and losers every year.
 - It is not clear how the changes happen; the explanations can be overly complex and counter intuitive.
 - The formula is perceived as a 'statistical maze': there are some 4,000 data points used in the allocations.
 - Although much of the data is updated annually, some datasets are out of date.
 - Issues of allocation are sometimes conflated with the size of the pot which is more political.
 - Is a review just to update using the current methodology or looking for a 'bottom up' approach?
4. There was clearly a view that a more fundamental review was needed beyond the scope of the Distribution Sub Group arrangements (the status of each of formulae and when they were last reviewed is usefully summarised in the table at the annex). Some Leaders thought it was timely for the WLGA to grasp this, although there was a recognition of capacity constraints both with the civil service and local government official/officer pools.
5. It would be important, at the outset of any review, to establish robust governance arrangements which included local government as well as any Welsh

Government policy interests. An early stage would be to clearly define what we want the formula to do and to have a set of test criteria against which any new formula can be compared, to assess whether it is better than the current model and whether it is considered suitable for implementation. Adopting a set of principles at the outset would help.

Risks

6. It is worth noting that the funding formula is not in the programme for government, but the reform of local taxation is. The current formula includes an equalisation for locally generated taxation and the reality is that whatever distribution mechanism may replace it, there will have to be a similar equalisation for any new form of local taxation. How one plays into the other will be a key risk.
7. Furthermore, none of the options are likely to produce immediate results, the last review in 1999-00 took a year to conclude, and the recommendations took another 4 years to implement (and potentially longer depending on your point of view!).
8. Finally, the biggest risk is that any review of the formula will undoubtedly result in extreme financial turbulence. It would therefore be wise to establish stability as one of the overriding principles at the outset.

Next Steps

9. We think there are 3 possible approaches.
 - Allowing the work of the DSG to continue – this is almost a status quo scenario. This is not likely to produce a satisfactory outcome in terms of Leaders' last discussion where there was an appetite for something more fundamental.
 - Welsh Government-led review - ask the finance minister to commence an immediate review.
 - Jointly-led review – To jointly lead a review with the Welsh Government. This could be done in one of two ways. The first might follow the route of the last review in 2000 which was jointly commissioned by WLGA/Wales Office from an external partnership. The second might follow similar lines but we look to provide a stronger local government steer by augmenting capacity shortfall from the local government finance community.
10. The position of the Welsh Government will obviously be a key factor. Ministers lay the Local Government Finance Report annually before the Senedd. They may be reticent about any dramatic overhaul of the formula as the ultimate accountability lies with them. It is possible they may look at a larger range of options than the ones set out above and this may be resource dependent.

Recommendations

11. Members are recommended to:

- 11.1 note the contents of the paper; and,
- 11.2 explore the next steps at para 8.

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Summary of IBA Reviews

	Service Description	2021-22 Final Services IBA totals	Formula last reviewed (Rw) or updated (Uptd)	Multi-level regression	OLS regression	Subjective	Single indicator / client group
Education	Primary school teaching	1,168,587,976	Uptd 2003	X			
	Secondary school teaching	935,622,323	Uptd 2003	X			
	Special education	288,600,555	Rw 2006			X	
	Nursery and primary school transport	35,486,401	Uptd 2001		X		
	Secondary school transport services	62,985,889	Uptd 2001		X		
	School meals	61,011,928	Rw 2012		X		
	Adult and continuing education	6,156,246	Uptd 2001			X	
	Adult and continuing education transport	10,370,398	Rw 2005			X	
	Youth services	18,870,762	Uptd 2000			X	
	Education administration	2,926,049	n/a				X
Social Services	Children and young persons (PSS)	554,986,252	Uptd 2016	X			
	Younger adults' care	604,019,400	Uptd 2016	X			
	Older adults' care	651,924,493	Uptd 2016	X			
	WILG	6,750,000	n/a				X
	NHS-funded nursing care	1,330,000	n/a	X			
	PSS administration	5,281,118	n/a				X
Roads & Transport	Road maintenance	132,760,186	Uptd 2006		X		
	Street lighting	32,683,870	Rw 2012				X
	Public transport revenue support	16,842,351	Rw 2005		X		
	Concessionary fares	10,257,802	Rw 2004			X	
	Road safety education and safe routes	4,251,693	Uptd 2010			X	
Fire	Fire service	152,229,194	Rw 2000				X
Other Services	Electoral registration	6,710,282	Updt 2020				X
	Recreation	139,729,041	Rw 2005			X	
	Library services	52,723,218	unknown				X
	Cultural services	34,268,004	Rw 2005		X		
	Economic development	21,929,408	Uptd 2007		X		
	Cemeteries and crematoria	-2,602,336	Uptd 2000				X
	Coast protection	1,751,491	unknown				X
	Consumer protection	14,430,836	Uptd 2013			X	
	Planning	29,092,826	Rw 2001			X	
	Street Cleansing	67,266,665	Uptd 2013			X	
	Food safety	13,270,903	Rw 2001			X	
	Other environmental health	40,405,121	Rw 2005			X	
	Refuse collection	203,595,426	Rw 2006		X		
	Refuse disposal	95,018,820	unknown				X
	Non HRA housing	58,835,251	Uptd 2011			X	
	Council tax administration	47,279,620	unknown				X
	Drainage	1,240,895	unknown				X
	National parks	3,175,332	unknown				X
	Other services	85,141,901	Rw 2000				X
	General administration	94,332,892	n/a				X
	CTRS	4,770,000	n/a				X
DG	Deprivation Grant	22,000,000	Rw 2010			X	
CTRS	Council Tax Reduction Schemes	244,000,000	Rw 2015				X
Debt Financing	Highways Improvement	12,000,000	n/a				X
	LGBI 21C Schools	10,000,000	n/a				X
	Private Finance Initiative	24,517,532	n/a				X
	CRMP	1,295,890	n/a				X
	Debt Financing	328,617,521	unknown				
Total Wales SSA		6,418,731,426					