

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 - Although much of the data is updated annually, some datasets are out of date.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.**

Report Cleared by: Cllr Anthony Hunt & Cllr Carol Clement-Williams

Author: Jon Rae
Director of Resources
Tel: 07979018007
E-mail: jon.rae@wlga.gov.uk

Summary of IBA Reviews

| | Service Description | 2021-22 Final Services IBA totals | Formula last reviewed (Rw) or updated (Uptd) | Multi-level regression | Single indicator / client group |
|------------------------|--|-----------------------------------|--|------------------------|---------------------------------|
| | | | | OLS regression | Subjective |
| 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 | | | |