



DEBATE PACK

Number CDP-0021, 4 February 2020

Local Government Finance

By Mark Sandford and
Sarah Dobson

Summary

An Opposition Day debate on 'Local Government Finance' has been scheduled for Wednesday 5th February. This matter was selected for debate by the Leader of the Opposition, Jeremy Corbyn MP.

Local government funding in England has been the subject of a 'Fair Funding Review', instituted by the Government, since 2016. The Review applies only in England, as local government is a devolved matter in Scotland, Wales and Northern Ireland.

Contents

1.	Fair Funding Review	2
1.1	Background	2
1.2	Adult Social Care formula	2
1.3	Modelling of the full funding formula	4
2.	Press Articles	6
3.	Parliamentary material	7
3.1	Oral Questions	7
3.2	Written Questions	7
3.3	Debates	8
3.4	Ministerial Statements	9
4.	Further reading	10
4.1	Commons Library briefings	10

The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

1. Fair Funding Review

1.1 Background

A full background on the Fair Funding Review is available from The Library briefing paper [Reviewing and reforming local government finance](#). In brief:

- The Fair Funding Review consists of a review of the funding formulae used to assess the relative needs for funding of local authorities in England, in order to provide public services;
- The Review is to be implemented in April 2021, alongside the introduction of 75% business rate retention (increased from the current 50%);
- Revenue Support Grant – the main, un-ringfenced grant from central government to local authorities – has reduced substantially in recent years. As a result, the Review will be implemented principally by adjusting how business rate revenue is redistributed between local authorities;
- The Government has published several consultations on the Review in 2017 and 2018. Work between the Government and the Local Government Association remains ongoing on the technical aspects of the Review;
- No reliable figures are available on the predicted outcomes of the Review for individual authorities. This is because key decisions that would allow those figures to be calculated have not yet been made;
- In particular, though the Government has identified several formulae that it wants local government funding to take into account, no decision has yet been taken on how these would be weighted against one another in the overall formula.

1.2 Adult Social Care formula

On 24 January 2020, the Local Government Association released an analysis of anticipated changes to the adult social care element of the local government funding formula.

Adult social care is one of a number of service-specific formulae that make up the overall funding formula for local government. All of the service-specific formulae are being reviewed as part of the Government's Fair Funding Review. This review is still under way and due to take effect in April 2021. The Library briefing paper [Reviewing](#)

[and reforming local government finance](#) contains more detail on the Government's latest proposals.

The LGA's calculations compare the operation of the adult social care funding formula in 2011-12 – the last year in which a full needs assessment was run – with the proposed new formulae to be applied for the 2021-22 financial year. These are based on [detailed research carried out by the Personal Social Services Research Unit](#) at the University of Kent.

The calculations provide a percentage difference in the amount of funding that the change in the formulae would generate for each individual local authority. They also provide aggregate figures for regions of England and classes of authority.

The calculations cannot provide information about the likely overall outcome of the Fair Funding Review for local authorities. Information on how the other formulae used for local authority funding will work is not yet available. The Government has also not made a decision on how the various funding formulae should be weighted against one another, i.e., what percentage of the total formula each individual formula would account for.

Table: changes to adult social care formulae¹

Class of authority / region	16-64 year olds	65+
Shire county	4.71%	6.33%
English unitary	-3.60%	1.44%
Met District	-11.29%	-6.00%
London Borough	12.87%	-10.83%
South East	12.44%	4.84%
South West	-0.49%	3.42%
London	12.87%	-10.83%
North East	-11.58%	-0.76%
North West	-9.59%	-3.08%
East Midlands	-5.70%	6.15%
West Midlands	-7.70%	-2.36%
Yorkshire and Humberside	-9.95%	2.58%
East of England	9.10%	3.48%

¹ Source: LGA, [Adult social care relative needs formulas: LGA illustration](#) [data tables], January 2020

The LGA press released clarified that the analysis:

...can only be read as a high-level indication of the broad direction of travel, and not as official financial planning guidance.

This analysis only looks at one segment of one of the parts of the fair funding review, so no conclusion can, or should, be drawn about the potential overall outcome of the review for any local authority.²

A report in the *Guardian* on 25 January 2020 attributed cash figures to the percentages in the LGA research. These figures should not be relied upon as an indication of future outcomes for individual authorities. The methodology by which this was done is not made clear. Additionally, nothing is yet known about the total amount of cash that will be available for local government in 2021-22. The *Guardian* article also did not clarify that the analysis applied only to adult social care funding and not to the whole of the funding formula for local government.³

The local authority funding that is influenced by these formulae is not ringfenced. Therefore, the operation of the formulae does not have a direct influence on local authorities' decisions on how much money to *spend* on each of their services.

1.3 Modelling of the full funding formula

On Friday 31 January, the *Local Government Chronicle* reported on a briefing note distributed to members of the County Councils network. The note has not been published. The LGC's reporting indicates that it modelled the overall effect of the new funding formula, using the limited information available.

In contrast to the LGA's research, this research found that:

...when all the information available on the government's current proposals under the fair funding review are taken into account, including the new adult social care and foundation formulas, council tax equalisation and the latest area cost adjustment plans, metropolitan districts and county councils would both gain overall.

London boroughs would be the biggest losers, with inner London boroughs predicted to see funding reductions of almost 25%.

...

...metropolitan districts will see an overall gain from the known proposals under the fair funding review of 6.4% or £248.7m, with an allocation per head of £342.

County councils would get the largest cash gain of 9.2% (£325.9m), but funding per head would remain lower than other types of councils at £149.⁴

The report warned that there are a number of unknowns in these findings:

² LGA, [Adult social care relative needs formulas: LGA illustration](#), January 2020

³ Patrick Butler, ["Former 'red wall' areas could lose millions in council funding review"](#), *Guardian*, 25 January 2020

⁴ Jon Bunn, ["Mets set to benefit overall from funding review"](#), *Local Government Chronicle*, 31 January 2020

...the analysis does not include the potential impact of changes to funding formulas for children's services, public health and highways. It also assumes the government will not include deprivation in the foundation formula which covers a wide range of services including homelessness and waste.⁵

The report also quotes the researchers, Pixel Financial Management, as saying:

Our modelling shows that the most important driver of changes in distribution in 2021-22 will be council tax equalisation.

And the losers from equalisation will be the high-taxbase counties, boroughs and unitaries of south-east England.

This implies that how the new funding formula decides to equalise funding to take account of council tax revenue could be of substantial importance for outcomes for individual authorities.

⁵ Ibid.

2. Press Articles

Please note: The Library is not responsible for either the views or accuracy of external content.

[Analysis finds London could lose £0.5bn under their funding reforms](#)

Local Government Chronicle (Subscription required)

22 Feb 2019

Analysis discussing fears over the methodology of the Fair Funding Review not accounting for deprivation.

[Former 'red wall' areas could lose millions in council funding review](#)

Patrick Butler, The Guardian

25 Jan 2020

The Opposition have raised concerns that the fair funding review will take resources from the North and redistribute them to Conservative-led areas in the South.

[Council funding could be 'funnelled into the Sussex Tory shires', analysis shows](#)

Samuel Brooke, The Argus

30 Jan 2020

One of many local news pieces writing on the impacts to their area of the fair funding review.

3. Parliamentary material

3.1 Oral Questions

[Weighting for Deprivation: Fair Funding Review](#)

HC Deb 17 Jun 2019 662 c17

Yvonne Fovargue: Which local authority service areas will no longer be weighted for deprivation following the fair funding review.

The Secretary of State for Housing, Communities and Local Government (James Brokenshire): Deprivation is an important driver of local authority costs, which is why we have proposed that it will be taken into account in four significant service areas, including adult and children's social care. Together, these account for up to two thirds of councils' total spending covered by the review.

Yvonne Fovargue: Will the Secretary of State agree to the Local Government Association's calls for the Government to publish more of the analysis that has informed the fair funding review proposals?

James Brokenshire: Obviously, work continues and we see the recommendations and representations that have been made. Population is by far the most important factor for more universal services covered by the foundation formula; deprivation was shown to have a small effect over and above this. We continue to keep the matter under review, and will share data as and when appropriate as part of that work.

3.2 Written Questions

[Local Government Finance](#)

14 Jan 2020, PQ 3219

Anne Marie Morris: To ask the Secretary of State for Housing, Communities and Local Government, what the timetable is for the Fair Funding Review of local government funding.

Ministry of Housing, Communities and Local Government (Luke Hall MP): The Government is committed to undertaking a review of the relative needs and resources of English local authorities. We are working closely with local government representatives and others to examine all elements of the review. We aim to share emerging results with the sector shortly, followed by a full consultation in the Spring. Our aim is to implement the review in 2021-22.

Local Government Finance

13 Jan 2020, PQ 900122

Bambos Charalambous: When his Department plans to publish the Fair Funding review.

Ministry of Housing, Communities and Local Government (Luke Hall MP): Our review of local authorities' relative needs and resources will develop a new, more robust and transparent funding formula which is fit for the future. We plan to share emerging results with the sector soon and consult in the Spring, with the aim of implementing the review in 2021-22.

Local Government Finance: Rural Areas

13 Jan 2020, PQ 900124

Alicia Kearns: What steps he is taking to ensure the equity of local government funding in order to tackle rural disadvantage.

Ministry of Housing, Communities and Local Government (Luke Hall MP): The Government takes funding for rural communities very seriously. Our Fair Funding Review will take a robust, evidence-based approach to assessing the costs of delivering services in all areas.

3.3 Debates

Local Services: London Suburbs,

HC Deb 28 January 2020 c257

Contributions discussing fair funding of local services and the Fair Funding Review.

Education and Local Government

HC Deb 14 January 2020 c908

Multiple contributions discussing the Fair Funding Review in relation to a new distribution of resources across local councils.

3.4 Ministerial Statements

Local Government Update

Written Statement, 20 Dec 2019, HCWS17

Secretary of State for Housing, Communities and Local Government
(Robert Jenrick)

Introduction: Today I have published the provisional local government finance settlement for 2020-21. The proposals set out in this consultation will give local authorities a 4.4% real-terms increase in their Core Spending Power, which will rise from £46.2 billion in 2019-20 to £49.1 billion in 2020-21. It is a strong and well-balanced package, that delivers significant extra resources to the priority areas of adult and children's social care, while offering protection to other key service areas.

In October of this year we launched a technical consultation, within which we invited views on the proposed package for 2020-21. I would like to thank all colleagues in local government for their responses to the October consultation and thank them in advance for comments on this next consultation. I have now taken the responses to the technical consultation into account and, following this, I am now publishing our proposals for the provisional local government finance settlement for 2020-21: <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2020-to-2021>.

4. Further reading

4.1 Commons Library briefings

[Local Government: Queen's Speech 2019](#), CBP08789, 13 Jan 2020

This briefing provides information on local government developments during the current Prime Minister's term of office, including the Towns Fund, Fair Funding Review, and the 2020-21 Local Government Finance Settlement.

[Reviewing and Reforming Local Government Finance](#), CBP07538, 14 Dec 2019

This note covers matters of current interest in local government finance: how business rate retention works; the Government's proposals for changes to the system; and the Government's Fair Funding Review.

[Estimates Day Debate: Spending of the Ministry of Housing, Communities and Local Government](#), CDP 2019/0162, 28 Jun 2019

Debate Pack from the Estimates Day debate with multiple references to the intention of the Ministry of Housing, Communities and Local Government to conduct the Fair Funding Review.

[Local Government Finances](#), CBP08431, 31 Oct 2018

Briefing from 2018 explaining English local government structures and funding processes as well as the numerous devolved administrations in the UK.

About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publicly available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email papers@parliament.uk. Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email hcinfo@parliament.uk.

Disclaimer

This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The House of Commons or the author(s) shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice.

The House of Commons accepts no responsibility for any references or links to, or the content of, information maintained by third parties. This information is provided subject to the [conditions of the Open Parliament Licence](#).