



Independent Commission on Local Government Finance in Wales

**Council
June 2016**

Ambition for Change: Aiming Higher

- » Commission recognised by Welsh Government and Local Government
- » First authoritative review of the local government funding system for 15 years
- » Widespread recognition that the system is dated and unsustainable
- » The combination of a new Welsh Government, the medium term fiscal forecast, and the low probability of a local government reorganisation provide an opportunity for reform and planning

Commission Recommendations

- » Extensive reduction in specific grants
- » Indicative three year 'rolling' financial settlements
- » Existing Revenue Support Grant formula be 'frozen' pending formation of an Independent Grants Commission to review the funding formula
- » Welsh Government to review the systems and arrangements for performance management of local government
- » Formation of a new Welsh Office of Budget Responsibility



Commission Recommendations

- » National Non Domestic Rates local retention
- » Revaluation and reform of Council Tax
- » De-hypothecation of capital grants
- » Local discretion on fees and charges policy
- » Longer-term partial devolution of Income Tax
- » Supplementary business rates for economic growth

National Financial Position

- » The UK Government financial planning is unchanged
- » The new Welsh Government has options
- » The Commission on Local Government Finance has not recommended an immediate review of the funding formula; there is little appetite amongst Welsh local government for a radical formula review
- » Any review will be complex and take time to complete, agree and implement
- » Time is not on our side given the local financial forecast and the compounding costs pressures

Responding to the Commission

- » The recommendations made are extensive, visionary and welcomed
- » An urgent response is needed from Welsh Government
- » Shorter-term and longer-term change and reform is needed given the pressures being caused by UK national policy on public sector funding
- » Temporary solutions or remedies are needed pending longer term reform

Council Financial Profile

- » Initial forecast for the following two financial years published by Cabinet (April) and revised for Overview and Scrutiny Committees (June/July)
- » Even if the local government settlement is held at the 2016/17 level the combined 'gap' for 2017/18 and 2018/19 is probably beyond our means
- » The service portfolio business plans are 'maxed out' and there are few remaining options
- » There are limited corporate financing options
- » The 2016/17 budget is already proving hard to deliver and cost pressures will only increase

Council Strategy

- » A continued strategy:
 - » Service portfolio business plans
 - » Corporate financing
 - » National financial reform and relief
- » Concerted evidenced-based tactical campaign at the national level
- » Some positive signs
 - » Social services cost pressures have ‘traction’
 - » Domiciliary Care cost cap under review
 - » Debate live on NNRR growth retention

The Funding Formula

“The Commission is mindful of the fact that no formula exists or could be devised that allocates money in a way which leaves everyone feeling satisfied and fairly treated. That said, we are acutely aware of the number of representations received stating that the existing distribution mechanism is based on outdated data and may once have been fit for purpose, but has had elements added to it over the last 15 years to render it into a state that is barely comprehensible even to experts in the field, let alone something whose rationale for allocation could be explained to members of the public.”

The Funding Formula

“The formula for determining each local authority’s quantum of Revenue Support Grant (RSG) is complex and based on a Standard Spending Assessment (SSA) for each authority. The SSA is the amount of revenue expenditure the Minister considers appropriate and reflective of the different characteristics with each local authority. This is intended to ensure that each local authority can provide a standard level of service. The SSA takes accounts of factors such as population; numbers of children and older adults; length of roads; deprivation; rurality and sparsity.”

The Funding Formula Dilemma

- » The formula is complex and dated
- » Reform will be contentious if the same quantum of finance is re-dispersed amongst councils
- » Commentators look at the annual ranking of local authorities in the grant funding formula budget table. This is a shallow analysis. The true indicator is the funding per capita which sits underneath
- » Flintshire is normally around the mid point in the annual table
- » Flintshire is 19th in the per capita underlying table at only £1,196 per capita and £114 below average

The Funding Formula Dilemma

- » The range of grant per capita runs from £995 (Monmouthshire) to £1,576 (Blaenau Gwent)
- » The Welsh average per capita is £1,310
- » If Flintshire were to receive the average amount of £1,310 as a funding 'floor' to meet costs and pressures to provide a 'standard service' our annual budget would be £17.6M greater than now
- » The formula makes no allowance for workforce size and workforce cost pressures. In 2016/17 £9.4M (45%) of our £20.8M forecast pressures were workforce based. Flintshire is the 6th largest council

The Funding Formula Dilemma

- » As a comparator Denbighshire (as a neighbouring authority and part of the former Clwyd) are 6th in the underlying per capita table at £1,455 per capita
- » As a comparator Newport (as a local authority of almost equal population size) are 8th in the underlying per capita table at £1,388 per capita
- » The difference in funding per capita between Denbighshire and Flintshire is worth £40M
- » The difference in funding per capita between Newport and Flintshire is worth £29.65M

Standard Levels of Service

- » Denbighshire and Flintshire are both classed as semi-rural authorities and have to meet the needs of dispersed communities and numerous county towns
- » Newport is a largely concentrated urban area
- » The unit cost of running a secondary school is similar irrespective of levels of deprivation. Flintshire has 13 secondary schools to serve its dispersed communities. Newport has 8; Denbighshire has 8. Education is the biggest single cost for councils
- » The road systems in Flintshire and Newport have far greater use and wear than Denbighshire irrespective of the combined lengths of local road networks

Remedial Work on the Formula

- » Work within the reality of the funding formula
- » Press for the immediate adoption of the recommendations of the Commission
- » Build an exceptional case for local government based on (1) base protection (2) funding flexibilities and (3) targeted investment
- » Take a strong and evidenced position coupling the risks of continued austerity with the need for reform
- » Set out the medium term funding plan required
- » Galvanise both national and local support for the position and argument

Making the Flintshire Case

- » Low funded council per capita (£17.6M off average)
- » Formula dated and not allowing for standard pressures where demography is not relevant e.g. workforce costs in councils and in schools
- » Efficiency statements which demonstrate our cost effectiveness and the limitations of more savings
- » Resilience statements which demonstrate the risks to both council governance and performance
- » Myth-busting such as the scope for further overhead reductions and the potential of collaboration
- » Profiling the services which will be at risk



Setting out our Funding Plan

» **Base Protection**

- » Support for the lower funded per capita councils with additional investment to 'bottom load' the funding formula

» **Funding Flexibilities**

- » Retention of NNDR growth from 2017/18

» **Targeted Investment**

- » Real growth to fully meet social services and education pressures in full
- » Workforce inflation costs to be recognised
- » Capital funding investment at higher levels