



**Department for
Communities and
Local Government**

Clive Betts MP
Chair
Communities and Local
Government Select Committee
House of Commons
London
SW1A 0AA

The Rt Hon Sajid Javid MP
*Secretary of State for Communities and Local
Government*

***Department for Communities and Local
Government***

4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Tel: 0303 444 3450
Fax: 0303 444 3289
E-Mail: sajid.javid@communities.gsi.gov.uk

www.gov.uk/dclg

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Thank you for your letter of 28 November regarding our fair funding review of local authorities' relative needs and resources. This follows the recent publication of the research commissioned by the previous Communities and Local Government Committee.

As you know, the review is working towards a system that is, as far as possible, more simple and transparent than the current approach, and which is based on the best evidence available. I am therefore encouraged that the Committee's research, carried out by LG Futures, concludes there is scope for simplification across aspects such as the structure of the needs assessment, the underlying indicators and data, and the wider local government finance system.

The research will be helpful as my officials consider the extent to which we can practicably deliver a simplified approach. For example, we are currently considering the extent to which a more simple and transparent 'foundation' formula using common cost drivers can be used to allocate at least a proportion of the available funding to each type of local authority.

However I am conscious that many councils have argued that simplicity must not be achieved at the expense of accuracy and fairness, and we will therefore assess whether there are service areas where a more sophisticated approach is required. For instance, my department, together with the Department for Education, recently appointed LG Futures to gather data on children's social care from local authorities in order to develop a robust, service specific formula. It is important to retain this option for what is an important and complex area of need.

Whilst simplicity and transparency are key issues for the review to consider, we should not view the aim of this work as merely an exercise in simplifying the current approach. More widely, there are several important aspects of the system that I am determined we look at afresh.

For example, we are examining the available evidence on how factors including rurality, sparsity, and other geographical features such as coastal regions and islands affect the cost of delivering services. We will determine whether an area cost adjustment should incorporate further relevant inputs to reflect these factors. As a key cost driver for local authorities, we will consider the extent to which we can simplify or standardise the way in which deprivation is taken into account across different service areas. In response to calls from the sector, we are exploring which analytical techniques provide the most objective basis through which we can determine the relative importance of one cost driver against another within a formula, and potentially the proportion of total funding that multiple formulas may each distribute.

The review will also reconsider the treatment of the relative resources of local authorities, including how income from council tax is taken into account, and look at appropriate transitional arrangements as authorities move to their new funding baseline over a manageable period of time.

I have been clear that it is important to get this right and my officials are working closely with the Local Government Association and representatives from across local government as we develop our approach. An important milestone in this process will be a consultation on relative needs that will be published shortly, which will seek views on what factors drive local government spending and how we can account for these in a future funding formula.

I welcome contributions to all this work from the Communities and Local Government Committee, and I will of course keep the Committee informed as we continue to make progress.



RT HON SAJID JAVID MP