

Place Based Finance

Purpose of report

For information and discussion.

Summary

During May and June 2014 officers have undertaken the first phase of modelling an ambitious place based finance system. We focussed on mapping and grouping various funding streams and exploring the governance changes required to enable those funding streams to become part of the place based finance system. The model is set out in **Annexes A, B and C**. The contents of this model and report are purely for illustrative purposes and do not constitute official LGA policy.

There is a strong consensus for place based finance in local government, with the Local Government Finance Commission, as well as the two Commissions reporting into the City Regions and People & Places Boards, all having an interest in the subject. There is more work to be done on re-stating the case for place based finance system and finding ways to remove the barriers to it – suggestions for further work are set out in the covering report.

Recommendation

The Finance Panel is asked to discuss the report and agree next steps.

Action

LGA Officers to proceed as directed.

Contact officer: Aivaras Statkevičius
Position: Adviser (Finance)
Phone no: 020 7664 3047
E-mail: aivaras.statkevicius@local.gov.uk

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Background

1. Adoption of place based finance is a long term LGA policy goal, expressed in *Rewiring Public Services* and reiterated in a number of proposals of the *First 100 Days* campaign.
2. The LGA advocates a flexible approach to implementation of place based finance, with places deciding for themselves the parameters of any such system so that it would effectively address local challenges and priorities. However, the LGA has been challenged for not providing a detailed model of how a place based finance system could work.
3. As a result, over the past couple of months officers have undertaken detailed modelling of an ambitious place based finance system. This has so far largely concentrated on mapping relevant funding streams and exploring the required changes in governance of those funding streams to enable a place based finance approach to service delivery.

Our work so far

4. The slide pack in **Appendix A** sets out the results of our work so far. The slides include:
 - 4.1. An analysis of various governance mechanisms that could co-exist under a place based finance system;
 - 4.2. The funding streams involved in each block of the system and their potential value over time;
 - 4.3. The barriers to implementation of such a system that would need to be overcome; and
 - 4.4. An identification of other aspects of place based finance systems that are yet to be addressed.
5. The model is set out visually in **Appendix B and C**.
 - 5.1. Appendix B sets out the potential blocks of a place based finance system and conceptual overlaps between those blocks. It illustrates that there is a risk that service or outcome-based silos could form instead of current organisation-based silos which could easily be mitigated locally by operating a more porous, less ring-fenced funding system.

- 5.2. Appendix C sets out different governance approaches those blocks could take, showing that there is room for flexibility for each place to decide which arrangements are the most appropriate.
6. It is intended to show an example of an ambitious system of place based funding, bringing together spending by local councils, the NHS, schools, police and fire authorities, Jobcentre plus, other government departments and non-departmental public bodies. For example, most of council general spending is included in blocks of the place based finance system.

Unexplored issues

7. As the slide pack recognises, there are aspects of how a place based finance system could work that have not yet been addressed. This first phase of research focussed closely on identification of various funding streams flowing to a place and how the governance of that funding and spending would have to change to enable place based financial arrangements. It also identified the different types of arrangements that the blocks of the system could take, from greater local oversight of funding to pooling budgets.
8. There are other issues where we could do more work. This is not a definitive list, but the main questions include:
 - 8.1. The dynamics of local and national accountability. A truly local finance system means that the opportunities for departmental accountability to Parliament may be eroded – this poses a major risk from the point of view of departmental Accounting Officers. As a result, there are questions about how a place based finance system could work under our current legal and constitutional arrangements.
 - 8.2. Fragmentation of the state once every place adopts its own local approach. There is a risk from the government's point of view that national political priorities about the way public services are delivered, for example flagship policies on academies and clinical commissioning groups, may not be retained. Some might also see a place based system as creating 'big local government'.
 - 8.3. The benefits of place based finance from the perspective of users of public services and a review of problems that could be solved by adopting such a system. This could include refreshing the case first made in the Ernst & Young community budgets review last year.
 - 8.4. The financial or other incentives in the system for place based financing for departments and their agencies. Progress on community budgets could be seen as glacially slow. Whilst the Ernst and Young report is widely quoted by Treasury and government and senior Whitehall Ministers and officials say they are persuaded by the case, so far developments in this policy area have been small and piecemeal, with the Better Care Fund as the biggest announcement.

- 8.5. Organisational structures and any potential changes required in order to enable place based finance. Currently, there are barriers such as different geographical scope of activity of various local partners. Any discussion of place based finance inevitably prompts the question – what is the place and what is the governance? It is clear from City Deals that part of the bargain with Whitehall is a deal on place and governance. The LGA's position is that this is best decided locally. National bodies are not best placed to craft local governance structures and any attempt to do so would likely fail to grasp the subtleties of local partnership working.
- 8.6. There could be other aspects of the system that officers have not yet explored – comments by Finance Panel are welcome.
9. To summarise, we have developed a financial model, which could be adapted locally and might help as an input into local discussions. There is however a lot more work to be done on the case for place based finance and the ways in which obstacles could be removed.

Place based finance: LGA boards and commissions

10. Both the City Regions Board and the People & Places Board have included place based finance in their work programmes. This is not surprising given the strong consensus in local government that community budgets offers a solution to managing service pressures at a time of fiscal consolidation.
11. In relation to this, it is likely that the Independent Local Government Finance Commission, the Cities Commission and the Sir John Peace Commission (on non-metropolitan growth) will express a wish to see evidence and research in relation to place based finance. The Finance Commission has asked for work to be done on the incentives in the system to encourage government to integrate public services.
12. This means that we would like to share our work with other Boards, engage them as work is taken forward and bring together work across the LGA and in member councils.

Potential next steps

13. The first phase of the work focussed on establishing the financial baselines and now there are various ways for this work to be developed further. They include:
- 13.1. Addressing any gaps and weaknesses in the first phase identified by the Panel that officers have not yet considered;
- 13.2. Presenting the model to other Boards;
- 13.3. Writing it up as a report;
- 13.4. Using the model with members developing place based approaches;

- 13.5. Strengthening our case on the benefits of place based approaches. The People and Places Board is proposing to undertake work with places to refresh the evidence base used in our arguments in favour of place based finance;
 - 13.6. Developing more case studies of what could be achieved using a place based approach – the City Regions Board is preparing to do this in West Yorkshire and Greater Manchester;
 - 13.7. Design financial incentives for departments and their agencies to accelerate progress towards place based budgeting;
 - 13.8. Developing mechanisms that provide assurance to departmental Accounting Officers. This could include a look at contractual mechanisms that have legal force but do not require constitutional modifications to Parliament's control over public spending
14. Taken together this would amount to a major cross-Board programme of work that could serve as a significant contribution to the next Spending Review, systematically tackling all the impediments to a new approach to public spending that offers a new government a way to respond to significant spending pressures when all the pressure on taxation and borrowing is downward.