

Place based finance – an example model

Slide pack

July 2014

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Key questions covered

Key questions

- Where are we now in the place based finance agenda?
 - What is the local funding landscape and profile?
 - How could an ambitious place based finance system work?
 - What are different place based finance approaches and their purpose?
 - Where is place based finance less appropriate?
 - What needs to change to enable reform?
 - What practical and theoretical challenges need to be addressed to unlock the potential?
 - There are other questions - for example accountability to Parliament, benefits of place based approaches - not addressed here
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Place based finance – an introduction

- Integrating local services is increasingly seen as an alternative model of service delivery which can bring better outcomes and financial benefits
 - There have been signs of the government increasingly considering these approaches
 - Troubled Families
 - Better Care Fund (2015); NHS support for social care
 - Local growth fund (2015)
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Place based finance – an introduction

- However, major opportunities remain:
 - Announced schemes are relatively small scale (albeit rolled out nationally)
 - Many service areas have not yet been considered
 - There are barriers to be overcome:
 - Cultural barriers (trust)
 - Financial barriers (short term cost v long term benefit; sharing of ultimate savings)
 - Organisational barriers (procedures, accounting requirements)
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Place based finance – an introduction

- LGA research previously focussed on potential benefits of place based finance
 - But there are many unanswered questions:
 - What is the impact on accountability to the local and national taxpayer?
 - In relation to the above, what are the most effective scrutiny arrangements?
 - What organisational structures need to change to enable this change? What is the geography?
 - What governance arrangements would place based budgets take shape?
 - What service areas could potentially be in scope, and does one size fit all?
 - This phase of our work has concentrated on the final two questions
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Place based finance – current situation

- Spending is locked in organisation-based silos
 - However, in many service areas funding remains fractured into many small pots administered by different organisations
 - The majority of public spending in a place, in one guise or another, remains in the hands of central government with little input from local government
 - Overall, the quantum of funding is on a downward trajectory or subject to increasing demand pressures – the NHS is declaring a funding gap
 - Relatively small initiatives such as the Better Care Fund are due to be implemented in 2015/16
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Public spending in AnyPlace

- For this analysis we have assumed AnyPlace to be of a similar size to a county region. Detailed assumed size features are
 - Population of 1,500,000
 - 581,600 households
 - 5,096 miles of road
 - Total rateable value of businesses of £1,192m
 - Proportionate features (unemployment, demographic split etc.) follow the national average
 - However, when it comes to place based finance the precise size and geography is flexible. Our model could be applied to places of different sizes
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Public spending in AnyPlace – business as usual

£000s	2013/14	2014/15	2015/16	2016/17	2017/18	Change
Council(s) – apportioned to lines below	1,234,746	1,161,425	1,088,976	1,058,191	1,035,749	-16%
Transport	384,363	385,407	365,820	337,252	314,368	-18%
Skills – adults	115,391	107,595	102,917	98,442	94,162	-18%
Skills – younger people	236,299	222,448	210,602	199,506	189,293	-20%
Non-transport infrastructure	150,119	138,481	131,069	124,334	115,945	-23%
Employment Support	34,458	40,112	33,034	30,212	25,740	-25%
Housing	126,427	141,984	114,041	105,393	99,572	-21%
Business Support	78,600	77,975	66,011	60,378	57,199	-27%
Innovation and commercialisation	14,228	13,266	12,690	12,138	11,610	-18%
Early years and children’s social care	59,401	61,469	61,469	61,469	61,469	+3%
Adult social care and health	2,964,990	3,005,134	3,032,540	3,075,261	3,122,061	+5%
Education	1,210,542	1,242,343	1,235,175	1,232,509	1,230,725	+2%
Policing, justice and reoffending	458,278	461,481	425,526	395,108	368,102	-20%
‘Complex dependency’	4,167	4,671	3,259	2,638	2,364	-43%
Welfare (entitlements, incl pensions)	4,621,227	4,724,742	4,825,504	4,994,967	5,181,645	+12%
Other council spend	252,028	230,312	210,337	200,394	192,247	-23%
TOTAL SERVICE EXPENDITURE	10,710,517	10,857,420	10,829,992	10,930,000	11,066,503	+3%
EXPENDITURE EXCL WELFARE	6,089,289	6,132,678	6,004,489	5,935,034	5,884,858	-3%

When are place based finance arrangements a good fit?

- Services or projects with goals oriented towards early intervention and prevention
 - Services that are very costly, complex but of low volume
 - Areas where different agencies are fairly concentrated spatially
 - Work requiring multiple agencies to cooperate
 - Areas with entrenched economic inactivity which needs cooperation from many stakeholders to be reduced
 - Service areas where outcomes or current performance levels are sub-optimal
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Place based finance arrangements could be used in many areas

- Health and social care integration
- Early years children's support
- School age children's support
- Youth skills and employment
- Adult skills and employment
- Community safety, including reducing re-offending
- Local growth
- Local transport, including consultation on centrally determined spending
- Local infrastructure including environment
- Energy initiatives
- Housing supply [LGA policy currently being developed]

However, some budgets do not lend themselves to changes in governance

- Some features of services make them potentially less effective under place based finance:
 - A need for strong strategic direction
 - Economies of scale
 - Strong public expectations of equity
 - Significant risk or impact of failure
 - Examples of areas less suitable for place based finance include:
 - Court services
 - State pensions
 - Specialised health services
 - Council cultural and miscellaneous spending
 - Defence
 - Welfare is a special case (see next slide)
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Welfare

- At the moment the LGA does not have an explicit policy about changes of governance over various entitlements (e.g. state pensions, tax credits) although some councils would like to see stronger financial incentives for reducing the welfare bill
 - For the purposes of this model we do not treat entitlements as subject to place based finance, with control retained at the centre or locally where appropriate.
 - However, there are overlaps between the current welfare reform and the system of discretionary local welfare payments (DHPs/Local Welfare Assistance Schemes/Council Tax Support)
 - The slowing pace of development of Universal Credit makes precise details of governance arrangements a fluid area, with councils likely to retain administrative duties for longer
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Different shapes of place based finance arrangements (1/3)

Four broad categories

- Local 'regulatory' roles
 - Good fit for projects of national strategic importance but a clear impact on local services and planning (e.g. development of the rail network)
 - Spending decisions primarily lie with central government bodies but there are formal arrangements for those decisions to be influenced through negotiation at a place level
 - Could include local evaluation of impact of nationally administered services or a 'dual key' model where places have to agree for spending to take place
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Different shapes of place based finance arrangements (2/3)

- Co-commissioning or aligning spending
 - Good fit for local partners with a shared important service objective but a moderate spending pressure
 - This involves partners agreeing on a core set of priorities and routing spending towards them
 - Avoids the need to create a single financial arrangement but enjoys most of the benefits of a full-blown pool
 - Enforcing arrangements of aligned budgets might be more difficult
 - Could include shared investment
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Different shapes of place based finance arrangements (3/3)

- Pooling budgets
 - Good fit for local partners with a shared critical objective with significant financial and operational risk
 - This involves creating a financial arrangement with partners contributing resources to the partnership
 - A 'joint bank account' approach
 - Pools could include shared investment units
 - Devolution of budgets
 - Good fit for budgets which are best administered at a local level with maximum flexibility over priorities to address potentially different problems in each area
 - This involves transfer of funding, and power to determine spending priorities, to the place – primarily local government
 - Does not necessarily mean budgets are unringfenced
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An example of a place based finance system (1/2)

- Annex B provides a system scheme which:
 - sets out the different place based finance arrangements that could be agreed for various service areas
 - Considers various conceptual (not necessarily financial) interdependencies between place based finance blocks
 - Estimates the size of those place based finance pots at the scale of AnyPlace
 - This is an ‘ambitious’ system – which arrangements work best, and what shape they take, will depend on local circumstances of each place. It is an example, not an official LGA policy
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An example of a place based finance system (2/2)

- Annex C provides a 'spectrum chart', which:
 - sets out the various different types of place based finance arrangements that are possible and
 - which type of arrangement each block could fall under
 - As with the system chart (Annex B), where each block will sit depends on local circumstances of each place.
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What's in?

- The following slides set out the composition and type of various place based finance arrangements for service areas
 - The figures show the national size of the funding streams
 - For the size of the funding streams at the level of 'AnyPlace' please see the system scheme (Annex B)
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What's in? - services

- Early years children's support co-commissioning (up to £6bn)
 - Council own spending, including the non-ringfenced Early Intervention Grant which is in the settlement (up to £3.2bn, up to another £3.2bn in school-age block)
 - Early years element of DSG (up to £2.1bn)
 - Public health grant (0-5 element) (£0.85bn from 2016)
 - Free nursery places funding (£543m)
 - Adoption support and reform funding (£150m)
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What's in? - services

- School age children's support co-commissioning (up to £46.4bn)
 - Mainstream and special needs elements of DSG (up to £36bn)
 - Council own spending (up to £7.7bn)
 - Pupil premium grant (up to £1.8bn)
 - Education services grant (£0.8bn)
 - Pupil Premium Plus (up to £40m)
 - Extended rights to free school travel (up to £38m)
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What's in? - services

- Youth skills and employment – devolve to councils (£8.4bn)
 - School sixth form funding (£2.3bn)
 - Further Education (£4.2bn)
 - Apprenticeships and traineeships (£0.8bn)
 - Youth contract including wage subsidies (£0.2bn)
 - 'Pupil support funding': Bursary Fund, Residential Support Funds, Care to Learn (£0.2bn)
 - National Citizen Service (£0.1bn)
 - National insurance relief for employing under 21 year olds (£0.5bn)
 - Apprenticeship grants for employers (£13m)
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What's in? - services

- Adult skills and employment (£5.3bn) – devolve to councils
 - Main adult skills budget (£2.5bn)
 - Work Programme (£0.7bn)
 - Capital grants (£0.5bn)
 - Community Learning (£0.2bn)
 - Learner support (£0.2bn)
 - Disability programmes (£0.2bn)
 - European Social Fund (£0.2bn)
 - 24+ advanced learning loans (£0.1bn)
 - Offender Learning and Skills Service (£0.1bn)
 - Employer ownership of skills fund (£0.1bn)
 - BIS/DWP funds <£100 million totalling £0.6bn
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What's in? - services

- Health and social care single pool (up to £79.9bn)
 - CCG revenue allocations (up to £63bn)
 - Council spend (up to £14.1bn)
 - Public health grant (up to £2.3bn)
 - Independent living fund (£0.3bn)
 - Disabled Facilities Grant (£0.2bn)
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What's in? - services

- Community safety co-commissioning (up to £12.7bn)
 - Police spending (up to £11.2bn)
 - Parts of public health grant (up to £0.3bn)
 - Counter Terrorism funding (up to £0.5bn)
 - MOJ spend on youth justice boards (up to £0.2bn)
 - Troubled families and asylum seekers grants (£0.2bn)
 - Fire Authority community safety spend (up to £0.3bn)
 - Energy projects – devolve to councils (£1.4bn)
 - Energy Company Obligation (£1.3bn)
 - DECC innovation programme (£80m)
 - Green Deal (£60m)
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What's in? – growth

- Single economic growth pool (up to £4.5bn)
 - Council spend (up to £2.1bn)
 - Regional Growth Fund (£0.6bn)
 - European Regional Development Funding (£0.5bn)
 - Technology Strategy Board Thematic Funding (£0.4bn)
 - Manufacturing advisory service (£0.2bn)
 - Research Partnership Investment Funds (£0.2bn)
 - Other funding streams worth less than £50m each: £0.5bn
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What's in? - growth

- Single local transport pool (up to £5.1bn)
 - Council spend (up to £3.4bn)
 - DfT major schemes funding (£0.3bn)
 - Integrated Transport Block (£0.3bn)
 - Local pinch point fund (£0.3bn)
 - Bus Services Operators' Grants (£0.3bn)
 - Local sustainable transport fund (£0.2bn)
 - Growing places fund (£0.2bn)
 - Other funding streams worth less than £50m each: £0.1bn
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What's in? - growth

- Central transport spending with local consultation (up to £8.1bn)
 - Network Rail capital spending (£5.1bn)
 - Highways Agency major schemes programme (£0.9bn)
 - DfT maintenance (£0.8bn)
 - Network Rail operating profit (£0.7bn)
 - Highways Agency maintenance programme (£0.5bn)
 - Highways Agency pinch point programme (£0.1bn)
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What's in? - growth

- Other infrastructure pool (up to £5.5bn)
 - Council own spending (up to £4.2bn)
 - Broadband delivery funding (£0.1bn)
 - Environment Agency budget (£0.7bn)
 - Flood defence funding (£0.6bn)
 - Housing (up to £4.5bn)
 - A project is underway to look at an integrated approach to public sector land and funding
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What needs to change to enable place based finance? (1/3)

- Place based accounting practices (including development of a shadow place based budget)
 - Five year place based funding settlements
 - New accountabilities
 - De-ring fencing of some grants
 - Government negotiating team (similar to Cities Unit)
 - Empowerment of schools forums over DSG spending
 - New government tariff arrangements in health services
 - New assurance and scrutiny mechanisms (via politicians, citizens, contracts..)
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What needs to change to enable place based finance? (2/3)

LGA case that some budgets should be devolved to local governance:

- Youth employment and skills
 - Adult employment and skills
 - Transport
 - Local Growth
 - But the changes to other budgets for local services are often nuanced – for example, to de-ring fence or introduce more local oversight
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What needs to change to enable place based finance? (3/3)

- Restrictions on some funding streams should be loosened:
 - Dedicated schools grant (with powers to top-slice DSG funding at the discretion of schools forums to enable co-commissioning of services where seen as beneficial)
 - Public health grant (to ensure all the synergies in various blocks can be unlocked in full)
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But there are many challenges to address..

- How far could you go? Is the proposed model feasible?
 - Variable pace of development of these approaches in each place
 - Potential for postcode lottery; are there perverse incentives to ‘shunt costs’?
 - Geography of places – what is the desired size? Is there a desired size?
 - This can potentially lead to a fragmented state. How does central government retain power?
 - Accountability to the local and national tax payer
 - Marrying up local approaches with accountability to national committees – perhaps partnerships by contract?
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Summary

- We have set out an example of a place based finance model
 - We have listed the changes in governance needed
 - There are unanswered questions, for example there is more work to do on accountability, the detail of a public service reform deal, refreshing benefits
 - Have we identified all the questions? Which ones should we prioritise?
 - Should we test the model with places?
 - Should we write this up as a report?
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