



House of Commons
Committee of Public Accounts

Formula Funding of Local Public Services

**Fifty-fifth Report of Session 2010–
2012**

*Report, together with formal minutes, oral and
written evidence*

*Ordered by the House of Commons
to be printed 9 November 2011*

HC 1502
Published on 16 November 2011
by authority of the House of Commons
London: The Stationery Office Limited
£11.00

Committee of Public Accounts

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Justine Greening (*Conservative, Putney*)
Eric Joyce (*Labour, Falkirk*)
Rt Hon Mrs Anne McGuire (*Labour, Stirling*)

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Lori Verwaerde (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccom@parliament.uk.

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Summary

Government departments distributed £152 billion, one-fifth of all government spending, to local public bodies in 2011-12 based on the three grants we considered in our hearing: Primary Care Trust Allocations; Dedicated Schools Grant; and the Department for Communities and Local Government's Formula Grant. These distribute funding to local public bodies in a range of sectors, including health, education, local government, police and fire and rescue services.

The formula funding systems are complex, difficult to understand, and have led to inequitable allocations. For Dedicated Schools Grant, based mainly on historical spending patterns, per pupil funding for schools with similar characteristics can vary by as much as 40%. Under Formula Grant, nearly 20% of authorities received allocations which are more than 10% different from calculated needs. These variations have arisen from multiple objectives for funding formulae, and in particular judgements on the rate of change of funding deemed reasonable.

The priorities accorded to different elements of the formulae are judgements which have a direct impact on the distribution of funds. In some cases the basis for the judgement is guided by authoritative, published independent advice. One example of this is the weighting the Department of Health applies to the health inequalities element of Primary Care Trust Allocations. In other cases, for example the weightings the Department for Communities and Local Government has applied to elements of Formula Grant, the basis for judgement lacks transparency, and external advice lacks status and influence. Only 4% of respondents to DCLG's consultation supported the current version of the model used to calculate Formula Grant.

Some of the data used by departments in calculating relative needs is inaccurate and out of date. For example, some of the indicators used to assess relative need are based on 2001 Census data, now ten years old. Although the 2011 census was recently completed, it may prove to be the last national census of its kind, and an alternative source of reliable data may need to be identified. All of the approaches to formula funding we considered are under review. These reviews provide the perfect opportunity to address the weaknesses we have identified, including: building in greater transparency; ensuring greater consistency, leading to more equitable distributions; appropriate oversight and outside expertise; to share and improve upon sources of data; and to commit to moving funding between areas so that the right funding for an area's needs is achieved within a set time period.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the Treasury, the Department of Health, the Department for Education and the Department for Communities and Local Government on existing approaches to formula funding across government, and the principles that should be carried forward to new arrangements.

1 C&AG's Report, *Formula funding of local public services*, HC 1090 (2010-12)

Conclusions and recommendations

- 1. Although funding formulae have been grounded in assessment of relative needs, their operation has led to inequitable allocations.** Nearly 20% of all authorities funded by Formula Grant in 2011-12 received allocations which are more than 10% different from calculated needs. So public bodies in affluent areas receive more than their calculated needs, and some in more deprived areas receive less. One authority, Wokingham, received double its calculated funding needs this year. The recommendations below address the key weaknesses we identified in the course of our hearing.
- 2. Funding formulae reflect multiple objectives, not always clearly expressed or prioritised.** Two of the three formulae we examined do not have clearly stated, prioritised objectives and this obscures their core purpose. Even in health, where the department has two well-specified objectives for funding, there is no clear analytical justification for the specific relative weighting given to each. Lack of clarity or prioritisation hinders assessment of the effectiveness of each formula. Departments should identify the primary objective for formula funding models, and design their models to establish transparent, equitable allocations which achieve that objective.
- 3. Departments constrain the extent of funding increases and decreases from one year to the next, but those short-term actions have led to long-term inequity in allocations.** For the sake of stability, departments adjust the results of needs based calculations to take account of the previous year's funding, limiting the speed at which funding can change. The cumulative effect of such adjustments, however, has led to some local bodies being funded significantly above or below needs-assessed levels for many years. Where limits are placed on how quickly funding changes each year, these limits should be seen as transitional. Departments should commit to giving the right funding for an area's needs within a set time period.
- 4. The basis for judgement in the design and operation of funding formula has not always been disclosed.** Multiple objectives for funding models have increased their complexity and reduced transparency. There will always be a need for judgements to be made but those judgements should be transparent. Particularly with the Department for Communities and Local Government's Formula Grant, it is virtually impossible to follow the link between calculated needs and funding allocations. Departments do not set out clearly the basis for some of their judgements, including those related to stability, despite their significance in determining allocations. Departments should set out publicly the basis for their judgements, and how they affect the distribution of funding relative to their primary objective.
- 5. Some of the data used to underpin calculations is inaccurate and out of date.** Formula funding is based on population data, but estimates of local populations have been disputed for both local authorities and Primary Care Trusts. For the most recent settlements, a quarter of indicators used to assess need in the DCLG Formula Grant and 10% for Primary Care Trust allocations were based on data sources that are at least ten years old. For these data sources, departments seemed to accept the 'best available' data, rather than collecting more timely and accurate data. Working

with the Treasury, departments should set standards for the accuracy and timeliness of data sources they use, focusing in particular on strengthening data where it will be central to proposed new arrangements (for example, funding clinical commissioning groups). In the longer term, they should consider how the possible replacement of the census will affect the availability of population data for formula funding.

- 6. Departments do not always act on independent advice or consult publicly when designing funding formulae.** Of the three grants we considered, advisory bodies for the health formula were the most independent and had the greatest influence over allocations, but the department has not consulted publicly on changes to the formula. The other departments ran public consultations, but their expert working groups had no formal status or funding. The operation of formula funding had not been subject to formal consideration by any of the departmental boards. Departments should use independent advisory groups to provide technical expertise. These groups should have clear terms of reference and appropriate funding and support. Their processes should be transparent, and their reports, together with the departments' responses, should be made public. departmental boards should oversee the management of formulae, the associated controls and funding results.
- 7. Approaches taken to formula funding of local public services are inconsistent across government, and arrangements to identify and promote best practices are inadequate.** Although formulae will differ given the range of types of local bodies and services being funded, there are many generic issues that are relevant to all the formulae. These include: clarity and prioritisation of objectives; balancing stability with responsiveness to changing needs; quality of data; and good governance. We were surprised that the Treasury had not been more active in ensuring consistently high standards of funding practices across government. The Treasury should report back to the Committee to explain how each of our recommendations is incorporated within new funding arrangements.

1 The objectives of formula funding

1. Government departments provide funding to local public bodies in a variety of sectors, including health, education, local government, police and fire and rescue services. Departments allocate most funds based on complex formulae that apportion total funds available to individual public bodies. We took evidence on three formula-based grants, under which £152 billion (one-fifth of all government spending) was allocated in 2011-12.² They are:

- Primary Care Trust allocations administered by the Department of Health;
- The Dedicated Schools Grant administered by the Department for Education; and
- Formula Grant administered by the Department for Communities and Local Government.

2. Much of our hearing focused on the objectives of the formulae. We found that all of the formulae had multiple objectives, but that these were often in conflict, open to different interpretations, and prioritised differently according to ministerial judgement.³

3. In the case of school funding, the Department for Education told us that stability and predictability had been all that they had prioritised, and that school funding arrangements had been based on historical decisions rolled forward from the 1980s and before. Following an ongoing consultation on school funding, the department said that new arrangements would be based more on clear objectives than had previously been the case.⁴

4. In local government, adding new objectives without a clear sense of prioritisation added complexity to funding models and made them more prone to judgement.⁵ The highly complex four-block model that has been used to distribute Formula Grant since 2006-07 is one example. It was designed in response to a new objective to avoid direct links between levels of service need and funding allocations for each specific service. Because the design of the model incorporates this objective, it is highly complex and not sufficiently transparent, making it virtually impossible to follow the link between calculated service needs and funding allocations. The four-block model was supported by only 4% of respondents to a consultation, with those opposing it considering it “too complex, less transparent than the [previous] system and subject to more ministerial judgement.”⁶

5. Of the arrangements we reviewed, the Department of Health has expressed its core objectives for formula funding most clearly. Its core objectives concern equal opportunity of access on the basis of equal need and the reduction of avoidable health inequalities. The department told us that the independent Advisory Committee on Resource Allocation said that at least 80% of the total allocations should be provided on the basis of the access

2 C&AG's Report, para 1

3 C&AG's Report, para 6

4 Q 14

5 Qq 25-30

6 C&AG's Report, paras 1.28-1.29

objective, and at least 10% should be provided on the basis of health inequalities.⁷ The Department of Health explained that if the share of allocations provided on the basis of health inequalities was too high, it would begin to distort the objective relating to equal access. However, this advice still allows the last 10% to be allocated between the objectives without the basis for that judgement being fully explained.⁸

6. None of the three departments considered that formula funding arrangements could be used explicitly to incentivise behavioural change or changes in service models such as encouraging lower cost preventative care instead of more expensive treatment in health.⁹ The departments told us that, in general, the removal of ring-fencing helped support the autonomy of local public bodies to base their spending decisions on local priorities.¹⁰

7. The departments are transparent about the construction and calculation of the various elements of their funding models.¹¹ However, the basis of judgements that have significant effects on allocations are not explained in the same way. The departments told us that where judgement was required, it was appropriate that this should ultimately depend on the decisions of Ministers.¹²

7 Q 43

8 Q 50

9 Qq 59-78

10 Qq 14, 65-73

11 Qq 30, 36, 44, 51

12 Qq 21, 30, 43

2 Balancing responsiveness with stability

8. There is a tension between the extent to which allocations to local bodies can be responsive to current needs, while also minimising short-term volatility in funding.¹³ Given that the core shared purpose of formula funding is to base allocations on relative needs, we were surprised by the extent to which stability had been prioritised.¹⁴

9. The arrangements for providing funding stability differ between departments. The clearest example of stability being prioritised has been in schools funding, where Dedicated Schools Grant has been explicitly based on rolling forward past years' allocations since 2006-07, with no updated assessment of needs since that time. The Department for Education said that allocations were "actually based on historical decisions made in the eighties and before, because essentially what has happened is that it has been rolled forward and rolled forward".¹⁵ Existing arrangements have led to per pupil funding in schools with similar characteristics varying by as much as 40%.¹⁶

10. For Formula Grant, we heard that 20% of all funded authorities have received allocations in 2011-12 that are more than 10% distant from their calculated needs.¹⁷ One authority, Wokingham, received double its calculated funding needs this year.¹⁸ This is because of the way in which Ministers have decided to apply 'damping' – balancing the need for funding to be relatively stable against the objective of responding to an area's changing needs.¹⁹ In health allocations, stability is provided by 'pace of change' criteria, decided by Ministers on the basis of judgement. Fewer trusts are a long way from their needs calculated targets compared to local authorities funded by Formula Grant, but there are still some significant variances.²⁰ Although we expected to find that stability adjustments would be transitional, and therefore temporary, we found that they had become a virtually permanent feature of formula funding.²¹ A significant number of local bodies had been funded above or below needs-calculated levels for extended periods.²²

11. We asked whether it was more difficult to assess the relative performance and value for money of local bodies when many are receiving more or less than they are calculated to require on the basis of relative needs. The Department for Communities and Local Government suggested that it was still possible to compare services and what they delivered relative to the amount spent on them.²³ We question, however, whether such

13 Q 3

14 Qq 3-4, 6

15 Q 14

16 Department for Education, *A consultation on school funding reform: Rationale and principles*, 2011

17 C&AG's Report, para 6

18 Ev 19

19 Q 39

20 C&AG's Report, para 3.7

21 Qq 4, 14

22 C&AG's Report, paras 3.8-3.13

23 Qq 40-41

comparisons can be fair when some authorities are known to be allocated more resources than others, relative to the needs of their populations.²⁴

3 Data quality

12. All formula funding arrangements are based principally on the number of residents or service users in an area and therefore rely on population data. However, there is conflicting data for the populations of local areas. For example, differences between GP registrations and population estimates provided by the Office for National Statistics have been as high as 25% at the level of a primary care trust.²⁵ Primary Care Trust allocations and Formula Grant have relied on population projections provided by the Office for National Statistics, but past evidence suggests that these projections cannot be considered entirely accurate. When data became available from the 2001 Census, there were significant differences in many areas between that data and the previous year's estimates by the Office for National Statistics.²⁶

13. We heard that the departments have all invested in work to improve population estimates, particularly to identify the effect of migration.²⁷ In health, allocations that have been provided to Primary Care Trusts will in the future be provided to clinical commissioning groups. As these groups will not necessarily be determined by the boundaries used by the Office for National Statistics for its population estimates, allocations are likely to be based only on GP lists. Given the discrepancies between GP list data and Office for National Statistics estimates, the Department of Health is accelerating its work to improve the accuracy of GP lists. This includes working with the Audit Commission to remove duplicate registrations and other aspects of list cleansing, including removing from lists the deceased and those who have moved away from an area. The department is planning to carry out an exercise to identify the extent to which Primary Care Trusts are taking meaningful action to address inaccurate lists.²⁸

14. In addition to population data, we also discussed whether the indicators used to determine relative needs were up to date. One quarter of the indicators used in Formula Grant, and 10% of those used to determine PCT Allocations, are based on data sources that are ten or more years old. Departments told us that, although it makes sense to use data which is as current as possible, there is a limited range of data sets that provide comparative information at the right geographical level.²⁹ The Department of Health relies on its independent Advisory Committee on Resource Allocation to make recommendations about the most appropriate data that can be used to determine needs.³⁰ The Department for Communities and Local Government discusses different options with its advisory group, and consults on potential changes.³¹ However, departments do not set clear standards for the levels of data accuracy and timeliness that they expect.³²

25 Qq 54-58

26 C&AG's Report, paras 2.11-2.14

27 Q 91

28 Q 54; Ev 20

29 Q 91

30 Q 90

31 Qq 91-96

32 C&AG's Report, para 14

4 Consultation and governance

15. Departments differ in the extent to which they draw on independent advice when designing formulae, and they also differ in how they respond to that advice. Of the three departments we examined, the advisory bodies for the health formula are the most independent and have the greatest influence over allocations, providing advice directly to the Secretary of State. All correspondence between the independent Advisory Committee on Resource Allocations and the Secretary of State is made public. However, in contrast to the other two departments, there were no public consultations on changes to formula design or the indicators used.³³

16. We heard that the Department for Education and the Department for Communities and Local Government had used consultation when they were considering changes to the design of formulae or related indicators.³⁴ However, for Dedicated Schools Grant and Formula Grant, advice from advisory bodies was mediated by officials, and not made public in the same way as for health.³⁵

17. None of the departments' boards had formally considered formula funding, despite its scale and significance.³⁶ Departments told us that all of their boards had been recently reconstituted, and that they would be likely to want to discuss funding arrangements, but that decisions and judgements about the formulae should ultimately be the preserve of Ministers.³⁷

18. There are good reasons why each of the grants uses a different formula, which responds to the differences in the financial circumstances and the types of statutory duties that local public bodies fulfil.³⁸ However, many of the issues discussed in the hearing cut across all of the departments, and we would expect more consistency in the application of good practice, in particular relating to the clarity and prioritisation of objectives, the balancing of responsiveness to changing needs with stability, the quality of data and good governance.³⁹ We were unconvinced by the Treasury's argument that all of these issues were a matter for individual departments and their Ministers.⁴⁰

33 Qq 43-46

34 Qq 91-92, 117

35 Q 46

36 C&AG's Report, para 18

37 Qq 128-130

38 Q 120

39 Q 136

40 Qq 11, 14, 120

Formal Minutes

Wednesday 9 November 2011

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon

Stephen Barclay

Jackie Doyle-Price

Matthew Hancock

Chris Heaton-Harris

Fiona Mactaggart

Austin Mitchell

Ian Swales

James Wharton

Draft Report (*Formula funding of local public services*) proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 18 read and agreed to.

Conclusions and recommendations 1 to 7 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Fifty-fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

[Adjourned till Monday 14 November at 3.00pm]

Witnesses

Monday 12 September 2011

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Sir David Bell KCB, Permanent Secretary, Department for Education, **Andrew Hudson**, Director of Public Services, HM Treasury, **Sir Bob Kerslake KCB**, Permanent Secretary, Department for Communities and Local Government, and **Una O'Brien**, Permanent Secretary, Department of Health

Ev 1

List of printed written evidence

- | | | |
|---|--|-------|
| 1 | Department of Communities and Local Government | Ev 19 |
| 2 | Department of Health | Ev 14 |

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–12

First Report	Support to incapacity benefits claimants through Pathways to Work	HC 404
Second Report	Delivering Multi-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
Seventeenth Report	The Academies Programme	HC 552
Eighteenth Report	HM Revenue and Customs' 2009-10 Accounts	HC 502
Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
Twenty-eighth Report	Accountability for Public Money	HC 740
Twenty-ninth Report	The BBC's management of its Digital Media Initiative	HC 808
Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
Thirty-seventh Report	Departmental Business Planning	HC 650
Thirty-eighth Report	The impact of the 2007-08 changes to public service pensions	HC 833
Thirty-ninth Report	Department for Transport: The InterCity East Coast Passenger Rail Franchise	HC 1035
Fortieth Report	Information and Communications Technology in government	HC 1050
Forty-first Report	Office of Rail Regulation: Regulating Network Rail's efficiency	HC 1036
Forty-second Report	Getting value for money from the education of 16- to 18-year olds	HC 1116
Forty-third Report	The use of information to manage the defence logistics supply chain	HC 1202
Forty-fourth Report	Lessons from PFI and other projects	HC 1201
Forty-fifth Report	The National Programme for IT in the NHS: an update on the delivery of detailed care records	HC 1070
Forty-sixth report	Transforming NHS ambulance services	HC 1353
Forty-seventh Report	Reducing costs in the Department for Work and pensions	HC 1351
Forty-eighth Report	Spending reduction in the Foreign and Commonwealth Office	HC 1284
Forty-ninth Report	The Efficiency and Reform Group's role in improving public sector value for money	HC 1352
Fiftieth Report	The failure of the FiReControl project	HC 1397

Fifty-first Report	Independent Parliamentary Standards Authority	HC 1426
Fifty-second Report	DfID Financial Management	HC 1398
Fifty-third Report	Managing high value capital equipment	HC 1469
Fifty-fourth Report	Protecting Consumers – The system for enforcing consumer law	HC 1468
Fifty-fifth Report	Formula funding of local public services	HC 1502

Oral evidence

Taken before the Committee of Public Accounts

on Monday 12 September 2011

Members present:

Margaret Hodge (Chair)

Stella Creasy
Jackie Doyle-Price

Nick Smith
Ian Swales

Amyas Morse, Comptroller and Auditor General, **Gabrielle Cohen**, Assistant Auditor General, **Nick Sloan**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Cross-government landscape review: Formula funding of local public services (HC 1090)

Examination of Witnesses

Witnesses: **Sir David Bell KCB**, Permanent Secretary, Department for Education, **Andrew Hudson**, Accounting Officer and Director, Public Services, HM Treasury, **Sir Bob Kerslake KCB**, Permanent Secretary, Department for Communities and Local Government, and **Una O'Brien**, Permanent Secretary, Department of Health, gave evidence.

Q1 Chair: I welcome a very distinguished group of people who are to give us evidence today. Just to give you some context: this is one of our early studies. It is a landscape review, so it is not looking at a particular issue. We are trying as a Committee to be much more cross-governmental in our approach and to get a grip on issues that have an impact across the piece in recommendations that we will make. We think that the report is really interesting. I do not know if it has caused you to think, but it has made us think a little bit. We think that some pretty fundamental questions come out of it for the way in which Government distribute money—maybe quite a lot of them for you in Treasury in determining how you go forward.

Let us have a go. We will start with Treasury on this one. All three Departments before us today—we could have had others—are all undertaking reviews on how they will slice the cake that is allocated to them between the bodies they fund. What do you think are the appropriate principles that Departments should have in mind when they decide on funding formulae? **Andrew Hudson:** Inevitably, the principles will vary from Department to Department, but the important thing is to focus on the balance of need and meeting the objectives that the Government have set for the various funding streams to the different organisations that are receiving them, and to ensure that those are delivered in a way that delivers value for money and done with propriety.

Q2 Chair: But let me just say to you that these are all needs-based formulae.

Andrew Hudson: As the report brings out, there are a number of factors in determining the formulae. Need is one; the report brings out others.

Q3 Chair: Which do you think are important? What the report brings out quite strongly is that needs, particularly at the moment in education and local government, play a very limited role, and past expenditure appears to be a much more important factor. Is that a good principle? Is that an appropriate principle for the distribution of £150 billion of Government money?

Andrew Hudson: Again, as the report brings out, there is a judgment to be made between stability of funding and the effects of previous formulae, which have had an eye to various measures of need over the years, so that there is a balance to be struck between stability and the impact that changes have on the organisations in receipt of these funds and the effect of new or up-to-date measures of need, which the strict application of the formula would apply. I think the report brings out that trade-off pretty well.

Q4 Chair: I can understand that balance. We will come to education in a moment, because that is the one that has probably shifted the least since 2005–06. Is past expenditure pattern a good principle for determining the formula through which you distribute what shall always be limited resources for services?

Andrew Hudson: Again, the report—

Chair: Not the report—what do you think? You are Treasury; you are in charge of this lot. On the whole, you can tell them what to do.

Andrew Hudson: It doesn't always feel like that from where I'm sitting, Madam Chair. These are decisions that Ministers take collectively across Government.

Q5 Chair: I accept that, but you are pretty powerful in this world. I know what the report says. It says that a heck of a lot has been spent on past expenditure. We are in a time of constrained resources. Resources are

12 September 2011 DoE, HMT, CLG and DoH

going to go down and down. People, I think, proclaim—Health is probably the only one that is more open about it than the other two before us today, but we might have taken other Departments—that they want to do it on the basis of need, but that does not, actually, appear to be the evidence that we have. Is this a good thing or a bad thing?

Andrew Hudson: What the formulae are doing is looking at indicators including need and other factors—numbers of people being a key one—and then a judgment has to be made as to how fast it is appropriate to move from a historic pattern, which, as I have said, may reflect previous assessments under different formulae that had an eye to need.

Q6 Chair: What's the ideal? Come on. You are explaining to me what this says. We are coming down and you are cutting more than £80 billion in public expenditure. Need will not change. If anything, it will go up, given the state of the economy. What's the ideal? Is it good enough to say that the pattern that we have uncovered in this report, of so much being based on previous expenditure—we will come to the different assessments of other need—is a good pattern? Is that what you guys want?

Andrew Hudson: The approach needs to be manageable in terms of pace of change.

Chair: Please just answer me.

Andrew Hudson: I really do not think it is as simple as saying that there is an ideal pattern of formula. It is difficult. I have seen this from a number of angles—from detailed work in the Treasury many years ago, and from the angle of being a chief officer in a local authority. It is very difficult to come up—

Q7 Chair: I accept that. I am genuinely not trying to catch you out. I said that this is a landscape review; it is not a “holding you guys to account” for dreadful things. It is a landscape review, which we hope can inform a little how you look forward. If you are saying to me, “I don't really care”—fine, but say that clearly.

Andrew Hudson: I am saying that in practical terms, so that local authorities, the health community, schools are able to do business from one year to the next, a judgment will always have to be made between the immediate application of a strict needs-based or population-based formula and where we are now.

Q8 Ian Swales: But surely there are two stages here: you work out the figure based on need, and then you can have damping or whatever other mechanisms you want. But to put past experience into the formula is mixing two things together, surely. Shouldn't you have a pure first answer, and then decide how you are going to manage what that tells you? At the moment, as I understand it, it's mixed.

Andrew Hudson: It's mixed across the different formulae—that's certainly right.

Q9 Ian Swales: Why would you not adopt the approach that I have just said? Then it is very transparent what the needs-based figure would be, and it is very transparent that you say, “Well, you are not getting that; you are getting this in order that you can manage the transition over some period.” And I do

not know what period people should have to manage transitions over.

Andrew Hudson: Well, colleagues will be able to explain in more detail why their formulae operate the way they do, but in different ways they have an eye to practicality and to—

Q10 Chair: Have you got a view on what Ian has just said? Have you got a view?

Andrew Hudson: I will stick to what I have said, that there is a balance between practicality and moving to a formula.

Q11 Stella Creasy: Does the Treasury not have a preferred method? There has got to be a preferred method, surely. You have a fantastic test bed of all these different ways of identifying—surely, you must think one of them seems, on balance, to be a better, more effective, more robust of calculating.

Andrew Hudson: No, I think that these are different formulae dealing with different services. It is quite legitimate to have different approaches, and that is what Ministers have decided to do.

Q12 Ian Swales: Going back to what I said, the problem you have is that if it is too complicated, and people cannot see what their assessment was and what you have done with it, you are always under the accusation that it has been manipulated in some way, either for political reasons or for other reasons. Surely, one of the objectives of any system should be to be as simple as it can be, given the priorities that you want, and as transparent as it can be. Would you agree with that statement?

Andrew Hudson: Again, colleagues will be able to comment in more detail on their own. But, as I say, having worked on this issue in different guises, there has been a regular desire for simplicity. The trade-off is always with trying to recognise a number of factors.

Chair: Well, we note a bit of a lack of transparency.

Q13 Ian Swales: Last point on this: my local authority has routinely been damped or had money taken away from it of about the same amount every year, which suggests no movement towards any new position; it simply suggests that having done all this complicated work, somebody just decides somewhere that my authority should not get that £3 million extra.

Andrew Hudson: Bob Kerslake would be better placed than me to comment on how—

Chair: No, I think you are undercutting. One thing that we will come out with is that we want much greater transparency. And don't tell me Treasury does not have a say in this; they do, so pretending they don't is not being utterly, utterly transparent with this Committee.

Nick wants to ask a question, and I know that both David and Bob want to come in.

Q14 Nick Smith: Mr Hudson, we absolutely get that funding shocks for organisations are a bad idea and that things need to be smooth. Having said that, looking at the report, health has clear objectives and a set of priorities underneath that. I remember that, just a year ago, we looked at addressing health

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inequalities in England, and what we saw then was a failure over a 10-year period—between 1999 and 2009—for money to follow agreed Government priorities and objectives. So the Chair’s earlier question still stands: how do you agree objectives and priorities and make sure that there is a convergence over time that makes a real difference in agreed objectives; otherwise, you’re just not doing what you say you’re going to do?

Andrew Hudson: Well, I think Una will explain the position on health. The decisions that have been taken on the three different funding streams have been taken differently, and colleagues will explain why we are where we are on that.

Chair: Hopeless, I have to say—hopeless. It would have been nice to have a bit more transparency. David Bell, then Bob Kerslake and Una O’Brien.

Sir David Bell: Madam Chairman, you were too generous when you said that our funding formula in the dedicated schools grant goes back to 2005. The truth is that, actually, it is based on historical decisions made in the ’80s and before, because essentially what has happened is that it has just been rolled forward and rolled forward. I think everyone now recognises that that is not an adequate kind of funding mechanism for schools. For that reason, we have been consulting recently—we consulted again in July this year—to outline a simpler approach to the funding of schools: a basic entitlement for each student, a factor for deprivation, a factor for small schools and a factor for what we would call area costs adjustment, which recognises that there are different costs in different parts of the country. That moves us away from the current dedicated schools grant, where stability and predictability were all.

To some extent, as Andrew has indicated, we should not ignore or dismiss those as characteristics. But as Mr Swales suggested, what you then consider are your dampening or your transitional mechanisms. However, that does not go all the way to addressing need. One of the questions that we all face is what I might describe as the sensitivity of formulae. In other words, you can try to pick every last detail of need and build it into a formula. You might think that that is not a good idea anyway; but, even if it were a good idea, in our case, this is an unhypothecated grant—sorry to be a bit jargonish. In other words, although you can calculate various aspects of a grant, once it goes out, it is then ultimately for individual schools to determine how they use it.

Given Ministers current policy position regarding maximising the amount of decision making at school level, their view is you don’t want to over-complicate the formula, but you do want it to be based on more principles than has previously been the case. I think I can probably say that it is a fair cop, when it comes to the analysis in this report regarding the dedicated schools grant. The question will be about the final decisions Ministers make and how quickly you implement a different kind of formula and over what time scale.

Q15 Chair: That sounds good in theory. In practice, am I right in thinking that only 5% of the total grant

that goes to schools will be treated on a needs basis, rather than a per capita basis?

Sir David Bell: Ministers have not decided yet the distribution of the formula. It is the case that you would expect the bulk of the funding to be on a per pupil allocation. One of the changes to try to make this better than has been the case is not to have that just driven by what a particular local authority had to fund its schools in 1987 or 2004. We need to try to get a better sense of a per pupil allocation wherever children or young people are educated in the country. After that, there will be elements nationally. It may be the case that individual local authorities—that is part of the consultation—will still have some control over what goes on from the centre to the local authority area to the individual school, and that it will add in factors that have more to do with, for example, deprivation.

Q16 Nick Smith: Thanks, Sir David. I think we would all applaud your attempt to update your data and simplify it where possible. That is absolutely the right thing to do. May we return to your emphasis on the per pupil funding versus the weighting given to need? These are value-based judgments. I am interested in the evidence that you have developed to support that hypothesis.

Sir David Bell: It has been a long-standing principle across successive Administrations to put the bulk of the funding according to pupil numbers. That is the case at the moment. It is a very up-to-date calculation. The funding for schools is based on the most up-to-date count in the previous January for the April financial year beginning. Ministers have indicated that that will continue to be their position—the bulk of funding.

It is a matter of judgment based on our analysis how much weighting you give to deprivation factors. There is a distinction between deprivation factors and funding for pupils with high special educational needs. We have a different set of propositions in our consultation document for SEN pupils. The question then is how much you want to weigh it, and that is still a decision for Ministers to make.

In the consultation document, we tried to give some evidence, for example, in relation to things such as the cost of different parts of the country and the costs associated with educating different sorts of pupils. At this stage, Ministers have not made determinations, but I think you should assume that the bulk of funding will continue to be driven by the per pupil allocation.

Q17 Chair: Yes, which does undermine the strength of your argument of saying, “And we are looking at a change.” If it is only 5%, which is the figure I have heard—you can confirm whether that is being considered—it is only 5% that goes either on SEN or deprivation or whatever. You are just not going to get the sensitivity on the evidence to the real differences in need, which require a different resource to have some equalisation of opportunity.

Sir David Bell: Then I think, frankly, you are down to that judgment, because if you assume that this is a fixed pot of money, the more that you weigh towards particular kinds of deprivation, the more you are

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taking that out for general distribution. And if you assume that the bulk of the funding is going for general distribution anyway, all students, irrespective of needs, are getting the bulk of the funding that way. So it is a matter of choice in the end about how much you take out.

Q18 Ian Swales: Going back to Mr Smith's point about evidence, for example, if you have a class full of children who have English as their second language, you are only going to achieve certain things unless you do something extra. Surely, some research could be done. If you know what sort of outcome you are looking for, surely you could be more scientific about what resource is required for particular types of need. You have used words such as "choice" and "judgment", but surely there could be more evidence behind what you want to do.

Sir David Bell: There is a strong evidence base about particular needs. There is not the same kind of evidence or agreement about how much money you should put behind that and whether that money should be targeted according to a particular needs factor or whether it should be part of the general pot. To go back to my point, the more you distribute according to a factor like the area cost adjustment of deprivation, the more you are taking that out. There is evidence of course about some kinds of pupils costing more than others, but it is a matter of judgment about how much you take out of the general pot and put into a specific pot.

The final point to make in all this is that by the funding not being hypothecated, you are still down to what individual schools choose to do. One of the questions, of course, that has been raised previously in looking at the use of the dedicated¹ schools grant is that money that is ostensibly allocated nationally for pupils who come from more deprived backgrounds is not always used by individual schools for that purpose. But that is the principle of local management that you allow that to be determined.

Chair: I want to move to Bob in a minute, but first Nick and Stella very quickly.

Q19 Nick Smith: On the issue about the judgments that you will take in future on funding, health comes out of this report well in that it has got external machinery and some—although not enough—transparency about the decision making. Will you be doing the same in education? Will you have some sort of external governance that can look for the evidence that we are trying to tease out from you today, to ensure that the judgments that are being made are open for review?

Sir David Bell: I wouldn't want to give the impression at all that we don't do that. For example, we have a funding implementation group that draws together officials from the Department and representatives from local authorities, and they draw down research

evidence as appropriate. This is not something that is done just from the Department with no consultation or discussion.

Q20 Chair: But what we look at and think a good thing is that the criteria under health are determined by the external body. The criteria in education—and it gets worse when you get to DCLG—are determined by officials and Ministers.

Sir David Bell: Correct.

Q21 Chair: What would you feel about a much more objective criteria setting?

Sir David Bell: I think that in the end Ministers believe that this is a political judgment and should not be put elsewhere. That is the position and has been since LMS—local management of schools—was implemented.

Chair: I know it has been the position for a long time, but it does look rather better in health.

Q22 Stella Creasy: I just want to follow up on the evidence base that you use. What work do you do to address the way and the when that you calculate numbers, as opposed to need, so that the other half of that calculation is done? I am particularly concerned, as a London MP, that we are consistently out on our funding, because we get children moving within school years. Of course, if you calculate in January if they have moved in the spring term, there is no funding for them. I suspect the same thing could be said for identifying numbers within health care. Populations do not neatly fit into census data for the calculating machine; consequently, you are always at a disadvantage. What work do you do to try to preempt that, given that there is now a wealth of evidence over the course of the past 10 years, in health and education and at a local level, too, where there has been that disparity, because populations move around, particularly in inner-city areas?

Sir David Bell: Yes, I think you are right that, if you moved to more regular updating, you might be able to get that kind of sensitivity. The judgment that Ministers and officials have made over the years is that the bureaucratic burden in wanting that information update and, more importantly, the in-year variations in funding would cause greater turbulence than using the most up-to-date indicator of the number of pupils you have got—that is, the January schools census. I accept that that is not the same as doing a check a couple of times of year, but this is one of those questions about the need.

Q23 Stella Creasy: Sure, but you would also have the data from the local hospitals, for example. We all know the birth rate in London has been growing for the past decade.

Sir David Bell: But I think that is a slightly different issue if I might suggest. Actually, the students or pupils who are in the schools in the January are captured. In other words, they are captured as the number of pupils that we'll fund for the following year. The question is what happens if you get a lot of volatility of movement. Therefore, I think you are back to my point that you have to decide whether you

¹ Data from 2010–11 shows that (notionally) 10% of the Dedicated Schools Grant was allocated on the basis of deprivation. Once other Additional Education Needs (such as English as an Additional language) were taken into account, this total rose to 11.9%. As the 2011–12 settlement was a flat cash per pupil, we can assume that the same notional proportions apply this year.

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want to have lots of checks of the numbers, the potential volatility of movement.

Q24 Stella Creasy: There's third option, though, isn't there? That is partly about how we calculate the numbers. You are talking about calculating need. You need to know the basic number of people. The children born in the local hospitals do not disappear, any more than they are potentially more likely in particular areas to generate particular health conditions that will need to be planned for. How do you plan ahead, I guess, is what I am getting at, on the numbers calculation as opposed to the needs calculation? Do you share data across Departments?

Sir David Bell: Well, our forward planning is based, as you have said, on the kind of data you get about live births. In a sense, we are always looking forward with that kind of data. However, that is a different issue from actually funding the students who are in the schools at that particular point.

Q25 Chair: Let's come back to data, Stella, because there is a lot to ask of data. At the moment, what I am trying to get is principles, and how transparent they are. Sir Bob, yours are particularly opaque, and nobody can really understand anything that comes out of DCLG, in terms of rationality.

Sir Bob Kerlake: That's a good start to the discussion, if I might say, Chair.

Q26 Chair: As an ex-local authority leader, I know that lots of us spent time, and we couldn't understand it then either.

Sir Bob Kerlake: I'll start by saying it is complex, and there is no point arguing otherwise.

Q27 Chair: But should it be?

Sir Bob Kerlake: My personal view is that it will inevitably be complex—you can argue whether it could be less complex—and I'll explain why I think that is the case. The local government formula tries to deal with intrinsically complex circumstances. First, you are dealing with multiple services. There are seven service blocks in the relative needs assessment, so it deals with a wide range of different services in calculating need, from care through to highways and so on. Secondly, it takes on board income as well, so it builds income into the formula. Thirdly, it deals with authorities that differ vastly in their responsibilities and range of functions. They range from Birmingham, with a population of about 1 million and a huge budget, to West Somerset, which has fewer than 100 staff. The formula has to deal with a wide range of functions, responsibilities and incomes. That is a reason why there will be a complex formula.

The second thing is that there is always a trade-off between complexity and perceived fairness in the system.

Q28 Chair: Well, we don't perceive any fairness. I could buy "complexity" if there was a bit of transparency that might help us to perceive a little fairness. We don't get any of that at the moment.

Sir Bob Kerlake: One thing I learned in my time in local government, and now in central Government, is

that the one thing you can guarantee is that no local authority will think their settlement is fair. It's an absolutely iron rule.

Q29 Chair: No, no, but you talked about "perceived fairness". At the moment, it's so lacking in transparency that you can't say that a local authority can on any rational basis perceive fairness or unfairness. We all feel it's unfair.

Sir Bob Kerlake: Let me finish the point about complexity and I'll come back to the point about fairness. I am saying that there are always trade-offs between the complexity of the formula and the sense of fairness. One thing that keeps it complex is the fact that people want to keep a mix of different measures in the formula to keep what they see as fairness.

The third point is that there are two questions in the discussion about needs versus stability. First, should the formula, however complex and opaque it is seen as being, distinguish between relative needs, which is our case, and the damping? That was Mr Swales's question. It is identified in the formula we have run since 2005–06. It has four blocks: one is about relative needs, one is about relative resources, one is about a per capita allocation and one is damping. Therefore, you can see the distinction between—

Q30 Chair: Nobody can see anything. You can on the inside, but nobody out there can. You find a local authority that can understand how you get to the end number from what they put in.

Sir Bob Kerlake: Let me finish the answer to the question. It is a complex formula. You can follow it through. I am not saying that you don't have to know an awful lot of the detail to understand it, but the point I'm making is that there is a distinction between the question around disentangling relative need and damping, which the formula does, and whether you have a conscious policy choice to reduce damping. The previous Government and this Government took the view that they would not have an explicit policy to converge towards need. There is no explicit policy of that sort in how our formula has worked. Indeed, in the recent settlement, there was a particular emphasis on high-grant dependent authorities not losing proportionately more grant. We wanted them to lose proportionately less.

I am really saying that there are two questions: first, how is your formula constructed? Mr Swales made a perfectly good point on that. The second point is on the policy choice, which has to be with Ministers, about the trade-off of matching need and achieving stability in the system.

Q31 Ian Swales: On that particular point about damping, I understand you're saying that it is a political question, so you may not want to respond, but how would you react to somebody who said, "Isn't that the whole point of a damping part of the formula?" If you were an electrician or an electrical engineer, you'd know that it gets less and less. Otherwise, it's just a fiddle factor that moves you from the answer you first got to the answer you really wanted. Surely, in principle, we should be reducing damping each year to the formula assessment.

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Sir Bob Kerslake: What I would say is that it is a policy choice. You can take a view that says either, “We are going to consciously move towards what the real numbers are saying”, or you say, “For other reasons—policy, stability, predictability, the impact of shifting resources—we will not consciously move towards that.” What I’d say is that over time, on balance, Governments of different persuasions have erred more towards stability.

Q32 Ian Swales: In simple terms—even I barely understand the current round—under the previous round, my local authority lost just over £3 million every year from its formula-based assessment. So, you are telling me that, actually, Ministers said, “That should continue. We should calculate what Redcar and Cleveland need, get the answer, and then take £3 million off every year”—with no plan to change that figure. Is that the case?

Sir Bob Kerslake: In the way that the formula works, Ministers, with some guidance from Treasury, take explicit decisions about the impact of damping. It has varied, and it varied in the most recent settlement.

Q33 Ian Swales: I know that it varied in the recent settlement, but we are trying to understand the system here. Under the previous Government—in that incarnation—am I right in suggesting that you say it was a political decision to take that money from one council and give it to others?

Sir Bob Kerslake: It was a political decision about the extent to which damping applied.

Q34 Chair: And it remains that way.

Sir Bob Kerslake: It remains a choice for Ministers.

Q35 Chair: Can I just ask all of you—it is almost a yes/no question, before we come to Una O’Brien—whether you agree that all this should be transparent?

Sir Bob Kerslake: Absolutely. You should be able to see the decisions that Ministers have made and be able to challenge them.

Chair: And Mr Hudson?

Andrew Hudson: Yes.

Q36 Ian Swales: May I just follow on from that question? In terms of transparency, let us just be clear that we mean how all these formulae work. So, you could see an article in a newspaper about exactly how the formulae work. Would you be happy with that?

Sir Bob Kerslake: The answer is yes, but there are two aspects to transparency. One is how the formula works, and as I said earlier, we have a complex formula; you can see how it works, but you have to spend quite a lot of time studying it. The second point is that you can see transparently the decisions and proposals of Ministers, in the way in which that formula operates.

Q37 Ian Swales: Right. That’s helpful.

Sir David Bell: Coupled with that, if you think of the minimum funding guarantee, which is referred to in this publication and also in passing in the Audit Commission’s criticism, that is explicitly what you described, Mr Swales, where you said, “We will not

let the per pupil funding drop below the floor of 1.5%.” That accounted for about 25% of the schools in the last round, so that is a very explicit choice, and it goes back to the principle of stability. That takes us to the question of stability against meeting actual need.

Q38 Amyas Morse: I want to ask, because you are all considering and consulting, about the context. Local authorities’ funding position is going down steadily, and that is likely to go on for a number of years. Is that a factor affecting how you might balance stability and need? It must mean that these are real-money decisions. Is that a fair comment?

Sir Bob Kerslake: That is absolutely the case. With the way that Ministers took decisions on how the formula works this year, they did two things that were a direct product of the fact that money is falling rather than rising. One was to introduce four different levels in the damping formula. The second was to introduce a transitional grant that sought to limit the loss of spending power when you took account of all grants—formula grant and other grants. So, there were two very conscious decisions by Ministers, who said that in a period of falling funding, there needed to be a way of containing the impact on high-grant dependent authorities.

Q39 Chair: But are you content with what the report says? In DCLG, 20% of all authorities funded by formula grant in 2011–12 received allocations more than 10% distant from their calculated needs. Do you think it is a good position to be in, on the grounds of stability?

Sir Bob Kerslake: I hope you won’t feel that I am evading the question when I say that that judgment is made by Ministers. In making that decision, Ministers are balancing stability and the impact of the loss of funding against moving closer to the assessment.

Q40 Chair: If services are inappropriately funded according to need, it makes it difficult for us to look at how services perform across the country. There is some relationship, for heaven’s sake, between need and the funding available to tackle it. If services are inappropriately funded, you cannot make value-for-money judgments.

Sir Bob Kerslake: I don’t think that is right. You can make value-for-money judgments on services and their performance against the funding going into them. It is important to say, as David said earlier, that the grants are not hypothecated grants. Local authorities will make decisions on how they use the money. The grants sit alongside a whole range of other funding sources available to local authorities. In my experience, having worked as a finance director, the truth is that you get the rough with the smooth. Sometimes you feel that the formula works reasonably fairly for you, and sometimes you do not. When calculating value for money, I would never have said, “Because we think we’re unfairly funded through the formula grant, we are absolved from the need to run that service as efficiently and effectively as possible.”

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Q41 Chair: It doesn't absolve you of need to do it, but the problem is that if the funding basis is different, judging between authorities is much more difficult. It must be—I am not saying anything particularly, you know—it just must be. That's common sense, isn't it?
Sir Bob Kerlake: You can still compare services and what those services deliver for the amount of money spent on them.

Q42 Chair: Well, I think it's much more difficult. I want to come to Una O'Brien, but, equally, in education we have more than 5,000 schools, 5% of which receive more than 5% more than they should. Are you happy with that, or do you just think it is a judgment?

Sir David Bell: I think it is a judgment.

Q43 Chair: Even as the guy charged with ensuring that every child achieves the best they can, are you saying that it is just a judgment?

Sir David Bell: Well, it is a judgment, isn't it? If you didn't have any of that damping, you would have a few schools—if I may continue with the analogy—going right through the floor, very dramatically, very quickly. It is a reasonable judgment to have some kind of damping. In a sense it catches up to you in the end, because if your numbers continue to fall, in the subsequent year your budgets will be down, and so on. We are trying to ensure that that is not a cliff-edge effect. Given that, in the broader sense, we are talking about value for money, I would not want youngsters to be in a school in which the shift of funding from one year to the next is so dramatic that it seriously impedes their education.

Chair: Okay. Let me come on to Health, to give Una a chance. We'll then come back to the Treasury. I think Nick said that Health changed its weighting formula in 2011–12, which lessened the impact of the health inequalities proportion, however crudely that was assessed in the first place. The effect of that was, as I understand it, to move money away from London and the needier authorities in the North and towards the South and East of England. Are you happy with that?

Una O'Brien: First, on the change in the proportion of the overall formula to which the DFLE was applied, ACRA's evidence supporting the decision was that, although 10% is the minimum of what should be done, 20% is what could be done. The evidence clearly stated that the placement is a matter for ministerial decision. We have always worked with ACRA's independent advice, and because the whole formula is, in many respects, designed to tackle inequalities in access to health, the attention given to the specific inequalities component is within the boundaries of ACRA's advice.

Q44 Chair: Why can't you make that advice open? It is interesting that you have this independent body—it is cheap, too—that helps you to determine the formula, but you are secret about its advice.

Una O'Brien: I am not aware that we are secret. We publish ACRA's advice when the formula is announced.

Q45 Chair: Can I get advice from our guys?

Nick Sloan: The only thing the health consultations don't do is have a public consultation, I think, as part of the arrangements, which the other formulae do. The actual advice from ACRA is published in terms of the letter to the Secretary of State.

Chair: I am sorry. I missed that, Nick.

Nick Sloan: ACRA produce advice to the Secretary of State.

Una O'Brien: That is correct.

Chair: Not in the public domain.

Una O'Brien: It is in the public domain, yes. The correspondence between the Secretary of State requesting advice from ACRA and ACRA's formal advice to the Secretary of State are in the public domain and have been for as long as I have been involved.

Q46 Chair: So what is not?

Nick Sloan: There is not a public consultation which surrounds the working group, the ACRA group, as I understand it.

Una O'Brien: That is right. We do not have what others have, which is to go out to consultation on the formula, but all the independent advice, the academic papers, and the advice from ACRA to the Secretary of State are put in the public domain at a point at which the allocations are announced.

I just want to pick up, if I may, a couple of points from earlier on. Getting prospective need defined is extremely difficult. I would not want there to be a sense in which somehow, certainly as far as health was concerned, this had not been looked at. The extent to which we rely on utilisation data, which we do, is constantly tested by our advisory committee and by the technical expert group. What we have found systematically, over time, is that there is a relationship between utilisation and need. If I could give you a specific example to illustrate that and to demonstrate that it is not the straightforward either/or: for a person over 85 we factor in 12 times more resource than we do for a person in their 20s because that reflects over time the evidence that we have about utilisation reflecting need. So it is not strictly an either/or. Utilisation has been an important proxy for need. As we move into the new system we will look for a more refined way of defining need based on GP registers.

Q47 Ian Swales: Can I come in on that? I think you said that the independent body had suggested a figure between 10% and 20% as a needs element.

Una O'Brien: Sorry. I said a figure between 10% and 20% as that portion of the total allocation which should be subject to the disability-free life expectancy component of the overall calculation.

Q48 Ian Swales: To the what component, sorry?

Una O'Brien: The disability-free life expectancy component.

Q49 Ian Swales: You mean need? Is need shorthand for what you just said or are we now talking about something else?

Una O'Brien: Need is built into the main calculation.
Chair: This is health inequality.

Q50 Ian Swales: I come from an area that is particularly prone to health inequalities. We tend to be near the bottom of most of the leagues, sadly. I am told that our area is facing £2 million less as a result of the adoption of this 10% rather than 15%. It is a local political issue already. People have picked up on this. What would your answer be to people who say that this change in the formula is not appropriate, in other words it is going to harm the health inequalities agenda, which you rightly said is becoming statutory in the new Act? What do I say to people who say, “We are actually being underserved as a result of this new formula compared with where we were”?

Una O'Brien: I think the decisions need to be looked at in the round. There is a pot and a judgment has to be made as to how much of that pot is subject to the disability-free life expectancy calculation and how much is subject to the other main calculation. The main calculation, which is the bulk of the money, is subject to a formula which incorporates need quite significantly, the biggest driver of need being age. All that demographic data is properly taken into account in that respect. The purpose of a separate formula to help address health inequalities was something that came out of ACRA's recommendations in 2006. The technical advice is that, as a minimum, it should be 10%, but it could be as high as 20%. The argument is that if it applied to an even greater part of the cake, it would start to distort the objectives of the formula in relation to access. So there was a balance to be struck in the decisions facing Ministers as to what portion of the cake to subject to that this year.

Q51 Ian Swales: Do you think that we have got sufficient transparency of everything that you have just said? You have given a more complicated answer than I expected in terms of how the formula works—that there is a needs element in both. Is it clear enough how it works?

Una O'Brien: It is clear enough for anybody who wanted to find that out, in so far as we publish all the information about how the formula is constructed. That has been a consistent approach on the part of the Department of Health.

Q52 Ian Swales: Going back to my original question, to the people who say to me, “The needs element of the formula has gone from 15% to 10%,” my answer is that it is more complicated than that.

Una O'Brien: That is right, and need is very significantly factored into the main component of the formula.

Q53 Chair: Do you like the fact that you have independent advice?

Una O'Brien: Yes.

Q54 Nick Smith: The Department of Health seems to be top of the class in terms of independent advice compared with your colleagues across the front, so well done on that. We also accept the issues around data and definition around these complex issues. I want to be a bit geeky and refer to pages 10 and 11 of the report. I am not expecting you to answer this question, but I am interested in it. On point 12 of the

report there is an example given of GP registrations exceeding ONS population projections, in some instances by 25%. There is a really big disparity, and I wonder whether you can explain it now. That would be fantastic, but if you can't, can we try and understand why, because it cannot be right? Can we get better data? On page 11—you might have answered this question already with Mr Swales's last point—there is this issue about the single, crude indicator introduced in 2009–10, which was intended to be an interim solution.

Una O'Brien: Which paragraph are you on?

Nick Smith: Paragraph 15. Are you going to get a more sustainable set or single indicator around health inequalities and objectives in the future?

Una O'Brien: Shall I take those in turn? First, clearly, any suggestion that GP registration is still more than it should be is a matter of concern to me as an accounting officer, and I take it very seriously. That is extremely important, especially when we think about our plans for the new system. You can imagine that as I was shopping in the supermarket on Saturday and saw the headlines in the *Daily Mail* about GP list inflation, I was starkly reminded of it.

I certainly do not recognise any of the figures that are in that report, albeit that we know that we have to tighten up in order to ensure that these lists are robust and accurate. We have a number of pieces of work under way at the moment. We are using work done by the Audit Commission looking at duplicate registrations in order to strip out where there appear to be names appearing twice, for example. We are undertaking list cleansing; we started a significant initiative through SHAs last November and we are about to take that a step further in the expectations that will be placed on PCT clusters and emergent clinical commissioning groups to ensure that their registration lists are fully accurate and up to date. That is doubly important, because obviously we are hoping to move towards an allocation system—very much on the advice of ACRA—which is what we call person-based resource allocation, where we will be able to use assessment of actual people's needs as opposed to average needs or needs that are assigned to a population. Having accurate lists is really important.

Chair: I hope that that is not dependent on your IT system.

Q55 Nick Smith: When will that report be done, so we can be clear that there is no double-counting on GP registration?

Una O'Brien: As I explained to you, that work is currently being accelerated. I cannot give you a precise end date because, in a way, you never truly end it. What I have to be confident of, and I am sure that David Nicholson, as the accounting officer for that area of the NHS, will also feel as strongly as I do that we have to have a robust system in place to ensure that those lists are kept up to date and are accurate.

With the use of the NHS number, it is now very difficult to introduce new duplicates. One of the things we have a problem with is ensuring that, when people are deceased, their details are removed from the list, and that when people leave the country or go to

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another area, their details are changed. A programme of work is under way to strengthen the lists, leading up to the authorisation of the clinical commission groups. Our intention is that, when we get to that stage, the robustness and the accuracy of those lists is a factor that is included in the authorisation of the clinical commission group so that there is actually a stop point where they have to demonstrate that their lists are sufficiently up to date and accurate to enable them to take on the budgetary responsibility.

Q56 Nick Smith: Will you be giving an end date to GPs so that they provide you with clean data?

Una O'Brien: I am sure that that will be built into the programme of work.

Q57 Chair: And a crude indicator?

Una O'Brien: Yes, I understand the wording, but what that relates to, as I understand it, is that, after the reforms have completed their passage through Parliament on the current proposals, as well as the allocation to the Commission Board, as the Committee will recall there will be a public health allocation. This is new. This will be derived from the money that Parliament votes for HCHS, and that public health allocation will be subject to a formula. We have asked ACRA for advice on that. That will then determine the allocation to the directors of public health and local authorities. It will be a ring-fenced grant, and I will be the accounting officer for that grant. It will not go into the local authority formula.

Q58 Nick Smith: You have given us a very long explanation about how you will get GP registration of patients produced for us. Can you separately do us a note on exactly what your plans are, and your time scale so we can see the results of that, please?

Una O'Brien: I will be happy to do that.

Q59 Chair: I just want to know one thing, and perhaps come back to Mr Hudson on it. Una O'Brien said that we have to make sure that usage is important, and I can understand that—85-year-olds are likely to cost more in health than not—but actually the Government's policy is to try to get people out of hospitals, for example, and get them dealt with by Bob Kerslake's people in the community. Somehow, the system where it is based on usage—as it is there—doesn't nudge anybody in the Government to change behaviour. It doesn't nudge a change from bed-blocking in hospitals to better care within the community. Shouldn't our formulae actually be down at the Treasury—nobody else, with the greatest respect, because they want to hang on to their empires. Shouldn't the Treasury be ensuring that the criteria and the allocation of the formulae ought to have in it some element, which will nudge a change of behaviour where we need it? The example I take is bed-blocking to local authority and support in the community.

Q60 Andrew Hudson: My immediate reaction to is that, if we were to try to do that in detail, we would end up with adding to the complexity of the formulae and the difficulties of data collection, which Mr

Swales was asking me about much earlier on. If we were to try to do that in real time, we would be collecting a lot of detailed data, which is hard. We have heard from Una just now about the difficulties in the data we have, which we have been working on for some time. It would be hard to get that data in detail.

Q61 Chair: So you shouldn't be concerned about it. I accept that it's a hard job, but I thought that this Government were about trying to change behaviours. I could take another incidence—police funding. The only people we fund for trying to reduce crime—I know that the Home Office is not here today, but it is in the report—are the coppers. It's a nonsense. It may be what the Department of Health does on drugs, drink and alcohol; what Bob Kerslake's people do on community support; and what happens in education. That all could cut crime, and we want to nudge that behaviour. The only way you can nudge it is through the money you give. If you're telling me that it's just too complicated and adds complexity, and that the Treasury doesn't care, it's an interesting answer.

Andrew Hudson: I certainly didn't say that the Treasury didn't care. I was trying to take head on your question about whether these formulae could be used to nudge behaviour—

Q62 Chair: How else are you going to do it?

Andrew Hudson: In the past, we have used specific grants.

Q63 Chair: That's even more complex.

Andrew Hudson: We're trying to encourage authorities to co-operate on problem families. We're encouraging the community budgets approach. There are a number of other different mechanisms—

Q64 Chair: No, there are not. You said that you didn't want to do this because it is complex. I think it is complex; I agree with you. But on the other hand, it ought to be a purpose of this Government, with the objectives that they set for themselves. If you are telling me, "No, we'd rather do it by a complex system of having new ring-fenced budgets," when I thought we were getting rid of ring-fenced budgets, which is what specific funding is all about, that's a bit disappointing.

Andrew Hudson: I am saying that I don't think that adding to the complexity of these formulae covering all the different local authorities and all the different health authorities would be an economical way of addressing this.

Q65 Chair: I know that you're always ready to agree. Do you all agree with that, the three of you?

Sir David Bell: It's quite difficult at the macro level, when you're devising national formulae, to bring about micro-level behavioural change, which is what nudge is. It's very difficult to do that. To pick up your point about specific grants, you're right; we've collapsed a lot of specific grants because the view is that individual institutions are better placed, without a lot of direction from central Government, over specific grants.

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Q66 Chair: I know it's difficult, but how do you nudge behaviour if you don't nudge it through money?

Sir David Bell: I'm not sure that you can use these high-level formulae to do that, because it's such a high level of generality. You are talking about the behaviours of individuals that you're trying to nudge.

Q67 Stella Creasy: On that point, how do you explain the pupil premium?

Sir David Bell: That's funding of deprivation.

Q68 Stella Creasy: So you can't guarantee, can you? There's no accountability that that money will be spent on children from deprived backgrounds in a school; it just goes to that school.

Sir David Bell: But that's entirely consistently with the principle of not hypothecating. That's entirely consistent.

Q69 Stella Creasy: But that undermines the principle that you are saying, that you fund on a particular need, doesn't it, if you can't guarantee that the money is going to be spent on that need?

Sir David Bell: That's the principle that underpins the non-hypothecation of grants to schools.

Q70 Stella Creasy: Can you guarantee that the pupil premium will go to children from deprived backgrounds?

Sir David Bell: No, because it is not designed for schools to be told how to spend that money. What we are going to ask schools to do is to give an account of how they spend that.

Q71 Stella Creasy: So you give an account of the pupil premium, but the Treasury doesn't ask you to give an account for money spent on other types of need? That would be the way, wouldn't it, to have the incentives in the system that say, "We are funding you X% to achieve Y because we have identified this need. Now do it"? There is a problem, isn't there?

Sir David Bell: There is a very interesting question about whether you should have just rolled up the pupil premium altogether into the grant. Interestingly, Ministers decided not to do that. Why they decided not to do that was because they wanted to ensure that the funding was at least identified on the back of an indicator of need—free school meals entitlement—even though in turn, you are not requiring that to be spent in a particular sort of way.

Q72 Stella Creasy: What sanctions do you have, when they give an account on the pupil premium, if they don't spend it on children from poor backgrounds in their schools?

Sir David Bell: It is not intended to be sanctions-based. The money is allocated according to the free school meals indicator. Consistent with the principle of not hypothecating, you don't require schools to spend it in a particular way. The ultimate account of this is the extent to which a school is performing well across all categories of pupils. We do not ask that money to be spent in a particular way on those students. But a school will be held to account through, for example, Ofsted inspections and more

sophisticated transparency of data regarding the performance of free-school-meal students and so on. You have different mechanisms of holding schools to account.

Chair: Okay. I will take Bob's answer and then Jackie, who has been waiting, and then Ian.

Sir Bob Kerlake: You asked whether we shared Andrew's view about trying to use the formula to do the nudging, and I actually do. I think that it is exceptionally difficult to do that in a way that is fine-tuned to the individual local circumstances and that does not lead to perverse outcomes.

Are there other ways that you can do it? I think the answer is yes. If you look at the last settlement, some of the health money in relation to care came through health into local authorities. It was not fine-tuned and prescribed, but it was clearly linked to joint work to deal with issues around hospitals and bed blocking. The way that it worked was that it was funding that enabled a conversation to happen at a local level about how best to deal with the shared problem. That is much more effective.

The other thing that is effective is if you free up local managers to be able to make decisions around local priorities and local resources, so that they can do the local trade-offs, because there will always be something that works in the opposite direction that local authorities need from health and health needs from local authorities.

All my experience tells me that a combination of some money that gives some leverage to the local health authorities, coupled with flexibility for local managers to work together on shared problems, is much more effective than trying to micro-manage this through the funding formula. It would just lead to—

Q73 Chair: In a way, what I am looking at is that you have to transfer some of the health resources to local government. I know some of it is going through this health inequality stuff, but unless you get that, so that the money is there for the local councils to take the people out of beds—

Una O'Brien: Two things: one is obviously on social care specifically, and I very much agree with Bob that we actually transferred money this year that came under an NHS heading through local government to provide additional support for social care. It is not hypothecated, but there is a clear expectation on local authorities that they utilise the money specifically to address issues about moving people out of hospital.

There is a wider issue about getting a flow of money directly to local authorities that is ring-fenced and that enables them to take the lead on these broader, population-based public health interventions, where the evidence is that local government will have a greater impact than the health care service. This is one of the significant changes about the reforms that are currently before Parliament. It will be very important that we are able to back that with the right degree of resource and then hold the directors of public health to account for how they use that money.

Q74 Jackie Doyle-Price: The more I am listening to you all; the more I am thinking that it is absolutely impossible to incentivise good behaviour in this

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system, because it is totally input driven. Earlier on, when the Chair was asking about how you have influenced behaviour, straight away the answer was, “We have been making the formula more and more complex.” Do we not really need a cultural change here and to start actually measuring this to outputs and to outcomes? Can we explore how we do that?

I want to pick up on the example that David Bell gave, which gives a perverse incentive to be inefficient. If you have a system of damping to stop these fluctuations in funding, there is a perverse—okay you are actually helping those schools that are going through a transition where it is going through the floor, but you are equally punishing those that actually have more and more demands placed upon them. In trying to equalise it for those that are going to suffer the biggest loss, are we not making life more difficult for those that are facing increasing challenges?

Sir David Bell: There is an absolutely reasonable point about the consequences of damping, but, as I said in my answer, it is actually a sort of one-year protection. So you get the protection based on the fall in pupil numbers, but, in fact, your base calculation of your total number of pupils will change the next year if it drops. I do not think that it is an inefficiency. I just think it would be quite severe in consequences if we allowed a cliff-edge effect. I do not think it is a disincentive. If that protection per pupil were higher than we have given and you were distributing very large sums of money to “prop up” schools in which the numbers were dropping, that would be an absolutely fair argument. But a degree of protection is necessary—it is not really an incentive to bad behaviour.

Q75 Jackie Doyle-Price: But it is input rather than output driven. We are looking at how we make sure that Ministers get the best advice. You can have a straightforward formula through which everyone is judged on the same criteria—it is clear that we are unhappy about that—or you can have more independent advice, which some members of the Committee will be sympathetic to, although I am less happy about that. But this is not where political judgment comes in, because you are looking at your inputs to outputs and saying, “What is it that we expect and how do we reward that?”

Sir David Bell: You could argue that the fundamental principle of the grant to schools is that you reward on pupil numbers and, arguably, that is the way in which you recognise outcomes. In other words, if schools attract more students or pupils, the funding follows those students or pupils. I accept that that is only one kind of measure.

When it comes to what you would describe as output measures for the funding as a whole, you are into big questions about how you judge the success or otherwise of the school system. Would you use examination results as a measure of the system’s success? Would you use inspection reports? I do not think that we have designed this grant to have a set of very precise measures. Essentially, there is a strategic decision to ring-fence money to schools to enable them to be free to spend it as they see fit. Individual schools are judged within that system, and you could

argue that, ultimately, Ministers are held to account for the success or failure of the system as a whole.

Q76 Jackie Doyle-Price: That is fine, but when you look at the variation per head for the schools grants, you start to realise that there is a vast discrepancy between what goes in and what it is funding to come out.

Sir David Bell: Then I think you are into one of the reasons for trying to reform the system. The substantial variations in funding to pupils in different parts of the country, as I acknowledged to the Chair, just reflects historical patterns of spend. The plan under the new system that we are consulting on is to have a basic allocation per pupil with one or two other factors included. But then we are into the question of how long it takes to fund that way, given the damping effects that are required to avoid dramatic shifts in funding.

Q77 Jackie Doyle-Price: I am asking this question because my constituency has gone through a lot of demographic change. If you look at the spending per pupil, we are bang in the middle. We have some substantial challenges relating to indexes of poverty and deprivation, and a growing immigrant population, which brings with it language difficulties. It seems that, possibly because of historical data, we have not been dealt with fairly under that system. Bearing in mind how rapid the transition to get that new intake has been, the damping that you described is acting very much to the disadvantage of schools in my area.

Sir David Bell: Ministers will have to make a judgment about how far—[*Interruption.*]

Jackie Doyle-Price: I completely agree with you on that.

Chair: Jackie and I share that view. We have a Committee of Members who feel really hard done by on that matter in relation to our constituencies. Una, do you want to come in on that?

Una O'Brien: To what extent do we build an allocation—and our weighted capitation formula—around need? Could you use a formula to change the shape of that need? That is a very difficult question. Could you introduce incentives in the way in which the money is distributed to try and shift what people use health services for? I am much more in agreement with Bob on this—the way to do that is through management action and a number of other levers and mechanisms. Trying to do that through the formula alone would be very difficult.

Q78 Chair: Money informs behaviour.

Una O'Brien: That said, I think that over the medium term, as we move to person-based resource allocation through the new system, there will be a closer relationship between understanding actual need and the potential to link to the new outcomes framework. In health, perhaps, there is more prospect of achieving it in the medium term than there has been up to now.

Sir Bob Kerslake: I want to just come in on this point about inputs and outputs or outcomes. It is a fair challenge. In the local government resource review, Ministers gave a lot of thought to what extent the current system rewarded failure or those authorities

that have been unable to change their circumstances. That is why in the resource review, the proposal was to move the business rate income to a local level, so that those authorities who can succeed in growing will retain more of the benefits of it. Part of the thinking was precisely on how to reward those who go for growth. Clearly we still need to have some rebalancing here, because the ability for certain places to grow is bigger than others. The point you are making was a key element of the thinking around the resource review.

Q79 Jackie Doyle-Price: Yes, and you have walked straight into my agenda with that point. My local authority is a substantial net contributor in non-domestic rates. In theory this measure would be fantastic, particularly given that the areas that generate the most are the most deprived. I was thinking, "Oh, this is marvellous. At last, we can keep some of that money to support my constituents." We are looking at a system that will bring in tariffs and top-ups. The likelihood is that the benchmark will be set where the formula is, so, actually, poor old Thurrock will not be any better off, because all we will gain is what comes after, which is great, because my area of south Essex is entrepreneurial and will keep going for growth, but there are constraints in transport infrastructure and so on, which we will have no opportunity to get more money to boost. There is still this inherent unfairness. It is more acute than ever in a time when we are cutting public expenditure, because when you put the damping in, my constituents in Thurrock are having to bear the hit so that Richmond upon Thames is all right. I find that rather difficult to justify.

Sir Bob Kerslake: The key point is that whatever system you move to on the local government resource review, you will have to have some way of rebalancing for the first year. That is simply because the ability to raise business rate income is hugely different between authorities. If you take the inner London authorities, they are a massive proportion of the whole rate income. There has to be a top-up and tariff for any system that you introduce. The view of Ministers in the consultation document—this is out for consultation—is that the only logical place to start is where you end up with the old system in the first year. The key question therefore is on the extent to which you retain the income that you achieve after that, which is exactly the point that you have made. That is one of the other issues in the consultation. As much as possible, Ministers would like to see the ability to retain income in the system.

Q80 Chair: Jackie has raised a really important issue. As there are more and more constraints on your resources, as you move away from a system where you can support authorities with new or different needs through new extra money and as you have to deal with fewer resources across the piece, how the hell in that situation you can prioritise stability over need, is much more questionable, is it not?

Sir Bob Kerslake: Arguably, in a situation where people are losing money, and this is exactly what the four-year settlement was talking about—we did it for two years—you have to think long and hard before

you overlay a loss from it alongside the loss that authorities will experience anyway.

Q81 Chair: But you are giving up on any equalisation and anything that says that we will support the most disadvantaged in whatever way.

Sir Bob Kerslake: What you are saying is that in a period where resources are reducing, you are putting a higher premium on, and mitigating the effect of, the loss of that money. What we're saying is that after two years of the current system we are seeking to move to an entirely different model, which looks for people to retain income where they are successful in growing their place. So, we're thinking about the problem in a different way, and we're looking to fundamentally change the system.

Q82 Jackie Doyle-Price: But I am looking here at these figures, which are talking about authorities getting more than 50% above their calculated needs. Why is it that there is no incentive on Surrey and Richmond upon Thames to become efficient, when really needy authorities such as mine are trying their best to become efficient and are being penalised over and over again? It's crazy.

Sir Bob Kerslake: Let me make a couple of points on that. The first point is the one that David touched on earlier: I don't think it's conducive to efficiency to see sudden lurches and changes in funding for authorities year on year; it is much better that they know that resources are falling and can plan for that. Secondly, there is a trade-off. As local government over the period of the spending review is reducing funding by 27%, to overlay on top of that an unwinding of the damping adds to the scale of the challenge that those authorities already have to face. You have a trade-off here between those two issues. Thirdly, I think we've put the focus on not just tinkering with the formula but on trying to change the whole way in which local government is funded, changing the incentive model so that the model moves more to one that incentivises growth rather than rewards places that haven't grown.

Q83 Jackie Doyle-Price: Mr Hudson, what is your reaction to paragraph 3.11 which says: "Four authorities have received allocations more than 50 per cent above their calculated needs"? Is that a good use of public money?

Andrew Hudson: It's back to the point that Bob Kerslake's been making and which we have touched on before, that in terms of use of public money we have to strike a balance between giving people time to adjust—

Q84 Chair: Is that the right balance?

Andrew Hudson: It's a judgment Ministers have to make every year, and Bob has explained why they have made the judgments over the pace of change that they have, at a time when overall resources are falling.

Jackie Doyle-Price: I think Ministers should have challenged that, personally, but there you are.

Q85 Chair: Okay, so you're just saying, "I'm not going to answer that; I'm quite happy as Treasury." Treasury does look at things over time. Is Treasury

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happy to see that sort of discrepancy? We could have taken it on a whole load of things. There are massive discrepancies if you prioritise stability. Are you happy with that? Just say yes or no.

Andrew Hudson: It's a ministerial judgment.

Q86 Ian Swales: Listening to the Chair's question about how you nudge or encourage the various authorities to do things, I think I'm persuaded by the fact that we don't want yet more complex formulae. So, it really does come back to what Ms O'Brien said about management action. I'd like to know from all of you the extent to which that's real, and what the feedback loop is.

Let me give you an example—an education one. My area tends to be at the wrong end of all the league tables. Here's another one: I believe that my local council takes the biggest slice of the education budget of any authority in the country before it goes to the schools. So, the formula is decided, and it takes its slice of the cake. It even tried to charge schools £10 per pupil on free school meals, arguing that it came out of the pupil premium, so it is even trying to get its hands on that. No formula is going to alter that; it's about management activity. To what extent, having decided the formula and having got rid of the ring-fencing, are you going to be involved in ensuring that the money is spent wisely and on the right things? To what extent will you get feedback that will cause you to take management action?

Sir David Bell: There are some constraints on how much can be held back by local authorities, although it sounds from what you say—sorry, I don't have the details about your authority here—that yours is at the outer end of what is permissible in relation to hold back. I guess the schools in your local authority area will consider whether that money is well used or whether there might be other options for them, academy status for example. As far as the general management loops are concerned, it has tended not to be the case that the funding has been used as the judge of the effectiveness of the local authority area. Over the last 10 to 15 years, Ofsted inspections of local authorities have been used to make judgments and in some cases they have been used very severely to make judgments. So I think you get feedback about the effectiveness of the use of all the moneys that a local authority has less from your formula allocation than from other measures of success.

Q87 Ian Swales: Okay. If that is one of the key pieces of feedback, to what extent are you considering that feedback in deliberating on future formulae, because as you said right near the start of this session you are looking at a new formula, with four elements? To what extent are you using real feedback of that sort to inform what the formula might be?

Sir David Bell: We are not using—except in an indirect sense—outcome measures. So we are not saying, "Let us look at all the Ofsted inspection evidence and see whether that tells us something about how we should construct the formula." I say that we are using outcome measures only indirectly, in so far as we know that different local authority areas that are provided for in very different ways

achieve different results and that is not necessarily to do with the money. That is quite an important fact and it takes you to the argument that you should allocate according to a set amount per pupil and with a limited number of other factors put that money out on a fairer basis. I am sorry—it is the theme of the afternoon—but you then come back to the issue of how quickly, having made that judgment, you are prepared to fund local authorities exclusively that way, or how far you are prepared to do it.

I should give you one bit of information. Ministers are saying in the consultation document that whatever judgments they finally come to about the new funding arrangements, they are likely to put out a sort of shadow budget under the new arrangements next year. In other words, we will continue to fund broadly where we are funding this year, but we will run the new formula to let everyone see what it looks like. But Ministers will still have to make a decision about how quickly they will finally implement any new system if they choose to introduce one.

Q88 Chair: Let me move on a bit. I just want to say that it is not that you judge outcomes based on the funding, but I think that not seeing the relationship between funding and outcomes is stretching it a bit far. Of course, there is a relationship. That does not mean that more funding will always lead to better outcomes. However, what is undoubtedly true—it is what Jackie was trying to get at—is that if you have this disparity of funding that must have an impact on outcomes.

Sir David Bell: But we know from looking at families of local authorities—in other words, local authorities in otherwise similar circumstances that are receiving otherwise similar sums of money—that different authorities are getting very different outcomes.

Q89 Chair: Of course. That is always the case. And there is another thing that I just will not accept: if you want to change behaviour and the way that people provide services, funding is a key mechanism. It must be; I am amazed that you guys do not accept that. It must be a key mechanism by which you change what is provided and how it is provided.

Sir Bob Kerlake: I do not think that we suggested that funding was not important.

Q90 Chair: Okay. To move on, let me just ask something about the formula. Right through the report, there is great criticism of the data that you use to set the formula. A quarter of the indicators in the formula grant and 10% of the indicators in PCT allocations are based on data sources that are 10 or more years old. That is not a satisfactory way of doing business, is it? What is preventing you from seeking more relevant and up-to-date data? Secondly, we are told that the Government intend this to be the final census. What arrangements are you putting in place to ensure that in distributing a lot of money—£150 billion—you are doing the work that will give you the data that enables us to feel that you are making fairer judgments than those being made at present?

Una O'Brien: I recognise the reference to the report. Actually, five data items that are more than 10 years

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old are mentioned in the report. The important point to emphasise is that, from the perspective of the Department of Health, we give a lot of autonomy to the Advisory Committee On Resource Allocation in this regard. We place a great deal of emphasis on the expertise there. We have specialists in statistics and we have representatives from ONS. I can certainly let you have the current membership. It is on the basis of the committee's advice that we use these data sources. I am confident that if there were better data sources for these particular components, which have a relatively low impact on the formula, it would be first to utilise it.

Q91 Chair: What I am saying to you is that, across the piece, all of you have poor data. The census is now 2001. We will get the 2011 census in by 2013 if we are lucky. You are distributing one heck of a lot of money—£150 billion. You might just spend a little bit of money—all of you—on making sure that you have got a better database, so that you can give a fairer allocation of these big, big pots of dosh.

Una O'Brien: Certainly when it comes to migration statistics, the Department of Health and a number of other Departments, which faced that problem several years ago, all put money together in with ONS to see what could be done to get more timely, accurate data on the movement of people into particular areas. That has already started to have an impact.

Sir Bob Kerslake: Generally, it makes sense to use as best as you can up-to-date data where they are available. The key point is where they are available. They are not available in the geographic size you need it in order to do this. The second thing is that we consult with local authorities on where they see the biggest issues. As Una said, migration is a key issue and action has been taken on it. The third point is that you have to look at the quantifiable impact of where the data are out of date. In many cases, the impact on the formula is much less than in relation to some of the data where we do have more up-to-date information. Generally, we try to use up-to-date information. We consult with local authorities and they are not always in favour of shifting, but they will tell us where they think the biggest issues are. You have to look at the impact of some of the data, which is less significant than in relation to others.

Your last premise was about the census. Clearly, what we are working on in the local government formula is the population projections. That is what we have used more recently. Therefore, we will still be looking to the ONS to give us as best an estimate as it can about how movements are taking place in terms of the population, and that will still be part of the requirement. If the local government resource review is implemented, that in turn will have an impact on the issue of how important that population data are to the funding that local authorities have.

Q92 Ian Swales: That sounds particularly vague. If you have a fixed formula with fixed pieces of data, surely you want the latest information. A lot of your answer suggests, "Oh well, we consult. We judge. Some things have a bigger impact than others." Surely, compared with most of what we talk about in

this Committee, we are into straight mathematics here. Why would you even have any hesitation about wanting to get the best possible data at any point in time? It is then back to the damping argument. What you do with the answer that the new formula gives us is something else, but to fudge around how to put the formula together—

Sir Bob Kerslake: Let me try again. What I was saying is that we do want to use the most up-to-date data that are available and we seek to use those. But we consult with local authorities on changes and they do not always come back saying that they would like us to change something.

Q93 Ian Swales: They shouldn't have the option. Why should you ask a local authority what it would like? That isn't the point of the formula, is it?

Sir Bob Kerslake: There is a judgment about what are the best data. It is not always an objective thing.

Ian Swales: Data are objective.

Stella Creasy: Surely the point is that it should be standardised because you need to be able to compare and contrast the things that you are funding across the country at a local level. How you are measuring need should be equivalent in different ways.

Q94 Ian Swales: You're actually suggesting that some local authorities say, "We'd rather you didn't use that bit of data this year?" Are you really saying that?

Sir Bob Kerslake: Sometimes we have choices to make about which particular data set will most accurately measure the issue.

Q95 Ian Swales: Can you give an example of that?

Sir Bob Kerslake: For example, we consulted around an alternative in relation to visitor numbers because we thought we could find a more current measure of the issue. The feedback on the consultation was actually: "We think what you are coming up with won't be better in terms of measuring the impact."

Q96 Ian Swales: Would you apply that new judgment—whatever system that is—everywhere, or would Cornwall use a different method?

Sir Bob Kerslake: No, you have to have a consistent approach across the whole formula. The general aim is to use the best data available, and in some instances, people have different opinions about what they regard as the best data available. The way we handle that is to consult and get people's views. Sometimes we agree with their view, and sometimes we will say, "Notwithstanding that view, we'll change it". Everybody has a partial view on this matter; they always have a view that reflects what works for them.

Q97 Stella Creasy: Is it plausible that you would take one view and the Department of Health or the Department for Education might take another view on the same issue and how it is measured?

Sir Bob Kerslake: It is possible, but we had a conversation leading into this session. One thing you asked was whether any questions had been prompted between us, and one issue was whether we use data inconsistently. The advice from our technical team was that in general, where we are trying to measure

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the same thing, we are using pretty similar data to measure it.

Q98 Ian Swales: But you have separate teams. We are talking about need. You all have teams working away on what “need” means for each of you.

Stella Creasy: That horrifies me. In local government there has been a lot of pressure on people to set up observatories and use standard information to make assessments. However, it sounds as if at a Whitehall level you do not do that.

Sir Bob Kerlake: No. A lot of interplay and consultation goes on between Departments leading up to the financing of local government, health and education.

Q99 Stella Creasy: Talk me through one strong measure. Deprivation—what indices of deprivation do you use?

Q100 Nick Smith: Do you all use.

Stella Creasy: Yes. Who uses super output areas, who uses ward-based levels and who uses borough-based deprivation levels?

Sir Bob Kerlake: We are using data that are available at local authority level, in the case of the formula that we use.

Q101 Stella Creasy: Right. So you are using local authority level. Is anybody using super output areas?

Sir David Bell: We are using free school meals data as the best proxy indicator for deprivation.

Q102 Stella Creasy: Right. So you are using free school meals. Is anybody using super output areas? The new deal for communities and the neighbourhood renewal fund did, didn't they?

Sir Bob Kerlake: That is because the funding was going to areas below local authority level. You clearly need to use data at a smaller scale.

Q103 Stella Creasy: But those data exist to allow you to make the best decisions about deprivation. You are saying that the three Departments present—I don't know, Ms O'Brien, whether you use a third number. Mr Hudson, does it not concern you? You should have the confidence that the most robust and up-to-date data are being used to make judgments; data that you have qualified as being the best data on levels of deprivation.

Sir Bob Kerlake: Before Andrew comes in, I was saying the opposite. We tested whether there were areas where we were using data inconsistently.

Q104 Nick Smith: Will you speak up, I can hardly hear you?

Sir Bob Kerlake: I am saying the opposite of what you are saying. When we checked across our teams about whether data were being used in inconsistent ways, we did not find substantive examples of that. That is my point.

Q105 Stella Creasy: I think that would be open to interpretation. Forgive me, but I think if you were to talk the Methodology Institute, it would be very

concerned that you were using different proxies to ostensibly measure the same thing. Even that notwithstanding, it is only because this report has been published that the question is asked. It is more a question for Mr Hudson. Surely, good value for money needs good information on which to make decisions.

Sir Bob Kerlake: To be clear, I did not say that. I said that the question was prompted ahead of this session, and the teams said that that was not—

Q106 Stella Creasy: I am sorry; I cannot hear you at all.

Sir Bob Kerlake: I explicitly did not say that. I said that ahead of this session, we had a conversation about whether there were any areas in which there were differences, and the teams said that they consulted and were generally consistent.

Q107 Stella Creasy: If we had not proposed this inquiry, would you have had that conversation? At what point would it have happened?

Sir Bob Kerlake: It happens with the teams that are working on the formula that we use. That is my point.

Q108 Stella Creasy: So does it happen with the Treasury?

Andrew Hudson: We would be involved, for instance, in the settlement working group that the DCLG pulled together to discuss the local authority formula. We take part in that. My concern with a Treasury hat on is that the Departments should be using reliable data as timely as possible—we have explored some of the issues that affect timeliness—and the data that they judge, based on advice and consultation, are fit for purpose for what they are trying to do. That may involve—again, as Bob's examples have pulled out—using different definitions if, for instance, we are trying to allocate resources to different tiers of Government.

Q109 Chair: Are you content, Mr Hudson, that a quarter of the indicators in the formula grant, and 10% of the indicators in PCT allocations are based on data sources that are 10 or more years old.

Andrew Hudson: As I've said, of course we want to use—

Q110 Chair: Ministers—

Andrew Hudson: I'll speak for myself on this one. Of course we want to use data that are up to date, and we are using data that are 10 years old only when—in Una's example, there was advice from the independent panel that supports their process that these are appropriate, and in Bob's example not much—

Q111 Chair: A quarter, or 25% in Bob's example.

Andrew Hudson: A quarter of the indicators, but he explained—and he can confirm or otherwise—that those indicators do not drive that proportion of the resources.

Q112 Stella Creasy: Mr Hudson, may I come back on this point? There is a very specific example in the

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ones that you just talked about. If deprivation is measured by free school meals—it is well known that free school meals are not taken up by all those who may be entitled to them—that would give a slightly different outcome from supposedly looking at local authority areas, and poverty levels and levels of family income within those areas. Have you not made an assessment of whether that influences the calculations that are made, because you are looking at some variation that could be quite large?

Andrew Hudson: Colleagues will have made those judgments when deciding what goes into the individual formulae, and they are talking to each other about the different indicators.

Q113 Chair: That is a valid point.

Sir David Bell: I have a couple of reflections on that. It is reasonable to say that if you are trying to find a methodology to fund an area, it might be different from the methodology when trying to fund an individual pupil. Using the free school meals characteristic may be appropriate when looking at individual pupil need, and a different kind of measure—an entirely respectable measure—may be necessary in another area.

Q114 Chair: But in your pupil-funding formula, you don't fund schools; you fund local authorities. Right?

Sir David Bell: What we do is to build the formula up based essentially on pupil numbers, as I said earlier, derived from the census, and that money is sent to local authorities to divide according to the formula.

Q115 Chair: But your new formula?

Sir David Bell: The new approach will continue to be based largely, as I said earlier, on pupil numbers. It seems to me entirely reasonable to use that as a mechanism.

Q116 Chair: But if you're looking at some indicator—some money flowing towards those areas where there is a higher concentration of educational need, you're measuring that on free school meals, and I think the point that Stella is making—that that depends on people taking up their free school meals—is a valid criticism.

Sir David Bell: Having looked at this over a number of years, and asking people with better brains than me to do so, I know that in the end, free school meals have been seen to be the most reliable proxy indicator for deprivation, notwithstanding the entirely reasonable point that Dr Creasy has made that you require families to register for that—

Q117 Stella Creasy: Sir David, there is quite a lot of concern about how FSM is calculated—for example, on the points that Jackie was making earlier about how you might take into account English as a second language and the impact that that might have on your ability to teach. The point I am trying to make is the consistency in how we identify deprivation if it is one of the factors that influences funding, and the confidence that the Government can have in how the numbers are calculated.

It seems to me to be a policy decision, and one that, as I said, you cannot stack up by saying here is a pupil premium that we are funding particular pupils with, but there is a value-for-money question about how the calculations are done to be able to get there, which is very dependent on the numbers and the data you have.

Sir David Bell: If you're talking just about the slightly narrower point about data quality, there are no questions raised about data cleansing in the quality of the education data in relation to free school meals, but there is a wider policy question about what should count as eligibility. We are saying in the consultation document, do you use this concept of ever-free school meals when you assess whether a child at any one year over a period of, say, three or six years had been eligible for free school meals?

Q118 Stella Creasy: But that's a particular measurement. The point I'm trying to get across is, given that you have several different types of measurement going on, the capacity for those disproportionately to influence the outcome is greater, because you haven't got that standardisation or common agreement about how you identify deprivation, and how you tease out need in the numbers that you have.

Sir Bob Kerlake: That is the point I was trying to make, perhaps not very well. When we are measuring on the same scale and can sensibly use the same data, we are, but, as David has pointed out, he is measuring at the school level and pupil level, whereas for some of the deprivation calculations, Una is measuring it at the PCT level and we will be measuring it at the local authority level. It is not that we are using wilfully different data to measure deprivation.

Q119 Stella Creasy: I don't think I was accusing you of using different types of data wilfully. From one perspective for us as a Committee, for different Departments to be trying to measure ostensibly the same things, trying to use calculations that capture the same thing, but consequently using different types of measures, first, we are already concerned that the quality of the data we are using may well be out of date and that there is clearly an income impact in terms of funding the work that needs to be done to keep that work updated, and secondly, there is an issue that, because it so substantially affects the outcomes, if those measures are variable, there is a question about transparency, and what might be measured as deprivation—I represent a borough that has Chingford in the north and Walthamstow and Leyton and Wanstead in the south. If you measure us by borough, we never get the support—we get classed as outer London. If you measure by super-output areas, you measure us by ward level—you start getting close to that data. If you measure us by free school-meal level, because we have so many young families we get even closer to understanding what deprivation is and what that need is. It is that sharing across Departments aiding intelligence on that and some sort of standardisation about that, which I think offers transparency locally.

Sir Bob Kerlake: What I am trying to say is that there is sharing of data across Departments, but the

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way in which that is used in the formula depends on the thing you are trying to tackle in the formula. It can't always be the same.

Stella Creasy: That becomes a policy decision.

Q120 Nick Smith: This is a question for Mr Hudson. We all get that you have different organisations that you are trying to fund. You are trying to pinpoint schools, you are doing PCTs, and you are doing local authorities, counties and boroughs. We get that point, but none of us is convinced that there is a standard assessment of need being considered across the board that you all use and that Treasury in particular is comfortable that everybody is using. Neither am I convinced that your treatment of need across your services is consistent. I think we need to tease that out a little more.

Andrew Hudson: Back to the point that we have just been making in the context of how deprivation is measured: while the three formulae are all getting resources from the central taxpayer into local organisations, they are doing so to different organisations for different purposes, so in terms of targeting those resources, it seems to me that it is entirely appropriate to be using different formulae to get that targeting accurate for the different purposes. That is why we have different approaches.

Q121 Chair: You have different formulae, but you have consistency of principles and consistency of data.

Andrew Hudson: Where it's decided in setting up the formulae that the same measure is relevant, whether that is population or whatever, it will make sense to use the same data, and we do. Where the purposes are slightly different—we have just been discussing free school meals and the deprivation indicators—

Q122 Chair: I don't think you have understood. There ought to be consistency. That does not mean you use the same—There ought to be consistency of approach across Government, using the same sort of principles, although it is in different areas in different services. Of course, at one stage you may use free school meals and in another you may use the elderly in the population. Nobody is arguing you should have the same, but you have to have consistency of approach. At the moment, we have some concerns. You have said that there is a lot of sharing and that it is more consistent than you thought it was. We have some concerns that the consistency is not as sophisticated and you in Treasury, in our view, ought to share those concerns.

Andrew Hudson: We want to see an approach that is robust, timely, accurate and all these things. We have given you examples of how we work away at improving our use of data. Una may want to add something.

Una O'Brien: For me, it comes back—certainly for health, and the scale of the money and complexity of the issues—to what is the best available evidence about the most appropriate data sources to use, rather than saying that there is something that I, or Health, has to use so that we are the same across the piece. We have representatives from the DCLG who sit on

ACRA, so we try to make sure that, at a technical level, we have got as much sharing of information about the best possible way to make assessments of need and of deprivation that we can. I am certainly happy to share with and pass to the Committee the latest evidence and advice that we have from ACRA—it is not something that we would determine.

Chair: I think we think that you are the best of this bunch. We think you're ahead of the game on this one.

Q123 Stella Creasy: It would be important to get notes on using the different formulae and how they impact on some of the calculations because—

Una O'Brien: If it is different, it is because it is being led by the evidence, rather than—

Q124 Chair: That is why we need greater transparency. May I just ask Bob Kerslake a question? I will try and draw this to a close. Is an objective of your formula to close inequalities in the way that it is for the other two?

Sir Bob Kerslake: No, it is not an explicit objective. The core objective of the formula grant is to identify relative need between authorities, but there is not an explicit policy that deals with the impact of relative need on resources as well as on spending. There is not an explicit policy that says that we will seek to converge around that relative—

Chair: Inequality.

Sir Bob Kerslake: It deals with the issue of inequality through the relative needs calculation, but it puts a high emphasis on the issue of stability, and that is what I am saying. Both are in the formula, so in that sense it does deal with inequalities, but it also has an overlay around—

Q125 Ian Swales: We have not touched on the stability thing that you keep coming back to. Just tell us what the biggest percentage increase and reduction is on any authority that you deal with. You work out the formula and then you either add or subtract due to stability. What is the biggest percentage increase that you add on, and the biggest percentage reduction?

Sir Bob Kerslake: It varies year on year, but—

Ian Swales: This year then.

Sir Bob Kerslake: In the current year actually, the overarching cap that we used was around spending power. We said that no authority would lose in this year more than 8.8%.

Q126 Ian Swales: I'm talking about the grants that you give out from central Government, not spending power. You work out what the grant should be from central Government: what is the biggest addition you make, and what is the biggest reduction you make?

Sir Bob Kerslake: They all face reductions. I haven't got the figure for the fall floor, but I will give you that in a separate note.

Q127 Ian Swales: No, sorry, I'm not asking about year on year; I am asking about damping. What do you do? You are talking about stability, which is your code for, "We alter the answer we first came up with." What is the biggest change that you make?

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Sir Bob Kerslake: I haven't got the number in front of me now, but I will get you that.

Q128 Chair: In a week, please—as usual. May I ask a very final question? Why don't you share this stuff with your boards, which we are told in the report that you don't?

Sir David Bell: The “stuff” being?

Chair: The basis on which you determine the allocation of this very enormous pot of money. Apparently, that does not go to board level in any of you.

Sir David Bell: First, there is a passage of time issue. These boards have really just got up and running, so in some ways it is slightly unfair. However, I think there is a question about whether departmental boards should consider this. I am not giving a definitive answer either way because, ultimately, these are policy choices of Ministers. Non-executive directors on boards are not there to make policy decisions; what they are there to do is to challenge the outcomes. So I think it is quite likely on something as significant as this that our departmental board will want to discuss, with the Secretary of State and Ministers, the outcomes of consultation. But let us be very clear: the decisions about formulae are not for boards to make but for Ministers.

Q129 Chair: Do you all agree?

Una O'Brien: I would say as far as the Department of Health board is concerned, which you know has recently been reconstituted, all the board members are familiar with the methods that we use and the way that the system works. As they will have an overview of the new system as it is created, I would certainly expect them to be fully familiar with the way in which this system is going to change and, indeed, to challenge us collectively on the outcome that we have achieved.

I think it is slightly unfair, if I might say so, to suggest that boards have not dealt with this, because if you look at the nearly 40-year time span that we have had such a formula within the Department of Health, I am confident that over that period of time boards in their different guises will have come to this. We take the point in relation to the last period of months, but if you were to track back over time, I am absolutely sure that this has been to board over that period of time.

Q130 Chair: And Sir Bob?

Sir Bob Kerslake: Again, I think I would repeat David's point about the passage of time. Our current form of board is relatively new. They form their own agenda of issues that they want to consider. Obviously, we had gone through the last spending settlement before the board was fully up and running. My sense is that the board will probably want to spend time on the approach to the funding of local government. They have had a conversation about the local government resource review and what it is seeking to achieve, but I do not think that they would want to get into the detail of how the formula works, because that is very much a ministerial judgment.

Chair: Stella, very quickly, because I am trying to bring it to an end.

Q131 Stella Creasy: I was interested in your reflections. There is obviously going to be a lot of change in how you deliver funding at a local level. Will there be flexibility in that system? Do you feel that that is the right level at which to deliver, because some of the things that you will also be trying to deliver may be better done at a regional level or, indeed, at a national level and some are being passported, particularly in education, right through to the schools themselves? How responsive is the system?

You have all given a very good account today of all the complexity of trying to do this, but it seems to me that maybe there should be that ability to do some things and say, “We really want to tackle this particular inequality and we need to do it at a regional level, but this one can go direct to the school level or this one is best done at a local government level.” What conversations or what flexibility around that do you have?

Sir David Bell: You might expect me to say this, and I shall say it. Actually, I think the system is very flexible in relation to the policy objectives, which are to get the maximum amount of money to schools based on the most up-to-date data—in other words, the school census data—and allow schools the freedom to make their own choices. Against that test, this really passes. I do not see anything about that changing. In fact, I just hope it is going to be better, because it is going to be less based on history in the future and more based on the factors that I have described.

Q132 Stella Creasy: So you don't see any need for any regional planning in schools or national planning, places or anything like that? It all can be done at a local level, and the sooner you can put the money—

Sir David Bell: I certainly don't think there was ever really a story for there to be a regional plan, and in the end it is Ministers at the national level who make the big decisions about things we have been talking about today rather than the micro-decisions, which I think are best laid at school level.

Q133 Stella Creasy: What about health and local government?

Una O'Brien: On health, the very clear expectation in legislation is that the NHS commissioning board will have responsibilities around tackling health inequalities in terms of access and in terms of need. The commissioning board will have a regional footprint, and it will have direct relationships with the clinical commissioning groups, and that will enable flexibility to deal with things at the level which is most appropriate.

Q134 Stella Creasy: But there will be a place for that kind of regional and local—

Una O'Brien: The commissioning board will have that flexibility, and it will be held to account through a very specific outcomes framework, so that the resources in and the outcomes achieved will be very visible and transparent, and the board will be held to account for that.

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Q135 Chair: Okay. Thank you. Local government is local government, as far as—

Sir Bob Kerlake: With one caveat, which is that under the new system we see the potential for local authorities to come together in a pooled model of dealing with business rates to manage the ups and downs of income.

Jackie Doyle-Price: You're not having mine!

Q136 Chair: May I thank you? This was an exploratory session, and it has been quite interesting for us. I think we will want to come back to it in time before final decisions are taken on your formula funding.

I would leave you with the thought that we are interested in much greater transparency. We are interested in some explicit criteria and being much more aware of that. We think evidence-based is important, where there is some discussion over

whether this should be done within Departments or whether there should be external advice. Greater simplicity, subject to maintaining responsiveness to a changing environment, is also important. I hope that I covered most of that—and data. We think data are utterly crucial, and all of you probably ought to be making more efforts, apart from relying on out-of-date ONS stuff, to try to get better data on which to do your distribution, and particularly thinking ahead if this was the last census that we had.

Sir Bob Kerlake: Just to answer Mr Swales's question, the maximum change in any authority or any area is 16%, my team have hold me.

Q137 Ian Swales: An increase of 16%?

Sir Bob Kerlake: A maximum increase or reduction of around 16%, but we will confirm that in writing.

Ian Swales: Sixteen per cent!

Chair: Thank you very much.

Written evidence from the Permanent Secretary, Department of Communities and Local Government

PUBLIC ACCOUNTS COMMITTEE: FORMULA FUNDING OF LOCAL PUBLIC SERVICES

In the hearing of 12 September 2011 on Formula Funding of Local Public Services I was asked:

“... what the biggest percentage increase and reduction is on any authority that you deal with. You work out the formula and then you either add or subtract due to stability. What is the biggest percentage increase that you add on, and the biggest percentage reduction?”

I undertook to write to the Committee with the information for the current financial year.

Stability in formula grant funding to local authorities is achieved through floor damping. The local authority that has the greatest percentage increase between its before floor damping level and its allocation once damping has been applied in 2011–12 is Wokingham at 98.6%. The largest reduction is for Christchurch at -25.6%.

I would also like to clarify the response that I gave to the Committee during the hearing on this issue. The figure of a 16.2% reduction I provided refers to the floor limit to the maximum possible reduction for shire district councils in 2011–12 compared to adjusted 2010–11 Formula Grant, that is, the floor band for local authorities least dependant on Formula Grant. As I mentioned, Ministers took decisions in the 2011–12 Local Government Finance settlement and the provisional settlement for 2012–13 that offered protection to those local authorities most dependant on Formula Grant. The floor bands for the two years are:

SOCIAL SERVICES AUTHORITIES

	<i>Floor 2011–12</i>	<i>Floor 2012–13</i>
Most dependent	-11.3%	-7.4%
	-12.3%	-8.4%
	-13.3%	-9.4%
Least dependent	-14.3%	-10.4%

SHIRE DISTRICT COUNCILS

	<i>Floor 2011–12</i>	<i>Floor 2011–13</i>
Most dependent	-13.2%	-11.2%
	-14.2%	-12.2%
	-15.2%	-13.2%
Least dependent	-16.2%	-14.2%

For single service fire and rescue authorities, a single grant floor at -9.5% applies in this year and -3.4% in 2012–13. Police authorities have a single grant floor at -5.141% for 2011–12 and -6.703 % in 2012–13.

Written evidence from the Permanent Secretary, Department of Health

FORMULA FUNDING OF LOCAL PUBLIC SERVICES

At the Public Accounts hearing on 12 September 2011, Committee members asked for a note from the Department of Health on the work programme to improve and maintain the accuracy of GP patient lists.

Below I set out (1) the background (2) the differences between estimates and actual GP registrations (3) action taken to date and (4) Proposed next steps.

1. BACKGROUND

The NHS (General Medical Services Contracts) Regulations 2004 and NHS (Personal Medical Services Contracts) Regulations 2004 place an obligation on primary care trusts (PCTs) "... to prepare and keep up to date ..." a list of patients accepted by each GP contractor. Subject to the Health and Social Care Bill, this obligation will be transferred to the NHS Commissioning Board from April 2013.

These patient lists form the basis for certain payments to GP contractors. GP registrations also feed into the calculation of PCT allocations and are likely to be a key element in the future allocations formula for clinical commissioning groups, subject to the passage of the Health and Social Care Bill.

When calculating PCT allocations, GP registrations are constrained to Office of National Statistics (ONS) resident populations. This means that PCT populations sum to the ONS estimated population for England, and this ensures that PCTs total allocations are not over-funded as a result of inaccurate GP patient lists. For PCT allocations, reconciliation of lists to ONS populations is also undertaken below the national level. However, inaccurate lists will affect the relative distribution of funding across small areas and thereby reduce allocative efficiency.

Inaccurate lists also cause inequities in the funding of GP practices. At the aggregate level, payments to GP contractors (which are ordinarily set on the basis of recommendations by an independent pay review body) take into account data on overall earnings and expenses. So, to the extent that list inflation causes increases in aggregate GP practice income, this may over time be taken into account indirectly in setting fees. But this does not in any way reduce the importance of ensuring the accuracy and fairness of payments to individual GP contractors.

Active list management by PCTs is, therefore, essential to seek to maintain accurate GP patient lists through the removal of inappropriate patient records such as those for deceased patients, "gone-aways" and duplicates.

2. DIFFERENCES BETWEEN ONS ESTIMATES AND ACTUAL GP REGISTRATIONS

Comparisons of ONS population estimates and GP list populations are used as a way of assessing the potential scope of practice list "inflation". There are a number of potential justifiable reasons for differences between ONS estimates and the number of actual GP registrations, including:

- The current ONS population figures are estimates based on the Census of 2001, updated for each year since then taking into account a number of assumptions. Given the significant length of time since the 2001 Census, it is possible that the latest estimated population figures are not accurate.
- Prisoners who have been sentenced to less than two years imprisonment are legitimately permitted to be registered twice, by remaining registered with their "home" GP practice and also with the practice providing prison medical services.
- There is a time lag when patients move practice between being registered at a new practice and being removed from their old one.

ONS has recognised the need to improve its population estimates, particularly in relation to international migration, and commenced a programme of work several years ago, the Migration Statistics Improvement Programme. This work is ongoing and continues to feed into improved population estimates. International migration is likely to be more significant for London where list variation is greatest. The results from the 2011 Census will provide much more up to date comparisons between the number of GP registrations and ONS estimated populations.

However, these reasons are insufficient to explain fully the difference of 2.5 million in the total number of GP registrations and the estimated population of England, and the proportionately greater disparities seen in some areas. The Department and the NHS therefore undertake a range of actions to improve the accuracy of GP patient lists.

3. ACTION TAKEN TO DATE

Audit Commission

The Audit Commission undertake a regular National Duplicate Registration Initiative (NDRI). The 2004 NDRI exercise, which reported in 2006, concluded that, as a result of that work, 185,000 patient records across England & Wales were cancelled (0.3% of the population), saving over £9.5 million.

The NDRI was initially undertaken in 1999 and again in 2004 and 2009. The latest review is currently underway and is due to be published in November 2011.

The Initiative is carried out as part of the statutory audit of PCTs. It uses data matching techniques to review GPs' patient lists to identify inaccuracies. Matches are fed back to National Health Applications and Infrastructure Services (NHAIS) sites, which manage patient list data for all PCTs. These NHAIS sites investigate the matches and where appropriate the patient's registration is cancelled. The Audit Commission itself does not carry out any investigations.

The aspects of patient data that the Commission examine include:

- Deceased patients—GP lists have been matched to DWP data to identify deceased persons who remain on GP lists;
- Duplicates—where both records appear to relate to the same person;
- Multiple occupancy households—where there is a large number of patients registered at a single common address; and
- Removed asylum seekers—where UK Border Agency data show individuals who have been deported from the country, but whose names remain on GP lists.

The majority of GP Payment Agencies (working with their PCTs) have now finished reviewing their NDRI matches and, where appropriate, have taken action to cancel patient registrations. It is anticipated that thousands more patient records will have been cancelled as a result of this work, improving GP list accuracy and saving more NHS resources, though it will be necessary to await publication of the Audit Commission report before the final numbers are known.

The Department is considering how best to undertake independent duplicate registration initiatives in the future after the abolition of the Audit Commission.

Department of Health

The Department of Health has also been pro-active in seeking to ensure that the accuracy of GP patient lists is improved. There are a number of strands to this approach.

Most recently, the Department of Health wrote to strategic health authorities (SHAs) in November 2010 to encourage them, their PCTs and Payments Agencies to do more to improve the accuracy of GP patient lists. This letter pointed out that, if those PCTs with the largest differences between total GP registered lists and ONS estimated populations were to reduce the difference between the two to the England average of 5%, then that would save the NHS some £46 million across England.

Following discussions with officials in the Department, NHS Primary Care Commissioning (an NHS organisation that provides contracting advice to PCTs) circulated a briefing note to all PCTs in July 2010 to outline the benefits of list cleaning.

Since these initial letters, the Department has held regular discussions with SHA primary care leads to ensure that PCTs continue to keep a focus on ensuring accurate patient lists.

4. PROPOSED NEXT STEPS

The work of actively managing GP lists to ensure they are accurate is an ongoing task owing to the changing nature and movement of practice populations, including as a result of births, deaths, emigration, immigration and population movements within the country.

Informed by the findings of the latest NDRI exercise, when they are available, the Department is planning to undertake a diagnostic exercise aimed at identifying:

- any PCTs that have still to carry out meaningful action to address potential inaccuracies in local GP practice lists;
- PCTs that have made progress, but could do even more to address the issue of list cleaning, based on what they have done already compared to any remaining apparent disparity between GP lists and the ONS population in their area; and
- PCTs that have had the greatest success at improving the quality of their GP patient lists and whose experience may be utilised to support other areas.

NHS Commissioning Board

As set out in "*Developing the Commissioning Board*" published on 8 July 2011, the NHS Commissioning Board will (subject to Parliamentary approval of the Health and Social Care Bill) become responsible for commissioning of primary care services from April 2013.

We envisage that the NHS Commissioning Board will adopt a single operating model for commissioning of primary care services, including list validation. Following on from the diagnostic exercise undertaken by the Department, it is expected that the Board (when established) will continue to work through local Payment

Agencies to improve list cleaning activities. The Board will be able to draw on the NDRI work undertaken by the Audit Commission and to look at how national IT systems can be improved to facilitate regular data matching that will support list cleaning.

We are also exploring how the NHS Commissioning Board can use the proposed authorisation process for clinical commissioning groups to reinforce the importance of accurate patient lists as the basis for allocations to clinical commissioning groups, notwithstanding the fact that the legal responsibility for list accuracy rests with individual GP practices and the relevant commissioner.

As PCTs will remain responsible for commissioning of primary care services throughout 2012–13, we are also exploring how to ensure that PCTs give sufficient operational priority to list cleaning during that year, prior to clinical commissioning groups taking on their own budgets.

I hope that this information provides the information that Committee members require.

20 September 2011

ISBN 978-0-215-03868-5



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