I have been asked by Jeremy Hunt to write giving further detail about an issue that was raised with him during oral evidence to your Committee on 8 May this year.

I understand that a number of questions were asked about the allocation of funding between councils and in particular how relative deprivation was taken into consideration in the most recent local government finance settlement. The accusation was made that the most deprived areas have been hardest hit by local government funding decisions.

I would like to pay tribute to those councils which have worked hard over the past five years to deliver a better deal for local tax payers: reforming the way they work to become more efficient, both in back-office functions and in front-line service delivery. But further savings need to be made, and with councils accounting for a quarter of all public spending they need to continue playing their part in tackling the deficit.

The Local Government Finance Settlement for 2016-17 introduced a new approach to allocating funding to councils. It distributes resources by taking into account the main sources of income available to councils, including council tax and business rates. This means that funding will be allocated in a way that ensures authorities delivering the same set of services receive the same percentage change in their ‘settlement core funding’. As a result of the Settlement, local authority core spending power will remain broadly flat: £44.5 billion in 2015-16 and £44.3 billion in 2019-20. Furthermore, the Settlement ensures that councils facing the highest demand for services generally continue to receive more funding and have higher spending power than less deprived authorities. Specifically, the average spending power per dwelling for the 10% most deprived authorities is around 23% more than for the least deprived 10% in 2016-17.

However, the Government recognises that different areas face different challenges. For this reason, alongside the final settlement, we announced a Fair Funding Review to consider the appropriate funding needs of different types of areas. It is nearly 10 years since the current formula was looked at thoroughly, and there is good reason to believe that the demographic pressures, such as the growth in the elderly population and the demand in social care services, have affected different areas in different ways, as has the cost of providing services. We will conduct a thorough review of what the needs assessment formula should be in a world in which local government spending is funded by local resources not central grant. It is important that local government plays a leading role, and officials are already working closely with the Local Government Association to ensure that the review is sector led.

Officials in my department are also engaging their counterparts in the Department of Health, Public Health England and other partners to consider how future funding arrangements can support better outcomes in both public health and social care. A priority within that will be the impact new arrangements may have on health inequalities.

I hope that this further information is helpful to your Committee in its deliberations.

27 June 2016