Written evidence submitted by Sheffield City Council [FSR 044]

Sheffield City Council (SCC) welcomes the opportunity afforded by the Housing, Communities and Local Government Committee to set out the authority’s views in relation to Local Government finance.

1. Executive Summary

1.1. The main points to be made in this representation are as follows:

Historic and Current Issues

- The overall funding model for Local Government is too complex and not transparent;
- Late announcements and the short term nature of additional funding is creating uncertainty and hampering effective strategic planning and utilisation of resources;
- Lack of recognition of the differing ability of LA’s to generate income from their tax bases;
- The transfer of new burdens such as Council Tax Support scheme and others without adequate funding is placing strain on Local Governments;
- Disproportionate cuts to deprived areas are being reflected in an increased disparity between healthy life expectancy of those individuals living in the most and least deprived areas;
- As a result of sustained Central Government cuts, SCC has overspent for the last 3 financial years including a £15m overspend on Social Care in 2018/19. The Council has also used £11m of reserves to balance the 2019/20 budget, which is now a common trend across Local Governments. These factors highlight the risks to long term sustainability; and
- Funding cuts to date have resulted in requirement to close or significantly reduce non-statutory and preventative services. Failure to address current funding shortfalls will result in in further reductions which could threaten the long term viability of core services and cause deterioration in outcomes for citizens.

Assessment of Needs

- SCC welcomes the overdue review of the Fair Funding formula but has concerns over the inclusion of elements of the formula such as rurality without any empirical evidence. The dismissal of deprivation as a cost driver seems illogical especially given the evidence base and representations from numerous social commentators and academics;
- The new formula must be driven by Fairness, based on evidence of needs, void of ‘ministerial judgement’ and overall, transparently presented; and
Any new funding formula should reflect national expenditure trends, with more funds being allocated to adults and children’s social care over the spending review period.

**Alternative Funding Options**

- Reduce Business Rates administration via reclassification of all hospitals, schools, academies and LA buildings as being exempt from Business Rates with any appropriate funding being transferred from the DoH, DofE etc. to MHCLG for distribution to the relevant authorities;

- Universities can claim Charitable Relief but often facilities with a number of buildings taking up significant proportions of prime land within authorities and only pay a fraction of the rateable value. SCC believes that there should be a separate rate of Charitable Relief for Universities such as 50%. This would then enable us to give 100% Charitable Relief for smaller charities which often pay more in Business Rates than similar sized businesses;

- We propose that Purpose Built Student accommodation should be reclassified as a business property and receive a Business Rates liability. It feels inherently perverse that the companies managing this accommodation are eligible for tax on the profits made from the rental of properties but not Business Rates;

- Any alterations to Business Rates need to be uniformly applied of around the country, including reliefs, multiplier (London weighting applied as now), and be valued on a consistent basis. If authorities had power to alter these, they will come under increasing pressure from the private sector with authorities being pitched into competition against each other, eventually reducing the quantum of funding in the system;

- A revaluation of Council Tax could be performed. Since 1991, properties prices have increased exponentially especially in London and the South. Band A properties in London can sell for in excess of £500,000, whereas band A properties in Sheffield can still be bought for less than £40,000. However a Band A property in Sheffield will pay £1,170 in Council Tax in 2019/20 compared to £794 in Kensington and £529 in Wandsworth. A Council Tax revaluation would inevitably see a redistribution of Council Tax revenues to the South which would require redistribution via the Fair Funding process;

- Additional Council Tax bands could be added for the most expensive properties. This would recognise the excessive wealth tied up in properties;

- Single Person Discount (SPD) is applied irrespective of income levels granting a 25% discount from the amount liable. Local Authorities should be given the option to means test SPD so that, for example, people eligible for the higher rate of Income Tax would no longer receive this discount;

- The Government could relax the referendum limits with regards to Council Tax, in order to allow authorities the ability to decide the most appropriate levels for them;
• Options around locally retained Income Tax or a Sales Tax, SCC believes, would be too complex and costly to administer and would inevitably end up disproportionately benefiting Councils in wealthy areas and further widening the available resources gap;

• Tourism Tax on hotel rooms would generate revenue for a number of authorities especially ones with tourist sites, sporting facilities or conference facilities. There would have to be a degree of redistribution of this funding as the revenue would not necessarily be generated in the areas of greatest need; and

• One question that has to be addressed is equalisation or redistribution of funding based on need rather than ability to generate resources. If this is not performed correctly, then the Local Government finance system is inherently unfair and further inequality will occur around the country. If it is performed correctly then some authorities will question the rationale behind increasing taxation locally merely to redistribute.

Spending Review Considerations

• Acknowledgement of the role Local Government has played in reducing public spending over the past 9 years. However, it must now ensure that there are sufficient resources within the system to fund existing and future needs of All Local Authorities;

• The quantum of funding has to substantially increase to fund the level of projected demands for services facing Councils;

• Certainty should be provided by way of a multi-year settlement to allow medium term service delivery and financial strategies to be developed;

• It should provide clarity on the future of all current short term funding;

• Any funding provided should be allocated on a fair needs led basis; and

• Changes based on lobbying during the settlement period, such as those that have resulted in Rural Services Grant, the elimination of negative RSG and Transition Grant, should be avoided to as to not undermine the settlement.

2. Introduction

2.1. Sheffield City Council is a Core City Council which is in the highest quartile of deprivation indices with nearly a quarter of Sheffield’s small areas are in the most deprived 10% nationally and three small areas in Sheffield are within the 1% most deprived in England, an increase from two in 2010.

2.2. The Council has faced a difficult eight years as a result of Government funding reductions over the period 2010/11 to 2019/20, it has seen a 25% cut in spending power over the period – 9% worse than the England average of 16%. This equates to a reduction per head of approximately £260, £100 higher than the national average.
2.3. The Council has also had to mitigate above inflation levels of cost pressures particularly in relation to adult and children’s social care, national living wage, transition to adulthood of care leavers and transport costs for disabled children. Despite the success the city has had in generating additional revenues we are still facing further savings in 2019/20 of £31m, over and above the £430m we have already made since 2010/11. Adult social care and Children’s Services now make up over 55% of net spend which makes it much harder to avoid service reductions in these areas.

3. What lessons can be learned from past changes to local government funding in England, the current financial situation of councils, and how this has affected their ability to deliver services.

3.1. The current funding model for Local Government is very complex and lacks transparency. Successive Governments have added new funding “modules” to the existing funding system: the four-block model was laid over the existing Standard Spending Assessments; on top of this was added the Business Rate Retention System (BRRS). It is hoped that this complexity, or at least some of it, will be removed within the new Fair Funding model to allow replication of the Government’s calculations to understand the underlying principles, supporting future comparisons to be undertaken.

3.2. Multi-year settlement has been very useful because it has provided baseline level of certainty to allow LA’s to plan their financial strategies. These were particularly helpful in the early years of the settlement period. However, ‘Rolling’ settlement periods would be welcomed to deliver greater certainty and support more medium term planning.

3.3. The certainty provided by previous multi-year settlements have been undermined by the late announcements of new funding and Council Tax limits. Whilst the additional income provided by via grants such as Improved Better Care Fund, Adult Social Care Grant, Troubled Families and Winter Pressures funding are welcome, the late announcements and often one-off / short term nature only adds to future uncertainties and does not allow for effective planning and use of resources. This also appears to be Government recognition that the initial allocations were woefully inadequate and that Local Government would not be sustainable based on the initial allocations.

3.4. Sheffield City Council would urge the Government to pre-announce as much as possible (e.g. Council Tax thresholds and Business Rates changes) and to do so by early Autumn so that it fits in with Local Authority budget setting timetables and allow software providers the ability to upgrade systems where needed.

3.5. Central Government cuts along with an increased ability to raise Council Tax via extended ‘Core’ thresholds and the Adult Social Care Precepts, have placed a greater reliance and increased importance on a Local Authority’s ability to raise
Council Tax. A 1% increase in Council Tax for Sheffield is equates to a £2.1m increase, whereas the same percentage increase in Surrey is the equivalent to a £7m. Future funding systems have to be based on service needs and reflect projected Council Tax incomes to ensure fairness.

3.6. Another issue over recent years relates to the new burdens placed on Local Authorities without sufficient funds to cover the costs. Examples include:

- Council Tax Support Scheme which was transferred but cut by 10% resulting in most authorities having to levy Council Tax on the poorest in society.
- Independent Living Fund along with the expenditure commitments were transferred to the Local Authorities but subject to year on year funding cuts.
- The Children and Social Work Act 2017 has increased the responsibilities of Local Authorities for care leavers, including a new duty on Local Authorities, which requires the offer of a Personal Adviser support to all care leavers up to age 25. Although we do receive some grant funding, it is wholly inadequate to cover the cost of extending the placements. There are also additional resources requirements relating to the policy around advertising, identification, training and support for new foster carers into the system.
- Impact on service delivery costs relating to the Governments National Living Wage policy.

3.7. We are seeing the impact of austerity in relation to cuts to preventative funding. For example the continuing cuts to public health funding. This represents a false economy and is contrary to the aims of the NHS Long Term Plan which aims to ensure that health is “hardwired into social and economic policy” and want action to be taken on the top five risk factors for premature death as part of the renewed NHS prevention programme, (smoking, poor diet, high blood pressure, obesity, and alcohol and drug use).

3.8. Central Government cuts have been disproportionately directed towards the most deprived areas as demonstrated by the graph below.
3.9. The impact of disproportionately high cuts to deprived areas can be correlated to the widening gap in Healthy Life Expectancy. The table below was created using ONS population data and the NHS’s Adult Social Care Activity and Finance Report, England 2016-17. See enclosed link:


3.10. This table highlights that individuals living in more deprived areas will, on average, live shorter and unhealthier lives.

<table>
<thead>
<tr>
<th>All figures in years</th>
<th>Average Life Expectancy (LE)</th>
<th>Average unhealthy life</th>
<th>Average life with disability</th>
<th>Average people per hectare</th>
<th>Average of IMD Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>London Boroughs</td>
<td>82.3</td>
<td>18.4</td>
<td>18.7</td>
<td>70.0</td>
<td>23.5</td>
</tr>
<tr>
<td>Met Districts</td>
<td>79.8</td>
<td>19.7</td>
<td>20.3</td>
<td>20.5</td>
<td>28.5</td>
</tr>
<tr>
<td>Shire Counties</td>
<td>82.0</td>
<td>16.6</td>
<td>18.3</td>
<td>2.9</td>
<td>16.3</td>
</tr>
<tr>
<td>Unitary Authorities</td>
<td>80.9</td>
<td>18.0</td>
<td>18.9</td>
<td>16.6</td>
<td>22.6</td>
</tr>
<tr>
<td>Grand Total</td>
<td>81.1</td>
<td>18.3</td>
<td>19.1</td>
<td>26.4</td>
<td>23.1</td>
</tr>
</tbody>
</table>

3.11. To reverse the trend there needs to be greater investment to address the social determinants that influence people’s health - including tackling poverty, access
to affordable healthy food, well-designed transport systems, and the quality of housing, work and education.

3.12. Other impacts of these disproportionate cuts coupled increasing demand pressures have resulted in overspends for each of the last 3 year including a £15m overspend on Social Care in 2018/19. In addition, SCC plans to use £11m of reserves to balance the 2019/20 budget and further highlights risks to long term sustainability.

3.13. Closures and reductions by LA’s to non-statutory services such as libraries, children’s centres, youth work, community advice and prevention services are well documented and relevant to SCC. If funding cuts continue and/or no additional funding is allocated to address the current pressures on Social Care, SCC will be forced into the position of further reductions to preventative services which will threaten the long term delivery of statutory services and lead to a deterioration of outcomes for people.

4. The efficiency, fitness for purpose and sustainability of the current system for funding local government (central government funding, council tax, business rates retention and other income); how it could be improved, including options for widening the available sources of funding; and what lessons can be learned from other jurisdictions.

Business Rates

4.1. Local Authorities have to suffer the burden of Business Rates appeals to their Business Rates income which often require large provisions to cover any risk. These large provisions inevitably reduce the funding available to Local Authorities to supply services.

4.2. One current appeals issue is the attempt to gain Charitable Relief for NHS properties. NHS properties are often sizeable and thus pay significant levels of Business Rates. If they were reclassified as being eligible for Charitable Relief, then this would see an 80% reduction in the level of Business Rates chargeable, which would directly impact on the ability to supply services. This would provide a funding boost for the NHS at the detriment of Local Government funding.

4.3. This shuffling of public monies around the system is unnecessary and the Government should seek to reclassify all hospitals, schools and LA buildings as being exempt from Business Rates with any appropriate funding being transferred from the DoH, DoE etc. to MHCLG for distribution to the relevant authorities. This would reduce admin and allow hospitals/schools to focus on their core competencies.

4.4. Despite Government rhetoric, Business Rates are not controlled at Local Authority level. Local Authorities have no control over the rateable value of properties, the multiplier or the majority of reliefs. The switch to 75% Business Rates Retention in 2020/21 will provide additional funding to authorities and whilst it will give them further opportunities for reward from Business Rates
growth, they are also taking on greater risk of Business Rates appeals and business failure. The Business Rates market is relatively stable at the moment.

4.5. One sector that benefits from Business Rates relief are Universities who claim Charitable Relief. These are often facilities with a number of buildings taking up significant proportions of prime land within authorities and only pay a fraction of the rateable value. Sheffield City Council believes that there should be a separate rate of Charitable Relief for Universities such as 50%. This would then enable us to give 100% Charitable Relief for smaller charities which often pay more in Business Rates than similar sized businesses.

4.6. There is also a similarly perverse scenario whereby Local Authority maintained schools pay full Business Rates but Academies do not. The solutions presented in paragraph 4.3 of this paper should remove this anomaly.

4.7. There is also a sector that benefits from having neither a Council Tax Liability nor Business Rates liability, Purpose Built Student Accommodation. These operate generally in central locations as businesses rather than traditional student accommodation and include facilities such as cinema rooms, gyms and relaxation rooms and have moved on considerably from the traditional halls of residence. We propose that Purpose Built Student accommodation should be reclassified as a business property and receive a Business Rates liability. SCC tentatively believe that the PBSA properties would generate at least £6m in additional Business Rates income for our city. It feels inherently perverse that the companies managing this accommodation are eligible for tax on the profits made from the rental of properties but not Business Rates.

4.8. One issue that must be maintained following any alterations is the uniformity of Business Rates around the country. All authorities must have the same reliefs, multiplier (London weighting applied as now), and be valued on a consistent basis. If authorities had the individual power to alter any of these, they will come under increasing pressure from the private sector with authorities being pitched into competition against each other and would eventually reduce the quantum of funding in the system.

Council Tax

4.9. Council Tax as a mechanism to replace the Community Charge initially proved to be effective, and would still be, had the system been updated regularly as was originally intended. Unfortunately the Council Tax system has not had the necessary revaluation since 1991.

4.10. Since 1991, properties prices have increased exponentially especially in London and the South. Band A properties in London can sell for £500,000 plus whereas band A properties in Sheffield can still be bought for less than £40,000. However a Band A property in Sheffield will pay £1,170 in Council Tax in 2019/20 compared to £794 in Kensington and £529 in Wandsworth. A Council Tax revaluation would inevitably see a redistribution of Council Tax revenues to the South which would require redistribution via the Fair Funding process.
4.11. A revamp of the Council Tax process could also see additional bands added for the most expensive properties. This would recognise the excessive wealth tied up in properties. This would not be without its issues as ability to pay has to be factored in, people can be property rich but cash poor. In this scenario it is possible to place a charge on a property which would be paid on sale of the property.

4.12. Council Tax discounts can have a significant impact on Local Authority tax bases. While most discounts and exemptions are fully justified such as severe mental impairment or Council Tax Support, some are applied indiscriminately. Single Person Discount (SPD) is applied irrespective of income levels granting a 25% discount from the amount liable. Local Authorities should be given the option to means test SPD so that, for example, people eligible for the higher rate of Income Tax would no longer receive this discount. This would ensure that we can focus the reliefs such as Council Tax Support on the poorest and most vulnerable in society.

4.13. The Government could relax the referendum limits with regards to Council Tax, in order to allow authorities the ability to decide the most appropriate levels for them. This would give authorities flexibility but has the potential to force taxation down to a local level and isn’t representative of the need in the authority.

**Other Income**

4.14. The Government has prompted us to maximise revenue locally and a number of scenarios have been explored including growth of the Business Rates base, car parking, local Income Tax, Sales Tax etc. The major problem with these revenue sources are the areas that would benefit most from these additional solutions are often not the places with the greatest need. This leads to further inequality leading to further need for redistribution.

4.15. Car parking income could possibly be a viable option however the income raised from this is ring-fenced and used for transport costs. With this in mind, it is hard to fully determine the net impact of car parking revenue and so is not ideal for redistribution.

4.16. The other options of local retained Income Tax or a Sales Tax, SCC believes, would be too complex and costly to administer and would inevitably end up disproportionately benefiting Councils in wealthy areas and further widening the available resources gap.

4.17. One possible source of additional revenue is a Tourism Tax on hotel rooms. This would generate revenue for a number of authorities especially ones with tourist sites, sporting facilities or conference facilities. There would have to be a degree of redistribution of this funding as the revenue would not necessarily be generated in the areas of greatest need. This could be applied as simply a flat rate per room or as a percentage of room cost.
Issues

4.18. One question that has to be addressed is equalisation or redistribution of funding based on need rather than ability to generate resources. If this is not performed correctly, then the Local Government finance system is inherently unfair and further inequality will occur around the country. If it is performed correctly then some authorities will question the rationale behind increasing taxation locally merely to redistribute. This is a finally poised question and not easy to answer, one solution would be to allow authorities to retain a percentage of additional revenue before redistribution in recognition of the endeavours to develop additional revenue streams.

4.19. Another pertinent point that needs addressing is the timescales for equalisation? It would seem sensible to perform in line with the Fair Funding reviews which hopefully will coincide with the spending reviews but as a minimum they should be done every 5 years. If there is no equalisation, the ability to generate income from wealthy areas will only exacerbate the current problems with the system.

5. How funding needs of local government are assessed. The current and forecast funding needs of local government and how these needs can be better understood at both a national and local level.

5.1. Any assessment of relative needs should be based on evidence and free of ministerial judgement / bias. We strongly disagree with the idea that per head funding alone is appropriate, any formula needs to reflect the key drivers of spend. A wealth of evidence points to deprivation as a key factor, whereas independent research by LG Futures in relation to rurality states that “very little evidence has been quantified in financial terms and much of the evidence on costs is anecdotal in nature”. Despite this the current proposal seems to be to give a relatively equal weighting. We also remain concerned about the dismissal of urban cost factors such as roads, which have proven additional costs, and believe this should be re-instated to the formula.

5.2. We would urge the re-instatement of deprivation as a key cost driver to the relative needs assessment. Deprivation is acknowledged across the sector as being an important driver of costs. MHCLG’s own calculation highlights that deprivation explains about 4% of cost in upper tier organisation. The LGA has also published an article backing retention of deprivation as a factor in the foundation formula. Calculations performed by Pixel Financial Management highlighted that deprivation accounted for roughly 6% of the old EPCS blocks which is significantly greater than the aggregate 2% calculated in the consultation document. Research conducted by Ben Barr, University of Liverpool, highlights that deprivation would account for 16% of the variation in spending per head, between local authorities, based on 2016 data. He also argues that data from 2009 should be used in any regression analysis as this reflects the true cost of the foundation services prior to the disproportionate cuts to the most
deprived Councils. Doing so then explains 40% of the differences in spend per head for these services between Councils. Even if it were to be retained on the basis of MHCLG’s current calculations, this will result in a transfer of funds away from the most deprived Councils.

5.3. The formula needs to recognise the growing trend of social care consuming more of service expenditure. The following graph demonstrates the nationwide trend visible in Revenue Account data – that Social Care budgets are increasing as other service budgets are decreasing. This nationwide trend is reflected within Sheffield’s own budget. On this basis, we would argue that more of the funding envelope must be allocated towards social care services.

![Graph showing trend in budgets over time - National Trend, Revenue Account (RA) Data](image)

5.4. The graph below goes on to show the disparity between ever growing social care pressures faced by Sheffield City Council and the funding received for them. Clearly this disparity is not sustainable.

![Graph showing total (adult + children) social care pressures compared to Government funding](image)
5.5. Whilst it is impossible to make full comment on the proposed formulas in relation to Social Care until the publication of the technical paper we would make a couple of further points as below:

- The Adult Social Care formula proposes to include an element to capture the proportion of people over 85 with limiting conditions. We believe that 65-85 year olds should also be included in the formula. People in dense and/or deprived areas can expect to spend more of their life unhealthy and / or with some form of disability, this leads to potentially longer reliance on social care due to living longer with illness or disability, it can also be linked to less ability to pay for that care.

- Our research shows a very strong correlation between children’s services and deprivation. This includes areas such as social care referrals, SEN statements and school exclusions. This also needs to be reflected in any needs assessment.

6. The approach the Government should take to local government funding as part of the 2019 Spending Review, what the key features of that settlement should be, and what the potential merits are of new or alternative approaches to the provision of funding within the review.

6.1. We believe that the incidence of cuts since 2010 has been unfairly distributed, with Local Authorities having to bear a disproportionate share of the overall cuts. See graph below which shows the cuts to date and possible future allocations.

Source: Resolution Foundation (2018) How to Spend It

6.2. Above all else the Government must acknowledge the key role Local Government has played in reducing public spending over the past 9 years.
However, it must now ensure that there are sufficient resources within the system to fund existing and future needs of ALL Local Authorities.

6.3. The quantum of funding has to substantially increase to fund the level of projected demands facing Councils. Furthermore, the purpose of the funding formula needs to be to provide funding for a standard level of service, not to fund services as they currently exist.

6.4. Certainty should be provided by way of a multi-year settlement to allow medium term service delivery and financial strategies to be developed. It should provide clarity on the future of all current short term funding and be allocated on a fair basis. Changes based on lobbying during the period, such as those that have resulted in Rural Services Grant, the elimination of negative RSG and Transition Grant, should be avoided to as to not undermine the settlement.

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