1. Surrey County Council welcomes the opportunity to respond to this inquiry. This written submission addresses the points being considered by the Committee.

**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.**

2. Over the past five years, Local Government is one of only two government departments to have had consistent year on year reductions in Departmental Expenditure Limits (DEL)\(^1\). This in turn affects Local Government Total Managed Expenditure (TME), which between 2013/14 and 2019/20 will have reduced by £10.5bn in real terms (-36%), while total government department expenditure will have increased by £62bn (+9%).

3. During this time, there has been increased demand in some services provided by local government, most notably social care. The Adult Social Care precept has provided some protection in the way of ring-fenced funding however, the on-going reduction to central grant funding and increasing demand has consequently led to reductions in other services, for example spending on buses, leisure facilities and potholes. Often, these other services are the most visible to residents.

4. Ongoing Fair Funding and Business Rates reforms aim to make the system simpler, fairer and support the sector’s self-sufficiency. However, with less than twelve months until implementation major decisions have either not been made or have not been communicated, meaning the funding cliff-edge and financial uncertainty remain.

5. The combination of funding reductions, increasing demand and funding cliff-edge inevitably affects the way authorities are planning and delivering services.

**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.**

6. Funding inequalities, such as the national disparity in Council Tax, are evidence of a system that is not fit for purpose. In 2019/20 Surrey residents’ Council Tax will contribute 86% of the overall Core Spending Power (CSP) in the county, including the districts and boroughs. This compares to a national average of 62%.

7. The government’s proposal within the Fair Funding Review to use a notional Council Tax level for resource allocation is a promising step towards addressing this imbalance. However, the staggeringly low rates in some areas of the country arguably represent an element of untapped resource that could be introduced into the system, further balancing the distribution of central funding.

8. A key aim of financial self-sufficiency is to reduce the dependence of local authorities on government grants. There is concern within the sector over the increasing reliance

of Business Rates to support expenditure, mainly driven by the questionable relationship with demand. The sector’s long-term financial sustainability will not be achieved with the current quantum, or the reliance of Council Tax and Business Rates alone. There are various options for improving the system and widening the amount of resources available, such as:

- modernising the Business Rates system so there is greater balance of taxation across sectors (a supplement or alternative to property based business rates)
- devolving decision making powers on local taxation and/or empowering local authorities to raise new taxes locally
- allowing authorities to retain an element of central revenue, such as a portion of Stamp Duty Land Tax from local property sales
- providing the powers to tighten up access to some services, including means testing where appropriate

9. Improving the timescales for announcements and the bidding process for grant funding would lead to better planning and a more efficient system. For example, when considering grant funding for infrastructure the limited timeframes to bid for funding presents challenges. Bids are often based on outline designs and costings, which can reduce the likelihood of success or increase the delivery risk if successful.

10. Further, when considering the Community Infrastructure Levy, funding is collected by lower tier authorities and is un-ringfenced, while the majority of investment associated with developments is the responsibility of upper tier authorities, for example roads & schools. This breaks the link between funding and the infrastructure required to support or mitigate the impact of developments.

11. The recent lifting restrictions on pooling S106 contributions and the guidance issued on the use of CIL for education means some of the above issues are starting to be addressed. However, additional measures are required to ensure that funding from developments is used for the purpose intended, i.e. to mitigate the impact of those developments, which is often achieved through changes to strategic infrastructure managed by upper tier authorities.

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.

12. The Fair Funding Review has presented the opportunity for the government to engage more with the sector to assess needs. Engagement should not end when reforms are implemented. Review and feedback should be a continuous process to assess if the outcomes of the review are meeting both the immediate and future the needs of the sector.

13. To aid further understanding, the Ministry should honour the commitments made when responding to the Public Accounts Committee Inquiry into the financial sustainability of local government. Most relevant here, relating to the Spending Review, is recommendation 3b to publish its projections for demand and spending by service

area… together with its monitoring of outcomes against these projections. A transparent approach and information sharing should lead to a clearer understanding of needs, both locally and nationally.

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.

14. The Government should take a holistic approach and aim to balance the distribution of reductions amongst the various other departments not affected as severely in the current spending review period. The review should be strategic, spanning a three to four year period at least, to ensure all departments have an element of certainty in their planning horizon.

15. The settlement should feature permanent, sustainable funding. The future of the ASC precept, introduced in the last spending review, remains unclear and the current settlement has featured numerous temporary and one-off funding streams. Whilst all additional grants and flexibilities were welcome, they have been a reactive response to the sector reaching crisis point. These are not features of a well-planned, sustainable system.

16. The timing of the review is crucial. Local authorities urgently need to know the details of their future funding offer. Strategic planning cannot be put on hold while awaiting communication on funding. The longer announcements are delayed the greater the risk of services being cut unnecessarily.

17. Above all, the quantum must be increased with the Spending Review to address the widely reported immediate funding gap within the sector, and increase at a sustainable level. The LGA currently estimate the funding gap to be £3.1bn in 2019/20, increasing to around £8bn by 25\(^3\).

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\(^3\) [https://www.local.gov.uk/about/news/funding-black-hole](https://www.local.gov.uk/about/news/funding-black-hole)