Written evidence submitted by Paul Woods, CPFA [FSR 053]

Introduction

I am submitting this evidence in a personal professional capacity. I have 38 years of experience of local Government finance, including 18 years as a Chief Finance officer: as City Treasurer of Newcastle City Council; Treasurer of the Tyne and Wear Integrated Transport Authority; and more recently as the Treasurer of the North East Combined Authority. In that time, I have been involved in national Local Government funding working groups for 29 years and I am a member of the current national Technical Working Group on Needs and Redistribution. I have written several papers to the working group, identifying key issues that need to be addressed to improve the fairness of the current funding arrangements.

I am currently a financial consultant and provide Lead Finance consultancy support for the North East Local Enterprise Partnership and the North East Combined Authority.

In the time available it has not been possible to secure political endorsement of the Association of North East Council or NECA to the submission of this evidence, although both organisations have previously endorsed most of the points that are made in their previous submissions to Local Government funding consultations.

Summary and Key Points

The submission provides evidence that while the real term cumulative government funding cut for Local Government since 2010 is now more than 50% and the real terms cut in spending power is almost 30%, these are average figures and the impact on the most deprived areas in the country, such as the North East of England, is even greater due to disproportionately higher cuts in government funding, and its impact on spending power.

In 2018 the National Audit Officer (NAO) published figures for the change in real terms spending power from 2010 to 2017/18 for individual councils and regions, which shows that while the average reduction in spending power was -28.7%, the reduction in the North East was disproportionately higher at -33.6% and the reduction in the South East was -22.2%. This gap has further widened in the last two years and the difference in the cash cut in spending power per head of population is even higher. The NAO produced this cumulative assessment, which was a previous recommendation made to the then DCLG, which appeared to have been ignored by the Department.

The committee is recommended to undertake a more in depth analysis of the impact of the different level of funding cuts on communities in a small sample of council areas, with a few site visits so that it can see for itself the reality of the impact of cuts on communities.

Evidence is provided about the scale of the disproportionate funding cuts and the main causes for the disproportionate cuts in funding are identified. Several of the Government decisions that have led to the disproportionate funding cuts, do not appear to be based upon robust evidence or an assessment of their cumulative impact.
The committee is recommended to seek information and evidence from the Ministry about the scale of the impact of its decisions to cut –

a) funding for council tax resource equalisation (in 2010/11 this was £6.5bn and since this adjustment has been absorbed into the formula funding assessment, with a loss of visibility and has been cut dramatically by several £bn. This has had a huge adverse impact on councils with the lowest council tax bases.

b) local council tax support – funding was devolved to councils in 2013 with a 10% cut and the funding of £3.4bn at that time has also been absorbed into the general funding formula, is no longer visible, and appears to have been cut dramatically to less than £1.8bn since then, impacting more heavily upon the areas of the county with greater numbers of people on low incomes. The full extent of the cut in funding has not been acknowledged and the main funding recommendations of the independent report to Parliament on the impact of this change have not been implemented by MHCLG.

c) children's' social care - where Government funding has been cut dramatically, despite a significant increase in demand and cost pressures. The scale of the Government funding cuts and the increase in costs is huge and far outweighs any short term extra funding announced by ministers in the 2018 Budget. This is the biggest single cost pressures and challenge facing councils with responsibility for social care at this time. The recent NAO report highlighted the scale of the pressure and challenges at a national level. However, it did not assess the net impact of the change in Government funding for social care and the need for additional funding in the spending review. The net funding impact needs to be better understood at a local level - not just at a national level and a major increase in short and long term funding (particularly for prevention activity) is needed in the next spending review.

d) concessionary travel – where grant funding in 2010/11 of over £1bn appears to have been cut dramatically my more than half while cost pressure have risen. Councils have had to meet the shortfall in funding from other budget areas, which in many cases outside London has resulted in cuts to supported bus services to the public. This was the subject of detailed evidence that I provided to the Transport Select Committee earlier this year. The Department for Transport was not aware of the scale of government funding cuts for concessionary travel, as they appear to simply look at the amount spent by Councils as ‘funding’, regardless of its source.

Importantly it is recommended that the Committee identify what consultation and evidence of impact assessment was carried out and presented to Ministers and Parliament when these specific cuts were implemented. This is critical in understanding the quality and transparency of the decision making involved and in leaning lessons about future decision making about the medium long term funding of local government.

I have previously provided evidence to the Public Accounts Committee about the lack of effectiveness of damping and transitional funding arrangements, designed to give an element of protection to councils most reliant on public funding, which have
suffered the greatest level of funding cuts. A simple information request to MHCLG about the level of the funding cut and a comparison of the amount of damping and funding protection provided since 2010/11 to 2019/20 for Birmingham City Council and Surrey Councils should surprise (and possibly shock) the committee and reveal the extent of the problem and the lack of fairness in the current system.

Combined with a growth in demand for services, in particular Adult and Children’s social care services, the level of funding cuts has placed huge pressures on Councils, and their ability to provide other services including discretionary services; early intervention and prevention services that are designed to improve the quality of life of communities in the medium and long term.

The National Audit office and national charities have expressed concerns that the increasing financial pressures that councils are under is not sustainable in the medium term and that the financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The Association of North East Councils has provided evidence to Ministers and Officials about the unfairness of several of the decisions made by the DCLG/MHCLG over the years, which is resulting in a widening gap between the services that can be provided in the poorest areas of the country, as well as the increasing difference in council tax charges between areas such as Inner London and other areas in the country.

The growing gap in the level of council tax paid in different parts of the country may put at risk the public’s acceptance of council tax as an acceptable source of funding for Local Government.

There is a clear need for the 2019 Spending Review to significantly increase the level of national funding for Councils to both meet the existing demand for services and also to provide councils with the ability to invest in preventative measures designed to address social and quality of life issues in all parts of England and reduce the demand for responsive health, police and social care services in the future.

It is also essential that the issue of the ‘Fairness’ of the Local Government funding system and the current Council Tax arrangements are addressed in the near future. There is growing concern that the current Funding Review will not improve the fairness of the current funding distribution. Good progress appeared to be being made in terms of the separate and more transparent recognition of needs and resources, However, the recent consultation about a foundation funding formula that took no account of deprivation and ignored evidence presented to the Fair Funding Working group about the cost drivers of concessionary travel and the impact of ‘suppressed’ level of spending in deprived areas in recent years, has raised concerns about the direction of travel of the review.
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?

1. The simplification of formula has resulted in a loss of transparency and visibility of funding for services. This lack of transparency has enabled funding to be cut in areas where councils have been unable to make savings in services to match the level of cuts that have been made. This has put increased pressure on councils, who have had to pass these cuts onto other service areas within their budgets. We have identified at least four areas where this has resulted in the disproportionate level of cuts in deprived area that has been recognised by commentators such as the National Audit Office. Four of most significant areas of concern that we have identified and provided information to the national technical working group on Needs and Redistribution, are the very large cuts in funding for:

- the adjustment for council tax resource equalisation, that had provided a more level playing field between areas with very different council tax bases;
- Local Council Tax support, including the funding provided for pensioners on low incomes;
- Children’s social care, while numbers of looked after children and service cost pressures have been rising; and
- Statutory concessionary travel, where costs have risen.

We are happy to provide further evidence about the information provided in our reports, which are referenced as supporting background papers in Appendix 1 and will be sent as attachments to this evidence.

2. The scale of cumulative cuts in services over time is extremely large and analysis of the cumulative impact as shown by the heatmaps that Newcastle and the Association of North East Councils has continued to produce over time. This disproportionate impact of funding cuts was confirmed by the National Audit Office in their recent analysis of the change in spending power of councils from 2010 to 2017/18. A copy of the latest heatmap produced by Newcastle and a summary of the data published by the NAO is shown below.
Summary of NAO analysis of spending power by Region and for North East councils.

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| Surrey CC                   | 100     | 97      | 94      | 91      | 90      | 88      | 85      | 85      | 86      | 85      | -3.4% - 17.5%     |
| Wokingham UA                | 100     | 97      | 94      | 90      | 89      | 87      | 85      | 85      | 87      | 84      | -1.6% - 16.3%     |
| Darlington UA               | 100     | 94      | 89      | 87      | 82      | 76      | 72      | 72      | 73      | 72      | -2.7% - 27.6%     |
| Durham County UA            | 100     | 90      | 86      | 83      | 77      | 71      | 67      | 68      | 68      | 68      | -3.2% - 31.7%     |
| Gateshead                   | 100     | 90      | 85      | 82      | 76      | 70      | 66      | 66      | 66      | 65      | -3.4% - 34.6%     |
| Hartlepool                  | 100     | 89      | 82      | 78      | 73      | 66      | 63      | 63      | 63      | 63      | -3.7% - 37.0%     |
| Middlesbrough               | 100     | 89      | 83      | 81      | 75      | 67      | 64      | 64      | 64      | 64      | -3.6% - 36.2%     |
| Newcastle                   | 100     | 89      | 84      | 81      | 75      | 68      | 64      | 64      | 64      | 63      | -3.6% - 36.0%     |
| North Tyneside              | 100     | 93      | 88      | 84      | 79      | 73      | 69      | 69      | 70      | 69      | -3.0% - 30.6%     |
| Northumberland County UA    | 100     | 92      | 87      | 83      | 79      | 75      | 72      | 72      | 73      | 72      | -2.8% - 28.0%     |
| Redcar & Cleveland UA       | 100     | 89      | 84      | 81      | 76      | 69      | 65      | 64      | 65      | 65      | -3.5% - 35.2%     |
| South Tyneside              | 100     | 89      | 82      | 79      | 73      | 67      | 62      | 63      | 63      | 62      | -3.7% - 37.4%     |
| Stockton-on-Tees UA         | 100     | 90      | 85      | 82      | 78      | 72      | 68      | 68      | 69      | 69      | -3.1% - 31.5%     |
| Sunderland                  | 100     | 89      | 83      | 80      | 74      | 67      | 63      | 64      | 64      | 64      | -3.6% - 36.1%     |

* Area includes Lower Tier; Upper Tier; and Fire Authority Spending Power Change

3. Cuts have been made in funding and spending on activities aimed at reducing the impact of deprivation on communities (e.g. Working Neighbourhood fund,
which replaced other targeted funding intervention streams from previous Governments) or preventative activity helping to improve outcomes (e.g. Sure Start and Supporting People grant) which could also prevent increases in service demand, which has a medium / long term impact on communities. A study of the medium term impact of these cuts would help inform such decisions in future.

4. Government Departments and Parliament do not appear to have acknowledge or recognise the impact of the ‘cumulative’ cuts in funding for services; the significant difference in pressures in councils around the country; or the need to review statutory service requirements to recognise the cuts in funding. The combined impact and scale of funding cuts (in cash terms) and growth in cost pressures illustrates the typical scale of pressure facing one of our councils in our area.

5. The Committee’ attention is drawn to reports by the National Audit Officer about the extent of cumulative cuts in local Government funding and spending power and its impact on the viability of local authorities and the data that they released in 2018.

- 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.
  - Full resource equalisation to put all councils on equal footing, particularly in relation to council taxbase and also in terms of business rate income. Recognition that some councils have a much lower tax base and this is likely to remain the case, certainly in the short and medium term. This has continued in Scotland and Wales.
  - Adequate and realistic funding for Local Council Tax support. A comparison with the treatment of this issue in Wales and Scotland should be considered.
• Recognition that areas of the country have very different underlying strength in their economies, due to factors such as location, decline in traditional industries; investment decisions by major companies or natural resources. This means that the in some areas of the country growing the local economy is much more difficult and much lower and slower and needs much higher levels of investment for potentially smaller return. This effects the ability of council to benefit from growth in business rate income.

• For some sectors the benefit from growth in business rates is very different – for example the business rate income generated from manufacturing properties is much lower in terms of £/square meter (e.g. c £40m2) than the level of business rates generated from office or retail premises of a similar size (more than twice this level). **There needs to be a recognition of the different level of business rate income that can be generated between council which have more manufacturing premises result in different incentives and that highstreet and retail business rate income is falling.**

• I have highlighted concerns about the widening of the differing level of Council Tax paid by people in different parts of the country and whether this will undermine the public acceptance of this important tax as a 'fair' tax. The difference in council tax paid in Inner London and the regions has widened since 2010. While Band D council tax levels now average £1,750, they range from £755 to £2,038. Is this difference fair and justified? Continued above inflation increases in council tax is raising the profile of the tax with the public and questions/issues about the fairness of the level of tax could put at risk the public's acceptance of this critically important tax for Local Government. Recent changes such as the % increase allowed for Social Care has resulted in very variable levels of extra cash council tax contributions for social care across the country. The analysis that I provided to MHCLG showed a maximum additional taxpayer contribution for social care was very different between individual councils - ranging from a Band D charge from £35 to c £130. The Fair funding review should also consider the fairness of Council Tax as well as funding and what measures need to be taken to maintain the sustainability of this important tax for the sector.

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.

• The quantum of funding needs to fairly reflect spending needs at a national and local level and the gap in funding estimated by the LGA needs to be restored quickly.

• In considering the quantum of funding for major service, such as Children’s and Adults social care, the trends in demand, such as the continuing increase in Children’s’ Service cost pressures needs to be adequately reflected in future resource levels over the medium term.
• The use of regression techniques against current spending patterns does no longer reflect underlying need, due for example to the impact of higher cuts in funding for deprived areas - which has artificially constrained and suppressed the level of spending in deprived area. This means that the assessment of service need in deprived areas is artificially low, using this technique. The effect of ‘Suppressed need’ must be taken into account in future formula funding alongside any adjustment for ‘Unmet need’ in rural areas.

• Funding levels should recognize changing service need including increased service demand for public and mental health funding and funding aimed at addressing the increase in poverty and deprivation.

• Full resource equalisation is needed to put all councils on equal footing, for council tax and business rate income i.e. recognition that some councils have a much lower tax base and the limited ability to change these things quickly means that this is likely to remain the case, certainly in the short and medium term.

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.

• The key issue is to increase the level of national funding for Local Government in real terms, recognising the evidence of service pressures being provided by the LGA and local Authorities.

• In particular adequate funding should be specifically included in the Spending review for –
  - Children’s and Adult Social Care
  - Statutory Concessionary Travel
  - Local Council Tax support
  - Public Health and Mental Health
  - Preventative funding
  - Regional assistance to replace the loss of European regional funding following exit from the EU

• The exploration of new funding requires a longer term exploration of opportunities, whether it is a share of existing taxes – such as Income Tax or the introduction of new taxes and charges for specific purposes.
Appendix 1

Background Papers that can be submitted as supporting Evidence

Previous responses by The Association of North East Councils’ to the consultation on Local Government Funding.

Papers considered and discussed at the National Technical Working Group on Needs and Redistribution

2. NR TWG 18/17 – Concessionary Transport Cost and Funding - 21 September 2018
3. Children’s Social Care – Spending, Funding, Pressures and Cost Drivers - 28 March 2018
4. Local Council Tax Support paper – 16 November 2017
5. NR TWG 16/12 – Taking Account of Differences In Ability to Raise Council Tax Income 4 August 2016

April 2019