Summary

- The County Council is supportive of the Inquiry’s aims of establishing how effective the existing funding mechanism for local government is, but it would also highlight that this is not the first such inquiry of its type. Others, including those of the IFS and NAO have concluded with recommendations that have been welcomed by local government.

- MHCLG continue to look backwards when funding current and future services, meaning that cuts have been made with little to no regard to present or forecast demand. It would be better to plan for the future, rather than look to the past.

- The last 4-year settlement offered certainty of funding, but it was set against a backdrop of disappearing revenue support grant. 2019-20 was the final year of that settlement and without further indications we are finding it very difficult to plan effectively.

- A great deal of further difficulty is created for authorities from late settlement announcements and ad hoc changes. The last few years have included late announcements including addition social care grant, additional precept raising powers, and transitional funding. Although these are welcomed, the late announcement is too late to influence the savings required to set a balanced budget.

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. Since austerity began the cuts to local government funding have been applied, seemingly with no reference to demands, pressures or resilience.

2. The cuts in recent years have caused authorities to report significant problems, including depletion of reserves to very low levels.

3. The use of Spending Power, including council tax raising abilities, has led to much disparity in council tax levels (and in fees and charges levied) across the country.

4. The County Council still considers that the formulae used to set funding baselines are too backward-looking and do not recognise the true demands on local authorities – meaning that residents can experience inequitable levels of service, as well as inequitable charges for those services.

5. The LGA have estimated the funding gap to be £3.1bn in 2019-20 rising to £8bn by 2024-25. Local authorities deliver statutory services that affect vulnerable people’s lives and futures. This gap needs to be addressed in the
2019 Spending Review – and not just with one-off pots of funding, but sustainably, allowing local authorities the ability to plan and deliver the services that their residents need. When authorities receive one-off funding, it leads to short-term decision making rather than long-term solutions.

6. An increasing share of funding has been distributed through incentives (New Homes Bonus, business rates). The distribution of the funding in two tier areas favours second tier authority, while the costs infrastructure to deliver more homes and attract more businesses falls to upper tier authorities.

7. There is a myth within the sector that “counties are rich” and “metropolitan districts are poor”. This is not the case and it is unfair that residents can pay such a wide variation in council tax which bears no resemblance to what is equitable or affordable. There is no reason that a resident in a County needs to pay more for statutory services provided by local government than a resident of equivalent financial means in a metropolitan district.

8. 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). Complexity has been added to complexity. Ideally the Fair Funding Review (FFR) would sweep away the remnants of these old systems and replace it with something where it is possible to see how everything has been calculated, and how everything fits together. We would like to be able to see how our allocations have been calculated, and to replicate/model these calculations.

9. Governments will of course always want to introduce new policies that will result in changes within a Spending Review (SR) period. We would urge the government to pre-announce as much as possible and to do so by early Autumn at the latest, to give authorities a reasonable chance of planning for efficient, effective implementation and delivery. The trend in recent years for the provisional Local Government Finance Settlement to be announced on the cusp of Christmas does not support sound financial planning and elected member engagement and scrutiny.

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.

10. Ever since its inception in 2013 and development in the preceding years, the County Council has been concerned that there is no link between increasing business rates and increased demand for services.

11. Council Tax is a regressive tax with bills bearing little relation to a resident’s ability to pay. Many think tanks and institutions have proposed solutions to this issue of local taxation (local income tax, mansion tax, flat rate levy on
property value, further bands added to the top of the scale, increased rate of VAT); but all are quickly ruled out without further serious discussion and consideration. If council tax is to be retained, then its tax base needs to be updated to reflect current property prices with additional bands added to the current eight.

12. It is the Government’s stated aim that local authorities should one-day be “self-sufficient” and no longer reliant on central government support. However, given the divergence of need and income from business rates, and the continued preference for a regressive and out-of-date property tax, to become successfully self-reliant seems improbable.

13. Local authorities can be hugely different – both in terms of the wealth of their residents and the services that they require. Therefore, there is always going to be an element of redistribution within the system and it is this that becomes important in terms of achieving a fair distribution.

14. 2019-20 was the 4th year of a 4-year settlement offer for local government, first published in 2016-17. Over those 4 years the 2019-20 settlement (used as an illustration) attracted an additional £1.16bn funding compared to that originally expected in 2016-17. Not only is this indicative of a funding system which is not able to react to pressures, but all of this additional funding is one-off meaning that it would be imprudent to build it into base budgets.

15. Local government has long asked for multi-year settlements and the 2016-17 offer was welcomed in principle on the basis that it supported proper medium-term planning. However, it was set against a policy of withdrawal of RSG to be replaced by a 100% business rates scheme. The majority of local authorities signed up to the offer on the basis that it provided a stable minimum position for the 4 years for planning purposes.

16. The position we now face is that 2019-20 is the final year of the settlement and, as yet, there are no plans to replace it. The proposal for Business Rate Retention is for a 75% scheme to be implemented rather than the 100% scheme originally announced. In addition, there is no clarity on the status of the one-off funding granted alongside the current offer.

17. One-off funding does not enable and support proper service planning for many services, in particular those of social care where commitments to care packages cannot be withdrawn once funding disappears. It also fails to provide sufficient time for councils to adequately plan, consult and implement savings proposals, particularly where there are enhanced consultation obligations such as in the provision of support to children with SEND.
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.

18. The current baseline funding assessments have not been revisited since 2013-14 when the business rates baselines were set. At the time they were based on the 4-block model, which is no longer in operation. This model contained formulae which are now long out-of-date and, even at the time, based future funding allocations on past spending decisions. When funding allocations are calculated in this way it perpetuates any systemic under/over funding. It also, due to the backwards-looking nature, is not good at forecasting future needs.

19. The County Council would like to see an end to this methodology and for funding allocations to be based on the services that should be available for certain client groups. Given this we are disappointed to see that the Ministry’s preferred option for the updated Adult Social Care formula is one based on past activity and that the “normative” approach is ruled out.

20. In recent times the parliamentary timetable has been taken up with the business of Brexit and it is now looking possible that there may be a delay to the Spending Review and even the Fair Funding Review. This potential delay would further compound the uncertainty of one-off funding announcements in recent years and, given the vulnerable client groups affected, should not be acceptable. The sector needs a sustainable solution to the services under the most pressure – namely Adults, Children’s Social Care and SEND. It would also be beneficial to know early in the process how a damping or transitional regime would work in 2020-21.

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.

21. The 2019 Spending Review needs to be published as soon as possible given the additional changes facing the local government sector. Publishing the outcome alongside the Autumn Budget does not allow sufficient time for prudent and rigorous financial planning, nor will it allow time for local authorities to carry out public consultation on budget plans.

22. Additionally, but also importantly, the Government need to stop basing funding allocations on the spending decisions of the past. This merely replicates the underfunding patterns and therefore unmet need. Stop looking at “what has been” for the answer and determine “what needs to be” to establish a future-proof funding system with service users at its heart.

23. The current system has created an uneven landscape of eligibility, fee structures, and service levels. Not only is this inequitable but it is also unlikely to be achieving the best outcomes for the funding available. A normative approach will get to the core of what the service aims to deliver,
helping everyone understand the drivers of demand and how needs can best be addressed.

24. The scope of the review needs to be wider than the current settlement funding – much of local government’s funding comes from other government departments but it all needs to be spent wisely. When departments don’t co-operate, and grant announcements are made late, then that makes service planning even more difficult.

25. Finally, there is ample evidence of the extent of underfunding in the local government sector. This has been well rehearsed and evidenced. There are very significant spending pressures in local government which have knock-on impacts to other areas, not least the NHS, and many aspects of Children’s Services too.

April 2019