Written evidence submitted by Redcar and Cleveland Borough Council [FSR 057]

Introduction

Redcar & Cleveland Council is one of the five local authorities which make up the Tees Valley region, along with Middlesbrough, Stockton-On-Tees, Darlington and Hartlepool. Whilst an area of great potential, Redcar & Cleveland is also an area of great need, with lower pay, higher unemployment and a shorter healthy life expectancy than many places in the country.

Executive Summary

The Council’s response to the Select Committee has been constructed to address the four key questions raised by the ‘Call for Evidence’ as part of the Inquiry brief. We have highlighted below and in the executive summary, what the Council would wish to see emerge from the 2019 Spending Review in respect of Local Government Funding.

A key factor for the 2019 Spending Review, will be in the overall quantum of funding made available for local government which will be a crucial determinant for the ongoing financial sustainability of the sector. We would wish to see the overall funding level for the sector increase in line with the Local Government Association’s estimation of the gap - £8.0 billion by 2025.

The system for local government funding is very complex and currently lacks transparency. The 2019 Spending Review would need to reduce the number of separate funding streams and provide local government with a single pot allocation, to deliver all its services, and to allow for more autonomy on the self-generation of income from local opportunities.

The ability of an individual local authority to withstand economic shocks within its area, needs to be a determining factor in the calculation of its annual resourcing arrangements, thus when yields from volatile business rates do fluctuate beyond agreed tolerances – the 2019 Spending Review should then provide a financial safeguard for that local authority.

Not all local authority areas are created equally, or have the opportunity to prosper equally, given local constraints and the vulnerability of the area, be it, the individual circumstances of the people, the economy and/or the comparative advantage of the place. A weighted resource allocation methodology needs to be a consideration for the 2019 Spending Review allocation for local government, so that across the sector, more resource and financial support can be targeted to those most in assessed need.

Redcar & Cleveland, like many high needs areas, has been hit hard by austerity and the recent proposals to remove deprivation and other cost driving factors from the main determination of how local government is to be funded, in favour of a population per capita model will exacerbate the impact of austerity on an area.
Relative levels of deprivation are a crucial determinant of need for many of the services that local authorities provide. There are strong, well-established relationships between the degree of deprivation within a local authority and the amount the local authority spends in order to maintain a comparative level of services for its citizens.

Redcar & Cleveland Council response to the Questions raised:

**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:**

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<th>1.1 Grant Funding of local authorities:</th>
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<td>The Government announcements have previously played down the scale and impact of the cuts on local government and hence need to be open and transparent to both the sector and the public. Examples outline:</td>
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<td>• Changes to the formulaic methodology for central grant funded allocations to local government lack transparency, based on out-of-date data or are subject to subjective judgment;</td>
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<td>• Significant reallocation of funding streams, resulting in funding from specific grants being subsumed into general grant funding – which masked the stated size of the cuts;</td>
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<td>• Grant reductions by other government departments have reduced the resources available for core services delivered by local government.</td>
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<th>1.2 Core Spending Power:</th>
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<td>Government have in previous years, presented a particular view of the interpretation of the Core Spending Power of local authorities and the annual change in this power. The definition of the term “Core Spending Power” is occasionally changed, but normally represents the optimal funding which can be generated by a local authority if it annually increases council tax by a maximum permitted amount, collects Business Rates at the set baseline, and has included recent one-off funding streams which only part-mitigated the impact of increased demand pressures in social care (eg. winter pressures and social care funding). It would be beneficial if the definition of Core Spending Power was not subject to ongoing change.</td>
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<th>1.3 Settlement Announcements:</th>
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<td>The outcomes of Comprehensive Spending Review and finance settlements are often announced at very short notice, three to four months in advance of a new</td>
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financial year. This inhibits effective financial planning and can create financial cliff edges which local authorities cannot proactively resolve.

Local Authorities are able to more effectively financially plan if they were to be provided with timely and rolling four-year financial settlement information.

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<th>1.4</th>
<th><strong>Business Rates Retention Scheme:</strong></th>
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<td></td>
<td>The changes to Business Rates retention implemented in 2013 have provided local authorities with increased incentives to promote economic growth and retain part of the growth in Business Rates. However, the scheme has had negative implications for local authorities which the Government has been slow to address – example of these are:</td>
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**Baseline collection rates:** each local authority is allocated a baseline collection rate as part of the periodic re-sets of Business Rates baselines. Local authorities which experience a decline in their business rates baseline are financially disadvantaged over multiple years. Such a decline creates local authority funding pressures, whilst demand pressures for front-line services steadily rise. A question raised by rate-payers is why Business Rates are used to directly fund front-line council services.

**Business Rates Growth:** A few local authorities have benefited from extraordinary growth, significantly in excess of cost of funding their front-line services. Disproportionate rewards have been created for local authorities to encourage certain categories of Business Rate Growth, for example in the field of Carbon-neutral energy growth. There is also a long lead in time, often outside of the direct control of local authorities for businesses to invest in a local area.

**Safety Net:** the Safety Net for local authorities which experience a significant drop in their Business Rates baseline due to an economic shock needs careful calibration to ensure highly industrialised local authorities, where the Business Rate tax-base is dominated by a small number of large rate-payers, are not overly impacted following the closure of a prominent rate-payer.

**Appeals:** There is a significant impact from significant appeals by major Business rate-payers. These appeals can be heavily back-dated (for years preceding the introduction of the Business Rates Retention scheme in 2013/14), which can trigger significant and unanticipated losses of the local Collection Fund, which are not sufficiently funded by Safety Net Grant. The Valuation Office is poorly resourced to meet the back-log of appeals and should be directly reportable to MHCLG. A more workable solution for managing the risk of back-dated appeals is required.
1.5 Local Council Tax:

Council tax funds an increasingly larger proportion of the net revenue budget of local authorities. Local authorities are under pressure to raise council tax to the maximum permitted level to fund front-line services; at the same time many local authorities have reduced services, and also charged fees for them. This has created a perception by local residents that they are been asked to pay more council tax (and other fees and charges) for reduced services.

The imposition of arbitrary thresholds for Council Tax inhibits the discretion, flexibility and autonomy to set Council Tax levels locally which can meet the service demands. These thresholds penalise local authorities, which historically set comparatively low levels of Council Tax and prevent them from rebalancing their funding sources to mitigate for funding cuts.

Since 2013, local authorities have set up local schemes for discretionary council tax benefits. The Government has devolved difficult local policy decisions to local authorities, without the necessary match-funding for the cost of these benefits. Local authorities in deprived areas are incurring more cost in the subsidy it needs to fund the local Council Tax support arrangement.

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:

2.1 The current system of local government finance needs significant reform and is no longer sustainable. Central Government Funding is split into two component elements known as:

- DEL: Department Budgets are funded through fixed allocations known as Departmental Expenditure Limits, and funds the fixed costs of delivering services;

- AME: Expenditure in areas outside of direct budgetary control are referred to as Annually Managed Expenditure: This type of spend is more difficult to control and is spent based on demand-led pressures for services such as welfare, tax credits or public sector pensions. AME is characterised by unpredictable and uncontrollable expenditure items.

Local Authority funding is either fixed (linked to DEL funding allocations for local government) or locally variable (depending on fluctuations in Council Tax and
Business Rates collection rates). Certain characteristics of local government expenditure however, particularly in relation to areas such as waste collection, social care and council tax support scheme, are demand-led and hence volatile – and therefore should be funded through a more flexible and responsive funding mechanism.

2.2 Business Rates:

A full baseline re-set of Business Rates is required to correct disparities in collection & funding baselines. More efficient and timely processes of valuation of business premises, with greater protection for the impact of large back-dated appeals is required. Business Rate baselines need to be more responsive to shifting circumstance in a local authority area.

Redcar & Cleveland Council supports the principles of the alternative Business Rates system, as it is more predictable and less volatile, whilst allowing local authorities to retain business rates growth for a set period.

2.3 Funding Allocations for Local Government:

Local government is heavily reliant on timely financial settlement information for 2020/21, which needs to be provided in the early stages of the financial planning process (eg. in the summer months before the start of a new financial year rather than December). Ideally, local authorities need a rolling three to four-year settlement.

The 2019 Spending Review and the Fair Funding Review needs to provide additional funding for increasing additional statutory pressures in social care and environmental services.

The Fair Funding Review needs to factor in the impact of deprivation as a significant cost driver and demand for a range of services including public/school transport, social care and other emerging cost pressures.

The Fair Funding Review needs to support and recognise local authorities which generate income from sources such as commercial investments, fees & charges, trading companies, rental yield from investment property and car parking income.

2.4 Options for widening Income Streams for Local Government funding:

Redcar & Cleveland Council would support:

- A wholesale review of Council Tax bands and more flexibility in the level of council tax increases which can be generated;
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:

3.1 Redcar & Cleveland Council is concerned that the December 2018 Fair Funding Consultation proposed to create a simpler population-based formula for the estimated local authority needs for funding front-line services. This proposal risks “high needs” local authorities with high levels of demand pressure for services and deprivation being financially disadvantaged at the expense of more affluent and “lower needs” local authorities.

The consultation suggested that deprivation only increases the variation in spend of local government by just 4%, and that population is the main influencing factor in this formula (88%). However, deprivation is a more significant cost driver in less affluent local authority areas and must be considered as the primary driver when setting a foundation funding formula.

The impact of deprivation has a very wide variation, between the highest and lowest local authority deprivation deciles. Deprivation has explained 31% of the per head variation for metropolitan/unitary local authorities, whereas in two-tier shire counties it only explained 2%. Local authorities with a high deprivation adjustment tend to have more significant variations in the actual spend per head. Yet, such local authorities have suffered the greatest cuts in funding over the decade.

3.2 Children and Adult Social Care:

The following factors need to be taken into account:

- Indices of multiple deprivation are a fundamental driver of service demand;
- The wide variation in cost of child social care placements, which are significantly influenced by a small percentage of very high needs children in this service area, and which often require high-cost residential placements;
- The data used needs to be as real-time as possible;
- Disabled young children have comparatively longer life expectancies;
• Causal linkages between recipients of welfare benefits and demand for adult social care need to be based on up-to-date data.

### 3.3 Public Health Funding:

The funding model needs to reflect the direct impact & influence of deprivation, which causes worsening health outcomes in a local authority area.

The Department of Health needs to now publish and address the issues which arose from a 2015 consultation on a proposed change to the ACRA formula, as its proposed use would have a serious impact on the health of the region.

### 3.4 Highways Maintenance:

The Government proposes to move to a more simplified model for allocating funding for highways maintenance – based on road length and traffic flows. This fails to take into account the costs of maintaining urban and rural roads. Urban roads are relatively more expensive to maintain because they have more complex road infrastructure, a greater concentration of utility infrastructure and a higher density of businesses and housing dwellings using the infrastructure. This creates a need to provide adequate adjacent pedestrian routes, street lights, traffic lights, below-level infrastructure and additional maintenance for the impact of heavier vehicle loads.

### 3.5 Transport:

Local Authorities with greater deprivation have a greater proportion and incidence of residents who rely on public transport and concessionary travel arrangements. The key driver for demand for concessionary transport should be the actual number of concessionary travel passes which are issued and this demand should be fully funded.

### 3.6 Education:

Legacy cost pressures remain within local authorities relating to its role as a local education authority. A number of schools in Redcar & Cleveland have recently transferred to Academy status and at the same time there has been a loss of funding from the cessation of Educational Services Grant. The Council retains the costs of maintaining a statutory local education authority function, and the management of costs associated with Borough-wide commissioning of special educational needs costs – without adequate funding. The most significant cost pressures relate to the rising and more expensive special educational need placement costs and associated transport costs.
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:

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<td>4.3</td>
<td>The 2019 Spending Review and other future reviews need to ensure that they are undertaken well in advance of announced decisions in respect of the funding allocations, council tax thresholds and business rate changes, so that local government can adequately plan its services and financial plans across the medium term.</td>
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<td>4.4</td>
<td>There are close linkages between demand for social care services &amp; public health and the associated consequential pressures on local NHS services. Funding models need to provide opportunities for effective collaborative working in achieving shared outcomes.</td>
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<td>4.5</td>
<td>For Business Rates funding, Redcar &amp; Cleveland Council would like to see more flexible and floating baselines for collection rates and funding – which would be able to cope with demand and collection fluctuations more effectively and be adjusted at least on an annual basis.</td>
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